

PDV Wireless

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4:45 PM EST

OPERATOR: Good afternoon ladies and gentlemen and welcome to the PDV Wireless Q3 Update conference call. At this time all participants have been placed on a listen only mode and we will open the floor for your questions and comments after the presentation. It is now my pleasure to turn the floor over to your host, John Pescatore CEO of PDV Wireless. Sir, the floor is yours.

MR. PESCATORE: Thank you, good afternoon everyone and welcome to the PDV Wireless earnings call for the third quarter of fiscal 2017. Joining me today to discuss our results are Brian McCauley, our Chairman, Morgan O'Brien our Vice Chairman, Tim Gray our Chief Financial Officer and Rob Schwartz our Chief Strategy and Development Officer. Before we begin I'll hand it over to Tim to remind us of a few important items. (Names that were not provided were spelled phonetically)

MR. GRAY: Thanks John, earlier this afternoon we issued an earnings release and filed a quarterly report on form 10-Q with our third quarter results, copies of which are available on the Investor Relations portion of our website as well as on the FCC's website. Following our remarks today we will hold a question and answer sessions for analysts and investors, additionally I'd like to remind our listeners that this conference call is open to the public and a recording of our discussion will be available on the Investor Relations portion of our website. We will refer to a non-gap financial measure, adjusted IBIDA during today's call, this measure should not be considered an isolation from, as a substitute for, or superior to our financial measures prepared in accordance with gap. We have provided a reconciliation for this financial measure to net loss, the most directly comparable gap financial measure in our earnings release.

Any matters discussed today that are not historical facts constitute forward looking statements, these statements are based on current management expectations but involve risks and uncertainties that could cause our actual results to differ materially from those suggested by such statements. The potential risks and uncertainties include those identified in our risk factors section of our annual report on form 10-K filed with the FCC on June 13, 2016 and our subsequent filings with the FCC including our form 10-Q for the third quarter. You should not place undue reliance on these forward-looking statements which speak only of today. PDV Wireless assumes no obligation to update any forward-looking statements except as required by law. Now, I'll turn it back over to John.

MR. PESCATORE: Thanks Tim. The results of the November election have everyone talking about change. I want to assure you that our priorities and goals have not changed. We remain focused on our three key business priorities, the highest of which is achieving success with our regulatory efforts to unlock the value and opportunities associated with more efficient use of our spectrum. In addition, we are planning for success by developing longer term strategic plans and focusing on increasing revenue in our dispatch business.

I'll begin by providing a brief update of our dispatch business. Currently we're focusing on the seven markets where we have commenced service, we've been trialing and implementing a number of sales and marketing initiatives and strategies to help grow these areas and to develop a successful sales model. We showed improvement in the third quarter of fiscal 2017 with regard to unit sales and sales funnel activity. As of today, our total unit count has grown to approximately 3,600 units, up from approximately 2,800 units at our last call. That's an increase of close to 30%. Further, our customers are experiencing the value of our mobile work force applications which we bundle with our wide area push to talk solution. Approximately 80% of our accounts have utilized at least one of those applications. This measurable progress, combined with the positive feedback we continue to receive from our customers is encouraging. As mentioned on our last earnings call our recently formed centralized business development team continues to exceed their targets for developing qualified leads. We began hiring and training team members in mid to late second quarter and by the end of the third quarter the team had generated over 350 qualified leads. Many of these opportunities are now being worked in our sales funnel and some have already resulted in new customer accounts. Further, as we develop compelling use cases across specific verticals the business development team has been leveraging those use cases to target similar businesses throughout our market areas. As a result of their collective efforts and close coordination with our sales team we are beginning to see the type of impact we had hoped for and plan to increase the size of this team. Developing alternate channels, instituting a major accounts program and adding limited direct sales resources in the markets are among other promising initiatives currently in process.

As part of our strategic planning process we continue to develop opportunities to serve the needs of enterprises including critical infrastructure. Using our spectrum and other key PDV assets we're working with partners to develop those opportunities with both available and emerging technologies, as a current example we are developing an opportunity to enable a rural, state-wide utility to upgrade their field area network to provide a higher level of distribution automation including enhanced monitoring, control, automation and management of power grids from the distribution substation out to the meters. Utilizing PDV's current spectrum and available wideband technology and integration partners this utility has a solution to their current distribution automation needs and equally important, PDV upon achieving our regulatory objectives has agreed to provide a migration path to broadband as desired by this utility.

We are also working on opportunities leveraging our licensed spectrum and assets to serve existing and emerging business models that depend on unlicensed spectrum. In our view access to licensed spectrum for these use cases can offer enhanced quality of service, greater interference protection as congestion on unlicensed spectrum grows and potentially more cost effective coverage capabilities. We are engaging with prospective business partners to explore these opportunities including conducting both lab and field trials. Through these types of initiatives, we intend to continue to leverage PDV spectrum on our deployed networks in our seven markets and throughout our nationwide license footprint. We view our dispatch services as the first layer of applications on our network, we see opportunities to work with partners to synergistically layer additional services and technologies on this same infrastructure.

In December, we were pleased to announce the appointment of Paul Solei (ph) Executive Vice President and Chief Financial Officer of Computer Sciences Corporation to our Board of Directors. Paul serves as

successor to Andy Daskolakas (ph) who retired from the board in December after serving more than 12 years. Paul is a seasoned executive who joins the board with more than 30 years of experience in corporate finance and management. We are grateful to Andy for his incredible service to our company for so many years, providing us with his experience in the wireless industry and in the dispatch radio business.

Now I'd like to turn it over to Morgan O'Brien, our Vice Chairman to provide a more detailed update on our regulatory initiatives.

MR. O'BRIEN: Thanks John, good afternoon everyone. Since we gave our last update needless to say there have been some significant changes in Washington and specifically at the FCC. During the transition, as usual, things slowed down considerably at the commission until there were appointments of the new leadership and they were given time to begin to formulate and communicate their agenda. As many of you know Chairman Wheeler (ph) and Commissioner Rosemorsel (ph) have departed and Commissioner Pai (ph) has been elevated to Chairman so for the time being the commission is operating with three commissioners. There also have been several changes at the staff level and Chairman Pai has focused his attention on developing and communicating his highest priority items over the initial few weeks.

We believe that the benefits of our joint petition are non-partisan and are aligned with the stated goals of the new FCC leadership. Adding additional broadband spectrum below 1 gigahertz remains an important policy goal that is supported by both Republicans and Democrats. Commissioner, now Chairman Pai has a consistent track record of urging his fellow commissioners to abandon the old command and control method of managing spectrum in favor of market price innovation and competition. In a recent concurring statement, Commissioner Pai stated affirmatively "Consumers benefit when the FCC eliminates unnecessary regulatory barriers to innovation and investment". It's important to keep in mind that the 900-megahertz band remains relatively underutilized. This represents an excellent opportunity to add additional broadband capacity. We're looking forward to continuing to meet with the commissioners and the FCC staff, making our case for prompt action on our joint petition.

The timing of this process is uncertain. As the current item on circulation that we believe is related to our joint petition has no defined timeline associated with it and depends on the affirmative vote of a majority of the commissioners. While the new Chairman and staff will likely be focused on the near term on several marquee agenda items we also expect to see progress in parallel on the rest of the items in the docket. We believe that broadband deployment will be a top initiative of this administration and will remain a key focus area for the FCC. We continue to believe in the merits of our proposal and that our joint petition is consistent with the FCC's newly stated priorities and precedence and will be approved.

While waiting for the transition to take place and take hold at the FCC we've been actively working with several parties who are interested in solutions that could be supported by our potential future 900 megahertz broadband spectrum. As these efforts move forward we are increasingly confident that there is a large ecosystem of enterprises, technologies and business opportunities that would be enabled by

continuous spectrum access and the availability of related broadband service offerings at 900 megahertz. Parties we're discussing this with include incumbents on 900 megahertz who have a direct stake in the outcome of the petition. Our team is very clearly focused on developing the opportunities that will help move the joint petition forward and I continue to be hopeful that the commissioners will act to move forward on our joint petition. I think that covers the current status of the joint petition and the actions we're taking to move this process forward.

I'll now turn it over to Tim to provide an update on our financial performance.

MR. GRAY: Thanks Morgan. I will review the key highlights of the company's financial results for the third quarter of fiscal year 2017. My review is not intended to replace the full financial disclosures enclosed in the company's 10-Q filed today or our most recent annual report on form 10-K filed with the FCC. We encourage listeners to review those filings for additional information. Revenue for the company's third fiscal quarter ended December 31, 2016 was \$1.3 million compared with \$1.1 million for the quarter ended September 30, 2016; an increase of 17% quarter over quarter. The increase in revenue was due to the growth in our customer base.

For the quarter the company reported a net loss of \$7.3 million or negative \$0.51 per share compared with a net loss of \$7.8 million, or negative \$0.54 per share in the previous quarter. Adjusted IBIDA for the second quarter was a negative \$5.5 million as compared with a negative \$6.2 million for the September 30, 2016 quarter. The improvement in adjusted IBIDA over our previous quarter is due both to the increase in revenue and a decrease in operating expenses mainly due to the winding down of the first net bid effort. The company continues to have a strong cash position with \$130.7 million available as of December 31, 2016, which is a decrease from September 30, 2016 of \$6.3 million. I'd also like to let you know that we recently expanded our internal strategic planning process to assure that we cost-effectively focus our resources on our three key priorities; achieving regulatory success with the FCC, continuing the development of our compelling business plan and continuing to improve our near-term revenue opportunities.

That concludes our prepared remarks. Now I'd like to turn it over to the Operator to facilitate questions.

OPERATOR: Thank you ladies and gentlemen the floor is now open for questions. If you have any questions or comments please press; star, one on your touchtone phone at this time. Pressing; star, two will remove you from the queue should your question be answered. Lastly while posing questions please pick up your hand set if listening by speaker phone to provide optimum sound quality. Please hold while we poll for questions.

Your first question is coming from David Dixon. Please announce your affiliation and pose your question. Your line is now live.

MR. DIXON: Thanks Operator. Good afternoon everyone, it's David Dixon of the FBR. I guess I had a question on the discussions that are continuing with the utilities number one and then perhaps just on the strategy. John, you mentioned you see an opportunity to pair or partner with other current and emerging technologies and you're working with partners on that front. I know some of those discussions

may be early but to what extent you can kind of flush that out a little bit for us and just highlight how that's different to what you were thinking in quarters gone by, that would be great.

MR. PESCATORE: Sure I think what we'll do David is Rob has been working on a number of those initiatives and I would say – I wouldn't use the word different but we're developing and expanding some of those efforts and we can talk about those things now.

MR. SCHWARTZ: Sure, hi David. I think as we've said in the past we continue to look at opportunities to leverage our existing spectrum and our spectrum as we go into a broadband scenario for a variety of these cases and we continue to talk to a number of parties. John mentioned some of them in his words but we really continue to evaluate all kinds of ways in which we can find the highest and best use of our spectrum both looking at different technologies, different applications and different vertical industries and really just finding different ways in which we can create value out of our assets.

MR. PESCATORE: A good chunk of that, to tie it back to the question on utilities at the front end or the first piece of that, David, on incumbents. A lot of that is focused in the utility space and having those conversations about commercial relationships and opportunity we end up speaking with incumbents and non-incumbents who have an interest in broadband as well.

MR. O'BRIEN: Yeah David, this is Morgan. There's broadly two kinds of utilities, the ones who are incumbents in 900 and the ones who aren't and the ones who aren't, of course, have no hesitations about discussing their plans for new uses of technology and whether it be their own spectrum or whether it would be our spectrum and in some type of creative relationship. We've talked about that from the outset but then again on the incumbents we have a broad range of discussions involving ways in which we can creatively address current concerns on the interference side but also potential opportunities for other technology approaches. For example, we have – the way our channels are deployed, the way they were assigned by the FCC we have as many as ten 12.5 kilohertz channels, contiguous. That offers an opportunity to do interesting things under current rules, it is not the direction that we set out to accomplish with a 3x3 broadband and that continues to be our goal but there are pre-interim steps that we can take to address immediate needs.

MR. DIXON: Do you think more just on that point, that gives you – what you're exploring here gives you greater confidence in terms of – or maybe just in terms of positioning your solution in front of the regulators in terms of what it can achieve is just kind of giving you more optionality?

MR. O'BRIEN: Yeah, I think it does and one way to look at this, of course I'm preaching to the converted I know with you but when we started this which was two years ago, there was nowhere near the same interest and development in low power types of wireless. The emphasis was all on what you could do with licensed spectrum and since then there is this great interest that the commission and others have on unlicensed spectrum and the synergy, as we said in our statement, about combining licensed and unlicensed and various technologies and the ability to look at spectrum for low power whether it's Laura or whether it's narrowband IOT. These opportunities are out there and on the assumption that the FCC puts out a relatively broadly phrased notice of inquiry I would expect that we, and others, will direct the commission's attention to all those opportunities.

MR. PESCATORE: David, you know a lot of this comes out of the – as our highest priority is to win our regulatory effort there, a lot of our commercial discussions have come out of the regulatory process

because in speaking with the incumbents in the band and others there are those real needs. We have participated in a number of industry associations and events where we get into discussions around the commercial opportunities; what are their problems, how can we help solve them? Our spectrum position, as Morgan mentioned, is obviously nationwide and we can put blocks of it together today to work on, for instance field area network solution. Our spectrum is perfectly suitable to some of the existing technologies and eventually that also, we believe, will lead to more support because you're there and talking to all the players in the industry.

MR. DIXON: So in a nutshell then, to paraphrase it you're looking at leveraging the trials and the work that's being done in a complementary fashion in the higher bands, some of the unlicensed and shared spectrum bands for example to try to achieve to some extent the goals and objectives of these utilities. In doing so highlighting here kind of a partnership or a combination of kind of low band plus the high band could meet and hopefully exceed their needs.

MR. O'BRIEN: Yeah David as you know there are a number of unlicensed bands currently in the process. Our 900-megahertz band happens to be conveniently located adjacent to the 900 megahertz ISM band as one of them which is a natural for us but clearly with a lot of the unlicensed technologies that are being discussed and deployed the opportunity to use multiple bands of unlicensed along with our spectrum is available.

MR. PESCATORE: The past broadband exists and we talked about that as well with down the road the ability to aggregate in unlicensed with a broadband solution too, paring licensed and unlicensed. It all kind of fits together as we look out into the future here.

MR. DIXON: Okay and do you see any utilities trialing these solutions in the unlicensed band? We're certainly seeing the carriers looking at this but are you seeing any utilities that are exploring this?

MR. O'BRIEN: Well the largest category of IOT today is really smart meters and a lot of those smart meters are on unlicensed today so they are users in unlicensed but I think depending on the utility there are various levels of experimentation innovation. We just attended the distribute tech show which is the big industry conference for the utility industry and there you can see every major industry player, provider of equipment and services demonstrating different technologies to be able to provide for narrowband to broadband services. There's a lot of technologies and solutions that are being offered up, it's a question of – the adoption rates aren't necessarily the fastest in the industry but there's clearly an appetite.

MR. DIXON: Okay thanks very much

MR. PESCATORE: Thank you David.

OPERATOR: Once again ladies and gentlemen if there are any questions or comments please press; star, one on your touchtone phone now.

Your next question is coming from Tom Keitel. Sir, your line is live.

MR. KEITEL: Thank you. Good evening everyone and thanks for the call, as always. Question just back to the operations a little, I don't have every cash balance memorized but it seems like you've been north of 100 million almost since day one right. What is your look for the next year or two of cash burn by year?

Is it 6 million a quarter or what it is and what's the minimum level of cash that you want to kind of keep on the balance sheet?

MR. GRAY: Tom we've kind of normalized at a run rate the last two quarters at around \$6-6.5 million a burn, we ran a quarter or two excessively higher than that when we were running with the first net bid. Our intent, without giving forward looking guidance, is to stay within the range of this normalized run rate that we've been on. That may creep up as we add more personnel and many more resources to move the FCC process forward but our intent is not to shoot that up significantly. From a minimum number I don't want to put one out there for us going forward, I don't think that would be – where we are right now and into the foreseeable future.

MR. KEITEL: Okay the second question just want to look at your income statement, your G&A is around \$5 million this past quarter, 18 million for the nine months and then you have sales and support and product and development. Within the G&A how can you just, in a really broad base way frame with the absence of any more detail here, frame those numbers along FCC related endeavors and new business in the seven market spaces? Is there a way to kind of think about where your spend has been there?

MR. GRAY: From a G&A perspective, Tom, most of what is in there is a couple of items; one, back office support, finance HR, etc. Second is our strategy and business development efforts and in there previously, not in this quarter were most of the first net efforts and so that's really the main key drivers within G&A.

MR. PESCATORE: Within that business development the regulatory efforts and the team that supports that and we have a great team that's working on it both internally and externally and all of those costs would be in that as well.

MR. KEITEL: Got it, I was just trying to frame like where on the seven businesses and obviously you have around 3-4,000 units as you said where is a thought of a break even, if at all or if that's not really a near term goal as you just continue to kind of test things out. How should we look at that over the next few periods or as things develop here I guess?

MR. O'BRIEN: Well the way we looked at that is if you look at it on a bi-market level and market can get to break even at roughly just less than 4,000 units. As we move forward with the growth that we're starting to see we're hoping to be able to move markets, several markets to a cash flow positive position so that they can start to fund covering the G&A and other expenses that are headquarters related.

MR. KEITEL: Alright gentlemen, thank you very much. Have a good evening.

MR. PESCATORE: Thank you, Tom.

OPERATOR: You have a follow up question coming from David Dixon. Sir, your line is live.

MR. DIXON: Yeah thank you, just circling back on FirstNet for a moment now that things are kind of winding down there with the spending behind us, what's kind of the opportunity fit there? We look at FirstNet now, they're doing a lot of work in trying to get the states on board. If you talk to folks that are pretty close to it in terms of the traffic outlook you have Verizon on the one hand is saying there is very loose definitions around applications and uses of the network which is why they weren't involved. You have others that don't think there will be significant traffic growth there in the front end at least. What's

your assessment of, currently, the opportunity to work with FirstNet going forward and what have you learned in the process of?

MR. O'BRIEN: David this is Morgan, I think the right way to look at this is that until the appeal process that's currently going on ends. I think it basically ends in March whether it gets decided or gets compromised before then but after that on the assumption, and it seems like a pretty reasonable assumption, that AT&T wins the bid since it appears that they were the only bidder to be found in the competitive range. Assuming that process ends in March and the award is given to AT&T and FirstNet moves forward we see lots of opportunities for us to play a constructive role in the process going forward. There will be any number of opportunities for people who have our kind of background to be supportive and helpful. We are not interested and we have made it clear that we're not interested in playing any kind of a role encouraging opting out by the states. For the lesson, in the process that this moves forward we see plenty of opportunity to be constructive and helpful.

MR. PESCATORE: I think all of it with an eye on the synergies that we talked about in our 900-megahertz spectrum as well. It will always tie back to our longer-term view of the potential there and in the meantime we have already seen benefit in our day to day business of dispatch or the regulatory process by the relationships we've established. A number of partners have been involved with us in the 900-megahertz piece of the business now.

MR. O'BRIEN: Just as an observation and I really don't have much more opportunity to observe than anyone else who's on the outside of the process, it seems to me that public safety in general is getting more comfortable with the idea of a dedicated network. If I had to bet I would say this will take off, it will take off slowly but then it will gather momentum and be a very significant opportunity for AT&T.

MR. DIXON: Yeah and great on that front. I'm also interested in your thoughts, maybe for Rob, on the work that's being done inside the old CE standardization forums on priority access networking. It seems that's a real focus for the next generation of LTE standards that we see coming through, just your thoughts on the developments that we're seeing there which could pave the way for others to start to encroach perhaps? It could provide you with opportunity, I'd like to just get your thoughts on that as well.

MR. SCHWARTZ: Yeah, I think there's a couple things. First of all, I think as Morgan said we've always talked about how we think our spectrum is complementary to what's being done with FirstNet for our ability to serve an additional segment in critical infrastructure otherwise with prioritized access as we stated in our petition. Any support from the technology that allows that to happen on an orderly fashion I think is beneficial and allows us or others to be able to do so would be good for us. I think from a technology standpoint and we continue to look at various technology in addition to LTE and the 3DPP standard to be able to understand the best and most effective complementary ways to use our spectrum and also to get it cost-effectively built out as part of that process.

MR. DIXON: Okay, great. Terrific, thanks Gents.

MR. O'BRIEN: Thanks David.

MR. PESCATORE: Thanks again, David.

OPERATOR: If there will be any final questions or comments please indicate so now by pressing; star, one on your touchtone phone.

Sir, there are no further questions in queue.

MR. PESCATORE: Well we want to thank everybody for being here today and we'll look forward to our next one. As always, any questions come up after feel free to contact us. Have a great evening.

OPERATOR: Thank you very much ladies and gentlemen; this concludes 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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