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PDVW - Q1 2019 pdvWireless Inc Earnings Call

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CORPORATE PARTICIPANTS

Morgan E. O'Brien *pdvWireless, Inc. - CEO & Director*

Natasha Vecchiarelli *pdvWireless, Inc. - Director of Corporate Communications*

Robert H. Schwartz *pdvWireless, Inc. - President & COO*

Timothy A. Gray *pdvWireless, Inc. - CFO*

CONFERENCE CALL PARTICIPANTS

Marc Wiesenberger *B. Riley FBR, Inc., Research Division - Associate*

Michael Roy Crawford *B. Riley FBR, Inc., Research Division - Senior MD, Co-Head of The Discovery Group & Senior Analyst*

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to pdvWireless First Quarter Conference Call. (Operator Instructions)

It is now my pleasure to turn the floor over to your host, Natasha Vecchiarelli. Ma'am, the floor is yours.

Natasha Vecchiarelli - *pdvWireless, Inc. - Director of Corporate Communications*

Thank you, Catherine. Thank you for joining us. With me today are Brian McAuley, our Chairman; Morgan O'Brien, our CEO; Rob Schwartz, our President and CEO; and Tim Gray, our CFO.

Before we begin, I'd like to highlight that during our call, we will present both GAAP and non-GAAP financial measures. A reconciliation of non-GAAP to GAAP measures is included in today's release, which you will find in our Investor Relations page.

Please also note that our discussion may contain forward-looking statements, and our actual results may differ materially from those implied. Information regarding factors that could cause such differences can be found in our public filings.

With that, I'd like to turn the call over to Morgan O'Brien.

Morgan E. O'Brien - *pdvWireless, Inc. - CEO & Director*

Thank you, Natasha. Thank you for joining us. Since the last investor call only 2 months ago, we've expanded our efforts to understand and to prepare to meet the technology needs of the critical infrastructure industry. We've continued to rebalance our internal staff to bring more expertise to our broadband model. We've added consultants that are bringing us the variety of unique perspectives on government policies affecting utility industry.

We are pleased to see a recent placement in Utility Dive, an editorial by former Governor Jack Markell headlined, Broadband access: A regulatory call to action to protect utilities against cyber threats.

Through these efforts, we continue to refine our business plan for PDV to become a premier provider of private broadband services. Use cases that require private, exclusive use spectrum are being brought to us by prospective customers for such spectrum. Demand in the marketplace for what we propose to offer is strong and growing stronger.



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Of course, favorable action by the FCC on our spectrum proposal is a prerequisite for us to meet this demand. We remain close to regulatory process, and we're pleased by a recent statement by FCC Chairman, Ajit Pai, in his testimony to a subcommittee of the Energy and Commerce Committee, that he and his staff are working on drafting a Notice of Proposed Rulemaking, where the FCC is likely to lay out its preferred path to the future of 900 megahertz broadband. We continue to believe that this is a compelling opportunity for the FCC to repurpose an underutilized spectrum band and to expand the base of broadband spectrum. And we're optimistic that action will be taken soon.

As I said before, any licensee of spectrum who proposes change is dependent on decisions made by the FCC on the basis of the record before it. We believe that the record in this proceeding is now ripe for action, particularly considering the growing voices of support from industry, along with the modified proposal we filed in May, which addressed many of the concerns voiced by the spectrum incumbents.

The May proposal responded to concerns voiced by Sensus and others by shifting the proposed broadband allocation down in the band. Key to the proposed shift of 400 kilohertz is an agreement in principle with the railroads to swap their licensed noncontiguous channels for a block of 10 contiguous channels licensed to PDV, thus freeing up the center of the 900 megahertz band for the proposed broadband allocation.

That swap process continues with substance of discussions between the parties designed to produce a detailed transition plan. I remain convinced that this important transaction with the railroads will be finalized in the near future, and we were pleased to see support on the record from Sensus.

While PDV is by far the largest incumbent in the band, we recognize that our obligation as the licensee, to maximize the utilization of our spectrum, will be weighed by the FCC while balancing the interests of other incumbents who choose to stay the course with tried and true technology.

The FCC record includes detailed analyses which support our contention that the many benefits of broadband and the global LTE standard that it enables can and will be brought into the marketplace with no harmful interference, and at worst, minimal inconvenience to the minority of licensees who choose to continue operating narrowband technologies.

Just this week, the company welcomed 3 new independent board members. Our action reflects an emphasis on building the skills and experience to make PDV a productive partner to the critical infrastructure industry.

Two prominent women industry leaders have joined us. Rachele Chong has the distinction of not only having been a commissioner to the FCC, but also a member of the California PUC. She will ensure that the perspectives from both state and federal regulators are top of mind at PDV.

Joining Rachele is Singleton McAllister, an experience hand in the electric utility industry and a savvy veteran of Capitol Hill. Singleton presently is serving a 17th year as a board member of Alliant Energy, where she is at a front row seat on the challenges and opportunities facing a modern utility.

With these 2 resources for guidance, PDV is confident we can win the trust of the utility industry. As a third board addition, the company welcomed Greg Cominos, who spent his career at General Electric, where he helped lead the Smart Grid and powered delivery effort globally. Greg is an engineer who worked at the C-suite level to understand the dynamics of grid modernization and to develop the products which made GE a dominant supplier of Smart Grid equipment. Greg will add this unique perspective to the effort of our product development team to ensure broadband spectrum -- that our broadband spectrum finds its optimum place in the Smart Grid future.

Even as we celebrate our 3 new arrivals, we announced the departures of 3 longtime members of the board. John Sites and Peter Schiff labored for over a decade in the early stages of our business. Their financial acumen will be sorely missed.

John Pescatore is moving on after many years of company leadership. John is a wireless industry veteran who brought the company to the threshold of its broadband future, with a combination of financial skills and deep industry knowledge. We will miss these 3 great friends of the company.

Rob Schwartz, our President and COO, will provide more details about the robust pipeline of opportunities we are exploring. He is building our company toward our shared vision of the future and will explain the specific actions he and his team are taking.



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Tim Gray and Rob had made further progress on transitioning the company beyond the dispatch business and toward the broadband future. Each of them will provide more details on this evolution in the business.

I'll now turn the microphone over to Rob, and I'm happy to take questions after our formal presentation is ended.

Robert H. Schwartz - *pdvWireless, Inc. - President & COO*

Thanks, Morgan. It's been very busy but only 8 weeks since our fiscal Year-End Investor Call in June, and I'd like to take my time on this call to provide an update on our progress in key areas of attention as well as update you on the continued refinement of our broadband business model.

We've been highly focused on driving progress in 3 key interrelated areas: First, advancing our FCC regulatory process; second, implementing our organizational changes; and third, developing our broadband business. I want to take a moment to elaborate on our activities in each of these areas and our plans going forward.

First, as Morgan mentioned, we continued to drive progress with our regulatory agenda to enable private broadband networks in 900 megahertz. In May, we filed at the FCC our further comments in conjunction with the Enterprise Wireless Alliance as a proposed path forward for addressing many of the issues on the comprehensive record built at the FCC to the notice of inquiry process.

During our last quarterly call, I highlighted the substantial regulatory support that we've been able to generate from the industry through our commercial business development efforts. Our ongoing commercial development program continues to provide benefit to our regulatory process while building a funnel of opportunities that will allow us to hit the ground running with FCC approval.

We've also continued to collaborate directly with the FCC and Congress over the past weeks in meetings, filings and responses to inquiries, making the case alongside the industry for the substantial and urgent need for private broadband spectrum at 900 megahertz to serve critical infrastructure and enterprise.

As Morgan referenced, FCC Chairman Pai recently confirmed that his staff is working on drafting an NPRM, the next important step in enabling broadband at 900 megahertz. Needless to say, our regulatory process will remain our top priority.

Our second area of emphasis this quarter and to date is implementing the organizational changes necessary to bolster our team's laser focus on efficiently and successfully achieving our broadband future. Beginning with our recent transition in executive leadership, we've streamlined our management structure and team to focus on the achievement of the successful broadband business. In parallel, we've deemphasized and substantially downsized our dispatch organization, a difficult but important process that resulted in a combined reduction of just over 25% of our workforce.

As we see the demand for our private broadband network solutions continue to grow and NPRM from the FCC in near sight, we must be as diligent as we can be in preserving our resources to develop and fund these opportunities that offer the greatest potential to create long-term shareholder value. Tim will elaborate more on his comments on the details and expected financial benefits of this evolving strategy.

Our third area of focus is in the business development of our broadband opportunities, where we continued to work with a robust and growing pipeline of customers interested in deploying private LTE networks. And while most of these conversations are subject to nondisclosure agreements, we are consistently hearing the common themes of the need for private broadband communication platforms that can solve the growing number of use cases that utilities and critical infrastructure are facing. This is driven largely by grid modernization and cybersecurity issues that can't be handled by existing narrowband solutions.

And as a current example of the rising tide of such issues, just this week, the Wall Street Journal featured a front page article discussing the substantial cybersecurity threat facing our nation's electric grid and the need for explicit action from federal agencies in the fight against these malicious actors.



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Implementing private networks is a key component to addressing these cybersecurity threats. Private LTE continues to gain traction as the optimal solution that is aided by the increased market momentum of CBRS 3.5 gigahertz, which we see is a natural complement to 900 megahertz for incremental capacity needs. Sub-1 gigahertz spectrum has a substantial value for private broadband networks because of the better propagation and penetration characteristics that translates to less infrastructure needed, and therefore, less capital spend required versus higher frequency bands. We see this trend as a positive impact for raising awareness of 900 megahertz and as a complement to other spectrum bands for incremental capacity needs.

We're also confident that our 3 new board members each can contribute unique and complementary skills, experiences and relationships that will enhance the execution of our private broadband offering. We look forward to their constructive contributions and strategic guidance as we continue to build and implement our business.

Our pilot with Ameren continues to make progress, and we will expect to be deployed this year. We are also seeing broader utility industry collaboration around private LTE, including several utilities expressing interest in participating in this initial pilot as a first step in their own path to explore deploying private LTE networks. We're working to formalize a structure to foster this industry collaboration and expect to be able to share more on this topic in future calls.

Southern Company also continues to lead the industry with their pioneering private LTE deployment, having launched over 960 sites and demonstrating both data and mission-critical voice use cases on sub-1 gigahertz spectrum. Southern's leadership continues to drive utility industry interest in and acceptance of private LTE as an important element of grid modernization.

We also continued to work on developing other catalysts to facilitate the adoption of private broadband by utilities and other key sectors. Utilities fund most capital improvement projects with state regulatory-approved spending, cost of which are then passed on to ratepayers as a fixed rate of return. It's therefore important that key influencers and decision-makers at the state and federal levels are educated on the substantial benefits that these private broadband networks add in securing the nation's electric grid. We're assembling a team of experts that are developing a program to work with regulators to facilitate their understanding of the substantial funding requirements for private broadband utilities.

I also want to take a moment to discuss the continuing evolution of PDV's commercial model. As we work with customers to help them explore this new and growing area of private LTE broadband, we're learning more about how to best enable commercial customers to build and operate private LTE networks. We continue to refine our business model with these inputs to best capture our market opportunity.

We previously described the utility industry as the bull's eye of our customer segments and our primary initial focus, with other industries like oil and gas, railroads and enterprise as examples of complementary customer opportunities that we are exploring as well.

Within the utility sector, the largest players are the investor-owned utilities, or IOUs. The roughly 150 IOUs cover about 67% of the U.S. population, whereas they like to measure it, approximately 67% of the customer meters. With the continuing consolidation, the top 20 IOUs cover 54% of these meters. This territory, however, actually represents about 75% of the nation's historical spectrum value based on prior FCC auction prices.

We're seeing continued interest and a growing pipeline of opportunities from these IOUs. We believe the potential PDV commercial relationships with these IOU customers will begin with a long-term contractual right to use PDV spectrum, potentially in the form of a long-term lease, to enable a private broadband network that they can own and operate.

While we don't underestimate the complicated decision-making and long sales cycles of these large customers, we strongly believe that the industry trends of grid modernization and cybersecurity will continue to drive the expanding demand from utilities to deploy private networks in an environment of scarce suitable alternatives.

We are also exploring additional service offerings beyond spectrum that could enhance PDV shareholder value by either accelerating customer adoption or by increasing customer profitability. We are working with partners to determine the best way to bring these value-added services to market.

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As we continue to clarify our product offerings and related business model through our work with customers and advisors, we will provide additional details.

And with that, I'll turn it over to Tim.

Timothy A. Gray - *pdvWireless, Inc. - CFO*

Thanks, Rob. During the first quarter of fiscal 2019, we continued to evaluate our operating cost as we work to finalize our regulatory initiatives and shift our investments toward the future deployment of broadband and other advanced technologies and services.

As discussed on our last call, the restructuring plan aimed at reducing the future operating cost of our TeamConnect and pdvConnect businesses is well underway, and we've made significant progress to lower the future cash burn in these areas.

With annualized savings of close to \$2 million, the workforce reductions taken to date provide us with additional capital to invest in our broadband initiatives. The changes to our team have essentially removed all dispatch sales and marketing efforts and better aligned our support functions as we don't expect significant future growth in these businesses. We will continue to watch these businesses and take additional actions as necessary to minimize any related cash burn.

Also, as disclosed earlier today, based on the new tax law, we have filed restated financial statements resulting in a benefit for our fiscal year 2018 and the prior third quarter period within fiscal 2018. In order to correct the effective date changes to the establishment of indefinite-lived net operating loss, or NOL, carryforwards, the additional noncash income benefit was \$5.6 million for the 3 months ended December 31, 2017, and \$6 million for the fiscal year ended March 31, 2018. Please refer to our filings for additional information.

Looking at our first quarter results of fiscal 2019, our cash position decreased by \$7.4 million. As previously shared, our goal for fiscal year 2019 is to have lower cash spend in fiscal 2018 before considering any restructuring-related cost or spectrum acquisitions. Based on our first quarter spend and our announced headcount reductions, we expect this to be achievable even as we increased our broadband investments. As of June 30, 2018, the company has \$90.9 million in available cash and is debt-free.

For the first fiscal quarter ended June 30, 2018, the company reported net loss of \$12.3 million or negative \$0.85 per share versus a net loss of \$7.9 million or negative \$0.55 per share for the same quarter in the previous year. The first quarter included \$4.5 million of restructuring-related items, including severance, stock compensation expense and a write-down of dispatch radios in inventory.

Adjusted EBITDA for the fourth quarter was negative \$8.1 million compared with negative \$5.6 million for the same period in the prior year. The decrease in adjusted EBITDA over our previous year is due to increased investment in broadband initiatives and \$1.8 million in restructuring costs.

I'll conclude by saying that we are well positioned to accomplish our primary objective of building shareholder value by modernizing the 900 megahertz band to increase its usability and capacity. Investments continue to be focused on this next phase of our business.

That ends our prepared remarks. I'll now turn it back over to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question is coming from Mike Crawford.



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Michael Roy Crawford - *B. Riley FBR, Inc., Research Division - Senior MD, Co-Head of The Discovery Group & Senior Analyst*

Mike Crawford from B. Riley FBR. Morgan and Rob and team, you've talked about making progress on key areas of tension. We also saw Chairman Pai commit to moving to an NPRM. Is that something that you expect will reflect your revised PDV proposal? And secondly, is this something -- like the NOI that came out of circulation a year ago, is this something that you think that just might be -- that come through circulation? Or might be moved to a formal agenda item at a board meeting of the FCC?

Morgan E. O'Brien - *pdvWireless, Inc. - CEO & Director*

We won't know. I mean, the question of whether the Chairman puts it on the agenda or whether he just handles it by circulation. If I had to guess, I would say it would be by circulation because it's -- in their scheme of things, it's a relatively small scale item. On the question of what's in it, we really won't know until we see it. But we're optimistic.

Michael Roy Crawford - *B. Riley FBR, Inc., Research Division - Senior MD, Co-Head of The Discovery Group & Senior Analyst*

I mean, you talked about meetings and filings with the FCC and Congress in recent weeks. And through the course of those meetings, I'd imagine you'd get a sense of whether how well the revised proposal is resonating, or if they have any questions that are coming back on a certain point that you're able to share with us.

Morgan E. O'Brien - *pdvWireless, Inc. - CEO & Director*

I think the safest thing for me to say, Mike, is that specifics are hard to come by at this stage in the 11th hour. But we continue to be engaged, and I think that's about all I should say: Engaged and optimistic.

Operator

Your next question is coming from [Max Devon].

Unidentified Analyst

I was wondering, when you look at -- Rob, when you look at that robust pipeline you have, obviously, you can't sell anything yet when it hasn't necessarily been approved. Are you concerned about competitive deals for other technologies, perhaps, from traditional mobile network operators that might come in with new solutions from the technology perspective rather than a network perspective while we wait for the FCC?

Robert H. Schwartz - *pdvWireless, Inc. - President & COO*

Yes, thanks, Max, for the question. A couple of thoughts. First of all, yes, the robust pipeline for us really is our initial efforts of developing, exploring, understanding the customer needs, as you saw with the Ameren example, and we filed an experimental license, which the FCC granted relatively quickly, and we're really off to the races in our initial deployment to really discover the ways in which we can solve the numerous use cases that we're trying to help out with within the industry. As far as -- so I think we have a good opportunity to be able to start seeding the market through that process and others to start before an advance of any formal rulemaking. As far as competitive threats, we never underestimate the carriers and the other solutions that are available to these customers. We see that 900 megahertz fits very squarely in a space where there really aren't a lot of good alternatives. When you look at an entity like an Ameren that has over a dozen different communications networks today, that they're having to rely on relatively disparate, most legacy, networks that they're looking to bring together as much as possible. On a single typically private network -- and private is not something that we're selling as a new idea, this is something that utilities, for decades, have relied on their owned and operated networks for all the right reasons of security, reliability, resilience. And so there absolutely are other developing technologies. But when you start segmenting the market between the low-value solutions, things that are needed for that aren't mission-critical, like LPWAN



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technologies, things that are going after some of the lower-value IoT, versus the very high end of private, resilient, robust communication needs, we think that's where private LTE fits in very squarely. And again, there aren't really many other alternative solutions for that space. So again, we don't underestimate the competitive threats that are always out there in the marketplace, but we think there's a very, very square place where we fit right into the market once we have our solution available.

Operator

Your next question is coming from Marc Wiesenberger.

Marc Wiesenberger - *B. Riley FBR, Inc., Research Division - Associate*

This is Marc Wiesenberger from B. Riley FBR. And following on some of Mike's earlier questions. Following Chairman Pai's positive comments, can you talk about how your discussions, if at all, with critical infrastructure players has evolved? And are they now prioritizing anything different in the near and medium term, following his comments? And then another one, ultimately in the ideal world, how do you envision the mix of pure spectrum leases versus creating kind of these bespoke networks where -- for the customers? And how would that evolve over time?

Morgan E. O'Brien - *pdvWireless, Inc. - CEO & Director*

This is Morgan. Let me take a crack at that. I think the -- it may be proportional to the size of the entity. The larger the IOU investor and utility, the larger the utility, the more likely that they may be towards the end of wanting to lease the spectrum, but take most of the rest of the responsibility on themselves as they traditionally done with private systems. And then as you move down more in the municipals and the co-ops, they are smaller, therefore, they have fewer resources to be able to throw at something as new and complex as LTE and broadband. And so what you described as the bespoke model might make a lot more sense. I think to focus on more than anything is the ability of a particular utility to access their ratepayers to get the capital, not just to lease our spectrum, but much larger number, to build the infrastructure. This is going to be a very expensive undertaking to put the kind of capabilities out there that are going to serve the purpose of resiliency, reliability and security. So frankly, what is the most important driving phenomenon out there is that the investor on utilities rely on the ability to go through the PUCs and to the ratepayers to invest capital to improve the network and to earn a return on it. So that's -- to me, that's the virtuous phenomenon here. As to how the -- exactly how are the licenses going to be made available through this NPRM, we have a good number of options out there that -- ways in which the NPRM might choose to do this. As yet, we really don't have a good, clear signal of which. There's a couple of different acceptable ways.

Marc Wiesenberger - *B. Riley FBR, Inc., Research Division - Associate*

And then just back to the first one. Are your discussions with these players, have they changed since the positive comments?

Robert H. Schwartz - *pdvWireless, Inc. - President & COO*

Sure. Yes, I think utilities are relatively conservative customers as an example. And so as there's less and less perspective of any kind of overhang of regulatory risk, we get it increasing interest from those parties. So we've got a very robust pipeline, as we've talked about, at varying stages from those that were already in discussions about current deployments, to those that are just evaluating the opportunities. And it's amazing how close a lot of them are following this process because of, as we said earlier, the lack of alternatives and the really growing demand for their private networks.

Operator

(Operator Instructions) We have no further questions in queue.



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Morgan E. O'Brien - *pdvWireless, Inc. - CEO & Director*

With that then, thank you so much, and we look forward to the next chance to update lots of progress. And we're looking forward to the next chance.

Operator

Thank you. Ladies and gentlemen, this does conclude today's conference call. You may disconnect your phone lines at this time, and have a wonderful day. Thank you for your participation.

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