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COMPANY INTERVIEW

TOM DEITRICH

Itron Inc.

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Itron Inc. (NASDAQ:ITRI)



TOM DEITRICH was appointed president and chief executive officer and named to Itron Inc.'s board of directors on Aug. 6, 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. 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

(BDK601) TWST: Can you provide us with a brief overview of the company and discuss the company's mission?

Mr. Deitrich: The company was founded back in 1977 in a small town in Idaho. It all started around the notion of how to provide technology to increase the productivity of utilities. There are a lot of processes inside of utility, to gather up meter data, to be able to send your bill at the end of the month. How can we make that much more efficient?

Well, over those years and decades since 1977, we've grown into being a global leader in things like advanced metering infrastructure, the industrial Internet of Things, and utility technology solutions overall. Our mission really revolves around that same basic premise. Let's improve the way that our precious natural resources for energy and water are being managed, and let's develop technology solutions for utilities and cities all around the world.

TWST: Now you joined the company in 2016 as a COO, and then you became CEO in 2019. What was it about the company that made you want to work for them?

Mr. Deitrich: I grew up through engineering ranks, in telecommunications and networking, semiconductor industries. So I am an engineer by training, if you will, and I remained intensely curious about technology, and in general, how all things work. But I had reached a point in my career and in my life that I wanted to do something more than develop interesting technology. The mission of Itron — making the planet a little bit greener and making our communities more sustainable and safer through robust technology — really syncs with me as a person. I found the combination of having a strong mission of making the world more resourceful and making things more efficient by applying technology to be amazing, and it was an opportunity I could not pass up.

TWST: As I understand it, the company is at the forefront of advancing distributed intelligence such as edge computing. What does that actually mean? And how is this technology beneficial for utilities and consumers?

Mr. Deitrich: I think the easiest way to understand the concept is to compare it to something that everyone uses pretty much in their daily lives, and that's a smartphone. Of course one big difference between smartphones and smart meters is that consumers own their phones, whereas utilities own the meters on the side of their homes. So when you bought your smartphone back in 2007, 2008, you didn't know all the applications that you were going to run on it at that time. You thought it was an interesting piece of technology. But today you probably can't imagine — and what are we, 10 years, 15 years later — living in a world without mobile banking, or the 50 other applications that live in that flexible communicating device that's constantly with you.

So distributed intelligence really is that same concept of a downloadable application that a utility can use. Distributed intelligence brings apps to the utility industry and puts them at the corner of a house or apartment so that they can be downloaded to that endpoint, and then used to help the consumer understand how she or he is using the product. Distributed intelligence could be used to help utilities make their network and their service much more efficient. It's that flexibility that's really important.

I have a couple of examples to bring it to life: First, as a consumer, you may not really understand what your electricity bill is going to be until it lands in your inbox or your mailbox at the end of the month. Wouldn't it be great to understand how your bill is accruing during the month, and what's costing you more? You could change your thermostat or how you use your appliances and save money on your utility bill. It gives the consumer insight into how they are consuming the service. That's an example of an application that could be downloaded by the utility for the consumer benefit.

On the utility side, it could be to understand where you have a potential outage. So take an example of a very large load like an electric vehicle. Someday the pandemic will be over and everyone will be coming home from work in the evening and want to plug in

their EV at the same time. Suddenly there are six electric vehicles that want to be charged in one neighborhood in my example here.

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But what would happen if the utility doesn't know where those EVs are? You're plugging them in as a consumer, and eventually it could overload the local power in that area, overload the transformer and you could end up blowing the transformer, causing an outage. What you could do with distributed intelligence is put an app in that endpoint to say, "Please alert me when I have more than X number of EVs on the same transformer so that I can go proactively manage the load to prevent an outage."

You can understand where outages occur, so you can better target how to make fixes during a storm. You can understand where equipment is getting old and starting to break down. You could understand where people are starting to steal electricity. You could understand where you have potential safety issues. Utilities can pick the applications they put into that endpoint on the side of a house or a dwelling or an apartment building to use it for consumer benefit or grid-side benefit.

These aren't theoretical examples that I'm giving you. They're things that we've already deployed. Over the last couple of years, we've put more than 3 million distributed intelligence-enabled endpoints into the field with our utility customers using this capability. There are more than 2 million apps operating today and helping utilities provide better quality of service. It's an area that we are fiercely proud of and something that we're very excited to be able to deploy widely. We see our customers adopting it quickly to cope with the challenges that they have.

TWST: Can you give us a closer look at the solutions and services that you deliver?

Mr. Deitrich: Itron goes to market in three segments: Devices, Network, and Outcomes. A device is a measuring type of device, so a meter or a sensor, and it makes measurements to provide data. For example, how much electricity you are using, or how many gallons of water you have used. Then the network takes that data — that measurement — and communicates it robustly and securely back for processing. The processing could be as simple as your monthly bill or it could be detecting all of these other things that I explained in the distributed intelligence world.

Outcomes is using all of that data that gets collected to make intelligent business decisions. It could calculate an electricity bill, alert the utility to a leaking pipe or manage smart city applications to automate streetlights and crowd noise sensors.

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communicate all the information, and then the outcome is all of the processing to make intelligent decisions, and use that data for the benefit of the utility as well as the consumer.

TWST: And you've described the Infrastructure Investment and Jobs Act as a turning point in American history. Can you expand on that? And why is it a turning point in American history?

Mr. Deitrich: We see our customers are really facing three very large challenges. There are challenges with infrastructure, which is getting old and starting to break down. There are more and more cyber security attacks and there's an increased need for sustainability so renewables are being put into the generation side of things. How our utility customers cope with those infrastructure challenges is megatrend one.

Number two is the environmental side of things, like wildfires, floods and hurricanes. These natural disasters are happening more and more. Climate disruption is happening. How do you keep the lights on and clean water flowing in that kind of an environment?

And the third is the consumer push for improved service. So let's suppose you used a delivery service last night to order your dinner. You knew when you ordered your dinner, when your food was going to arrive and how much it was going to cost. You can look at your smartphone in real time and see how quickly the driver is coming to your house. Do you have that same level of service from your utility? Do you have that same insight? That's a real challenge for our utility customers to be able to live up to the service that consumers have come to expect.

If you combine infrastructure, environmental and consumer challenges that Itron's customers are up against, how do they overcome these things? How do they make sure they have reliable and resilient services in that kind of environment?

Fortunately, we have technology solutions to be able to overcome those challenges and cope with them. But now we also have a funding mechanism through the Infrastructure Investment and Jobs Act to really bring this all together and accelerate that investment. There are many mechanisms inside of the infrastructure bill where there are matching grants, so the utility spends X dollars, the federal government can apply some dollars to offset that cost and make sure we are providing the technology in a fair and equitable manner across the country. With this, this administration is creating good paying jobs and improving service resiliency and reliability.

And utilities and cities get a good return on their investment. By investing in infrastructure, it generates local jobs and also makes a community more vibrant, and makes it more possible to start businesses in the area. It is the gift that keeps on giving and it really addresses some of the challenges that our utilities customers face today.

TWST: Is there a downside to any of that?

Mr. Deitrich: I certainly think that you wouldn't want to invest in technology for technology's sake. I don't see that happening at all because of these massive challenges that Itron's customers are up against. We recently conducted research where we surveyed our utility customer executives asking what challenges they have and what they are worried about. They're really worried about delayed investment because of some of the pandemic-related challenges. They're worried about how to pay for the new

technology, they're worried about cyber security, they are worried about how they can become more sustainable and make sure that we do the right things with our precious natural resources.

“But now, because of this new business model, we’re really operating in such a way that there is a recurring revenue stream for Itron; It’s a different way for the utility to procure technology, and it is allowing them to be more agile as to who knows what will happen next in terms of renewables or electric vehicles or storms and outages.”

This bill really helps with all of those things. I think the money is focused in the right way and we can put it to good use as an industry and as a society.

TWST: Just to piggyback off that, your company did a survey in October of last year that found one of four utility executives saying that the pandemic is delaying upgrades, yet natural disasters, renewables and electric vehicles demand modern infrastructure. How do you resolve that conflict? And can it be resolved? Or is it just a matter of us getting through the pandemic?

Mr. Deitrich: I think that certainly utilities were forced to operate in different ways during the pandemic, like all businesses were. They had to suddenly switch to ensuring employees working in the field were safe and have office workers working from home in that kind of environment. Like all businesses, the utilities have learned to adapt, but it took some time. It’s absolutely true that in the initial days it was a real challenge for every business, including utilities, to be able to cope with that.

Since then, what utilities are starting to see is the way to cope with some of these things is automating your business process. It is investing in technology so you don’t have to have a crew out roaming city streets to gather data if you can do it with a computer and a network. Investing in that technology makes the data collection more resilient and reliable; it also makes it safer and more cost efficient.

I think the demand is absolutely coming back. Today we see demand outstripping our ability to supply. There are supply chain bottlenecks that are well publicized. Our customers would love to have more if we can unwind the sum of the supply chain challenges to continue to support them with the technology. I absolutely think there’s a way through this. Even if the pandemic drags on a bit more because everyone’s learned in some way to operate within the confines of what a safe environment is in today’s world.

TWST: What was the company’s most significant achievement last year?

Mr. Deitrich: The accelerated adoption of distributed intelligence and the new business models that come along with that. It is industry-leading technology and a new business model for our utility customers, which is important to note.

Utilities generally buy technology and they deploy it and they amortize it over a long period of time. They live in a regulated

environment and utility commissions govern how they spend money. But now, because of this new business model, we’re operating in such a way that there is a recurring revenue stream for Itron; it’s a different way for the utility to procure technology, and it is allowing them to be more agile as who knows what will happen next in terms of renewables or electric vehicles or storms and outages. It’s more flexible and we’re really pleased to have been able to develop the technology and prove it in the field, in terms of the capability, resiliency and agility that it provides.

Deploying things as a service is different than deploying them as a sold widget or asset. And it is that combination of new technology, new business model and proven benefits that we were really excited to see go from concept and vision to actual business and benefits to customers last year.

TWST: What are the trends that you’re seeing in the industry right now? And how should investors look at the market?

Mr. Deitrich: We talked about a number of them, including the challenges for our customers, infrastructure, environmental and consumer trends. We are seeing global infrastructure investment. We talked a little bit about the big infrastructure bill in the United States, but that same level of infrastructure investment is going on globally.

We see the digitalization of global infrastructure as another area that utilities are up against. They’ve got to turn antiquated systems into new digital systems to be able to harness and use all of this data. We see investment trends for Environmental, Social and Governance —ESG — for all of the right reasons. How can we do good as a society, but also get a good economic return? All of these things play to the strengths of Itron and we’re truly excited about where we’re going in the future.

TWST: What would you say were the most important takeaways from your most recent quarterly results?

Mr. Deitrich: I would say number one: demand recovering. In the early days of the pandemic, everyone was struggling to figure out how to operate and how to carry out projects in a safe way. Those days are behind us. Demand is back from our customers. Today we’re supply limited, but the number-one takeaway was demand is strong. Number two is record backlog; we had more than \$3.2 billion of backlog as we came into the year. This is an enormous demand for our technology, which we will deploy as quickly as we can get components to put it into the field. It is also a real opportunity for us to grow our topline with new technologies to solve the problems we’ve talked about and improve our bottom line as we deploy these new business models and new technologies.

TWST: Some of this we touched on, but what do you think separates Itron from its competitors?

Mr. Deitrich: The strength of Itron’s portfolio sets us apart. We are very well suited to support utilities and cities. They are our bread and butter, if you will, so we have strong domain expertise. We have more than 3 million street lights under management and more than 200 million connected devices deployed globally. We’re the only company that supports electricity, gas and water infrastructure with the breadth of offerings and the approach of devices, networks and outcomes — we’re the only pure play company that does that.

Our intense focus on the needs of our customer and the breadth of our portfolio is coupled with the secret sauce: a multipurpose, multi-application network that allows us to do cutting edge things like distributed intelligence.

TWST: And if there was one thing you could share with potential investors about the company, what would it be?

Mr. Deitrich: I would say there is substantial upside opportunity from where we are today because the demand is back, recovering supply and global investment. There are some really good days ahead of us. We have a strong backlog and the demand for the technology is very high for the reasons that we've discussed, including the need to address challenges such as increased EV adoption, disaster preparedness and increasing consumer expectations. We have a bright future to grow our revenue as we get through the supply limitations that exist today. I'm looking for real upside in terms of top and bottom line as a result.

TWST: Is there anything else that you wanted to mention that we haven't discussed?

Mr. Deitrich: I think we hit all of the key points and some of the most important points. I'll leave you with the notion of upside in terms of our business model based on the record backlog, industry-proven technology, like distributed intelligence. Edge computing is something that we have a clear leadership position on today. Our business opportunity is fueled by global infrastructure investments. Great days are ahead, and I'm really excited about where we sit in the industry.

TWST: Thank you. (CJ)

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