UTSI_032014
UTStarcom Fourth Quarter and Full Year 2014 Earnings Call
Thursday, March 20, 2014, 7:00 a.m. ET

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William Wong; UTStarcom; CEO
James Lu; UTStarcom; President of Global Sales
Robert Pu; UTStarcom; CFO
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Analysts
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Presentation

Operator: Ladies and gentlemen, thank you for standing by for UTStarcom's Fourth Quarter and Full Year 2013 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. As a reminder, this conference is being recorded. If you have any objections, you may disconnect at this time.
It is now my pleasure to introduce your host, Ms. Jane Zuo, Investor Relations, Senior Manager for UTStarcom. You may begin.

Jane Zuo: Hello everyone and welcome to UTStarcom's fourth quarter and full year 2013 earnings conference call. Earlier today, we distributed our earnings press release and you can find a copy on our website at www.utstar.com. In addition, we have posted a slideshow presentation on our website, which you can download and use to follow along with today's call. On today's call, we have Mr. William Wong, our CEO, Mr. James Lu, our President, and Mr. Robert Pu, our CFO.

Before we get started, I will read the Company's advisory on forward-looking statements. This call will include forward-looking statements relating to the Company's business, strategic initiatives, and the performance in the fourth quarter and full year 2013. These statements are forward-looking in nature and subject to risks and uncertainties that may cause actual results to differ materially and adversely from the Company's current expectations.

This includes risk and uncertainties related to, among other things, changes in the financial condition and the cash position of the Company, changes in the composition of the Company's Management, and their effect on the Company, the Company's ability to realize anticipated results of the operational improvements, and benefits of the divestiture transactions, the ability to successfully identify and acquire appropriate technologies and businesses for new organic growth, and to integrate such acquisitions, the ability to (inaudible) knowledge and develop such products, assumptions the Company makes regarding the growth of the market and the success of the Company's offering in the market, and the Company's ability to execute its business plan and manage regulatory matters.

The risks and uncertainties also include the risk factors identified in the Company's latest annual report on Form 20-F and current reports on Form 6-K, as filed with the Securities and Exchange Commission. The Company's in a period of strategic transition and the conduct of its business is exposed to additional risks as a result. All forward-looking statements included in this conference call are based upon the information available to the Company as of the late--date of this conference call, which may change, and the Company assumes no obligation to update any such forward-looking statements.

I will now turn the call over to our CEO, Mr. William Wong.

William Wong: Thank you, Jane, and hello to everyone. As Jane mentioned, you can follow along with today's call by downloading the presentation from our website at www.utstar.com. Also, unless otherwise stated, all figures mentioned during the call are in US dollars.
Please turn to slide five. Let me begin by saying that we ended the 2013 fiscal year on a very strong note, both financially and operationally, meeting our stated expectation to achieve incremental improvement in performance versus 2012.

We reached several technical and financial milestones and are carving out a highly differentiated market position of broadband business. You have heard us say before that we see healthy and improving trends in our financial and operating performance, and 2013 showed exactly this. Specifically, we achieved new customer wins, new product launches and stabilizing financials amongst other developments. Let me quickly elaborate.

We showed the depth of our R&D and broadband product development capabilities with several product launches, despite beginning the year in the midst of restructuring. We completed the first phase of a major initiative to develop a platform of products, based on Software Defined Networking technology, which we believe will revolutionize the industry and which we are

building into our broadband product designs.

We secured several new tier one carrier customer engagements for telecom infrastructure projects that will incorporate our broadband products. We have resumed positive sales growth. We achieved our very aggressive internal target of hitting positive operating cash flow after adjusting for one-time non-recurring items. Importantly, these favorable trends stem in large part from efforts that began almost 18 months ago to restructure the business, accelerate growth, and improve profitability.

We have completed divestitures of unprofitable and non-core businesses, staff reductions, and deep cost cuts that were challenging, but necessary, to stabilize the Company financially, and unlock capital to invest in and grow the most competitive part of our broadband business, which will be the future of the Company. As a result, UTStarcom is a much leaner organization with a well-defined and globally competitive broadband product portfolio that allows us to compete with the top tier telecommunications infrastructure providers, the high growth parts of the market, such as cloud computing, mobile media, and data services.

The market for these services is growing in both developed and developing countries across the globe, and we intend to target opportunities both where we have an established presence, such as Japan and India, as well as in new markets, particularly in Asia, the Americas, and Europe.
We have already made progress in many of these geographies.

In light of our global expansion plans, we are joined by Mr. James Lu, President of Global Sales. He will provide more details on our marketing and sales plan once I conclude my remarks.

Financial highlights. Robert will go into the details momentarily, but let me briefly recap some financial highlights as well. Overall, we keep many internal and external targets and made incremental improvements in revenue and profitability. We still face top line and bottom line pressures from the depreciation of the yen as Japan is a significant source of sales. Also, lower margin products were a greater share of sales in 2013 than in the year prior. These (inaudible) on our gross margin.

Some of the key financial takeaways from the quarter and the year include the following. On the top line, non-GAAP revenue grew almost 4% for the full year, reversing a full year decline in 2012. For the quarter, sales fell by about 7% which improves on the 15% quarterly drop we saw in the Q4 in 2012. On the bottom line for the full year, we significantly narrowed the net loss from core operations on a non-GAAP basis when adjusting for non-operational and non-cash items. Through continued vigilance on cost controls, we reduced operating expenses by 20% for the full year. And finally, we achieved a very significant improvement in the cash flow of $107.8 million in cash on our balance sheet, which provides stability and a basis for investment.

Now let me describe the operational highlights. Please turn to slide eight, broadband. As you may have heard us say, a key part of our business plan has been to restructure the broadband business into a global provider of specialized, high value network infrastructure equipment. We have restructured this part of our business around our core suite of packet optical transport and broadband access technologies, coupled with our software defined networking SDN platform.

Our [overall] design philosophy has been simple network, simple operation, which represents our intention to create products that make it easier for our carrier customers to deploy new networks, offer new revenue generating services, and run their networks more efficiently.

We took several steps towards strengthening the broadband business in 2013. Number one. To begin with, we launched a number of new products right on schedule. First, we launched the TN765, the 100G addition to our family of packet optical transport products based on MPLS-TP and carrier Ethernet, and have begun a field trial of this product in a large customer's network environment. This product has hit the market with perfect timing as 100G is seen as critical in supporting advanced 4G LTE networks.

Second, we launched a key broadband access product, the MSG-10K Wi-Fi Access Controller. We have deployed this MSG-10K in Japan, where it provides seamless crossovers from cellular networks to Wi-Fi networks across the country without user--without end user intervention. Our carrier MSG10-K can support over 1 million Wi-Fi access points, giving it the capability to support the world's largest wireless operators using Wi-Fi for data offloading.

Third, in order to extend the reach our suite of products, we have launched our TN701 ethernet access device, an innovative, [seamless], and low power design. The TN701 is already in commercial deployment in Korea.

And fourth, we have introduced a series of palm products through our partnership with DASAN Networks of Korea, one of the leading technology providers in the world. This demonstrates our ability to partner with other companies to find new ways of developing and commercializing technology that our customers need. We have just signed an MOU with DASAN to explore a more structured approach to joint product development, manufacturing and, marketing.

Number two. Second, in addition to these product launches, an important part of our broadband product development was an initiative to lead the market for Software Defined Networking technology. SDN has the potential to change the industry on a scale of what cloud computing has done for the entire application software and computing industry.

Specifically, in 2013, we completed the first phase of our SDN development efforts and internally launched a platform of product built on this technology, which we have formally trademarked as SOO, or Software Defined Open Optical Network. In June, we completed a concept demo with a customer and we are now preparing for a group of concepts in trial on the network in one of our major customers.

Third, another key development within our broadband business was the completion of a major network upgrade involving over 8,000 nodes for our largest customer and one of Japan's largest telecom operators. This was completed on time and with zero service interruptions, demonstrating our ability to meet very demanding customer requirements. This deployment of our packet optical transport product and network management system further underscores the benefits of our simple network, simple operation philosophy. It significantly reduced our customers' required capital expenditures and operational expenses, while maintaining a very high degree of network security, performance, and reliability.

Alongside these technical milestones, we secured several important new customer wins that expand our sales into key emerging markets in Asia and the Americas. As I mentioned earlier, I have asked James Lu to join us on the call today. He will provide more detail on these new customer wins and describe our new global sales and marketing strategy.

New media. Please turn to slide number nine. Alongside the developments of our broadband business, we have made what we believe are very smart strategic investments in new media technology companies - iTV Media and aioTV. As these companies build out a customer basis, UTStarcom stands to benefit in several ways.

First, and most important, we benefit as a strategic investor, gaining from the appreciation in the value of the business. In addition, we'll look for opportunities to market their product to our broadband customers, which in turn increases our value and relevance to the buyers of our broadband products. Finally, we can share in the subscription based revenue streams that they developed, which by their nature have the potential to be high margin and recurring revenue streams.

Let me update you quickly on iTV Media's and aioTV's progress. Throughout 2013, iTV Media in which we are the largest shareholder, dramatically increased its subscription base for the first commercial launch of its flagship TV-over-IP service in partnership with TOT, Thailand's largest telecom and broadband service provider. As of the end of 2013, iTV service has garnered over 160,000 subscribers in the country within a short span of about 15 months since its formal launch. What is most impressive is the fact that customer satisfaction rates for this service exceed those for all other services that TOT offers.

The average customer churn rate for the service is minimal, only 0.7%, far below the industry average of 2%. And average daily viewing time for this service vastly exceeds the norm - over five hours, as compared to just 2 hours, 11 minutes, as reported by (inaudible).

aioTV, another one of our strategic investments, made significant progress on several fronts last year. First, it secured several new customers in South and Central America who are deploying OTT video services via aioTV's media application platform to their subscribers.

Second, aioTV launched its PassBox IP video set-top box going head-to-head with Apple TV, Roku, and Comcast. Three of the five major US cable service providers are currently testing this new product. In addition, the company has continued to receive industry accolades. In 2013, the analysts at Gartner named it as one of the only four technology vendors that are essential for success in the digital media business.

Most recently, its management team shared a stage with [ex] luminaries from AOL, ESPN, Hulu, and Netflix, among others, who were recognized for innovation and leadership in the development of digital media technology at the CableFAX Digital and Tech Awards ceremony. aioTV has an extremely bright future and we expect that this year, it will win customers among the North American MSOs and wireless operators.

Now, please turn to slide 11 on shareholder value creation. A significant part of 2013 was the continuation of our shareholder value creation efforts. Earlier in the year, we completed a $30 million tender offer. We followed that effort with a 3-to-1 reverse stock split intended to improve the marketability and liquidity of UTStarcom's ordinary shares. These actions are part of the program that we initiated in 2011 with an aggressive buyback plan to reward our long term shareholders even in the midst of financial and operating restructuring.

Through this program, we have returned approximately $45 million to shareholders through the end of 2013, inclusive of the stock buyback plan and tender offer.

Privatization. Before I move on to what we are planning for 2014 and beyond, let me address very quickly a critical event that took place in the year, which was the receipt and review of the big private proposal we received. I won't go into detail because we announced in November that the buyer consortium withdrew its proposal and UTStarcom will remain a public company.

Throughout the process, Management stood together and maintained morale at all levels of the business, which allowed us to maintain our focus on financial management and the timely launch of new products. We believe that remaining a public company preserved the right capital structure for our growth needs, and there is much less uncertainty over the direction of the Company, which allows us to continue focusing on our product pipeline and customer relationships. So in short, we think that this is the best possible outcome for UTStarcom and our shareholders.

Please turn to slide 13, a note on strategy. Now let me talk about where we are going as we are very excited about this. We're now looking forward to the end of the restructuring phase and are already taking decisive actions to chart the Company's future. The post-restructuring plan we have devised includes several initiatives. To bolster our broadband business, we will undertake the following. First, we will refresh our sales and marketing initiatives to broaden our presence in markets where we have established customer relationships, such as Japan and India, while opening opportunities in new markets in Asia, as well as the United States and Europe.

Again, James Lu will elaborate on this strategy. But let me offer one data point. In support of our North America growth strategy, we are expanding our Silicon Valley office. Planning for this expansion is underway and we expect formal implementation to take place within the second quarter of this year.

Second, we will harness our internal R&D capabilities to stay on the forefront of developments in packet optical transport, wireless broadband access technologies, and Software Defined Networking and look for ways to commercialize these developments.

Third, we will add new technologies and products to our portfolio through joint R&D efforts or other partnerships that increase our value to our core telecom and broadband customers. As you may have seen, we have just announced plans to explore a strategic partnership with Korea's DASAN Networks with whom we already have launched a number of products that are in commercial use with one of our largest customers.

And lastly, we will leverage our success with Wi-Fi data offloading solutions to offer value added services, such as E-commerce and big data analytics that can be of great value to wireless operators and merchants that want to connect with their customers digitally.

Several of the tier one carriers we are targeting are already discussing plans for large scale rollout of WiFi data offloading, and we believe this will stir a wave of capital investments in the underlying technology.

In addition to growing our broadband business, we will monetize our investments in iTV Media and aioTV through a combination of the following. First, by nurturing their growth so that we might benefit as an investor in the appreciation and the value of the business. The investments are maturing and we see several signs that bodes well for their evaluations. iTV Media is poised to become generating cash as the company reaches a tipping point in the number of subscribers with TV-over-IP service in Thailand. We estimate this is going to be about 300,000 subscribers, which iTV Media is on track to reach in 2014.

As for aioTV, its OTT video platform is at the center of a very hot area of video entertainment technology that is growing an increasing amount of investments from the industry elite. Most recently, Ericsson acquired a start-up, Azuki Systems, a U.S. based provider of TV anywhere platforms akin to aioTV's OTT platform. Ericsson specifically cited the ability of Azuki technology to offer customized and personalized media experiences that include content on any screen, any time, across any network, which also applies to aioTV's platform.

The Ericsson deal follows several investments that Verizon has made in similar companies with video distribution technology. So the market is clearly heating up, which bodes well for us as an early stage investor.

In addition, our investments in iTV Media and aioTV provide opportunities for UTStarcom to market their new media products to our broadband customers, thereby opening new revenue streams for us and increasing our value to our broadband customers.

And finally, these investments have given an insight that we are using to ensure that our broadband technology is capable of supporting networks that deliver a highly customized on-demand mobile and fixed line entertainment features that consumers want. These will further differentiate our SDN platform as well.

Before I turn the call over to James Lu, let me say that we will continue to refine our post-restructuring business strategy. But let me say that our key strategic differentiator will be our technical [parallels] that is leading to breakthroughs in broadband product development. We have recently attended important industry events in India and the U.S., including the Optical Fiber Conference

in San Francisco, where we have had many promising conversations with industry executives who are impressed with our broadband technology, including developments with our trained market platform of SDN technology.

We are encouraged by the direction of our business, both in terms of product development and our financial performance. And we expect 2014 to be a year in which we continue to develop our key product platforms and move them into commercial deployments with tier one carriers.

Now, starting from slide 15 through 17, I will turn the call over to James Lu to talk briefly about our global growth plans and recent customer wins.

James Lu: Thank you, William, for asking me to join the call. And thank you, to everyone, for welcoming me. It is a pleasure to be here with you. Alongside the technical and operational [deeds] we have achieved in 2013, this year we also launched a three-point marketing and sales plan to enter new geographic markets and increase market share with tier one carriers.

First, we will deepen our penetration into markets where we have an existing presence, such as Japan and Taiwan. We will accomplish this by expanding the range of products we sell to existing customers, as well as cultivating new customers, especially in large markets where there are multiple tier one carriers. Second, we will enter new geographic market with our existing customers as they are expanding beyond their home markets. And third, we will seek partnerships that can help us enter new markets, such as value added channel partners.

These partners are especially important to helping us establish a foothold in Europe and the U.S., as well as in new Asia-Pacific markets. In fact, we have already achieved several milestones. For one, we signed a long term contract to supply Chunghwa Telecom in Taiwan for a [management] packet optical transport project that will last up to two years.

In Indonesia, we secured a major market optical transport project that will support mobile backhaul services for the country's largest cellular service provided through our partner. And in Brazil, the largest market in America besides the U.S., we won a contract with a major telecom service provider on a mobile backhaul and fixed line network development. These new customer relationships, together with our historical strong presence in Japan and India, validate our technical superiority and give us a widened global platform to sell a broad range of products and services in some of the largest and most dynamically growing consumer markets.

So if you look at the map of the world today, UTStarcom has already planted a flag in several parts of Asia, Japan, Taiwan, Indonesia and India. In fact, we already have 35% market share in India, a country of over 1 billion people. Indonesia is particularly exciting because it has a large population, 250 million people, many of whom are very young. Also, it is--the economy is growing largely through domestic consumption, so it has the right demographics and the right market structure for the services that we offer.

Moving to the Americas, we also have a flag in Brazil, which is another rapidly developing country. It has the second largest economy in the Americas next to the U.S. and the second largest population.

In developing markets like Brazil and Indonesia there is a great opportunity for us to benefit from their growth as carriers build telecom infrastructure to serve a growing middle class consumer base. In developed markets, like the U.S. and Europe, where we expect to plant flags this year, there is an opportunity to work with incumbent carriers at the (inaudible) existing networks to offer a broader array of 4G products and services.

These are just some broader descriptions of our plans, but I will be happy to take questions in the Q&A session.

For now, let me give the floor to Robert to discuss our financial results. Robert?

Robert Pu: Thank you, James, and hello, everyone. Starting from slide number 18, I will discuss our financial results in more detail. Before I begin, let me remind everyone that in the third quarter of 2012, we divested the IP TV business. So for better comparison of our financial performance on a year-over-year basis, we have prepared non-GAAP financial results which focuses on our broadband business. So for today's purposes, I will focus on our broadband business and exclude the already divested businesses from our discussion.

Please turn to slide number 19. Before I walk through the specific numbers, let me highlight a few key themes of the fourth quarter and the year of 2013. We managed to do well in several important areas. First, revenue for the year of 2013 increased incrementally on a year-over-year basis as we continue to experience stable demand for our broadband equipment products from our customers.

Second, throughout 2013, we benefitted from aggressive and focused cost reduction efforts as demonstrated by the significant 20% decrease in OpEx for the year. Moving forward, we will continue to find ways to further improve our cost structure and

expect to further reduce our OpEx significantly in 2014.

Third, we made significant improvements in operating cash flow and incremental improvements on the bottom line during the year, reflecting the positive performance on the top line, coupled with lower costs.

Lastly, we ended the year in a strong financial position with no debt and approximately $107.8 million in cash on the balance sheet.

As we have said before, we will continue to invest in our growth plans and other initiatives designed to enhance shareholder value.

Moving to one of the challenges we faced in 2013, gross profit and gross margin decreased from 2012 levels, which we had flat in the last few quarters. The decrease is largely due to the Japanese yen depreciation versus the U.S. dollar. We have taken certain measures to mitigate the impact. For example, we convert our Japanese yen cash assets to U.S. dollars regularly. However, by doing business in international markets we are inherently exposed to such risks. Furthermore, Japan is perhaps our most important commercial markets at this point, so this is a market we're committed to.

It's very important to note that we achieved incremental improvements in financial performance in spite of this. We estimate that the foreign exchange impact is more than $10 million. So if adjusting for this non-operational item, we would have had more positive results in operating income, net income, and operating cash flow measurement.

Now let me turn to the specific results. We'll turn to page 20 for revenue. In the fourth quarter, revenue was $38 million, compared to $41 million in the prior year period. For the full year, revenue was $163 million, compared to $157.3 million in 2012. Our revenue recognition is dependent on carrier customers' deployment schedules. So it is always better to look at year-to-date or full year numbers to normalize any seasonality. The full year 2013 revenue increased slightly from the prior year as we experienced stable demand for our broadband equipment products from our key customers.

Please turn to slide numbers 21 and 22 for gross profit and gross margin. In the fourth quarter, gross profit was $7.2 million, compared to $13.3 million in the prior year period. Gross margin was 18.8%, compared to 32.4% in the prior year period. For the full year, gross profit was $40.2 million, compared to $54 million in 2012. Gross margin was 24.7%, compared to 34.3% in 2012.

As I mentioned a moment ago, the year-over-year gross profit and gross margin decrease was mainly due to the depreciation of the Japanese yen. As a reminder, a major proportion of our revenue is denominated in Japanese yen. Most of our cost is denominated in renminbi, and our reporting currency is the U.S. dollar. In U.S. dollar terms, the depreciation of the Japanese yen and the relative strength of the renminbi throughout this year resulted in the year-over-year gross profit and gross margin decrease.

As I discussed earlier in the call, we estimate the foreign exchange impact on our gross profit was more than $10 million. So if adjusting for this non-operational item, our 2013 gross profit and gross margin results would have been more comparable to 2012 results.

Also, during our second quarter conference call we let everyone know that we booked an additional loss provision in our India business P&L in the second quarter of 2013, which negatively impacted our year-to-date gross profit and gross margin results. This was due to an increase in the estimated cost to complete a project in India, resulting from a cost increase by our service provider in conjunction with their final provider renewal.

We will continue to monitor the Japanese yen situation and other factors impacting our income statements and update our investors accordingly in the future.

Now, please turn to slide number 23 for operating expenses. In the fourth quarter, operating expenses were $15.7 million, compared to $15.9 million in the prior year period. For the full year, operating expenses were $53.4 million, compared to $67 million in the prior year.

Throughout 2013, we worked very diligently to reduce OpEx. We right-sized the business by divesting non-core products, reducing redundancies in our workforce, and promoting accountability and productivity among our staff. We also reduced people-related overhead expenses and outsourced service expenses. Throughout 2013, we have clearly benefitted from our cost reduction efforts that we initiated in the second half of 2012. As a result, the 2013 OpEx is 20% lower than 2012.

Furthermore, the higher fourth quarter OpEx reflected our continuous restructuring-related costs and expenses incurred for the privatization project. The operational run rate OpEx for the fourth quarter is within $12 million, consistent with Q3. With continued cost reduction efforts, we expect to further reduce OpEx significantly in 2014.

Please turn to slide number 24 and number 25 for operating income and net income. In the fourth quarter, operating loss was $8.6 million, compared to operating loss of $2.6 million in the prior year period. For the full year, operating loss was $13.2 million, compared to operating loss of $13 million in 2012. In the fourth quarter, net loss was $16.1 million, compared to a net loss of $8 million in the prior year period.

In the fourth quarter, we absorbed non-operational and non-cash equity pick up and impairment mainly from iTV Media for $12.2 million. Adjusting for these items, net loss for our broadband business was $3.9 million in the fourth quarter, compared to a net loss of $5.8 million for the prior year period.

For the full year, net loss was $22.7 million, compared to net loss of $17.6 million in 2012. For the full year, we absorbed non-operational and non-cash equity pick up and impairment mainly from iTV Media for $19 million. So adjusting for this item, net loss from our core operations was $3.7 million in the year of 2013, representing a significant improvement compared to 2012.

And when we perform accounting and financial reporting for iTV Media related matters, we work closely with our auditor, PWC, and we always act out of conservatism.

At the same time we also noted, that since its commercial launch, iTV Media has made significant progress in 2013, as demonstrated by its subscriber growth. In the future as an investor, our plan is to continue to help iTV Media to develop its business and eventually capitalize on this investment.

Please turn to slide number 26 for our cash balance and cash flow. We have approximately $107.8 million in cash, and we have no debt at the end of 2013. For the full year, cash used by operating activities was $1.9 million, which is very close to breaking even and a significant improvement compared to past years.

Cash used by investing activities was $28.9 million, mainly due to investments in iTV Media. Cash used by financing activities was $30.7 million, which is mainly due to share buyback via a tender offer to return liquidity to our shareholders.

Please turn to page 27. For the full year we have made significant improvements in operating cash flow compared to past years. We have worked very hard to achieve this as we understand that to create value for our shareholders we need to generate cash from operations. And therefore, the enterprise value of our broadband business can be appreciated by our investors.

In 2013, we made good progress executing our business plan, as demonstrated in our P&L and cash flow measurements. At the beginning of the year 2013, we said we expected to achieve incremental improvement in financial performance. Now, looking back at 2013, we have achieved improvements in both top line and bottom line. Also, we have made significant improvements in operating cash flow. Very importantly, we achieved these improvements while facing pressure on the gross profit and gross margin due to the Japanese yen depreciation.

Looking ahead, we'll keep our focus on vigilant cost control, cash generation, and executing our strategic initiatives. We will continue to use our strong cash position to invest in our growth plans and other initiatives designed to create shareholder value.

And by now, I think I have covered our financial results extensively. So lastly, I want to articulate our perspective on valuation and shareholder value here at UTStarcom. Please turn to slide number 28. In short, we believe our valuation should most appropriately be equal to the sum of parts that include our net cash position plus the enterprise value of our broadband business plus the economic value of our strategic investments. Let me put some numbers around these three parts.

First, on cash, we have $107.8 million and no debt. Second, our enterprise value. We compete in an industry with long term growth prospects driven by continued IT traffic growth due to proliferation of smart devices and mobile apps. We note that our comparable companies are trading at on average approximately 1.5 times price-to-sale ratio.

Third, on our investments, the Company has made investments in the past, most notably aioTV and iTV Media, among others. We will continue to do our best to help these companies to make further progress, and therefore, ultimately create shareholder value for UTStarcom shareholders.

We believe that investors will begin to better understand this going forward, and that in the long run, our market capitalization will eventually reflect the true economic value of all our underlying assets.

This concludes my fourth quarter and full year 2013 financial review section.

Now, I will turn the microphone back to William to discuss our outlook.

William Wong: Thanks, Robert. To sum up, and on slide 29, given our hard work over the last 18 months, we believe we have

stabilized operations, made the business much stronger, and set a strong foundation for growth. Even so, we are still moving through a continued transition.

Looking at 2014 specifically, we are fully committed to broadband as the driver of our business and prime revenue contributor now and going forward. While many of the latest initiatives for our broadband business has significant momentum, new products are in early stages in their current life cycle. Together with the new customer wins that are going through project deployment phases, we do expect them to become significant revenue contributors beginning in the latter part of 2014.

At the same time, we will continue to work to mitigate the pressure on gross margin that exists due to the headwinds from depreciation of the Japanese yen against the U.S. dollar. Further, we will maintain a tight focus on financial controls and continue to reduce costs as we have consistently throughout our restructuring. Taking all of this together, we believe we will therefore be able to deliver additional incremental improvement in overall financial performance compared to 2013.

With that, I'll open the call to questions.

+++ q-and-a

Operator: Thank you. (Operator instructions) And our first question comes from Tony Tian of New Oriental Capital. Please go ahead.

Tony Tian: Hi. My first question is earlier this year SoftBank liquidated its stake in the Company. Besides the reason that (inaudible) change of SoftBank's investment strategy, I was just wondering would there be any significant change of your business relationship with SoftBank? And I would like to know what percent of revenue was coming from SoftBank in this fiscal year 2013?

William Wong: Actually our relationship with SoftBank has been growing year-after-year. And that our customer relationship portion with SoftBank really has no specific ties to that investment that they have divested off earlier in the year. We continue to do--to work with SoftBank very closely in a lot of new projects, and we will also follow their footsteps as they grow their business on a global basis.

Actually our business relationship with them has been stronger than ever because--as evidenced in what we have done for them in Japan. After our packet optical transport product was deployed in the last few years, they were able to significantly reduce the OpEx and also reduce the CapEx in the deployment of the infrastructure. And to answer your question about the percentage in 2013, they were approximately 50% of our revenue.

Tony Tian: Thanks. My next question is also related to SoftBank. SoftBank obviously plays a significant role in the global telecom industry with its--particularly with its recent acquisition of Sprint in the U.S. market, and the very likelihood of Sprint buying T-Mobile in the U.S. market in the near future. So given your long history with SoftBank, do you see any opportunity in the U.S. market just by looking at the relationship with SoftBank?

William Wong: In that regard, of course, we would start looking at Sprint's operation. Typically, they lease a lot of their infrastructure from other carriers. However, looking at how SoftBank has operated in Japan before, they typically wanted to own their own proprietary infrastructure. And that as a result was the prime factor that enabled them to reduce the OpEx and reduce the CapEx and resulted in very high operational profitability.

So if SoftBank would undertake the similar strategy in the U.S., since they are the largest shareholder with Sprint, their influence we expect would be there. If SoftBank wanted to take the same strategy in that manner, then, of course, we would be there to support them. I think our philosophy all along of a simple network, simple operation, will also fly in that environment in the U.S.

Tony Tian: And my last question is regarding your valuation. As you just discussed, if you--we would look at your valuation using [similar parts method], obviously your business could (inaudible) a lot of more than currently the market is giving the valuation. And with your continued turnaround effort in the broadband business and new business initiatives in the key growing areas, like cloud computing, mobile area, and plus your significant investment in the two major company iTV and aioTV, I was just curious that for the two companies, iTV Media and aioTV, do the two companies have any plan to either go public or seek being bought out in the near future? The reason I'm asking you this question is, as a shareholder of UTStarcom, I guess the investors will be very curious to know when and how the Company can realize the valuation of the investment in those two companies.

William Wong: Yes. As a major shareholder actually in both of these companies, we are doing a number of things. First of all, we--first and foremost is to help them to grow their business into maturity. And as I said earlier in my script, with iTV Media we expect them to reach the critical breakeven point this year, as soon as they achieve about 300,000 subscribers. At that point, it will be a very easy benchmark in the industry to measure the kind of value that they would bring.

With respect to aioTV, as we all understand they were in the very heated area in the OTT video space. As I mentioned earlier about this acquisition by Ericsson of Azuki System, our understanding is that deal was valued at about $125 million. And as to--as we analyze the companies and make some simple comparisons, there are indeed a lot of similarities that we can draw from.

In the second step, actually both companies, aioTV and iTV Media, have retained financial advisors of their own and they have been exploring strategic alternatives that is best fit for the companies. So we do expect and we do hope that--as a major shareholder of both companies that at the right valuation and the right timeframe, we're able to capitalize on all these investments and as a result create a lot of value for our shareholders.

Tony Tian: That's all I have. Thank you.

Operator: Our next question comes from William Gregozeski of Greenridge Global. Please go ahead.

William Gregozeski: Hi. A couple of questions. You had mentioned getting more into the value added reseller space for some of the broadband products. How much in dollar terms or percent of total sales do you think that will make up for 2014?

Robert Pu: Hi, Bill. This is Robert. Thanks for asking this question. We do have a proprietary packet optical transport product that we already offering to our carrier customers. And also, we are functioning more and more in 2013 now as a value added reseller for synergistic data transport products, such as mostly access point products. And because I--we plan to cover the full spectrum of our customers' needs from access point to the [inaudible] network, to the [metro] network, and into the core network. So we do this as a way to satisfy our customers' demand, and also as another engine for top line growth.

We're still early in this sales and marketing initiative. So it's kind of difficult to quantify at this point. But conceptually speaking, in terms of gross margin, the value added products gross margin tends to be lower compared to our proprietary products. But at the same time, it adds in dollar terms to the gross profit. And also, at the same time, we satisfy our customers' demand and needs. And also, from a financial angle, the value added reseller products absorb less SG&A, such as R&D, service, and other back office expenses.

William Gregozeski: Okay. As far as the cash position you have, I don’t know if you have any more buybacks planned or other investments you are looking at. But would you consider buying products instead of just being the value added reseller of them?

Robert Pu: Yes, Bill. This is Robert, again. We do have about $108 million on our balance sheet and we have no debt at the end of 2013. I think for the use of cash we will invest in our own R&D efforts to develop proprietary products. And we will probably--I mean we're always on the lookout, right, for licensing or for acquisition or for investment opportunities. But we will be very selective in 2014 and moving forward. Because if we want to sell a synergistic product from another vendor to our current customers, we can always have a transfer price or something like that kind of scheme arranged, instead of we pay upfront a lot of--we incur a lot of CapEx upfront to buy that product.

William Gregozeski: Okay. All right. And as far as the gross margins for the whole--for 2014, do you have a range of what you're looking at, assuming a flat currency?

Robert Pu: At this point, with all the information we have, I think our 2014 gross margin should be comparable to our 2013 full year gross margin.

William Gregozeski: Is that with adding back the currency exchange, or as you reported it for GAAP?

Robert Pu: That is assuming the constant U.S. dollar and Japanese yen exchange rate at this point, about 100.

William Gregozeski: Okay. And would you consider doing any hedging, just given the currency exchange losses you've had the last couple of years?

Robert Pu: Well, we did try different things to mitigate the foreign exchange rates. For example, I talked about it during my financial review section, that we regularly--we convert our Japanese yen cash as we receive them into U.S. dollars. So that's what we do to mitigate this risk. And also, on the other hand, I want to stress again that the Japanese market is probably the most important commercial market for us in 2014, and also in the near future. So this is a market that we are committed to.

William Gregozeski: Okay. All right. Thank you.

Jane Zuo: Thank you for joining us on our Fourth Quarter and Full Year 2013 Earnings Conference Call. We look forward to updating you on our First Quarter 2014 Conference Call in few months. Feel free to get in touch with us anytime, if you have further questions, concerns or comments. Thank you, everyone.