Q2 2024 Earnings Call ***(Corrected version)***

⌄ Event Details

Date: 2024-07-17
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

Simon Flannery - Analyst
Michael I. Rollins - Analyst
David W. Barden - Analyst
Ric Prentiss - Analyst
James Edward Schneider - Analyst
Nicholas Ralph Del Deo - Analyst
Richard Choe - Analyst
Ari Klein - Analyst
Matthew Niknam - Analyst
Batya Levi - Analyst
Eric Luebchow - Analyst
Walter Piecyk - Analyst
Brandon Nispel - Analyst
Brendan James Lynch - Analyst

MANAGEMENT DISCUSSION SECTION

Operator

00:00:17 Good day, and welcome to the Crown Castle Second Quarter 2024 Earnings Conference Call. All participants will be in a listen-only mode. After today's presentation, there will be an opportunity to ask questions. Please note this event is being recorded.

00:00:37 I would now like to turn the conference over to Kris Hinson, Vice President of Corporate Finance and Treasurer. Please go ahead.

Kristoffer Hinson

00:00:45 Thank you, Betsy, and good afternoon, everyone. Thank you for joining us today, as we discuss our second 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.

00:00:59 To aid the discussion, we have posted supplemental materials in the Investor section of our website at crowncastle.com that will be referenced throughout the call. This conference call will contain forward-looking statements, which are subject to certain risks, uncertainties and

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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 factors sections of the company's SEC filings.

00:01:25 Our statements are made as of today, July 17, 2024, and we assume no obligation to update any forward-looking statements. In addition, today's call includes discussion of certain non-GAAP financial measures. Tables reconciling these non-GAAP financial measures are available in the supplemental information package in the Investor section of the company's website at crowncastle.com.

00:01:48 With that, let me turn the call over to Steven.

Steven J. Moskowitz

00:01:51 Thanks, Kris, and good afternoon, everyone. We appreciate you joining us for this call, and as you can see from our second quarter results, we delivered solid operating and financial performance in all three of our businesses and reiterated our full year 2024 outlook.

00:02:09 We're confident in our outlook based on having 95% of our expected tower revenue growth for this year contracted, either as part of our holistic master license agreements with our major customers or with revenues from regional and local wireless customers, and also having implemented changes to our Fiber segment, which will position us to generate more profitable business and increase our operating efficiencies.

00:02:34 In the tower business, we anticipate organic revenue growth of 4.5% this year, and believe that as we look out over the next few years, our growth rate will be higher based on three factors. First, the holistic master license agreements we have with our largest customers provide us a stable and consistent level of growth over time.

00:02:56 Second, industry forecasts estimate that long-term US wireless data demand growth will continue to drive the need for significant future communications infrastructure investments. And we are aware that major carriers still have lots of work to do to expand their networks in the 5G build cycle. And finally, we believe that as more tangible steps are taken by our company to be a best-in-class supplier of low-cost shared infrastructure solutions will be better positioned to compete for a higher share of revenues as our customers continue to invest in their networks.

00:03:31 Moving to our fiber and small cell businesses, we've completed many of the changes to our operating plans that we announced in June and have started to see the benefits of those changes through more profitable growth and greater operating efficiencies. As part of the operational review of our Fiber segment, which we conducted earlier this year, we affirmed that greater opportunity exists to provide additional customer solutions to enterprise fiber connections and small cell locations that are on or near our existing high quality fiber footprint, which allows us to add revenue without the requirement to invest as much capital as we've done in the past.

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00:04:04 To implement these changes in our small cell business, our commercial and deployment teams have been working collaboratively with our customers on a mix of outcomes. Many of which improves our project economics, while also addressing our customers evolving priorities around network densification and capital allocation. As part of this change in our operating plan, we plan to build fewer anchor nodes in the short run. However, given our large pipeline and our customers' long-term densification needs in geographies, where we have really robust assets in place. We continue to expect there is sufficient demand to grow small cell revenues by double digits over the next several years.

00:04:49 Turning to our fiber solutions business, we believe we can improve returns by focusing our sales efforts on – on- or near-net opportunities that reduce discretionary capital expenditures going forward and to support these changes, we've already adjusted our go-to-market commercial plan, we have changed our sales incentive award system, and increased our required rates of project returns, resulting in anticipated shorter payback periods on invested capital.

00:05:18 So, like in our small cell business, we analyzed the markets around our fiber assets to quantify the opportunities to utilize our existing fiber. And we believe we have ample opportunities to improve capital efficiency while achieving long-term organic revenue growth in fiber solutions of 3% per year. As we announced in June, we believe our more focused effort to target on-net and near-net demand in both small cells and fiber solutions will drive a more efficient use of capital, and will also generate approximately $100 million of annualized run rate cost savings. Importantly, we implemented most of these changes by the end of the second quarter, which keeps us on track to generate approximately $60 million of expected cost savings and reduced capital expenditures by about $300 million for this year.

00:06:13 As we continue to deliver solid results and make operational changes, we remain focused on the fiber strategic review, which is active and ongoing. The management team and I continue working with the Fiber Review Committee, the Board of Directors and external consultants to evaluate strategic alternatives to determine how to maximize shareholder value. Now we can't share much more about the process and the timing. What we can share is that we remain actively engaged with multiple third-parties, who continue to show a lot of interest in our fiber solutions and small cell businesses, and we'll provide updates as the process unfolds.

00:06:55 I'd like to conclude my comments by saying that over the past few weeks, I've been fortunate to have engaged in conversations with more than 50% of our company's employees through either in-person conversations and also video conference calls. The goal of my meetings with everybody was to be present and discuss the rationale behind our recent operational changes, answer questions that are on people's minds about the Fiber segment and start to set expectations for everybody in the company going forward.

00:07:43 My takeaways from these discussions was that two major themes exist in the minds of Crown Castle employees. First, they care and have great pride. They're very proud of being part of Crown Castle, and they want our company to be seen as excellent in the minds of the constituents we serve, including shareholders and customers and communities. And second, most recognize that to be excellent, we need to continue to make changes in how we operate. And they are engaged and energized about their ability to participate in and lead the process and develop new ways of doing things, to help differentiate us as a leader in the sector.

00:08:25 So, I'd like to thank all the employees I met for being as open and transparent with me as they were. And to those employees I've yet to meet, but will at a time come soon. And to all of our employees, a big thanks for continuing to drive our business and deliver results over the past

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several months. I know there's been a lot of change, and it's reassuring that this team has been able to stay focused on delivering for customers during this period.

00:08:53 Now having said all that, I would ask all employees and our investors to keep in mind the change management is a process and it takes time. And I appreciate your understanding as we continue to develop new goals that will improve our chances of taking higher shares of new revenue opportunities, convert a greater share of new revenue down to EBITDA, increase investment returns on the growth capital we deploy, bolster our balance sheet to generate more optionality for us in the future and ultimately, increase shareholder value.

00:09:25 So with that, let me turn it over to Dan to walk through the quarter results.

Daniel K. Schlanger

00:09:31 Thanks, Steven, and good afternoon, everyone. We delivered second quarter results in line with expectations and remain on track for our full year outlook, after implementing the operational changes we announced in June.

00:09:42 Looking at the second quarter results on page 4 of our earnings presentation, the underlying business continued to perform well in the quarter, highlighted by 4.7% consolidated organic growth, excluding the impact of Sprint Cancellations. The 4.7% organic growth in the second quarter consisted of 4.4% growth from towers, 11% from small cells, and 3.2% from fiber solutions.

00:10:06 We are encouraged by these levels of growth at this time with our tower business generating growth in line with our current expectations. The uptick in small cell activity resulting in higher growth compared to the last couple years, and our fiber solutions business delivering growth above our 3% expectation, despite the changes we made to our operating plan. This growth underscores the stability and attractiveness of our business as we are well positioned to capitalize on the growing demand for data in the US.

00:10:35 As anticipated, the solid organic growth delivered in the quarter was more than offset by several one-time and non-cash items, including $106 million reduction to site rental revenues related to the Sprint Cancellations, a combined $105 million reduction in straight-lined revenues and prepaid rent amortization, both of which are non-cash items, a $22 million decrease in service margin contribution due to the combination of lower tower activity and the decision we made to exit the construction and installation business, which we implemented in the second half of last year, and $20 million of advisory fees primarily related to our recent proxy contest.

00:11:17 Turning to page 5. We are reiterating the full year outlook we released in June, which reflects a year-over-year decrease in site rental revenues, adjusted EBITDA and AFFO, primarily due to the one-time and non-cash items I just mentioned. Our expected organic growth contribution to full year site rental billings remains unchanged, with organic growth of 2% or 5%, excluding the impact of Sprint Cancellations.

00:11:44 The 5% consolidated organic growth, excluding the impact of Sprint Cancellations, consists of 4.5% from towers, compared to 5% in 2023. 15% from small cells, as we expect 11,000 to 13,000 new billable nodes in 2024, compared to 8,000 nodes in 2023 and 2% from fiber solutions. As we announced in June, the small cell organic growth of 15%, includes a $25 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.

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00:12:23 Moving to page 7, we expect to deliver $105 million of AFFO growth at the midpoint, excluding the impact of the Sprint Cancellations and non-cash decrease in amortization of prepaid rent. Included in this AFFO growth, is a $10 million increase in cost, which includes normal operating cost increases as well as $25 million of advisory fees related to our recent proxy contest, all of which is expected to be offset by an approximately $60 million decrease in costs related to the reduction in staffing levels and office closures we announced in June.

00:12:57 Turning to the balance sheet, we ended the second quarter with leverage at 5.9 times EBITDA, or 5.7 times excluding the impact of the non-recurring advisory fees. Looking ahead to the third quarter, we expect our leverage metrics to improve as we believe our second quarter EBITDA will be the low point for the year and we benefit from our operating cost reductions.

00:13:18 Since transitioning to investment grade in 2015, we have strengthened our balance sheet by extending our weighted average maturity from five to seven years, decreasing the percentage of secured debt from 47% to 6%, and increasing the percentage of fixed rate debt from 68% to 89%. In addition, we ended the quarter with approximately $5.5 billion of availability under our revolving credit facility, and only $2 billion of debt maturities through 2025, providing us with ample liquidity to fund our business. We believe the steps we have taken to strengthen our balance sheet, provide us with financial stability and flexibility as we evaluate strategic paths forward.

00:13:59 As we announced in June, we decreased our outlook for discretionary CapEx as a result of the modified investment parameters we recently implemented. And now expect $1.2 billion to $1.3 billion of gross discretionary CapEx, or $900 million to $1 billion, after taking into account $355 million of prepaid rent we expect to receive.

00:14:22 In summary, the business is performing well, delivering organic growth and keeping us on track for our full year outlook, after implementing the operational changes we announced in June. With the operating review complete, our focus is 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.

00:14:47 Before starting Q&A. I'd like to note that we are changing the timing of when we provide guidance for the upcoming year. Going forward, we will provide forward year guidance with fourth quarter earnings as opposed to our past practice of providing guidance in our third quarter release. This means you should expect to receive our full year 2025 guide with earnings in January.

00:15:33 With that, Betsy, I'd like to open the call for questions.

QUESTION AND ANSWER SECTION

Operator

00:15:43 The first question today comes from Simon Flannery with Morgan Stanley. Please go ahead.

Analyst: Simon Flannery

00:15:49 **Question – Simon Flannery:** Great. Thank you very much. Good afternoon. Steven, thanks for all the color on the CapEx and OpEx review there. What I wanted to get more color on was, what is the new run rate of CapEx? Presumably, since this was sort of a mid-year review, some of the

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spending was already done. You may have more spending contracted in the second half of the year. So any color you can provide us at what sort of you think the more usual rate, given this sort of higher hurdle rate and new, more focused approach will be going forward?

00:16:23 And then maybe, Dan, one for you, you talked about the leverage coming down to 5.7 on an adjusted basis. What are you targeting in terms of leverage over the next couple of years here? And there's – Bloomberg's reporting that there may be a Verizon portfolio out there. How are you thinking about M&A in the context of that? Thank you.

00:16:43 **Answer – Daniel K. Schlanger:** Hey, Simon. It's Dan. I'm going to take the first two, and leave the M&A point for Steven to hit. But the run rate of CapEx, as we had been talking about, we're focusing our CapEx on lower capital intensity projects so that we go towards on-net, near-net opportunities, which means that over time, we believe that the overall level of CapEx, the amount of revenue we generate will come down. But ultimately, CapEx is going to be driven by how much opportunity we have in the business.

00:17:11 So, we can't really give a full run rate of what we think is going to happen until we understand what that activity looks like, and we're able to give guidance in 2025. But I think what – one of the things you mentioned and you're right about is that this was a mid-year move, and we were able to save $300 million, is what we expect for the year. So we would anticipate that somewhere in that writ neighborhood or potentially more going forward. But we're going to have to get to 2025 before we can really give specifics on that point.

00:17:37 **Question – Simon Flannery:** Understood.

00:17:38 **Answer – Daniel K. Schlanger:** In terms of the leverage, our goal is to be at 5 times leverage. And obviously, we're elevated from that point now, but we believe as we continue to grow our EBITDA and not grow capital nearly as much because of the capital savings we just talked about, we think we will be able to organically bring that leverage down over time, towards that 5 times goal.

00:18:02 **Question – Simon Flannery:** Thank you.

00:18:04 **Answer – Steven J. Moskowitz:** Hey, Simon, it's Steven. In terms of M&A, we're aware of different assets that are either in the market or coming to market in the US. And if it's a truly compelling proposition for us, which we would consider compelling being a highly strategic and cost effective. So we have confidence in delivering future shareholder value, then if it has those types of characteristics, we definitely have interest. But overall right now, I mean, M&A is not necessarily the priority for us.

00:18:41 **Question – Simon Flannery:** Great. Thank you.

Operator

00:18:47 The next question comes from Michael Rollins with Citi. Please go ahead.

Analyst: Michael I. Rollins

00:18:54 **Question – Michael I. Rollins:** Thanks and good afternoon. I was curious, Steven, on some of the comments that you made about the tower business. You talked about three things that you thought could drive a higher organic annual growth rate. And curious if you can give us an update

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within that context of what you're seeing in terms of carrier activity? And are there any early signals that you're seeing as you look at the visibility that you have in this business? And what could come in 2025? And then you also mentioned more tangible steps the company is taking to be a best-in-class provider. I'm curious if you could share some of those steps and how you think that will translate into better share and results going forward?

00:19:38 **Answer – Steven J. Moskowitz:** Yeah. Okay, Michael. It's tough to talk about next year and beyond. It's a little bit early from our vantage point. But what we see in the market today and conversations that we're having with our customers, just gives us optimism that what we've forecasted for revenue growth is directionally correct. We also obviously have benefit of stability and visibility in our revenue from our MLAs. So we don't really see demand shifting directions in one way or another from our major carriers. Right now, to some degree, we look at things as steady state as carriers work on their mid-band 5G rollouts. So that's pretty much, how we're thinking about this year. And again, going into next year, ideally, there's more opportunity for growth, but we'll be working through our budgets, between now and then this year from that vantage point.

00:20:41 As it relates to tangible things, I mean, the priorities right now for us are the strategic review of our fiber business, very critical. Spending cash, what we'd say is, wisely or differently with some changes that have already occurred in our fiber business as we're outwardly discussed with everybody. Cost management for us, which is key, and our leadership team is evaluating kind of other areas of the business to see, what – how we can consider improving operating and EBITDA margins over time.

00:21:16 And then business transformation. I think business transformation is probably the biggest thing that we need to work on. I mean, this company has grown significantly over the last decade. And when you're growing like crazy, you tend to be focused more on driving revenue and getting every opportunity you can for lease up. And now that things are a little bit more in a steady state, I think the key for us is to do some transformation.

00:21:43 And when I think about that, it's really evaluating the people, making sure we have the right people in the right roles. It's the business processes. So identifying root causes and inefficiencies for us and figuring out plans to fix them so things are more repeatable and reliable and efficient, and improving our systems, which a lot of people have been starting to do with improved workflows in this company.

00:22:12 We have some new asset management tools, CRM and on the enterprise side. So kind of wrapping that all up, if we're able to, over the next year, 1.5 years, really improve the processes that we have, whether it's the application to on-air cycle time, making sure we have just better data and data governance around our assets, all those types of things are going to help keep us really focused. And that will lead to providing better customer service to maximize organic growth in the future.

Question – Michael I. Rollins: Thanks.

Operator

00:22:54 The next question comes from David Barden with Bank of America. Please go ahead.

Analyst: David W. Barden

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Question – David W. Barden: Hi, guys. Thanks so much for taking the questions. A nice straightforward quarter. I guess, my first question would be, Dan, if we go backwards and we start thinking about the small cell return thresholds, right? It was always, whatever the CapEx is times 6%, and then if we get a second tenant that goes into the double digits. And if we get a third tenant, it goes north of there. Could you kind of come back to that and kind of give us what the new language around return threshold expectations is for the company now that we've kind of undertaken the operational review?

00:23:40 And then I guess, the – maybe a second question would be just in terms of the service revenue kind of run rate in the quarter. I think, Steve, to your point that this might be kind of run rate from a tower activity level, is this the new run rate for kind of services for the foreseeable future before we start guiding the 2025? Thank you.

00:24:08 **Answer – Daniel K. Schlanger:** Sure. Thanks, Dave. Let me answer the first one, which is, what are our return thresholds as we look into the small cell business? You pointed them out, right. Historically, we had targeted 6% to 7% on the anchor build. All I can say now is that our target is higher than that, and we're going to work through the market and figure out exactly what that's going to look like. But what it does by going to a higher level of anchor build economics is allows us upon lease up to get even a higher return on the lease-up. So that we derisk the business substantially with our cost of capital being higher than it was when we first targeted 6% to 7%, we think that we can start making on the anchor build, a return that accommodates that higher cost of capital and allows us to make money over time by leasing up those assets. But they're not yet in a position of quantifying exactly what that number is going to be or is at this point.

00:25:01 On the service revenue question that you asked, yes, the second quarter run rate is, what I would put in for kind of generally what we think will happen over the course of the rest of this year. And then as you pointed out, we'll give additional guidance for 2025 when we give – update our guidance in January.

00:25:17 **Question – David W. Barden:** Appreciate it. Thank you, Dan.

Answer – Daniel K. Schlanger: Thanks.

Operator

00:25:24 The next question comes from Rick Prentiss with Raymond James. Please go ahead.

Analyst: Ric Prentiss

00:25:30 **Question – Ric Prentiss:** Yeah. Thanks, everybody. Yeah, hey, I want to start with the change in giving guidance, slipping it to the 4Q call from the 3Q call. I know, we had chatted about it in NAREIT, Dan, but kind of help us understand what kind of led to that change? I know your peers do it on the 4Q call.

00:25:51 **Answer – Daniel K. Schlanger:** Sure. That is part of what led us to it. I think that what we had noticed is that when we were giving our guidance in October, we were a full five months ahead of our peers. And what we had also noticed was whatever trend we started to talk about, we were kind of blazing a trail well before anybody else could talk about them. And so we would get an outsized amount of the questions, and an outsized amount of the consternation ultimately about what we were saying about the subsequent year for a pretty long-time. And by the time that our

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peers were giving guidance in February, that news had settled a bit and it didn't impact them as much. And so what we've noticed is, it's been hard to be the trailblazer on that front.

00:26:37 One of the things that has led us down the path of giving guidance so early is that our business is relatively predictable. And so we like the idea that giving guidance in October expressed that predictability. We didn't miss very often. Even though, we were giving guidance in October, we still believe our business is predictable. We still believe we could give guidance in October and be good with it. But we think giving ourselves another three months and being closer to our peers makes it easier for us to maintain a good message to the market and for investors to understand what's going on and gives us a little bit more time to incorporate any additional information in that last quarter that will help us give the best guidance we possibly can.

00:27:14 **Answer – Steven J. Moskowitz:** Hey, Ric. It's Steven. I'd add to that. This company has started the budget process in – at the beginning of August. Most companies I've been with, in August, September, October, we're driving home to try to finish out the year as strongly as we can. So I also felt compelled to ask the team to reconsider, start the budget process a little bit later, and if we need to move guidance out, even move guidance out, since it gives us a little bit more opportunity to really understand the market before we completely formalize what we have for our outlook.

00:27:52 **Question – Ric Prentiss:** That makes sense. And the carrier budget cycle seems to really come to a head, bottoms up, tops down, Halloween into the fourth quarter. So I think it makes sense from your customer standpoint, too.

00:28:02 **Answer – Steven J. Moskowitz:** That's exactly right.

00:28:03 **Answer – Daniel K. Schlanger:** Yeah. And it takes away – one other thing, Ric, I would just mention. It takes away one of the issues that we were having, which was we would provide guidance based on what we thought that the fourth quarter was going to be, and then it would be a jumping off point. Now we actually will know what that is so that we don't have that other – that extra change to try to reconcile back to.

00:28:21 **Question – Ric Prentiss:** That makes sense to me. I'm going to talk to the strategic review delicately, but I think this will work. Last quarter, we talked about fiber, small cells and would it make sense from a seller standpoint or the buyer standpoint to separate fiber solutions from small cells. Is it possible to update us as kind of what are the pros and cons from a very 30,000 foot level to say, what about – is there a strategic review outcome is including both of them together? Or what if it's something that splits them apart? Is that a fair question? I think it is.

00:28:58 **Answer – Daniel K. Schlanger:** Yeah. It's a totally fair question. I think what we've said is that we are open to any alternative that makes the – that maximizes shareholder value. And if that alternative is that somebody is willing to value the fiber solutions business apart from us, higher than what we think we're getting credit for, what we believe it's worth internally, then we would like to sell it separately. If that valuation metric goes only in combination with small cells, then we would do something with a combined business. So that's really how we're thinking about it.

00:29:27 I can't tell you how a potential buyer would look at the pros and cons of whether they want it together or separate. That's up to them to try to figure out. We know that there have been good overlaps between tower, small cells and fiber solutions. That's why we have them together. But we are open to somebody coming in and valuing each however they think they see value and comparing that to what our own internal look is and making the best decision for shareholders.

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Question – Ric Prentiss: Okay. Last one for me, Steven, unique position, we think, you're in. We continue to see private multiples well above public multiples. Can you give us your opinion? Are you seeing that? Why are we seeing it? And why is it persisted so long if it is there?

00:30:15 **Answer – Steven J. Moskowitz:** That's a great question. Yeah. I mean, it's a bit of a mystery. I mean, obviously, you have a lot of private investors who are very excited about this business, about the business model and about the future growth prospects. And they're investing capital and they feel that whatever high multiples are investing capital at, that at some point down the road, they'll be able to sell the business and get a good return on their invested capital or recapitalize the business somehow or partner with somebody. But they see a very good exit. And I think there is, from our perspective, the dislocation.

00:30:57 We just – again, we're not being opportunistic in looking at some deals that are out there that are very non-accretive to this company. So we'll see what happens over time. And we are hoping, Ric, that the dislocation changes and it does give us an opportunity. So as our balance sheet strengthens over the next number of years, and we do have more flexibility and optionality to grow inorganically, that there's opportunities and that maybe multiples at that juncture will have come down a little bit, and it's something that we would be seeking to engage in conversations with some of these privates.

00:31:35 **Question – Ric Prentiss:** Great. Appreciate the color. Thanks, guys.

00:31:42 **Answer – Steven J. Moskowitz:** Thanks, Ric.

Operator

00:31:42 The next question comes from Jim Schneider with Goldman Sachs. Please go ahead.

Analyst: James Edward Schneider

00:31:49 **Question – James Edward Schneider:** Good afternoon, and thanks for taking my question. Relative to the operational update and the lower number of small cell deliveries you expect to make in 2024, can you clarify whether that reflects a reduction in the amount of small cell activity that carriers intend to do overall this year? And do you believe there's any change in their intention to do more self-perform work on small cells?

00:32:11 **Answer – Steven J. Moskowitz:** Yeah, I'll take that. Again, we made the shift since returns are in our invested capital has not yet materialized right to the level we'd hoped for, as we talked about. But we have a lot of conviction that if we continue to execute well, we're going to be able to maximize business in the future as long it's more on or around our fiber backbone. And again, we're looking at this as the carriers have their demands in terms of network changes and expansion with their different types of solutions and it's based on many factors.

00:32:57 And so for now, the carriers remain focused on deploying mid-band spectrum. I mean, that's kind of their top priority. And from our perspective, our priority is to drive better returns on capital deployed. So we're in the process now of working with these customers on solutions, and we feel that we're going to be able to align their needs with ours in the short run, right, going through kind of the balance of this year and into next year.

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But as it relates to future demand, this business is kind of ever changing, and it's a bit lumpy in terms of how we see things quarter-to-quarter. But generally speaking, the type of data demand growth that we see in the future, and that's estimated, we just – we remain very optimistic that data growth is going to drive more densification, and it will drive more demand for small cells over time, which will lead to the type of double-digit growth – revenue growth that we forecast into the future.

00:34:02 **Question – James Edward Schneider:** That's helpful. Thank you. And then Steven, relative to your comments on potential opportunity for market share gains, is there a particular segment of your business where you think you have the greatest confidence in achieving that over the next few years?

00:34:17 **Answer – Steven J. Moskowitz:** We have these holistic agreements with our major customers, where we have one that's going to be coming up for kind of a new negotiation over the next year. So we're hopeful that, that leads to kind of sanctifying our relationship even further and kind of taking our relationship or partnership up to a next level of excellence with that customer, which hopefully will enable them to consider us as being a real preferred supplier. So that's one element of it.

00:34:50 There's a whole host of kind of mid and smaller regional customers out there that we've been focused on. And I think with a greater effort, a greater sales effort and different rewards for our sales teams, we should be able to be kind of convincingly garnering a higher share of business than we have in the past. So I think the combination of those two things should give us the chance to be able to generate more of our unfair share of business than we're taking now.

00:35:23 **Question – James Edward Schneider:** Thank you very much.

Operator

00:35:28 The next question comes from Nick Del Deo with MoffettNathanson. Please go ahead.

Analyst: Nicholas Ralph Del Deo

00:35:35 **Question – Nicholas Ralph Del Deo:** Hi. Thanks for taking my questions and I hope you guys and your team have been managing through the effects of the hurricane, okay. Steven, you just touched on this a little bit in your prior answer, but I was hoping you could expand a bit more broadly on your high level philosophies as it relates to MLAs, so we can kind of understand the puts and takes of what you think about or want to see when you're contemplating those sorts of arrangements.

00:36:02 **Answer – Steven J. Moskowitz:** Yeah. I mean, Nick, obviously, we've been able to achieve a good growth and create significant shareholder value by negotiating these types of comprehensive MLAs. And the key for me is to be able find ways, where we're really kind of getting to a yes-yes situation or a win-win situation between both parties, where we're able to realize kind of more guaranteed growth over a multi-year period of time in way that maximizes the value of our assets while giving the carriers really a much better degree of certainty as it relates to how they budget, and also enables them to get on to our sites more quickly, more efficiently, which then lowers their overall costs of operations.

00:36:49 So the goal here is to have them be really beneficial to both our customers in providing that framework to leverage our assets and also for us in order to be able to drive more revenue. But

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obviously, there's key elements of that include pricing and packaging and volume and annual escalations in addition to the types of needs that the carriers feel that they need over time in terms of entitlements on these assets. So there's a number of things that come to play, which I know you know a lot of those, but that's kind of how I think about it broadly.

00:37:32 **Question – Nicholas Ralph Del Deo:** Okay. That's helpful. Thank you for sharing that. I guess one other question on fiber solutions. I guess, can you guys drill down a little bit on the changes to your sales tactics or sales incentives or the sales tools you're going to be using to enable you to sell more on- or near-net versus what you've been doing historically?

00:37:56 **Answer – Steven J. Moskowitz:** Well, again, from an enterprise perspective or fiber solutions, the shift is in sales and marketing primarily basically going kind of from a wide angle lens to more of a zoom lens, I guess, I would say. And we're kind of dealing – we've been dealing a lot with retail type of clients, and we're trying to move a bit away from retail clients that are more transactional, that create a little bit more churn, that aren't as financially sound. And we're trying to move to customers and increase time spent with the larger customers out there that are in telecom, financials, and what we call GEM, which is government, education and medical. And those folks tend to remain loyal for longer contract – contractual periods of time, which help, and they also have more financial wherewithal to contribute more capital to any type of new project.

00:38:50 So the goal really is to kind of shift more into that, what we call complex sale area. And between the review that our teams did over the last number of months and some input from an adviser who's very steeped in this industry, they both felt collectively that there's a lot of headroom or opportunity to be able to kind of shift a bit from retail to more complex selling. And we've put some pretty good sales incentives in place. And we have some automated systems that also help us in terms of kind of defining where there's upside in our footprint.

00:39:32 **Question – Nicholas Ralph Del Deo:** Okay. That's great. Thank you, Steven.

Operator

00:39:40 The next question comes from Richard Choe with JPMorgan. Please go ahead.

Analyst: Richard Choe

00:39:47 **Question – Richard Choe:** Hi. I have one question regarding the strategic review. I mean, should we be thinking about an outcome kind of by the next earnings call, end of the year, or maybe longer than that? And then following up on the tower question, longer-term, is the tower business still a 5% business? Or could that actually be a little bit higher, given maybe the changes that you're focusing on? Thank you.

00:40:16 **Answer – Steven J. Moskowitz:** Yeah. As it relates to the strategic review, it's difficult to put a timeframe on it, right? We're in the mix now. We're heavily engaged with multiple counterparties, potential counterparties. And we'll see how it plays out. We are – we'd like it to be accelerated so we can make a decision, right? It would be good for our company, it'd be good for our people, be good for our shareholders depending on what outcome we decide on. So just, I guess, stay tuned, stay with us on this, and we'll be able to hopefully report something out as the year flows through.

00:40:53 As it relates to the tower business in terms of kind of the outlook, we're not sure how – if over 5% is something that's so readily available. Ideally for us, it could be. We've talked about cycles with the Gs and we feel we're kind of in mid-cycle right now, a bit of trough. And ideally by the mid- to end

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of next year, maybe we see a tick up by the carriers in their capital spend. I think they're going to be spending $32 billion or $33 billion this year overall. Not all of that, of course, on our networks.

00:41:33 But if they ratchet back a bit or say ratchet forward a bit, particularly maybe as interest rates settle a bit, which could be helpful to them, then by middle of next year, ideally, we see a little bit greater demand and kind of finishing off between 2026 and 2027 of the 5G expansion. So if that happens, then that could increase growth incrementally. And then if we are able to get a bit of a higher share of growth, those things collectively puts us, we believe, kind of in that 5% or maybe 5% plus range.

00:42:13 **Question – Richard Choe:** Great. Thank you.

Operator

00:42:18 The next question comes from Ari Klein with BMO Capital Markets. Please go ahead.

Analyst: Ari Klein

00:42:25 **Question – Ari Klein:** Thank you. Maybe just going back to small cells. Given the shift in strategy, I think you've previously talked about 50,000 nodes in backlog. How many of those are impacted, I guess, by the shifts that you're implementing?

00:42:44 **Answer – Daniel K. Schlanger:** As of right now, we don't have a change. We still have the 50,000 nodes in backlog. We're working through all of those in the discussions with our customers. And nothing at this point has changed that would change that 50,000. As we come to some sort of decisions with our customers and figure out what we want to do, should there be changes, we will obviously update that number, but it hadn't happened yet.

00:43:08 **Question – Ari Klein:** Thanks. And then maybe you talked a little bit about increased flexibility, which includes the balance sheet and maybe bringing leverage lower. Could that, at some point, include a shift in the dividend strategy and how you think about that?

00:43:24 **Answer – Daniel K. Schlanger:** Yeah. I think given the fact that we're in the middle of the strategic review, which would include the thought around capital allocation, dividend policy, everything else, ultimately, we're really not in a great place to talk about what's going forward until we have more of a conclusion on what businesses we have and where we're going to be in the future.

00:43:44 **Question – Ari Klein:** Got it. All right. Thanks. Thanks for the color.

Operator

00:43:52 The next question comes from Matt Niknam with Deutsche Bank. Please go ahead.

Analyst: Matthew Niknam

00:43:59 **Question – Matthew Niknam:** Hey, guys. Thanks for taking the question. Just two on fiber as well, it seems to be the theme of the call. One, obviously, there's a sharpened focus on more profitable on- or near-net build. So Dan, I want to go back to a point that was brought up before. I know we reduced discretionary CapEx for the fiber business $300 million this year. This is a business that

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typically has, from what I remember, an 18 to 36 month book-to-bill, so there's pretty decent visibility. And so I'm wondering as we sit here today, how that maybe informs what 2025 can look like, just given sort of that longer book-to-bill window?

00:44:37 And then secondly on fiber solutions, the core leasing number this quarter, $39 million, I believe that was the highest since 1Q 2022. So just looking for any updates you can share there and anything notable you'd call out driving that strength? Thanks.

00:44:51 **Answer – Daniel K. Schlanger:** Yeah. Matt, I just want to make sure, the first question you asked was based on – was directed at small cells, right, not fiber solutions?

00:44:59 **Question – Matthew Niknam:** Yeah. More so just around discretionary spend for the fiber in general?

00:45:04 **Answer – Daniel K. Schlanger:** Okay. Fiber in general, because when we were talking about an 18 to 36 month book-to-bill, that's more like a small cell type of book-to-bill cycle. Fiber solutions is much faster. So we have reduced the discretionary CapEx. We do believe that, that reduction will ultimately impact the amount of nodes that we're going to build and the revenue that we can generate. And part of how we're going to go through the discussions with our customers and how those will end up will impact 2025, and we'll be able to talk about it, like I said, in January when we give guidance.

00:45:42 On the fiber solutions side of reduction, we do have reductions in the CapEx that has to do with some fiber business. And that's because what we talked about is, we're not really targeting building out to new locations. We're targeting locations that are already on our existing fiber. So both of those are happening at the same time, all of which may impact 2025.

00:46:09 But as we pointed out, as we look out at our business in the fiber solutions side, we believe there's plenty of opportunity around our existing fiber plant in great markets throughout the top 30 markets in the US, which is most of where our fiber assets reside now, that we think we can get back to a 3% growth in fiber solutions going forward even with a more limited focus to on- and near-net opportunities as opposed to expansion opportunities.

00:46:36 And as you pointed out in your second point of your question on the core leasing activity in fiber solutions, it was a very good quarter for us. And it gives us some encouragement that the changes that we're making are available to still generate that 3% growth over time. And as you pointed out, that's some of the best growth or core leasing activity we've seen in that business in quite some time. And what I would say is it really is the focus of the sales team having gone out and made the right types of decisions with the right types of customers to sell the right types of products. And as Steven was talking about earlier, put the right incentives in place to make all of that happen. And our sales team and sales leadership have done a phenomenal job of taking that input and attacking the market. And we're seeing that there's still – we're still, like I said, we're encouraged by how much opportunity we are unearthing that's near our already existing assets.

00:47:37 **Answer – Steven J. Moskowitz:** Yes. I guess, I'd like to also just add in a recent meeting with our teams on the enterprise fiber side in New York, some of the sales teams were asking the question about greenfield builds. And the answer to that was it's not like – it's binary, right? Yes. It's not a yes or no scenario. And the example that the individual brought up was, if I'm able to get a deal done with a very well-known hedge fund who wants 15 floors of fiber built in Hudson Yards, and I think there's opportunity for colocation, and we can prove in that the returns from day 1 are going to be X and the payback is going to be within the realm of what we're looking at, is that something

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that I can compete on? And the answer was yes. So we're not counting out not doing greenfields at all. It's just from our perspective, it just has to be profitable.

00:48:36 **Question – Matthew Niknam:** If I could just follow up on the first question. I know there was a reduction of about $300 million that was announced, and I think it was reaffirmed in today's release for discretionary spend in totality for fiber. That's 6 months of this year, so is it fair to extrapolate that and say next year could look more like an $800 million number? Or is that too much of a generalization and we should just sit tight until January to get additional color?

00:49:00 **Answer – Daniel K. Schlanger:** Yeah. Unfortunately, you're not going to love the answer. It's going to be, you're going to need to sit tight till January, because like I tried say earlier, the amount of CapEx that we ultimately spend is going to be based on the amount of activity we see from our customers. Whatever that CapEx is, a lower capital intensity that it would have been historically for us. But it still could be that there's lots of activity we can go out and get. To Steven's point, that would be very profitable. And so we don't want to give any guidance that says, we will definitely have this amount of capital reduction going into next year. Plus we haven't given a forecast for 2025. So it's hard to give a reduction to a forecast that doesn't exist. So unfortunately, Matt, I'm sorry, you're going to have to just sit tight and wait until January.

00:49:44 **Question – Matthew Niknam:** I had to ask. Appreciate it. Thank you, both.

00:49:47 **Answer – Daniel K. Schlanger:** No problem.

Operator

00:49:52 The next question comes from Batya Levi with UBS. Please go ahead.

Analyst: Batya Levi

00:49:58 **Question – Batya Levi:** Great. Thank you. Couple follow ups. First on the small cell side, can you provide more color on how we should think about the pacing from here? Should we assume the 3,000 to 5,000 delayed build will be just tackled down to maybe the 10,000 annual deployments you were targeting next year? And then one more follow up on the fiber CapEx reduction, if you don't mind. The $300 million, can give us a split on what's – what the small cell versus fiber mix of that is?

00:50:32 **Answer – Daniel K. Schlanger:** Sure, Batya. On the first point, again, we don't have really a plan for 2025 that we've talked about publicly around the small cell nodes that we would deploy. But the push out of the 3,000 to 5,000 nodes from 2024, we do believe some of those will hit in 2025, because it is a deferral of those nodes going into a future period, a lot of which will happen in 2025. So we do think we have a pretty good sense or a good starting point for 2025 and think that the small cell business will continue to grow as we've talked about, like, that we think we can grow that business in the double digits over the next several years. And because our backlog is what it is, because we are able to continue to build for our customers, we feel comfortable with being able to grow double digits. On the $300 million reduction in CapEx, the majority of that reduction is in small cells as opposed to fiber solutions.

00:51:30 **Question – Batya Levi:** Okay. Thank you.

00:51:31 **Answer – Daniel K. Schlanger:** Yes.

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Operator

00:51:31 The next question comes from Eric Luebchow with Wells Fargo. Please go ahead.

Analyst: Eric Luebchow

00:51:43 **Question – Eric Luebchow:** Great. Thank you for taking the question. On the small cell backlog and what you expect to deliver the next couple years, any change to the mix of colocations versus anchor tenant nodes? How should we think about that shifting as a result of the strategic review and – or the operational review that you announced last month?

00:52:03 **Answer – Steven J. Moskowitz:** Yeah, Eric. It's Steven. The fact that we're going to be shifting down on the anchor nodes means that a higher percentage of our nodes going forward will be colocations. And I think what we've already talk – communicated that of the 50,000 backlog, a big chunk of those, the majority of those are colocations. So when you look at our overall mix, you're going to see a higher percentage of colos versus anchors.

00:52:31 **Question – Eric Luebchow:** Okay. Great. And then just a higher level question on tower activity. So perhaps with the exception of DISH, is the majority of your activity today still amendment related from carriers upgrading mid-band spectrum? Or have you seen any activity out there related to new colocations to densify tower grids in any of your markets, particularly the more urban ones? And if you haven't seen that in a big way, any kind of visibility on when that tower densification phase may pick up in the next couple of years? Thanks.

00:53:04 **Answer – Steven J. Moskowitz:** Yeah. I mean, yeah, most of our activity is amendments. There's a few colocations in the mix, but it's not a large percentage. Obviously, some of the colocations we're getting are coming from, as I said before, kind of the smaller regional players out there, not necessarily the Big 3 or DISH. And we expect that same type of cadence to happen over the next number of quarters.

00:53:36 **Question – Eric Luebchow:** Thank you.

Operator

00:53:39 The next question comes from Walter Piecyk with LightShed. Please go ahead.

Analyst: Walter Piecyk

00:53:48 **Question – Walter Piecyk:** Thanks. Just I was hoping you could remind me of the components of, believe it or not, I'm asking about SG&A at $200 million, $204 million not much of a reduction from last year, especially given the reduction we saw in first quarter. Maybe there's just some non-cash things that moved back and forth. But can you just kind of talk about the components in there and what areas are targeted for reductions going forward?

00:54:17 **Answer – Daniel K. Schlanger:** Yes. Well, I'm – having to talk about the components that are in there, the majority of our G&A, as you would imagine, are people that are working on the back office functions that we have, whether those are accounting or finance, things of that nature, legal and IT. And what we've been able to do in that business, we've been able to offset all of the labor inflation that we've seen over the course of the last several years by the operating plan we have. And we are, and have targeted the G&A and believe that we will have reductions over time, which

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is part of the $60 million reduction that we talked about and that we'll realize in 2024. And you'll have to just allow me I don't have the number off the top of my head of what quarter-over-quarter...

00:55:08 **Question – Walter Piecyk:** That's fine. I'm just looking – I mean, last year, you had – it kind of came up in the second quarter. But then I looked at prior years, and there doesn't seem to be seasonality there. So when you talk about $60 million, is it – that's all for the fourth quarter level and then that's just going to keep going down? Or maybe there was some proxy fees in there in the quarter but I guess was – there wasn't – I mean, that was a big number last year.

00:55:36 **Answer – Daniel K. Schlanger:** Yeah. There were $20 million of proxy fees...

00:55:37 **Question – Walter Piecyk:** But that wasn't there last year – but that wasn't there last year in the second quarter, which also was up, but whatever. I just – it seems like obviously an important component but you don't think there's anything abnormal there? And so when are we going to see these reductions kick in? Obviously, the proxy fees drop out in third quarter, so you'll get whatever that number is, an immediate drop, and then we'll see some additional organic improvements in Q3 or are these all back end loaded?

00:56:07 **Answer – Daniel K. Schlanger:** Yeah. So as you pointed out, I think as we see the proxy fees come out. We will be at a lower run rate than we saw we saw in 2023, because we also did a restructuring in 2023, where in Q2, we reduced our G&A pretty substantially as well. And we believe...

00:56:22 **Question – Walter Piecyk:** Got it.

00:56:23 **Answer – Daniel K. Schlanger:** ...we'll see the impact of the money we saved was largely done very recently at the end of Q2. So you will see the impact in Q3 and beyond. So you'll see both of those things go on. So I think the answer to your question is basically, yes, it is back end loaded...

00:56:39 **Question – Walter Piecyk:** Yeah.

00:56:39 **Answer – Daniel K. Schlanger:** ...to see the reductions. And if you look at the numbers in 2023, you see a similar outcome, which even not looking – not focusing on Q2 but going from Q1 to Q4, there was a substantial reduction, but it started in Q3, because we had a very similar timing for the restructuring...

00:56:56 **Question – Walter Piecyk:** Got it.

00:56:56 **Answer – Daniel K. Schlanger:** ...we did last year to this year. So I do think you'll see a reduction in G&A. And the spike in the second quarter was very much because of the proxy-related fees.

00:57:08 **Question – Walter Piecyk:** Okay. So I mean, look, at the end of the day, next year, assuming there's no more proxy fights and then you've got the reduction in whatever you announced terms of guidance, you should get some much better efficiencies in 2025, hopefully, right?

00:57:23 **Answer – Steven J. Moskowitz:** Exactly.

00:57:23 **Answer – Daniel K. Schlanger:** Yeah. That is the plan. And as we've talked about a few times today, we announced the restructuring, the changes were going to make in June. We have

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completed those changes for the most part. And believe that we will see the savings that we're talking about roll through our income statement over the course of last half of this year.

00:57:43 **Question – Walter Piecyk:** Got it. All right. Thank you.

00:57:48 **Answer – Daniel K. Schlanger:** Sure.

Operator

00:57:49 The next question comes from Brandon Nispel with KeyBanc Capital Markets. Please go ahead.

Analyst: Brandon Nispel

00:57:56 **Question – Brandon Nispel:** Yeah. Hey. Thanks for taking the questions. A lot have been answered already. But you guys have talked about, in the past, the guidance 5% tower growth through 2027, and that 75% of that is contracted. So I guess simple question is, how are lease applications trending today in terms of your confidence in achieving the remaining sort of 25% to hit that 5% growth rate? Thanks.

00:58:20 **Answer – Daniel K. Schlanger:** Yeah. I would – what I would say there is that the 5% growth rate is based off of, as Steven talked about earlier, the MLAs we have in place and the additional growth we see going forward. The application volumes are much more akin or much more linked to what we see as near-term growth in our tower business. And what we've talked about is that we've maintained our 4.5% guidance for 2024 because we see activity levels that are very much in line with what we expected when we gave guidance last year. So it is all very much in line with what we would have expected. And we gave that 5% longer term guide knowing what was going on in 2024, so it's all in line with what we would have expected to get to that longer-term growth.

00:59:03 **Question – Brandon Nispel:** Great. Thanks.

00:59:05 **Answer – Daniel K. Schlanger:** Sure.

Operator

00:59:08 Our last question today comes from Brendan Lynch with Barclays. Please go ahead.

Analyst: Brendan James Lynch

00:59:15 **Question – Brendan James Lynch:** Great. Thanks for taking my question. How should we interpret the changes in operations in the fiber and small cell businesses while the sales process is still ongoing? It sounds like you're engaged with multiple counterparties currently and it seems like maybe it would be a little bit premature to make such changes that somebody else is going to be managing these assets somewhat imminently?

00:59:39 **Answer – Steven J. Moskowitz:** Yeah. I mean, I guess we look at it, as the process really was two different processes under one, where strategic obviously is trying to figure out what makes the most sense for the fiber division as it relates to shareholder value in the future. And then from an operations perspective is, what can we do to continually improve our business. And we're trying to

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have that continuous improvement mindset going forward with this company in all elements of our businesses.

01:00:07 So we just felt there was opportunity. We wanted to take it. We felt it was something that was going to be good for our business, good for the division, and good for the profitability of our business as we move forward, which, in essence, creates more shareholder value. So we just – we want to take the opportunity now and implement these changes because it's kind of separate, apart from how we think about the strategic part of a potential sale.

01:00:37 **Question – Brendan James Lynch:** Okay. Thank you.

01:00:38 **Answer – Steven J. Moskowitz:** Thank you.

Operator

01:00:43 This concludes our question-and-answer session and concludes the conference call. Thank you for attending today's presentation. You may now disconnect.

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