Edgewater Wireless Systems Inc.
TSXV: YFI OTCQB: KPIFF

Investor Update Abridged Transcript

February 10, 2020 4:00 PM ET
Executives:
> Andrew Skafel, President and CEO
> Bob Harper, CFO

Board of Members:
> Brian Imrie, Board of Directors Chair
> Steve Andrews, Board member

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Presentation:

>> Bob Harper, CFO, Edgewater Wireless:

- Good afternoon. I'm Bob Harper, CFO of Edgewater Wireless. Thank you for calling in to today's Investor Update. Please note this is a listen-only call and that this call is being recorded. If you are joining on your laptop or other screen devices, you will see Edgewater's forward-looking statement disclaimer.
- The company has received several questions in advance of this call, and we have integrated responses within the text of the presentation. Additionally, Andrew and Bob have responded to phone calls and email messages.
- And now to Brian Imrie, Chairman of Edgewater Wireless, Brian:

>> Brian Imrie, Chairman:

Thank you and welcome everyone to the investor update call for Edgewater Wireless (TSXV; YFI) (OTCQB; KPIFF). I am Brian Imrie, and I am the Board Chair for Edgewater Wireless, today on the call you will hear from several people besides myself. You will hear from our CEO, Andrew Skafel, one of our distinguished Board Members, Steve Anderson, and from our VP of Product, Eric Smith.

Now it is time to hand the call over to our President and CEO, Andrew Skafel.

>> Andrew Skafel, President and CEO, Edgewater Wireless:

2020 Update: Progress and Road Ahead

As we move into February and the New Year starts to take shape, it's an appropriate time for an update on the immediate commercial opportunities to grow Edgewater.

One year ago, we set out some bold objectives and goals for the year:

1) **Disrupt:** The $33B global Wi-Fi Industry[1] – an industry that's been virtually unchanged since 1999
2) **Revenue Growth:** Deliver revenue growth
3) **Residential Market:** Expand into the residential Wi-Fi market
4) **Thought Leadership:** Establish ownership of Wi-Fi Spectrum Slicing and be first to market

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[1] Source: https://www.prnewswire.com/news-releases/home-wi-fi-router-and-extender-market-to-be-worth-us-129569-mn-by-2026-transparency-market-research-681596821.html

We've made substantial progress.

Let's start by critically assessing where we stand as we kick off the New Year.

We've not achieved everything we set out to do last year, and although we've made considerable progress delivering on our goals, we're not where we planned to be.

Commercial activity – which we'll address shortly – was strong; however, production challenges constrained revenue growth. OEM production issues impacted our ability to ship quality products and, more importantly, cut into our supply of silicon (chips).

Seeing the demand for our products exceed supply, we made the strategic decision to accelerate our plans to migrate silicon (chip) production to lower cost, higher volume processes.

The successful migration exercise will not only alleviate our existing supply challenges but will also move us to the next phase of our development. Accelerating complex silicon work required focus, and we've made considerable progress creating a valuable, scalable asset – spending a fraction of the 10's of millions spent by our competitors. It is a testament to our tight cost controls and superior capital management. We plan to increase our investment in tape out, and upon doing so, we expected to achieve the milestone in 2-3 months.

Tape-out is a strategic milestone that <u>will</u> garner the attention of major semiconductor companies and potential M&A partners and establishes a strong foundation for our next milestone – to realize our backlog and pipeline.

On the commercial front, those who have been following will be aware of our Business Development progress, but it's worth recapping some of our significant accomplishments:

1) **Residential Wi-Fi:** The public launch of the Dual Channel Wi-Fi™ standard co-innovated with our friends at CableLabs, exceeded our expectations in two areas – the business impact of the application in reducing support costs for MSOs and the magnitude of the opportunity it created for our Wi-Fi Spectrum Slicing approach (more lower latency channels). The standard represents a monumental, global shift for the industry as the legacy, single-channel approach reaches the 'end of the road'.
2) **Applications:** We focused on delivering groundbreaking applications, or software tightly coupled to our chips, that help our customers save money or generate more revenue. It's about giving customers more reasons to buy our great products – similar to what Windows did for the IBM processor – it's all about making our products indispensable for customers. Working across the pond with the British Broadcasting Corporation, the BBC, we've developed the Broadcast Wi-Fi Application, or Bx Wi-Fi. Leveraging our patented Wi-Fi Spectrum Slicing approach, Bx Wi-Fi creates an incredible fan experience in venues.

3) **5G Offload:** Working with the global industry heavyweights Comcast, Nokia and Global Reach, we've positioned Edgewater, and our disruptive Wi-Fi Spectrum Slicing approach, at the forefront of the next generation of mobile communications. Our work with these significant players at the Wireless Broadband Alliance (WBA) continues and is instrumental in creating the business case for major operators to use Wi-Fi as the indoor technology in the new mobile standard.

At this time, I'd like to introduce one of our Board Members, Steve Andrews. Many of you will be familiar with Steve and know how fortunate we are to have him a part of the Edgewater team – however, it is an excellent opportunity to recap his background.

Steve spent the greater part of his career with British Telecom (BT), where he was latterly the Chief of Products, and Services and his team were instrumental in establishing BT's residential and business Wi-Fi solutions. It's great to have such a strong customer perspective as part of our team. Steve's also Board Advisor to the Wireless Broadband Alliance (WBA) – the global organization which formulates industry strategies for Wi-Fi.

Over to you, Steve:

>> Steve Andrews, Board member:

Hello Everyone:

I would like to touch on three areas, drawing on my experience at both BT, advising TelCos and working with colleagues at the WBA:
- The WiFi Market context for Edgewater Wireless
- Disruptive nature of Edgewater's approach
- Typical TelCo /CableCo Purchasing models of Residential Gateways

The WiFi Market context for Edgewater Wireless
The market for WiFi continues to grow extremely rapidly, both for consumers and businesses. According to the WBA, there are 8 Billion Wi-Fi devices – and 3 billion were added over the last 12-months[2]. The growth rate is phenomenal.

This growth presents both opportunities and challenges. The more devices, the more interference and performance degradation occurs as the WiFi spectrum becomes overloaded.

This is where Edgewater Wireless technology comes in. The market needs a solution to manage this contention and allow users a good quality of service in device dense areas. The original concept was for Stadiums, conference suites, hotels, etc. But now it is obvious that even our homes and offices are becoming dense areas for connected devices.

Served by OEMs (Original Equipment Manufacturers) producing hundreds of millions of gateways, the Home and Office market is continually upgrading to deliver better performance. The Home and Office market is Edgewater's target market for silicon solutions or complete access point solutions and is also the opportunity to license our unique Intellectual Property.

Disruptive nature of Edgewater's approach
Edgewater Wireless has developed an approach called "Wi-Fi Spectrum Slicing", essentially dividing the WiFi frequency spectrum and allocating them as channels that can be assigned to services or device types.

Competitors can create a limited number of extra channels by introducing multiple radios. However, this creates interference, add significantly to the build costs and does not provide the numerous, co-ordinated channels per radio, available through the disruptive approach adopted by Edgewater silicon design.

Having this integrated multi-channel approach can deliver dedicated channels for important services to enhance performance, such as Video, Voice Communications, Gaming and more, whilst reducing costs – and dramatically reducing latency (delay).

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[2] Monica Paolini, WBA Annual Industry Report 2019, Wireless Broadband Alliance (Source: https://www.wballiance.com/resource/wba-annual-industry-report-2019/) [October 2018]

<u>Typical TelCo /CableCo Purchasing models of Residential Gateways</u>
Large TelCos/CableCos will contract for tens of millions of access points /Gateways at a time, and every few years will refresh their equipment with updated models. The highest volume will be for the consumer market, but increasingly, the same approach is used for business solutions.

Some years ago at BT, it was my team who undertook this process, and this continues today.

The first stage of the process is the identification of market requirements, such as performance, range, device connectivity, security etc. In the Cable Industry, much of this stage is tackled by CableLabs.

Secondly, this is translated into an Invitation to Tender, setting out the key requirements and technical features to fulfil the market requirement. This stage is extremely important for technology innovators like Edgewater Wireless as it is here you want your unique features to be specified. I know Andrew has been very active in this area and has had some success influencing specifications.

Thirdly the tender is put to a target list of vendors to design and supply the access points and the usual commercial negotiations to achieve the right build costs.

For Edgewater, this means we are targeting an extremely large market with our IP as well as delivering silicon solutions and Gateways. The latter often being for the business market where our current products have had solid references and a growing number of validations.

>> Andrew Skafel, President and CEO:

Thank you, Steve.

Adding to Steve's comments on the sales process, it is important to note that large service provider tenders, representing millions of units, can take 24-36 months from start to finish, and the stages dovetail with many of our Business Development activities outlined earlier on the call.

In addition to our public Business Development activities highlighted earlier in the call, we've been building a robust pipeline of opportunities. These qualified, engaged sales opportunities, (not a forecast), now crest over 10 million units. For reference, competitors' pricing often ranges from $5-20 per unit depending on the volume and characteristics of the silicon, which, when coupled with our backlog of almost $1M, creates a significant platform for growth.

Some callouts from our pipeline:

Tier 1 MSO: Residential Opportunity
Based on our extensive work with CableLabs and using applications like Dual Channel Wi-Fi™ as a springboard, we've successfully been included in a significant RFP – stage 3 from Steve's comments -- one of the key mechanisms used to select chipset suppliers. It represents a major accomplishment on our path to larger-scale opportunities (millions and tens of millions of chips) and is a critical sales milestone. The residential opportunities are one of the fundamental drivers for our accelerated efforts to reduce chipset costs and create a platform for rapid scale.

Tier 1 Service Provider (MSO/CableCo): Hospitality Opportunities
Continuing to build on our successful Proof of Concept (PoC), we recently completed expanding into a nearby resort and are being bid-into similar applications. The hospitality application, which leverages our MX Controller to manage multiple AERA™ access points across the sites, represents a growing demand for our products and, we're pleased to say, was a win over a major competitor. Reducing operational and capital costs is a message resonating with Tier 1 MSOs, and we anticipate several new deployments in the upcoming year.

Our broader pipeline includes both enterprise (business) and residential (home) applications for silicon and access points. Licensing discussions with selected major chip vendors are ongoing and are considered upside opportunities. We anticipate licensing commercial engagements will increase in tempo as the limitations of Wi-Fi6 become more widely demonstrated in real-world deployments.

On the competitive front, there have been some exciting new developments as the first-generation AX / Wi-Fi6 access points hit the market with great fanfare. We've discovered Wi-Fi6 access points pricing is significantly higher than previous generations of Wi-Fi – this is largely due to the complex nature of the standard. The impacts on large, residential Wi-Fi tenders, which often reach 10 Million units or more, is enormous.

Our silicon (chips), and related products, are increasingly price and value competitive compared to our large-scale competitors. This a seismic and an exciting change to our opportunity – As you will see from the presentation   that will be added to the website after this call, our radios meet and exceed the technical requirements at the same cost per unit as the competitors.

Before we move on to our questions, we wanted to let you know the presentation will be available on our website, and for those in attendance, we will email the appropriate links.

Some highlights the presentation include insights into our cost-optimized AERA access points and a brief competitive comparison.

And now, we'd like to welcome our VP Product, Mr. Eric Smith, who will be addressing some investor questions.

Eric:

>> Eric Smith, VP Product:

What is tape out, and what are the strategic benefits to Edgewater and its shareholders?

The tape-out process in silicon production is much like the process of setting type on a printing press. Once the type is set, then multiple copies can be made.

What we're doing by moving from one silicon process to another is taking advantage of a newer process that will allow us to produce chips at higher volume for a lower cost, as well as improve the performance of our silicon.

So, not only are our products disruptive and timely, but they are also highly cost-effective.

How are network operators handling the transition to 5G, and will WiFi play a role?

Wi-Fi is here to stay.

Wireless network capacity is a function of spectrum availability, and Wi-Fi equals more available spectrum.

Mobile carriers are pushing more and more voice traffic to Wi-Fi every day, and Wi-Fi is also ubiquitous inside buildings where 5G signals will have a hard time reaching.

This is why our recent work with the WBA on secure, seamless handover from mobile to WiFi networks is so significant.   Users will want to roam from outside to inside a building without having to fiddle with their devices, and non-human connectivity for things like autonomous vehicles and IoT devices will need to be able to roam from 5G to Wi-Fi without any human intervention.   This type of zero-touch handover is what we accomplished with our WBA partners Comcast, CableLabs and Nokia.

>> Bob Harper, CFO, Edgewater Wireless:

This concludes the presentation. On behalf of the Edgewater Wireless team, thank you very much for joining us today and for your continued support.