THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

Itron Inc. (NASDAQ:ITRI)

TOM DEITRICH was appointed President and Chief Executive Officer and named to Itron Inc.'s board of directors in August 2019. He joined Itron in 2015 as executive vice president and COO and has played a major role in shaping the company's strategy to partner with cities and utilities to deliver industrial IoT solutions. Mr. Deitrich has more than 25 years of experience in global operations at leading technology firms and has held numerous executive management positions where he led business-level strategies that transformed and significantly improved business results. He has extensive experience in product management, research and development, supply chain management and business development in several industries, including industrial equipment, telecommunications and semiconductors. Mr. Deitrich is a member of the GridWise Alliance Grid Infrastructure Advisory Council. Before joining Itron, Mr. Deitrich was senior vice president and general manager for Digital Networking at Freescale Semiconductor. Prior to Freescale, Mr. Deitrich worked for Flextronics International, Ericsson Mobile Communications and General Electric Corporation.

SECTOR — UTILITIES

TWST: We've spoken before, but can you please give our readers a brief refresher on the company and how it's evolved over the years?

Mr. Deitrich: Itron is focused on providing technology and services to utilities and cities around the world to help them better manage energy and water. The company was founded approximately 50 years ago on the basic premise of efficiency.

We wanted to answer questions like, "How can we help utilities provide more efficient services to their communities? How do we improve the usage of precious natural resources? What can we do to improve safety, security and operations of utility systems?"

This mission hasn't changed over the decades. We've grown and expanded geographically, which allows us to serve more than 8,000 customers around the globe.

Itron provides an intelligent platform for electricity, gas and water utilities' distribution grids. It consists of endpoints, sensors, switches, meters and other devices that collect data and take action in the field. That data then travels through a communication network to the point where it is needed. What you do with all of that data is our Outcomes business, which includes software and services that turn that data into intelligent actions.

To give an example of what that might look like, let's look at water. The platform automates the collection of water usage data, analyzes it and can locate water losses in the system. This allows the utility to take corrective actions to reduce the losses of that essential resource.

With roughly 30% of all water that's cleaned and pumped around the globe being lost before it ever reaches the consumer, we see a strong pipeline for our business in the future.

TWST: What can you share about your collaboration with Xcel Energy to manage and distribute energy resources in Colorado?

Mr. Deitrich: Xcel Energy is one of our largest customers, and we are proud to serve them across their territory, stretching all the way from Wisconsin down to Texas through the middle of the United States. We are working with Xcel Energy to manage the growing number of distributed energy resources in Colorado — resources such as residential batteries that are in people's garages. This is all part of providing grid flexibility and customer choice.

The electrical grid itself is a phenomenal piece of engineering mastery. It was designed to make sure that whenever you flip the switch, the lights come on. The challenge comes when you have to support times of peak loading, which occur relatively infrequently. To ensure reliability during those conditions, you're adding up to 40% of extra cost to handle just 10% or fewer of the utility use cases.

So how do you optimize the grid to promote reliability? The lights have to come on, but you also need to optimize costs. One of the tools in the toolbox is to use distributed energy resources to supply power

from the grid or, better yet, orchestrate the use of 10,000 of those batteries in garages to provide power back to the grid.

In order to do this, you need to know where those batteries are and how much charge is in them. And you need to coordinate with the consumers who own the batteries to allow the occasional use of those batteries and orchestrate the coordinated use of them at the appropriate time.

That's the essence of what we're enabling with Xcel Energy. This benefits grid stability and reliability and, importantly, the cost to consumers and returns for Xcel Energy and Itron as well.

TWST: And can you talk about your project with Water Corporation in Perth, Australia, to modernize the water distribution system?

Mr. Deitrich: This is another great example of applying technology to solve a real-world problem that many water utilities face. The Water Corporation is working with Itron to modernize their utility distribution system using one of our solutions called Temetra. This is a cloud-based, multi-vendor solution that allows utilities to collect data and analyze it to understand what's happening across their distribution system.

When you have 16,000 endpoints in the field, that's a lot of data to collect efficiently. In an area like Perth, which has persistent drought, we can find ways to improve water utilization. We can help consumers understand how they are using the commodity, how they can control their costs associated with it, but also start to understand where there are inefficiencies in the system and save that natural resource.

TWST: And you've called M&A a key strategic initiative. Talk about why that's the case and your plans going forward.

Mr. Deitrich: We have over 270 million communicating endpoints out in the field with more than 100 million of those under our management — 365 days a year, 24 hours a day. These endpoints generate a tremendous amount of data, and we are eager to utilize that data to solve more real-world problems. We just talked about a couple of examples, but there's so much more we can do.

We are keen to grow that Outcomes segment of our business that I talked about earlier. We aim to expand the list of solutions we can provide to customers and integrate new capabilities into our platform, bringing the power of the solution to the utility or the city, and all the way out to the consumer in a more seamless way.

The growth that we're targeting through M&A would accelerate our participation and broaden out our portfolio of offerings in that Outcomes space. We are interested in assets that will add to our platform capabilities in a scalable manner.

TWST: What are the greatest opportunities for Itron over the next several years? And is there a chain of events that could lead the company to substantially exceed expectations?

Mr. Deitrich: For the past year or so, the power of our strategy has become increasingly clear. We are growing at the top line and substantially increasing margins. We have the right recipe and now we are scaling it.

Utility infrastructure around the globe needs to be updated to cope with the modern world, specifically coping with things like weather volatility or increasing demand for power as more things in society are being electrified, and challenges like mitigating cybersecurity threats and improving reliability of services.

These things aren't optional if you want a thriving, growing society. Those macro trends drive growth in our business and expanded opportunities for Itron.

We see governments heavily investing in these areas, which creates tailwinds for demand. We see acceleration in AI, which is all the buzz these days, but also increases the amount of raw power generation required. Increased nationalism around the globe further increases the amount of electricity demand. As a leader in the technology to address these needs, I'm optimistic about our future.

TWST: What are some of the major concerns or risks or challenges that the company faces into the future?

Mr. Deitrich: Something that I think all companies face, and certainly Itron is in the mix, is that the world is an increasingly volatile place. We have worked diligently over the last few years to increase our supply chain resilience, but this is a task that's never complete. We have to increase our resilience against the unpredictable. Whether these are geopolitical, weather-related, societal or yet unknown, we've seen various theater wars; we've seen tariffs; and we've seen other blockages in terms of the supply chain.

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All of those challenges are out there and probably won't go away in the years ahead. What we are committed to is making sure we can deliver to our customers no matter what happens.

I also spend more of my time focused on how we can increase the rate of technology adoption from our customers. Looking at the world through the lens of our customers is important. They have a sacred obligation to provide robust services and that leads to a certain amount of risk aversion, which I fully respect.

The key for Itron is helping mitigate those risks while accelerating the pace of technological innovation to cope with those dynamic forces that I mentioned earlier. There is a path through this, but it comes down to how we can do a better job of making our technology consumable at a faster pace for our customers.

TWST: And you touched on this a short time ago, but can you elaborate on the role of artificial intelligence in addressing the demand and safety challenges for utilities?

Mr. Deitrich: From an electrical grid perspective, AI is both a challenge and an opportunity. The challenge is in the form of insatiable demand to address not only the increased power generation that's needed, but equally to improve the distribution grid and grid visibility to be able to get the power where it is needed. That's one part — how you cope with that demand, and how Itron can and will help

make the distribution grid more efficient, so utilities get better use out of what they have.

On the opportunity side of things, AI can unlock large scale benefits in asset utilization and improved productivity for utilities. We see our customers already exploring these capabilities.

We recently published our annual Resourcefulness Report, which you can find on our website. In this research, we focused on AI usage by utilities around the globe. We found that 82% of utilities we surveyed are already actively exploring or adopting some sort of AI or ML — machine learning — technologies. The most common use case cited was leveraging AI for safety, specifically risk detection, response when you do have an outage, and resilience.

From an Itron perspective, we think of three basic use cases for AI. The first one is augmenting the capabilities of our employees or those of our customers. Using AI to develop reports, search data or find information are examples of that. The notion of a copilot, which is Microsoft's AI tool, is brilliant. Let's use AI to help our employees and those of our customers be more efficient.

Use case number two is a deterministic use of AI. When you're operating a utility grid, it has to be resilient and reliable. The lights have to go on, the water has to flow when you turn the tap. So a utility's technology should be deterministic and things like anomaly detection can help improve grid performance. This is an area that we are actively working in and using machine learning and AI to enable today.

Mr. Deitrich: The underpinning of the projects we've talked about today and a whole host of others that we didn't cover is our Grid Edge Intelligence platform. It is a scalable platform that allows our customers to grow, expand, add and adapt as their technology needs evolve or their territory changes.

One way to illustrate this is with distributed intelligence, which is similar to a smartphone type of model. No, it's not a consumer good; it's an industrial grade product. But when you bought your first smartphone, you didn't know what you were going to download on it, what apps would be of interest. Today, you probably don't go through a day without using 30 or 40 different apps to do certain things. That's something that happens at the speed of software. You don't have to upgrade the phone to download another app.

How you do that for utility infrastructure is the key to dealing with this ever-changing and rapidly evolving world that we live in. You don't know where the next EV is going to pop up which creates a tremendous load variation on the grid. How do you cope with that? The idea of utilities being able to download different capabilities into their infrastructure allows the model to work well, and for Itron overall. I am extremely optimistic about the future. We see great adoption of this technology and look forward to many years to come.

Another project I'd highlight is our collaboration with PG&E in the San Francisco Bay Area to deal with the increasing number of electric vehicles. There's a grid side to this and there's a consumer side to this.

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The third leg of the stool, if you will, is using AI for sandbox or "what if" scenarios. For example, using a digital twin to understand a complex supply chain or understand grid topologies. You can have a more stochastic process because it is meant to explore and use what-if scenarios that can be tested in a safe environment.

AI remains an area of continued focus for us. We are in the early innings as an industry and as a society, and there's plenty of exciting work left to be done in the years ahead.

TWST: And again, you touched on this earlier, but talk a little bit more about the impact from macroeconomic and geopolitical factors right now.

Mr. Deitrich: The world seems to be moving in the direction of increased nationalism where countries want to be more self-reliant and that can create certain barriers for what can be done in-country or what can be imported. Things like tariffs can create volatility and instability in terms of how products and services are delivered and how supply chains are constructed.

I think the companies that will ultimately be successful understand how to cope with that changing landscape, and that requires a certain amount of agility in how you are operating. You can't have a static view of the world because it changes pretty rapidly.

TWST: Are there any other key projects or anything else in the pipeline that you want to highlight?

From the consumer perspective, a lot of homes in the Bay Area have a 100-amp panel on the house and that works fine if you're running normal household appliances, such as heating, cooking or air conditioning. But if you add an EV and you're trying to apply a level 2 charger to do rapid charging, you're now talking about something which is 60 or 70 additional amps.

This means you can't have the air conditioner, microwave and EV charging at full rate at the same time. What would you need to do to cope with that? You either have to run a new circuit and upgrade the panel and spend $25,000 or $50,000 between the utility and the consumer to be able to do that, or you can find a way to dynamically alter how things work within the panel budget that you have.

You could downshift the rate of charging on the EV while the air conditioning is running. And when the air conditioning is not running, you can increase the charging rate. That way you get the best of both worlds. You didn't have to upgrade your infrastructure, and you are getting the benefits of rapid charging and living within your means.

It is a way for the utility to shift when demand happens and better optimize that peak scenario that I outlined earlier. It is an amazing project underway with PG&E today and something we're super excited to be able to partner with them on.

TWST: What would you say were your main goals for the new year and beyond?

Mr. Deitrich: We are increasingly focused on the growth of the company. Over the last years, we have gone through COVID and some of the supply chain challenges that followed. We were hamstrung by not being able to put enough components into our factories to be able to fulfill demand. That problem has cleared up over the last couple of years and now we're increasingly focused on growth.

Where will that growth come from? It is that Grid Edge Intelligence platform that I talked about. We want to expand it and bring these benefits to more of our customers around the globe.

TWST: And what are some of the trends in the industry and how should investors be responding to them?

Mr. Deitrich: There are a number of trends that are captured in my previous comments, such as balancing supply with increasingly volatile demand.

An EV is the equivalent of a small house, when you think about it from an electrical load perspective. Houses are pretty reliable. You know where they are on the grid, they don't move around. They generally have a predictable use pattern. When you wake up in the morning, you put the tea kettle on and electricity goes up. When you go to bed at night, the electricity usage goes down. You get a pretty decent view of what's actually happening at the house, and you can predict it.

EVs have this habit of generally going around the town and occasionally plugging in and turning on at full charge. Being able to put the right amount of electricity where you need it, when you need it, is really important. Being able to deal with the complexity of more rooftop solar — PV systems — and more distributed energy resources.

The electrical grid was originally conceived as a sort of one-way superhighway from generation through transmission, distribution, down to the point of usage. Today, you have the equivalent of people building their own exchanges on the freeway and driving the wrong direction by adding PV and other sources into the network at random places.

How do you deal with that complexity? You need better visibility out at the grid edge and that's exactly what we want to be able to provide.

How do you cope with increasing consumer expectations? There's an enormous imbalance in how you consume a lot of services in your life and how you engage with your utility. If you ordered an Uber to get to the airport, you knew in real time the driver's name, when they were outside your house, what ratings they've gotten from previous customers and how much it was going to cost.

Do you know how much electricity, gas or water you are consuming in your life today in real time? I would guess for most customers the answer is no. It's an enormous opportunity to be able to help consumers understand how they are using the commodity and how they can control their consumption rates overall. We have the right tools to be able to help out with these types of things.

Those are the big trends we see and why we've made the investments over the last decade to help our customers cope.

TWST: Any final thoughts before we conclude?

Mr. Deitrich: We are extremely optimistic and excited about the future. Grid Edge Intelligence is the way to go for utilities. We see everyone generating interest in it. We see competitors moving in the same direction, which only validates the idea that the future is bright. There are real challenges, and I know we can solve them.

TWST: Thank you. (CJ)

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