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Earnings Call

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Call Participants

EXECUTIVES

Christopher Guttman-McCabe

*Chief Regulatory &
Communications Officer*

Natasha Vecchiarelli

*Vice President of Investor
Relations & Corporate
Communications*

Robert Schwartz

Ryan Gerbrandt

Chief Operating Officer

Timothy A. Gray

Chief Financial Officer

ANALYSTS

George Frederick Sutton

*Craig-Hallum Capital Group LLC,
Research Division*

Philip A. Cusick

*JPMorgan Chase & Co, Research
Division*

Simon William Flannery

Morgan Stanley, Research Division

Walter Paul Piecyk

LightShed Partners, LLC

Presentation

Operator

Good day, and welcome to the Anterix investor conference. [Operator Instructions] Please note, this event is being recorded. I would now like to turn the conference over to Natasha Vecchiarelli.Â

Natasha Vecchiarelli

Vice President of Investor Relations & Corporate Communications

Thank you, and good morning, everyone. I'm Natasha Vecchiarelli, Vice President of Investor Relations and Corporate Communications, and I welcome you to the Anterix first quarter conference call. Joining me today are Rob Schwartz, President and CEO; Ryan Gerbrandt, COO; Tim Gray, CFO; and Chris Guttman-McCabe, Chief Regulatory and Communications Officer. Before we begin, I'd like to remind you that we will make forward-looking statements during this call regarding future events and our anticipated future performance, such as our commercial outlook and guidance. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Investors are cautioned not to place undue reliance on forward-looking statements. Additionally, we do not undertake any duty to update any forward-looking statements. Important factors and risks that could cause actual results to differ materially from the company's expectations are disclosed in our most recent SEC filings. These files can be accessed on our website or on the SEC's website.

After Rob provides his prepared remarks, Tim will provide a quick update, and we'll open the call for questions. With that, I'll turn the call over to Rob.

Robert Schwartz

Thanks, Natasha. Good morning, everyone, and thank you for joining us. Our most recent call in April focused on the signing of the LCRA deal, providing them with broadband spectrum and cat counties of their approximately 73,000 square mile service territory in Texas. We highlighted that LCRA is unique to our previous customers as it's a public power generation and transmission utility and also water management utility, creating a new universe of private broadband use cases that's already attracting additional utility attention to Anterix. Now before I start, I want to acknowledge that the frustration of investors with the cautious pace of the utility sector and our lagging stock price is not lost on us. We share in these frustrations. We do remain laser focused on continuing to capture valuable customer contracts that we will further demonstrate to the market the substantial value of our spectrum asset and our full business opportunity.

With that, today, I'll focus on 2 areas. First, I'll provide an update on our demonstrated intent scorecard, providing at the request of investors to give a market pulse of customer progress between spectrum transactions. Second, I'll give you an update on a range of activities and accomplishments that are important building blocks in our mission to become the utility industry's de facto wireless broadband solution. We introduced demonstrated intent or DI in February, to address the challenge of communicating interim progress with customer contracts given the slower-than-anticipated pace of the market, longer sales cycles and resulting prolonged length of time between agreements. This transparent and fact-based DI scorecard is intended to measure and quantify the meaningful signs of customer intent that we see before we get to a contract. This tool aligns well with our goal of providing investors with a consistent and measurable way to see the combined impact and development of our target customers complementing the stand-alone phases of our sales pipeline we previously reported.

We also believe this tool provides a detailed picture of prospective customer progress towards contracting for our 900 megahertz spectrum and supports our resulting confidence in the strength and potential value of our pipeline. For this analysis, every targeted customer in our sales pipeline, representing over \$3 billion in contracted proceeds is tracked and measured on 20 individual indicators of intent to pursue a 900 megahertz private wireless network. Each of these 20 indicators is individually weighted based on our assessment of its importance. These include, for example, rate case filings, participation on panels or

interviews, experimental licenses, membership and our utility Strategic Advisory Board, participation in UBA and more.

We'll continue to use the same indicators consistently from quarter-to-quarter. If that total weighted score places utility over a specific threshold, this indicates that a customer has demonstrated substantial intent to move forward with Anterix on a 900 megahertz contract. This data provides 3 key metrics that we'll share. The number of utilities that are scoring above the specific DI threshold, along with the total dollar value of the potential contract proceeds associated with those utilities. And lastly, the net increase in the total number of individual indicators recorded for utilities in our pipeline. In our first demonstrated intent report shared in February of this year, we highlighted that 15 utilities had crossed the threshold, representing over \$800 million in potential contract proceeds.

In late April, we provided our second DI update. At this time, just after announcing the LCRA contract for \$30 million, 14 utilities still remained above the DI threshold, representing approximately \$800 million in potential contract proceeds. And in June, we provided the third update on our DI scorecard when there were still 14 utilities that had crossed the threshold. We also reported progress on a significant number of additional indicators of movement. Since our last report in June, we measured additional activity across our accounts. As of today, there are now 15 utilities that have crossed the DI threshold, representing more than \$850 million in potential contract proceeds. And beyond that, the next 3 utilities that are close to crossing the DI threshold represent more than \$275 million in potential contract proceeds.

An additional measurement of progress below the DI threshold, we've seen a total of 13 incremental demonstrated intent indicators across 8 utilities that have been recorded on our DI scorecard since June. Several of you have also asked for a report on the total progress since we introduced the DI scorecard in February. In this period of less than 6 months, we've recorded positive movement by customers on about 50 new measurable indicators of intent throughout our DI scorecard. Additionally, beginning in June, we created an infographic that captures these updates and is available on the Investor Relations page of our website. The individual results recorded on our DI scorecard are directly attributable to our broader efforts to become the de facto wireless broadband solution for the utility sector.

We have been successful to date, closing 100% of the contracts within the 5 utilities that have committed to wide area private wireless broadband since we've had our broadband spectrum available. We strongly believe this outcome is based on our focus of being a partner to utilities through our work with the utility Strategic Advisory Board, our Anterix active ecosystem and the Utility Broadband Alliance and more. Through our Utility Strategic Advisory Board, we've had the unique ability to collectively identify and pursue solutions that are key priorities of our current and potential customers. The Board consists of a senior level executive from 9 utilities, including Amarin, Evergy, Excel, LCRA, Exelon, Dominion, Southern, Northwestern, and we're excited to report the new addition of New York Power Authority. In addition, we continue to aid the development and growth of the Utility Broadband Alliance, or UBBA. A collaborative industry association dedicated to advancing the adoption of private broadband networks in the industry.

In June, UBBA announced that it had surpassed 100 members with CenterPoint Energy, Duke Energy and LCRA listed as its newest utility members. Anterix couldn't be any prouder of the success of UVA since our cofounding of this critical industry organization. And finally, another program that passed the 100 member mark, our own Anterix active ecosystem program, which turned 2 in May and now has more than 100 leading innovator companies collectively focused on offering the broad array of equipment solutions and services that utilities require to plan, build, operate and capture value from their 900 megahertz private wireless broadband network investments. It's a who's who of wireless and utility technology and service leadership.

I'll conclude with an update on our increasing thought leadership presence in the industry, an important element of our near- and long-term strategic positioning. Beyond the work with our ecosystem, the Utility Strategic Advisory Board and UBBA, as pioneers of a new market, our goal is to consistently educate our key stakeholders on the necessity and value of private broadband networks. It's a big industry, and that sort of educational effort is no small undertaking. For Anterix, it means we need to be nothing less than diligent, providing insightful trusted thought leadership at every opportunity, not just getting the word out, but explaining why 900 megahertz private LTE is the right answer for each specific utility, its customers

and its regulators as well as for the industry, the region and the nation. In the last few months alone, from EEI, Nark, IEEE to our own industry insights and more, we have participated on panels and spoken at conferences, broadcast webinars and written a number of pieces in industry publications.

Our team's profile is high enough now that Anterix is sought out as a thought leader on utility communications, not only by utilities themselves, but also by regulators and the media. We believe it's the cumulative impact of all these efforts that will continue to drive customer contracts is reflected in our demonstrated intent scorecard and will lead to our goal of becoming the de facto broadband solution. And with that, I'll turn it over to Tim for a brief financial update.

Timothy A. Gray

Chief Financial Officer

Thanks, Rob. I'm pleased to share that after delivering our first excel Spectrum milestone for broadband licenses, we received approximately \$21 million last week. We also expect to receive roughly \$80 million of additional near-term proceeds based on the delivery of additional milestones to our current customers spread across the remainder of this fiscal year. We remain debt-free, are fully funded and forecast have free cash flow for fiscal '24. As a reminder, we have approximately \$26 million available to repurchase shares in our current program, and we anticipate efficiently using this plan during the remainder of the quarter by leveraging a majority of the funds we received last week from Excel. Additionally, we intend to put a significantly more robust plan in place prior to the expiration of the current plan subject to Board approval. With that, I'll turn it over to the operator for questions.

Question and Answer

Operator

[Operator Instructions]The first question comes from Simon Flannery from Morgan Stanley.

Simon William Flannery

Morgan Stanley, Research Division

Great. Tim, thanks for a clarification on the buybacks. Maybe you can just remind us on what you think an appropriate cash balance is for the company? And then, Rob, you opened with talking about the frustrations with the delays with the utility industry. Can you just give us an update on what the key issues here are? Is it sort of just the layers of management, the layers of approval? Is it syncing with others in whether it's equipment providers or other parts of a broader grid modernization. Just how do we think about this and why even now, it's still taking longer than you expected?

Timothy A. Gray

Chief Financial Officer

Simon, this is Tim. On the cash balance piece, traditionally, I'd like to have at least to cover a year of our OpEx, but I don't look at that like that as a stand-alone, also look at the cash flows that we're going to have coming in from the contracts that we've got. Of the \$238 million we've signed to date, we've received \$102 million, and we've got \$136 million coming in still with \$80 million of that this year. So I'm comfortable with where our cash position is with being able to buy back shares with the current cash balance.

Simon William Flannery

Morgan Stanley, Research Division

Â Great. And just remind us what you think a year of cash OpEx is?

Timothy A. Gray

Chief Financial Officer

Roughly \$40 million, \$45 million. And so, to your second point, I think we went into probably more detail in our April call about kind of some of the process issues that we're seeing and our learnings along the way. These are cautious customers, cautious institutions that run our nation's electric grid. And when they make decisions, they make them for multiple decades, right? And so while it takes a long time on the front end of those decisions because of the complexity of the organizations and the way they have to get agreement from the regulators, they also, at the same time, are committing, as you know, to multi-decades, 20-, 30-, 40-year terms that we have in our current agreements. So long front end, but equivalently long back end of contracts. Part of it is we really have -- we set it out 10 years ago to be the de facto provider here. We've really seen what I see as the thought leaders and pioneers step forward, who in my mind are inspiring the followers. This is a very unique industry that they're influencing each other and while it takes time to get that progress momentum going, you can now see through the activity in all of the organizations that I just talked about, the participation, I mean, open participation of senior executives that are now working as part of our USAB, for example, Utility Strategic Advisory Board that are not yet customers, but are committing their time to move forward in learning from other signed customers.

That's a great sign. Designated intent, as we've talked about it. That's just a quantification of all of the ways in which we're working with these utilities to move forward, whether it's through their experimental licenses where they're doing pilots, whether it's through the USAB through other efforts of how they need to bring their complex organizations. The larger deals that we're doing in our pipeline, 9-figure deals, those require more work. There are multiple opcos as we talked about back in April and each of them have their own state regulatory environment, their own leadership and need to make their individual decisions that then roll up into a broader holding company decision. So they are complicated. But again, these are customers once we're embedded, as we can see from the 5 that we've signed, all 5 that have made these

wide area decisions for private LTE over the last 3 years, we're batting 1,000. It's unfortunate that it takes a while to get a new sector going like this but we're happy to see the whole progress.

We're working on closing an entire sector here, not just one at a time. And so while it's frustrating at the speed at which it's happening, the indications that we're seeing, including as measured from trade intent, give us strong optimism.

Simon William Flannery

Morgan Stanley, Research Division

Anything on the water opportunity. You mentioned the opportunity kind of sort of expanding your addressable market. Any more color you can give us on that?

Timothy A. Gray

Chief Financial Officer

Yes. I think it's interesting. We approached it looking at alternatives originally of ways in which we could monetize our spectrum and Simon, you've been follow us for a long time. We're clearly committed, as I like to say, our bull's eye is the utility sector. It's where the spending is to be fair, right? The utility sector is spending over \$150 billion a year in capital expenditures. There's a few sectors that you can look at that have that opportunity to monetize within them. And so as you know, when you look across the other sectors, if you added up everything else going on in the private markets, most likely, it doesn't even equal what we've already signed for contracted proceeds and service territory in the 15 states with the 5 utilities that we have now. Ryan, do you want to add.

Ryan Gerbrandt

Chief Operating Officer

Yes, Simon, it's Ryan here. The one thing I'll add, too, I think the core relationship with that, as we've just been continuing to grow the set of use cases that ultimately drive the underpinnings of why utilities push forward with broadband networks in the first place. And we've captured now, and I think LCR is a great example of this, a new relatively unique company in the public power space that brings in additional use cases focused on transmission distribution and water management through the lower Colorado River that they're responsible for. But all of these just add to this Rolodex of value. When the value gets established through these different use cases, and we get a lot of attention from the utilities as we're working with them through the pipeline as they explore how to use cases ultimately underpin what they need to do most importantly as a utility. A big part of the work that we do in establishing how to build a business case with the utility is rooted in that foundation of use cases. So kind of whether it opens up a brand-new market or not, they're all valuable in the cumulative because they help a utility understand the full scope of the potential of driving this kind of a transformation on broadband.

Operator

The next question comes from Walter Piecyk from LightShed.

Walter Paul Piecyk

LightShed Partners, LLC

Rob, I don't know if Chris is on the call, but can you just kind of remind us and review again what government programs are out there, not necessarily to fund purchases of or leases of your spectrum but to help these utilities upgrade the grid in order to reach Biden's goal. Then I'm just curious like how sticky some of that stuff is, if we have a change? I mean, given the long lead time and a lot of the stuff, it may ultimately result in getting into a new administration. How much of that funding falls away? Or maybe what new opportunities what we have is the administration changes in the upcoming election?

Robert Schwartz

Yes. Sure, Walt. Great question. So there are a range of programs. I know we've talked a little bit about this. The BIO IIJ has a multitude of programs. The ones that we're focused on are on one side, the broadband side, middle mile and on the other side, the GRIP programs. And what we've seen is that these

programs are -- they're over a number of years. So the ones that people just filed for were for the first 2 years. So we will see these programs and this money available again over the next 3 years. We're excited in that we did participate with a number of utilities in that first phase, that first 2-year tranche. Those programs or those applications and concept papers were given the green light that thumbs up to move forward to the decision-making process. We've also seen, and it's been reported in the press, a number of our customers and potential customers received grants for middle mile deployments. And so as we've said in the past, we're excited because we see these programs as opportunities to accelerate, to stimulate, to move opportunities that may have been further back in our pipeline to move them forward.

I don't see any future where those programs don't continue because of the way that they've gone through the process. They're fully funded, and they're ready to be used over the range of the next 3 years beyond this 2-year tranche. So I think they are sticky programs to use one of your words, Walt, and I see them being around. We are actively working with the utility community. We're working with the consultants that they are working with and we're consistently meeting with folks on Capitol Hill and at the Department of Energy to ensure that these types of programs or as written in the legislation continue to be considered for funding.

Walter Paul Piecyk
LightShed Partners, LLC

So let me ask it, I guess, more directly. So Trump couldn't come in and basically blow them up if he's not necessarily a believer in the use of electric versus some other energy alternatives out there. I mean that could not be a casualty in terms of blowing up those programs? And then Similarly, again, I would assume that maybe I'm wrong, you're aware of something during his administration where he was into helping electric utilities, but I'm assuming there would be probably less opportunity going forward under a Trump administration?

Robert Schwartz

Right. So let me start by saying we see these programs as additive. They are not a necessity for us to drive our success. Could a new administration come in and have the Department of Energy interpret the legislative language differently? Absolutely. But the neat thing that we were happy to see and obviously had a hand in putting in there is a range of benefits. I think Rob calls it the Swiss Army knife is what private LTE provides. The legislative language sort of recognizes that Swiss Army knife element in that the funding can support the integration of renewable energy. It can also support the integration of wildfire mitigation tools or the capture and analysis of data or the cybersecurity benefits of private LTE. So even if an element or elements were interpreted differently by a new Department of Energy, there are so many benefits encapsulated in that language that private LTE underpins that we're excited about pretty much however it's interpreted. But again, it's not a necessity, but we've always thought about it and set it up as additive going forward.

Operator

[Operator Instructions] The next question comes from Philip Cusick from JPMorgan.

Philip A. Cusick
JPMorgan Chase & Co, Research Division

Â It looks like someone or a customer moved up from Tier 2 to Tier 3. Can you give us any more detail as to sort of what criteria changes to get that customer up? And within that sort of highest tier of potential customers, anything additional you can tell us in terms of people getting closer or what's sort of contracted and ready to go versus not quite negotiated?

Ryan Gerbrandt
Chief Operating Officer

Phil, it's Ryan here. Excellent question. Yes, I mean, as you can imagine, I mean what we're looking at kind of across the factors is how the utilities are progressing in a variety of these 20 different metrics that we're looking at. So it's hard to distinguish a single one, even though one may move it above the

threshold from a scorecard perspective, it's really the cumulative effect of all of them that we look at that ultimately are how we measure kind of the combination effect of what those elements all mean in terms of demonstrated intent. But let me give you a couple of examples because we do continue to develop the opportunities both, I'll describe it as above the line and below the line. And obviously, our primary focus every single day is to drive customers through to the end game and close contracts. That drives us to be able to continue to develop their opportunities as they sit above the line and a couple of the items that I've got, I'll pick just one example of a utility that's sitting above the line as we've been continuing to work with them. A couple of the measures that we've worked on specifically with them is they were progressing closer to the end state and realizing as we get closer to the end, having the executive champions really, the executive stakeholder that takes responsibility to help promote and drive the topic and the program through is a very important part, and we've talked about it here on these calls before as their stakeholding across the organization. And so that's one of the elements that we've moved with this team.

The other one was formulating with what they do internally around how they assign team allocations and budget and this you have a perspective of just utilities are relatively labor constrained in a lot of different ways and for a variety of reasons. But when it comes to program allocation, I've always tracked how do utilities make conscious decisions around how they allocate people and in turn how they allocate money as a measure to where they're putting their attention and what truly matters for them. And so it's been another indicator on one of these deals as we're trying to progress it through at the end stage to put the kind of what I call a closing team together, it's ultimately driving the decisions, the approvals, getting ready for negotiations and such as things as we're working through with them. And so that's one kind of that sits above the line.

We also talked about the metrics as we're continuing to promote the rest of the pipeline and how they develop coming up below the line. One to call out, and this is where, obviously, we're seeing more volume of movement because there's more activity and there's just more general utilities that sit below the threshold where we've had one customer, potential customer demonstrate movement in 5 indicators in just the last 6 months. And that's one of the faster ones that I've seen in terms of the ability to progress them all the way through, and they've done a handful of different things. They've also got an executive sponsor. They've created an internal working organization, a signed budget, cost centers, these kind of things to promote the work. They've also already brought in an outside firm, which I track as an indicator of, again, where they're allocating budget and where they're making a commitment to invest time and external resources to be able to put together the kind of the third-party expertise necessary to be able to evaluate the components of putting a plan together.

So those are just examples of the types of things that I'm seeing as they're moving their way through it and amongst all of the other activity as Rob highlighted, we've seen a total of 50 movements here just since we started tracking it this way in February, which I look at positively just in terms of the big picture of how we're generally seeing things move through.

Operator

The last question for today's call comes from George Satin from Craig-Hallum.

George Frederick Sutton

Craig-Hallum Capital Group LLC, Research Division

We have seen Ericsson begin marketing a partnership with NRTC, which, as you know, represents 1,500 utilities. And they've said they're moving on 900 megahertz and they, of course, had the West Kentucky trial that was successful. How does something like that fit into your pipeline? How would that roll out as that would move forward?

Robert Schwartz

Â Thanks for the question, George. I'll start. Anybody wants to add on, right? So for those who don't know, NRTC is the National Rural Telecommunications Association, their members are rural telcos that also often operate utilities as well. They're a great organization happen to be led by Nextel veterans as we are as well. So we've got a close alliance. As they develop opportunities, we see opportunities to continue to

work with them to be able to drive what I think of is to the next segment of customers, right? They've got smaller rural co-ops and municipal organizations, most of whom are not in what we talk about in the top of our pipeline. They're a great opportunity. They've been a channel for many vendors for services and products, and that could include metering systems, other kinds of equipment. So they've done bulk purchasing support deployment of other systems. And I think likely, that's a way in which we could get to that next segment of customers. As you know, we're focused initially on really where the money is, which is in the larger IOUs. But that's a segment that we're already starting to see demand growing and we see opportunity.

Ryan Gerbrandt

Chief Operating Officer

Yes. I'll just add a little bit there. I mean, I've seen the announcements in stuff to, and I think it's reflective of just kind of the broad industry-wide needs for communications, digitalization and adding resiliency and robustness. It's not unique to the IOUs, even though they are a primary customer that we're targeting in the pipeline, and so as Rob said, I think looking at it as another channel potentially, and frankly, another area that we've seen some utilities start to explore is what other advantages, this is an IOU, for example, George, what can they do to take advantage of a to-be-built private LTE network in terms of looking provided like-minded services to other constituents, not uncommon in the energy landscape either where other capabilities can be ported down, and they provide services to others. Southern Company is a great example of that, that we referenced who've used their network, not just for their own services, but to be able to try to offer commercialization services to other industrial customers. And so certainly, we'll see a few of those opportunities kind of develop as they go forward.

George Frederick Sutton

Craig-Hallum Capital Group LLC, Research Division

One other question on the active ecosystem. Obviously, you have a Gordy number of people that are working with you 100 companies, I believe you referenced you have 5 customers today. So obviously, those 100 companies are seeing a very different opportunity than what's represented by your current base. Can you just talk about any sort of examples of spending being done by those 100 companies to go after this opportunity, therefore, suggesting that bigger opportunity?

Ryan Gerbrandt

Chief Operating Officer

Yes. Yes. I can't speak to specifics but you're right in that they're participating in the ecosystem because it helps inform their understanding of the general trajectory of the market. And so by associating with the overall collective, and we hold kind of an annual event with them where we get together, we invite customers and prospective customers and to speak about what they're trying to do and where their private LTE journey is going, that informs in like any product development business case, those are critical inputs for them to understand kind of volumetrically what they see in their forecast to drive the R&D and investment priorities in the form of chips and end devices and infrastructure solutions and services. And so that's the particular reason why they're paying attention. Let me add one other lens to it, too. On top of this, we announced the formation of our Utility Strategic Advisory Board, which is our C-level governance structure. That is another reason why members participate in the ecosystem, and it's a specific value proposition that utilities can extract by having an association with us and that ecosystem. And so now through that and that member group, and I'll just reflect back on as we've been having sessions with them, we were face-to-face with them at EEI down in Austin, not that long ago and having the opportunity to sit in the room with the C-level executives from the utilities, talking and having them share their experiences because keep in mind, they're not all existing customers today on the spectrum. And so we've got participation there from some other large utilities that are hearing the lessons learned firsthand from the other utilities that have gone before them and more importantly, collectively, we're talking about the next set of priorities that those utilities collectively are seeing so that we can drive and influence through the form of something that we call collective. It's just like we did with the cybersecurity collective to bring programs back into the ecosystem so that we can create these programs that collectively, we try to put our heads together to find the final way to tackle because honestly, the big picture of where this market is developing, the point aspects of the solutions aren't necessarily where the value is extracted. The tighter

that we can bring these together and deliver real outcomes to the utilities, the more rapidly they're going to be able to adopt them and extract the value that ultimately helps to move forward with broadband faster, which is our goal.

Christopher Guttman-McCabe

Chief Regulatory & Communications Officer

And George, it's Chris. You had asked about sort of how they're and sort of what type of activity we're seeing from those 100-plus members. A full 1/3 of them have been developing products. In fact, I think it's the numbers like 21 have broadband-enabled products already 900 megahertz enabled products and those are companies like GE and Cisco and Motorola to key Ericsson. So these are some of the hemes in both the utility sector and the wireless sector who already have developed products, and they're commercially available and another 10 or so have what we call showcase ready. So 30 plus of our 100 already have products that they can either demonstrate or actively offer to utility customers. That aligns sensibly with what we're seeing this year, right? We're going to see networks being built this year. A number of our utilities are building towers or putting up RAN, deploying infrastructure. This is going to be an exciting active year in terms of really the deployment of 900 megahertz Anterix enabled utility equipment.

Operator

This concludes our question-and-answer session. I would now like to turn the conference back over to Rob Schwartz for any closing remarks.

Robert Schwartz

Thank you, operator. Just in close, as I said earlier, the lagging stock price, the slowly developing market frustrates us, no doubt. With that in mind, as Tim said, we do intend and we will use our proceeds from our contracts to take advantage of these prices to buy back stock but really make no mistake, we remain confident in our future. We see activity throughout our pipeline. We see consistent signs of progress and intent as we just shared with you all, and we appreciate everybody's patience and time today. Thank you very much.

Operator

Thank you very much for attending today's presentation. You may now disconnect your lines. Goodbye.

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