Q3 2024 Earnings Call ***(Corrected version)***

⌄ Event Details

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Company: Crown Castle, Inc.
Ticker: CCI-US

⌄ Company Participants

Kristoffer Hinson - Crown Castle, Inc., Vice President-Corporate Finance & Treasurer
Steven J. Moskowitz - Crown Castle, Inc., President, Chief Executive Officer & Director
Daniel K. Schlanger - Crown Castle, Inc., Executive Vice President & Chief Financial Officer

⌄ Other Participants

Ric Prentiss - Analyst
Simon Flannery - Analyst
Michael I. Rollins - Analyst
David W. Barden - Analyst
Nicholas Ralph Del Deo - Analyst
James Edward Schneider - Analyst
Richard Choe - Analyst
Batya Levi - Analyst

MANAGEMENT DISCUSSION SECTION

Operator

00:00:16 Good day, and welcome to the Crown Castle's Third Quarter 2024 Earnings Conference Call. All participants will be in listen-only mode. After today's presentation, there will be an opportunity to ask questions. Please note this event is being recorded.

00:00:32 I would now like to turn the conference over to Kris Hinson, Vice President of Corporate Finance and Treasurer. Please go ahead.

Kristoffer Hinson

00:00:43 Thank you, Dave, and good afternoon, everyone. Thank you for joining us today as we discuss our third quarter 2024 results. With me on the call this afternoon are Steven Moskowitz, Crown Castle's Chief Executive Officer; and Dan Schlanger, Crown Castle's Chief Financial Officer. To aid the discussion, we have posted supplemental materials in the Investors section of our website at crowncastle.com that will be referenced throughout the call.

00:01:06 This conference call will contain forward-looking statements, which are subject to certain risks, uncertainties and assumptions, and actual results may vary materially from those expected. Information about potential factors which could affect our results is available in the press release and the risk factor sections of the company's SEC filings. Our statements are made as of today, October 16, 2024, and we assume no obligation to update any forward-looking statements.

00:01:30 In addition, today's call includes discussions of certain non-GAAP financial measures. Tables reconciling these non-GAAP financial measures are available in the supplemental information package in the Investors section of the company's website at crowncastle.com.

00:01:44 With that, let me turn the call over to Steven.

Steven J. Moskowitz

00:01:46 Thank you, Kris, and good afternoon, everyone. I'm pleased to report that for the third quarter, our teams delivered solid operating and financial performance across our Towers and Fiber businesses, including small cells and fiber solutions, which allows us to reaffirm our full year 2024 outlook for adjusted EBITDA and AFFO.

00:02:10 We continue to expect consolidated organic revenue growth of approximately 5% for the full year 2024, which includes growth of 4.5% in towers, 10% in small cells and 2% in fiber solutions. Our results in this quarter validate our ability to continue to deliver for our customers and shareholders, while implementing the significant changes to how we operate and invest in our business that we announced in June.

00:02:41 Our performance also demonstrates our ability to generate consistent underlying growth through wireless generational upgrade cycles and the ongoing demand for broadband connections. Looking out over the next several years, we continue to be excited about the prospects for continued demand of our assets since mobile devices have become essential tools for communication, information and entertainment, and we continue to see more data moving than ever before across wireless and wired networks.

00:03:15 CTIA, the Cellular Telephone Industry Association, recently reported that US wireless data usage surpassed 100 trillion megabytes in 2023, marking a 36% increase from the prior year. This is the largest year-over-year increase in absolute data usage in the history of the US wireless industry, continuing three decades of robust growth in mobile data traffic.

00:03:45 With wired networks, broadband usage in the US is also experiencing a continuous surge as businesses embrace heavy data consumption and fiber optics continues to be firmly established as the leading wired technology to transmit greater amounts of data at the highest possible speeds. With these trends before us and the industry forecasts suggesting that wireless and wired data demand will drive significant network investments by our customers to keep pace, we are confident that our towers, small cells and fiber assets are positioned well to benefit from these data usage tailwinds.

00:04:28 In addition to these demand-oriented drivers, we expect to capitalize on future growth and drive value creation across each of our businesses as we continue to strengthen our own market position and relationships with our leading carrier customers. We believe that our current efforts underway to modify our organization and our strategy will ultimately bolster the long term strength and stability of our cash flows and enable us to capture incremental revenue growth.

00:05:00 Let me briefly outline some ways that we are evolving. Starting with the Tower business, we have recently announced an organizational change that I'm excited about. We're welcoming back Cathy Piche as leader of our Tower business. She will succeed Mike Kavanagh, who is retiring after 14 successful years with Crown Castle. And on behalf of the Crown Castle team, I want to thank Mike for his many contributions over the years and wish him the best in whatever future endeavors he pursues.

00:05:32

With Cathy, she brings significant sector experience, having started in the Tower business way back in 2001, and she has deep institutional knowledge and strong relationships within Crown Castle's workforce and among Crown Castle's wireless customer base from her previous 12-year tenure at our company. We have the benefit of having Cathy and Mike work together over the next couple of months to ensure a smooth transition.

00:06:02 Looking ahead, we are committed to building on the strengths of our company, particularly in serving wireless carrier customers as a trusted infrastructure partner, built on quality service and integrity. Recently, I heard from an executive at one of our large national wireless carriers that our teams are recognized for being thoughtful, for being communicative, and for being dedicated to meeting their needs, feedback that reinforces our approach.

00:06:31 As we move forward, critically important to our success in Towers is revenue growth. So, we will be even more laser-focused on securing new organic revenue opportunities. One initiative that we are accelerating to help us to achieve our goal is digitizing our Tower portfolio. Using the latest in drone technology and enhanced automation of our IT infrastructure, our teams are capturing digital images of our towers, which allows us to visualize marketable space and access reliable data more efficiently.

00:07:05 We believe this will help us make faster and more informed commercial decisions, make our sites more friendly for colocation, accelerate the customer application to installation cycle time and speed up the customer construction and installation process, while keeping issues at our sites to a minimum. All of this is expected to lead to improved project management capabilities, so it is more seamless for our customers to add equipment or co-locate on our sites.

00:07:37 We're also developing a new state-of-the-art process and software tool that our tower field technicians will use for tracking and expediting customer service requests and site events to operate more effectively and efficiently across our vast footprint. Refining our processes and leveraging technology will make it easier for our employees to deliver better for our customers, all in an effort to be known as a trusted supplier so we can win more business and drive profitability.

00:08:09 In addition to operational improvements, we also plan to continue relying on comprehensive MLAs with our largest customers. By having these agreements in place, we expect to benefit from more stable and predictable revenue growth over time, while making it easier for our customers to budget their capital and operating dollars and also making it easier for our customers to access our sites promptly and with fewer hassles. When combined with our operating improvements, we believe these agreements will help us win a greater share of the market going forward.

00:08:45 As we shift our focus to our fiber and small cell businesses, I want to reiterate points from our last earnings call. Our operational review of the Fiber segment confirm that our assets are in excellent strategic locations and equipped with the capacity necessary to support both existing and expanding wireless and broadband customers. Based on the virtues of our fiber footprint, we announced in June that we revised our operating strategy with the goal of maximizing financial returns on our investments.

00:09:20 Our revised strategy includes focusing on opportunities to capture market share by selling more new business within and near our existing footprints. We believe this approach positions us to achieve higher returns in both small cells and fiber solutions, and drives increased cash flow for our business. To that end, we have completed successful discussions with our customers and identified approximately 7,000 nodes in our contracted backlog that we, along with our customers, have mutually agreed to cancel.

00:09:58 These nodes were largely greenfield builds in locations that had countless zoning and permitting delays or in high-cost markets that did not meet our investment parameters and required higher-than-normal capital investments from our customers. By removing these low-yielding anchor nodes from our backlog, we expect to save about $800 million in future capital spend. So, after making these changes, our backlog now stands at approximately 40,000 nodes, with an improved risk/return profile since most of this backlog are colocations, which allows us to add revenue with less capital investment.

00:10:44 We continue to believe that persistent growth in US mobile data demand will necessitate additional network capacity and densification that macro towers alone cannot provide, particularly in densely populated areas where demand is most concentrated. As carriers continue to deploy their mid-band spectrum, densification will eventually play an increasingly vital role in enhancing network performance. And looking ahead, we remain confident in the market potential for these low-profile fiber-fed cell sites.

00:11:19 Moving on, let me provide you with an update on our fiber solutions business, which focuses on delivering high-bandwidth communications connectivity to enterprise customers. Our primary clients include wireless and wholesale carriers, government entities, healthcare providers, educational systems, financial institutions, and other large organizations.

00:11:45 Like we have done in our small cell business, we have recently made changes to enhance the profitability and efficiency of our fiber solutions offering. We are prioritizing colocation activities within our existing footprint, working closely with our customers to capitalize on what we call on-net and near-net opportunities in and around our networks.

00:12:09 This strategy is enabling us to grow revenues with reduced capital investment compared to previous years. Since implementing these operational changes in June, we've been encouraged by the early results. In the third quarter, we delivered 2% organic growth, excluding $4 million of prior period revenue adjustments, and we expect to deliver 2% growth for full year 2024, excluding the impact of some Sprint Cancellations.

00:12:40 Our thesis is driven by emerging trends that indicate promising growth potential. Demand drivers, including from AI, suggest that the need for data transport will continue to rise, and our connection hubs in major cities are well positioned to meet this demand. And our revised operational strategy should drive higher profitability, allowing us to capitalize on these positive demand trends to generate sustainable growth.

00:13:12 Lastly, I'd like to provide a very brief update on the ongoing strategic review. As I've mentioned before, this process is active and we are diligently evaluating our options. We are considering various paths, including potential divestitures, continued growth, or partnerships with strategic or financial investors. Our board of directors is committed to concluding this evaluation with the goal of unlocking the full value of these businesses.

00:13:48 As I conclude my comments, I want to highlight three points. First, in the business of creating value with long-term assets and long-term contracts with our carrier customers, changes don't occur so quickly. The management team and I recently set some initial goals in motion and are making important decisions to change the trajectory of this company's success. While it will take time, we believe we are on the right track as we reassess our businesses, adjust our capital allocation strategies and improve how we operate.

00:14:24 Second, as we continue to implement changes to our operating plans, it's crucial to acknowledge the effort of our employees, the effort that they've put into delivering our third quarter results.

Thank you to everyone for your hard work.

00:14:41 Lastly, we were also thinking about all of those affected by the devastation and loss from hurricanes Helene and Milton, and I would like to give a special thanks to many on our Crown Castle team who worked with great urgency through challenging conditions and some dealing with personal impacts, but they stayed safe and they maintained our communications infrastructure which is even more essential in connecting people, communities and emergency services during and after these tragic types of events.

00:15:13 Now, I'll turn it over to Dan to walk us through the details of the quarter.

Daniel K. Schlanger

00:15:18 Thanks, Steven, and good afternoon, everyone. We delivered third quarter results in line with expectations as we continued to perform well, while implementing the meaningful changes in our operating plan announced in June. Demand for our assets remained strong in the third quarter, allowing us to maintain our 2024 outlook for site rental revenues, adjusted EBITDA and AFFO.

00:15:40 We did, however, lower our 2024 outlook for net income to reflect the impact of a $125 million to $150 million asset write-off anticipated in the fourth quarter related to reductions in our small cell business. As part of the changes to our operating plan we announced in June, we have been working with our customers on reducing contracted nodes with higher-than-expected deployment costs that negatively impacted both our customers' economics and our expected returns.

00:16:09 Consequently, we have mutually agreed to cancel approximately 7,000 contracted small cell nodes previously in our backlog. These nodes, which were concentrated in a limited number of markets, would have required more than $800 million of anticipated capital expenditures, primarily in 2025 and 2026 that was expected to generate average yields below our previous return threshold of 6% to 7%.

00:16:35 After removing these canceled nodes, we now have approximately 40,000 small cells in our backlog, more than 70% of which are colocation nodes. We believe our revised backlog is sufficient to enable us to deliver double-digit organic revenue growth over the next several years, while the improved proportion of colocation nodes will generate expected returns in excess of the returns we have generated historically.

00:17:00 Moving on to our results in the quarter and turning to page 4 in our earnings materials, excluding the impact of Sprint Cancellations, we delivered 5.2% consolidated organic growth in the third quarter, consisting of 4.3% from towers, 25% from small cells, and 1% from fiber solutions.

00:17:19 I want to point out two things that impacted our organic growth in the quarter. First, our small cell growth included $15 million of previously disclosed non-recurring net (00:17:30) revenues primarily related to early termination payments, without which we would have grown the business a little over 11%. And second, our fiber solutions revenues were negatively impacted by $4 million due to adjustments related to prior period revenues. Excluding these out of period adjustments, fiber solutions' organic growth was 2%, exceeding the expectations outlined when announcing the changes to our operating strategy in June.

00:17:58 Adjusted EBITDA increased 3% compared to third quarter 2023 as revenue growth and cost savings related to the reduction in force we implemented as part of our revised operating strategy were partially offset by non-cash items and one-time costs, including a $49 million reduction in straight-lined revenues and prepaid rent amortization and $6 million of additional advisory fees primarily related to our recent proxy contest.

00:18:26 On page 6, our expected organic contribution to full year site rental billings remains unchanged with consolidated organic growth of 5%, excluding the impact from Sprint Cancellations. The 5% consolidated organic growth consists of 4.5% from towers compared to 5% in 2023, 15% from small cells as we expect 11,000 to 13,000 new revenue-generating nodes in 2024 compared to 8,000 nodes in 2023, and 2% from fiber solutions compared to flat in 2023.

00:19:01 As announced in June, the small cell organic growth of 15% includes a $22 million increase in non-recurring revenues primarily related to early termination payments. Excluding this impact, small cell organic growth is expected to be 10% this year.

00:19:18 Moving to page 7, we continue to expect to deliver $108 million of AFFO growth at the midpoint, excluding the impact of Sprint Cancellations and the non-cash decrease in amortization of prepaid rent.

00:19:32 Turning to the balance sheet, in August, we raised $1.25 billion of long-term fixed rate debt, allowing us to end the quarter with an average maturity of seven years, 90% fixed rate debt, and approximately $5.7 billion of availability under our revolving credit facility, with only $1.2 billion of debt maturities through 2025.

00:19:54 In addition, we ended the third quarter with leverage at 5.5 times net debt to EBITDA, a reduction from 5.9 times in the second quarter of this year. We expect to remain close to this level the remainder of the year as we continue to benefit from solid organic growth and operating cost reductions. Lastly, our 2024 outlook for discretionary capital remains unchanged at $1.2 billion to $1.3 billion, or $900 million to $1 billion, net of $355 million of prepaid rent received.

00:20:26 To wrap up, the business continues to perform well, delivering solid organic growth and keeping us on track for our full year outlook. We remain encouraged by the early results of the operating plan changes we announced in June and the progress we have made with our customers to prioritize on and near-net opportunities in small cells and fiber solutions.

00:20:46 Specifically, we are on track to deliver $65 million of operating cost reductions compared to the $60 million we had originally forecast; we have been able to generate better than expected fiber solutions growth, while changing the focus of our fiber sales team to improve the capital efficiency of the business; we believe we will deliver on our expectation to reduce our 2024 net capital expenditures by $300 million compared to our initial full year 2024 outlook; and we have mutually agreed with our customers to cancel approximately 7,000 contracted nodes, reducing our future capital requirements by approximately $800 million, while improving the expected returns in business.

00:21:26 These results are in line with or better than what we had announced in June and are a testament to how dedicated our teams are to deliver for our customers while implementing these meaningful changes. Looking ahead, our focus remains on maximizing shareholder value by continuing to progress the Fiber strategic review and delivering operational and financial results across our portfolio of tower, small cell, and fiber solutions assets.

00:22:07 With that, Dave, I'd like to open the call for questions.

QUESTION AND ANSWER SECTION

Operator

00:22:11 We will now begin the question-and-answer session. Our first question comes from Ric Prentiss with Raymond James. Please go ahead.

Analyst: Ric Prentiss

00:22:21 **Question – Ric Prentiss:** Thanks. Good afternoon, everybody.

00:22:24 **Answer – Daniel K. Schlanger:** Hi, Ric.

00:22:25 **Answer – Steven J. Moskowitz:** Hi, Ric.

00:22:25 **Question – Ric Prentiss:** Good. Glad to hear your team made it through Helene and Milton okay. Obviously tough storms; Florida-based firm, Raymond James, we did, too. So, we always are thankful for those of us in the Gulf Coast that we made it okay. So, glad to hear your team is good.

00:22:41 Questions – thanks for all the detail on the small cell, 7,000 cut for the mostly greenfield stuff. So, it sounds like there's no early termination fee for you guys to cancel it, like there would be if a carrier canceled it because the carriers are going to get some savings, too, where it's like they don't have to pay as much upfront capital reimbursement for building the nodes. Is that kind of the right way to think about why the carriers agreed to this reduction?

00:23:10 **Answer – Daniel K. Schlanger:** It's somewhat difficult for us to get in the head of the carriers and tell you why they did something. But I believe that we wouldn't have been able to mutually agree to a cancellation if it didn't help them and it didn't help us in a way that we both saw value. We did not pay any early termination fees. I can definitely – I can agree to that and say that that's true.

00:23:30 But what I would take away from this is there's going to – in this case, what we're looking at is in certain areas, the overall cost of getting these nodes built was higher than anybody would have expected, which impacted both our returns and I would anticipate it impacted their economics as well, which led them to get the conclusion we got to, which was it was better in all of our interest not to continue with these specific nodes or they were in places where they've just been taking so long because of the zoning and permitting issues and other issues we were running into that just didn't make sense to try to pursue these anymore. And I think that that was the same concept that our customers had as we had, and we just mutually agreed that these were not good things to continue to try do.

00:24:13 **Question – Ric Prentiss:** Makes sense. And it looks like combined, between the $800 million of avoided CapEx and I guess that $125 million to $150 million is a lot of probably CapEx that went to work in progress, these nodes might have looked like they were costing like over $130,000 per node. Is that a way of thinking about it if they had been built?

00:24:31 **Answer – Daniel K. Schlanger:** Yeah. The math that you did is right, yes. And what I would say is, like we mentioned, these were in some pretty high-cost areas. So, the fact – I can't – we've had a really hard time trying to get to an average cost per node. That's a difficult concept across the country. But I would say these are on the high end of what we've experienced to build because they were in high-cost areas and it led to the conclusion for both us and our customers that these were okay to cancel is because they were such high cost.

00:25:01 **Question – Ric Prentiss:** Makes sense. Second question for me is on the strategic review. I know there's not a lot you can talk to there yet. But can you help us understand? Steven, you've been on board, gosh, six months. Seems like forever, I guess, but just six months. What are the long poles in the process to getting the strategic review over the finish line? And also, has there been any like major or any conditions that have changed as you guys have looked at the process as it's been almost a year probably in that?

00:25:32 **Answer – Steven J. Moskowitz:** Certainly. I mean, there's obviously a number of things that have changed over the last year. I mean, first and foremost is, we got a lot of good information from the operational review, and that helped set us up to make some key decisions in the spring and the summer to help drive more profitability to those businesses all along as we were engaged with conversations with potential suitors.

00:26:05 So, there's also inflation that started to be reduced a bit. Interest rates have started to subside a little bit. I mentioned the change in our capital strategy. So, there were a number of different things that have occurred over the year, and all of that, to some degree, plays in our thought process as we're trying to evaluate the best possible outcome for our shareholders with making final decisions on this process.

00:26:40 **Question – Ric Prentiss:** Okay. Any other long poles to the tent as far as thinking when the review would be something we on the outside will get to hear about?

00:26:49 **Answer – Steven J. Moskowitz:** Actually there's a lot of poles (00:26:51) through, Ric. This is a very complex situation and we're just trying to do our best to make sure, again, we make the best possible decision to create the best long-term outlook for our shareholders. I mean, that's the key for all of us. So, I really can't provide any type of timing. But we'd like to get this done as everybody in our company would like to get this done as soon as we can.

00:27:27 **Question – Ric Prentiss:** Makes sense. I'm glad, again, the team is all well through these natural disasters and appreciate everything they do to keep our networks working. Thanks, guys.

00:27:36 **Answer – Steven J. Moskowitz:** Thanks, thanks. And you, too.

Operator

00:27:40 The next question comes from Simon Flannery with Morgan Stanley. Please go ahead.

Analyst: Simon Flannery

00:27:46 **Question – Simon Flannery:** Great. Thank you very much. Good evening. I was interested in the carrier activity levels. It looked like the services business had picked up some from the first half of the year, and obviously, DISH had got their extension from the FCC. We saw Ericsson calling out some increased spend by AT&T. So, how are you thinking about the level of activity this year and then just conversations about continuing to densify and do more on that side? And then just a housekeeping item. I think, Dan, you said 11,000 to 13,000 new nodes this year. Is that a good run rate from here with that 40,000 backlog or is that impacted by the 7,000 cancellations? Thanks.

00:28:31 **Answer – Daniel K. Schlanger:** Yeah. So, I'll address the first part of your first question. I'll address your second question; I'll kick it to Steven over for more of the activity levels.

00:28:39 **Question – Simon Flannery:** Thank you.

00:28:39 **Answer – Daniel K. Schlanger:** You're right. The services level gross margin did pick up in the third quarter. A lot of that was kind of timing-related, pulling in some things from the fourth quarter into the third quarter. We did not change the range of what we thought our services gross margin will be for the year. And what I would say is that happens in that business, so we expect kind of a run rate similar to what we've seen in the past.

00:29:07 And I'll let – again, I'll let Steven talk to activity levels in a second. I just want to – the housekeeping items of the 11,000 to 13,000, we still believe that 11,000 to 13,000 is an appropriate goal and outlook for 2024. I can't really speak to what the right run rate will be going into 2025, but we'll give guidance in three months and clarify that when we do so for 2025.

00:29:29 **Answer – Steven J. Moskowitz:** Great. Yeah.

00:29:29 **Question – Simon Flannery:** Okay.

00:29:30 **Answer – Steven J. Moskowitz:** Hey, Simon. So, a little bit of color, I guess, on demand. I mean, this year, from our perspective, is playing out, I mean, pretty much as we expected. With active kind of moderate application and leasing volume and it's this type of steady-state activity that is more consistent with what we saw at the second half of last year.

00:29:51 Today, we're in the beginning, actually, of our stages of budgeting for next year, so our commercial teams are out speaking with their counterparts at the carriers. They're gaining insight about what their capital budgets may look like, which geographies they may be spending more or less on, the cadence of their 5G overlays. So, all that together, by the end of January when we provide guidance, we should be pretty in relatively good shape to provide a range that we have confidence in as we work through 2025.

00:30:26 And again, we believe that since most of the carriers still have lots of work to do to complete their 5G overlay cycle with their C-band spectrum, and as I mentioned in my opening remarks, consumers continue to drive significant demand for greater megabits and gigabits, for that matter, of data at faster speeds, it only means more pressure being put on the networks, which gives us continued confidence about the ongoing need for carriers to invest on wireless infrastructure and types of assets that we have to offer.

00:31:05 **Question – Simon Flannery:** And when do you think you can get the benefits from the digitizing the tower portfolio? It sounds like an interesting opportunity, but is that a medium term or can you see some of that next year?

00:31:15 **Answer – Steven J. Moskowitz:** I mean, I think there's going to be some quick hits developed out of it, but it's more – I think what I've tried to convey to folks is it's going to take time. Any type of business transformation takes a period of quarters or even years, for that matter. I mean, we're hoping that by mid-next year, we'll be in a better position to be able to capture the best possible share that we can get in the marketplace.

00:31:41 **Question – Simon Flannery:** Great. Appreciate it. Thank you.

Operator

00:31:46 And the next question comes from Michael Rollins with Citi. Please go ahead.

Analyst: Michael I. Rollins

00:31:54 **Question – Michael I. Rollins:** Hi. Thanks for taking the question. Just a couple. First, just in terms of small cells, now you've had a chance to review the portfolio in more detail with the customers. With the remaining greenfields that are left in that backlog, what should be the expected initial return for those small cells? And can you share a little bit more detail on the marginal returns that you get for the colocation nodes?

00:32:27 And then just secondly, as you had conversations with these carriers and you walked through some of the optimization of this backlog, as you get better sense from these customers of when they may want to look at executing another tranche of small cell nodes in terms of their densification needs? Thanks.

00:32:53 **Answer – Daniel K. Schlanger:** Mike, on the first point on returns, what we said about the revision to our return threshold is that it's higher than it was. It used to be 6% to 7%. It is now higher. And so we're not going to talk about exactly what that is, but you can assume that the greenfield nodes that we have remaining in our backlog meet our new threshold levels of higher than 6% to 7%.

00:33:12 And then on colocation returns, generally speaking, we see, on an incremental basis, in the neighborhood of 20% incremental returns on those businesses. And it can be higher than that, but that's a good way to think about it. So, those are the types of returns that we're looking at for our backlog.

00:33:30 In the conversations with our customers that we've had over the course of the last several months, we are really focused on trying to get through this process and did not get a lot of – it didn't give us any more significant insight into the future potential for bookings.

00:33:45 But as Steven has been talking about this whole time, the amount of data demand in the US is growing so fast that we still believe that the thesis underlying the small cell business makes sense that at some point densification will be required. At some point, towers are not sufficient for that densification. And the next technology that we utilize is small cells, and we believe that over time, those small cells will come to us as a natural provider of a lower-cost solution because we can share those economics among multiple carriers.

00:34:14 The difficulty has always been for us in trying to pinpoint the timing of when things like that happen. That's been a difficulty in the tower business of pinpointing when changes in activity levels will happen. I believe that's going to be a difficulty for us in the small cell business. But at some point, we believe that there will be significant demand for small cells over time.

00:34:33 **Answer – Steven J. Moskowitz:** Yeah. I guess, Mike, I would just add that the carriers are focused, first and foremost, on their C-band overlays. And we're hearing projections that they'll be completed with those probably by the end of 2026, beginning of 2027. So – and we have a very significant backlog of nodes to build. So, we're very, very busy. It doesn't mean we wouldn't look forward to having a nice new contract, but the fact is we want to execute these first and do them flawlessly and continue to build the trust and respect from these customers. And so our feeling is a year or so from now, we should be well positioned again to be able to go in and negotiate new agreements that fill that backlog for us going into 2027, 2028, 2029.

00:35:29 **Question – Michael I. Rollins:** Thanks very much.

Operator

00:35:31 And the next question comes from David Barden with Bank of America. Please go ahead.

Analyst: David W. Barden

00:35:44 **Question – David W. Barden:** Sorry, guys. Thank you for taking the questions. I apologize. Telecom guys are always the ones on mute, and I'm sure you appreciate that. So, the – I guess my first question is, Steven, you said something at the beginning about how MLAs are going to be a competitive differentiator for what you're prepared to do. And I think you said it was going to be a share-taking or win share event. I was wondering if you could elaborate a little bit on your perspective, because this has been a philosophical question for the industry for a long time ever since back in the day when AT&T did their holistic with AT&T, and is it a good thing because it stabilizes the outlook or is it a bad thing because it limits your upside opportunities? I was wondering if you could elaborate a little bit on maybe what you are bringing to the table in this thought process. I think that would be super helpful.

00:36:43 And then I guess just – and I'm sorry to have to hammer on it, but it seems strange that a year after you've been into the strategic review and months after you finished your operating review, that you went proactively to carrier counterparts and eliminated a meaningful part of your backlog that presumably any counterparty who was engaged in this conversation could have gone ahead and done on their own. And I'm wondering like how you guys came to the determination that this was a thing that Crown should undertake at this juncture and what does it tell us about where we are in the process? Thank you.

00:37:33 **Answer – Steven J. Moskowitz:** Well, I mean, let me start with the question regarding the small cells. I mean, coming in here, I had a number of key priorities and one was a strategic review, one was looking at our capital allocation strategy, one was revenue growth, and one was business transformation, so to speak. So, the combination of strategic review, that's – and determining how we want to spend our capital, from my perspective, was pretty important. They kind of fit together.

00:38:00 And as we evaluated the opportunities with these carrier customers, the discussions that were – that came together, as Dan alluded to, really became kind of best outcomes for both parties. So, could we have shifted that responsibility to a potential suitor? Possibly, but we didn't know what the timing was going to be. We didn't know what the outcome was going to be. And so – and we felt that we needed to be the fiduciary here. We needed to make sure that we were making disciplined decisions in how we spend capital.

00:38:44 And a lot of these nodes, as Dan spoke to, were going to be exceptionally expensive propositions, and some of these nodes were in process for the last two or three years. So, if we could come to a conclusion with our customers in any situation that creates best outcomes for both parties, then we're going to seize that opportunity, and that's what we felt was most important was to seize that opportunity, and again, realizing that many of these sites were in development for years. They were going to take a matter of time to complete in the future and they were going to be very expensive. We felt the right thing to do was to negotiate something, which we were able to accomplish and we're pretty satisfied by it.

00:39:31 As it relates to MLAs, I mean, we've been able to achieve good growth and create significant shareholder value by negotiating these comprehensive agreements. And we've already articulated that, we believe that we're able to realize more guaranteed growth over a multi-year period of time in a way that we think maximizes the value of our assets, while providing a pretty good degree of certainty as carriers stop and start their wireless network spending, and that's what typically happens, right? And we've talked about that with the 5G experience.

00:40:14 So – and from there – and from a customer's perspective, to try to continue to ingratiate yourself with these customers, these agreements take a lot of the haggling out of the equation for individual lease type of negotiations and it makes it easier for them to conclude the transaction. It saves them processing time and money. And it gets them on air faster. So, we've looked at it as being, in many respects, a win-win situation. And just realize it doesn't mean that negotiation stops when you have a holistic agreement signed, because a holistic agreement usually has a certain amount of terms and conditions within that agreement, and it's for a period of time.

00:41:00 So, as the carriers' demands keep changing, whether it's technology, whether it's adding equipment in towers or in compounds or hardening sites, there's certain things that are included in those agreements, and there's certain things that aren't included in those agreements. So, we have the stable contracted revenue, and we have also uncontracted opportunities in the future that we work hard to try to seize.

00:41:32 **Question – David W. Barden:** Thank you, Steven, for that. I appreciate those comments. If I could ask one quick follow-up, which would be you guys have been very careful to kind of couch the strategic review in terms of the strategic review of the fiber business. I just want to make sure that and I'm not being too myopic, and if we zoom out and say, it's been an awful long time, is there – is the strategic review just about the Fiber business, or is there some maybe even larger strategic considerations going on?

00:42:07 **Answer – Steven J. Moskowitz:** No, no. We've been very clear about our intentions as it relates to this, whether it's before I got here or after I got here. I mean, we own some of the best-in-class fiber networks in the US, and it's key for us to determine whether Crown's strategy is aligned with those opportunities, right? And we're just – we've been taking the time, we've been obviously engaged with different parties who are interested in these assets, and it all comes down from our perspective to generating the most value for the shareholders, whether it's receiving some cash proceeds and redeploying capital, moving towards a tower-only company, keeping the businesses if we feel they can create the most value that way. So, it takes time. Maybe it's taken more time than you guys have patience for, but obviously, we'd like to wrap this up also, and hopefully this will – will be able to make a decision in time, in time.

00:43:09 **Question – David W. Barden:** I appreciate the comments. Good luck with all of it. Thank you.

00:43:12 **Answer – Steven J. Moskowitz:** Okay. Thank you very much.

Operator

00:43:15 And the next question comes from Nick Del Deo with MoffettNathanson. Please go ahead.

Analyst: Nicholas Ralph Del Deo

00:43:23 **Question – Nicholas Ralph Del Deo:** Hey. Good afternoon, guys. Thanks for taking my questions. Stephen, you described a number of efforts to digitize or streamline your operations, to save money and improve the customer experience. Is it your sense that Crown Castle was behind your peers in these areas, and this is going to kind of allow you to catch up or do you think this is more about being better than the peer group on these fronts after you've wrapped up the initiatives?

00:43:49 **Answer – Steven J. Moskowitz:** So, listen, the goal of the company is to be best-in-class in what we do. And this company went through significant growth through 2010 up to 2020, buying significant numbers of assets and building significant number of assets. And in that growth mode, as I've talked about before, that whenever you're growing to that level, it's difficult to focus not only in growth initiatives, but also on kind of the internal infrastructure initiatives of the company.

00:44:27 So, there has been work done and the company is operating well, but there's opportunities to improve and enhance. And so, that's what I'm talking about is transforming what we have. There has been some element of digitizing the assets, but the drone program that I mentioned started last year. I mean, it didn't start last month. It's been a work-in-progress. And I think to one of the earlier questions, when are we going to see the fruits of the labor?

00:44:58 And as I said, there's going to be some opportunities for us to use that data. We're using it already to help generate more activity and more knowledge within our organization, which helps as we communicate with customers. So, it's just – it's an evolution. And obviously, I was brought in for a reason, and part of the reason is to make modifications and changes that I think will be healthy and good for this company moving forward.

00:45:21 That said, the company has always had and continues to have a very strong reputation as being very customer-oriented and very service-oriented. So, to your question about kind of catch up or get ahead, I think we are doing a little bit of catch-up in certain areas, but we have every opportunity to really become best-in-class in the US, and that's the goal.

00:45:52 **Question – Nicholas Ralph Del Deo:** Okay. That's great context. Thank you. Yeah. I guess the other thing I want to ask about were the node cancellations. I guess during the discussions, were you able to surmise at all what the customers might be planning to do as an alternative, whether it's go to other vendors or try to get on macro sites or maybe not do anything at all? It just seems like an interesting situation where the customers seem to have kind of thrown up their hands in a tough area in which to work. I'm curious if you have any clues as to how they plan to address it.

00:46:28 **Answer – Daniel K. Schlanger:** Again, it's hard for us to opine on what our customers are doing at that level of detail. But what I would say is, generally speaking, the first thing our customers want to look at, as you know, Nick, is try to maximize the tower availability in any given area because it is the cheapest way to deploy a spectrum over large geographies and population areas.

00:46:49 And I think if I were to make a guess on your question is that they believe that with the amount of C-band and mid-band spectrum they have, they can cover these areas with towers in the short-term. But as we've talked about, at some point that that is no longer an available option. But at this point, in a lot of these markets we're talking about, which were very high-cost or very long-term projects that just weren't coming to fruition, I think they determined that they could add more to the overall macro network to take advantage – to take care of the demand in these areas.

00:47:27 **Answer – Steven J. Moskowitz:** Yeah. I would just also add, these agreements were signed with these customers before the C-band spectrum was auctioned. So, the fact of the matter is these cancellations, in totality of our contracts, these cancellations represent just 6% of our total small cell build program. And many of us have been in this industry for a long, long time and have done lots of build-to-suit agreements over the years.

00:48:02

Typically, for every 100 search rings you get, 20 to 25 get canceled and you're left building 60 or 70. So, the fact that there hasn't been any type of large cancellation of groups of projects or nodes since these contracts were signed is actually amazing to me. So, I look at it as a small portion of what the carriers are doing overall. And to Dan's point, they're actively trying to find other ways to solve their network densification or coverage issues.

00:48:44 **Question – Nicholas Ralph Del Deo:** Okay. That's great color. Thank you, guys.

00:48:46 **Answer – Steven J. Moskowitz:** Yeah. Thanks for the question.

Operator

00:48:50 And the next question comes from Jim Schneider with Goldman Sachs.

Analyst: James Edward Schneider

00:48:57 **Question – James Edward Schneider:** Good afternoon. Thanks for taking my question. I guess if you set aside the 7,000 node cancellations and look forward to what your carriers or customers are telling you about their demand for small cells over the next several years, is there anything that makes you think that the structural case for small cells is in any way unchanged? And specifically with respect to the increased returns profile you sort of put on this business now, anything that makes you believe you can achieve your sort of longer-term small cell growth targets at that higher investment return rate?

00:49:36 **Answer – Steven J. Moskowitz:** Yeah. I mean, I'll start here, Dan. I mean, in terms of future growth, again, we believe this technology has good upside as the carriers, again, as I said, complete their mid-band deployments and consumers and businesses continue to be very data-hungry. So, we just – we see the overall network structure as getting more densified, more distributed with the lowest latency networks you can find.

00:50:08 And so to fill those types of hotspots and locations where macros are not suitable, we see this technology as being a perfect opportunity for the carriers. And so there aren't that many companies that play in this arena on an independent basis. The carriers play in this arena themselves at times. And as we look into the future, we feel that if we set forth reasonable expectations in terms of how we underwrite this type of business, we'll be able to achieve that, particularly if it's a combination of colocations and anchor tenants.

00:50:50 And that's obviously, as you guys know, what it's all about for us, it's colocation, right? We're building in order to get colocations in the future. And if you think about this portfolio, there's been 65,000, 70,000 nodes put on air and the backlog of 40,000, the preponderance is colocation. So, it's actually playing out. It's playing out a little longer than everybody thought. It's actually playing out to the point where the overall ROIC on this set of assets down the road is going to be admirable into some of the expectations that we're talking about.

00:51:31 **Question – James Edward Schneider:** That's helpful. Thank you. And then maybe just as a follow-up on a different topic, some of your peers in the enterprise fiber space have announced some deals tied to interconnection of data centers. So, I'm wondering, is that any kind of opportunity you feel you would want to address or could participate in? And does that kind of change your view on the expectations for the future growth in your Fiber business and maybe your expectations around a price in terms of a potential asset build?

00:52:03 **Answer – Daniel K. Schlanger:** I think generally, the – as Steven was talking about in some of the prepared remarks, the increase in demand over networks is positive for our business because we have assets in very good markets that we believe will have good demand over time. Some of the specifics about what you're talking about, I do not believe that our footprint or strategy.

00:52:23 So, the idea of connecting large AI-focused data centers are being built in more rural locations because land costs are cheap and then connected into the market, into the big market where people are via fiber, we're not interested in building that type of fiber because we don't see that as supporting our overall strategy of having fiber solutions and small cells together where we think the densest network demand will come and we don't see it as much a shared infrastructure model as a build-for-suit infrastructure model, and that's just not what we do.

00:53:02 So, part of your – part of the answer to your question is no, we do not see the same type of outcome for us as we've seen in other companies' announcements recently. Not to say those are bad deals to do or bad businesses, it's just not for us. But we do see a tremendous opportunity ahead of us to connect data centers in metro markets that already exist that we think are going to be extremely valuable because we have a footprint that is very difficult to replicate in dense metro markets.

00:53:25 We have lots of fiber under lots of streets already. And so connecting into where we can connect each data center to another data center and making a ring, we think we are well positioned for that type of demand and we think that type of demand will be necessary to – or will be part of the growth in traffic going forward because part of the way that we think the networks will expand is for each individual user not to go to one data center but to try to be on-ramped into all sorts of different data centers and on-ramped into the network and into different AI locations, whatever is the most efficient way to move the data is going to – or the most efficient way to compute data is where the people are going to try to find and we're going to be – we'll allow for that optimization to happen more readily because of where our assets are.

00:54:22 So, we think there's tremendous opportunity for us from the AI workloads that are coming, just very different than building into data centers built directly for AI in very low-cost areas. And what we see that meaning is whether we believe we are the right owners of this business or whether we think we come to the conclusion that we are moving on and somebody else is a better owner, that demand increases the value of our assets and we're excited about that.

00:54:53 **Question – James Edward Schneider:** Thank you.

00:54:56 **Answer – Daniel K. Schlanger:** Sure.

Operator

00:54:56 And the next question comes from Richard Choe with JPMorgan. Please go ahead.

Analyst: Richard Choe

00:55:01 **Question – Richard Choe:** Hi. I had a follow-up on the Tower business. In terms of gaining more share, do you expect that to come from national players or more regional players? And then regarding the small cell cancellations, of that $800 million that would have hit in 2025 and 2026, how should we look at that small cell CapEx? Was that CapEx going to be added on to the existing run rate or is that – potentially some of it was already in the run rate and could be brought down?

00:55:35 **Answer – Steven J. Moskowitz:** Want to start with that and I'll go back?

00:55:41 **Answer – Daniel K. Schlanger:** Yeah. I'll start with the CapEx question on the small cells. Yeah, Richard, it's hard for me to say what would be in or out of run rate because we haven't given long-term guidance of what we think the capital would be. So, all I can say is that whatever capital we thought we were going to spend in 2025 and 2026 is lower now than it would have been otherwise.

00:56:04 And in trying to relate it to what we've done historically, it's just – it's hard to do because both the magnitude, the overall number of nodes that we're constructing and the colocation and anchor build mix has been different over time. But you can assume that in our past builds, we have built a lot of anchor builds. We've talked about that.

00:56:20 And therefore, the capital intensity of the business was higher historically than we believe it will be going forward, both because we've cut off this $800 million and because the majority of our backlog now, over 70%, is colocation as opposed to anchor build. So, like I said, it's hard to relate to what the run rate would be, but compared to what we've spent to-date, we will be more capital efficient going forward.

00:56:44 **Answer – Steven J. Moskowitz:** Hey, Richard. In terms of market share, I would say two things. One, we're trying to get to the position where we continually improve, continually up the ante on customer service and have the large nationwide carriers look to us as being a preferred supplier and so that's pretty critical to us. And we think, again, part of these comprehensive agreements and part of what we're doing operationally with improvement will probably enable us to get there at some point in the near future.

00:57:24 The other area that we need to focus on more is in the vertical area, which is those regional and smaller customers, whether it's government entities, whether it's WISPs, different types of broadcasters. So, we've had an effort there. We have to do a better job. So, I think between a combination of those two things, it should help us be able to maximize share in a little bit better way than we've been doing now.

00:58:00 **Question – Richard Choe:** Thank you for the color.

00:58:01 **Answer – Steven J. Moskowitz:** You bet.

00:58:02 **Answer – Daniel K. Schlanger:** And Dave, I think we have time for one more question.

Operator

00:58:06 The next question comes from Batya Levi with UBS. Please go ahead.

Analyst: Batya Levi

00:58:12 **Question – Batya Levi:** Great. Thank you. A couple of follow-ups. First, on the 7,000 small cell cancellation, can you talk about if that's more concentrated in one region? And does that leave you with some maybe fiber assets that will not be utilized now if they could be monetized?

00:58:29

And the second question on Tower business, how should we think about churn excluding announced Sprint churn? I think you have some higher renewals coming up in the next two years beyond the top three. Are you seeing any change in the competitive environment maybe from private tower companies and kind of like any change in the renewal pricing? Thank you.

00:58:53 **Answer – Daniel K. Schlanger:** Yeah. Batya, on the 7,000 nodes, there's no one reason I would point to that was concentrated in. It was a lot – there were specific markets, but there weren't specific markets in one region. So, I would not say that we had one place that is now no longer building small cells. It's more many places, but concentrated in those places. And while we have some assets that we built, the reason that we had to take a write-off as part of this process was a lot of the CapEx that had been spent was not on hard assets but on the preparation of a lot of these, like we've said, we've had a hard time getting to actually building stuff and it was costing way too much.

00:59:35 So, we hadn't made it very far into a lot of the actual build for these things. So, there is not a tremendous amount of fiber that is left over that we had built. And to the extent that we did build fiber in these markets, they're generally good markets that we see demand both from fiber solutions and small cells going forward. So, I would not call them stranded or underutilized or unutilized assets going forward. We believe we can use some of those assets to deliver services to our customers going forward.

01:00:07 **Answer – Steven J. Moskowitz:** About churn?

01:00:14 **Answer – Daniel K. Schlanger:** On the small – on the Tower churn, what we've said for a long time is we see 1% to 2% churn in the Tower business. We've been on the very low end of that when you – we haven't had much Tower churn from Sprint to-date. But when you exclude the $200 million in 2025, we still believe we'll be on the low-end of that range and we have not seen a significant difference in the competitive profile of our business.

01:00:25 And it's because of how good the business is. It's very difficult to make a change in a tower company when you already have that thing up on a tower. It costs money to bring it down, it costs money to build new one. So, what we have found is very limited amounts of churn because the underlying business model has been very positive for us and for our peers as well.

01:00:55 **Answer – Steven J. Moskowitz:** And I think it specifically calls out our asset base, which is urban and suburban. So, it's very difficult to try to replicate any type of site in the suburbs of Greenwich, Connecticut or outskirts of Washington, D.C., or Raleigh, North Carolina. So, in these major cities where we have most of our footprint, we feel like we have a real good moat and are well protected against churn.

01:01:20 **Question – Batya Levi:** Got it. Thank you.

01:01:21 **Answer – Steven J. Moskowitz:** Thank you.

Operator

01:01:22 This concludes our question-and-answer session. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.