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Anterix, Inc. (ATEX)

Q1 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, ladies and gentlemen, and welcome to the Anterix First Quarter Fiscal Year 2022 Investor Update. At this time, all participants have been placed on a listen-only mode and the floor will be open for your questions and comments following the presentation.

It is now my pleasure to turn the floor over to your host, Natasha Vecchiarelli, Director of Investor Relations and Corporate Communications at Anterix. Ma'am, the floor is yours.

Natasha Vecchiarelli

Director-Investor Relations & Corporate Communications, Anterix, Inc.

Good afternoon, everyone, and welcome to the Anterix first quarter fiscal year 2022 investor call. Joining me today are Rob Schwartz, our President and CEO; Ryan Gerbrandt, our COO; Tim Gray, our CFO; Chris Guttman-McCabe, our Chief Regulatory and Communications Officer.

Before we begin, please note that during today's presentation we may make forward-looking statements either on our prepared remarks, or in the associated question-and-answer session. These statements are based on current expectations or beliefs and are subject to certain risks and uncertainties that may cause actual results to differ materially. Risk factors that may impact our performance are identified in our most recent SEC filings.

Following our prepared remarks, we will have an operator led question-and-answer session. In addition, at the conclusion of today's call, a replay and transcript of our discussion will be posted to our Investor Relations website.

With that I'll turn the call over to Anterix's President and CEO, Rob Schwartz.

Robert Schwartz

Chief Executive Officer, President & Director, Anterix, Inc.

Thanks, Natasha. Good afternoon, everyone, and thanks for joining our Q1 investor call. Just recently in June we had our Investor Day where we shared a refined vision of the future of Anterix and highlighted key improvements to our business model and investment thesis.

The response to that event and specifically to our fine vision of the Anterix opportunity has been quite positive, not only from our customers in the utility sector, but also from the investment community. Since most of you heard the Investor Day presentation, I'll reiterate a few key points and then I'll provide a brief update on the continuing momentum since then further supporting this developing industry movement.

Our prospective customer pipeline now includes over 50 utilities with a total potential prepaid contract value of about \$3 billion and with the increasing demand for prepayments that we're hearing from prospective customers we currently believe that the majority of our contracts will be prepaid in full over the first three to five years of the contract terms. This evolution brings significant cash flow earlier than previously anticipated in our forecasts and allows us the potential opportunity to begin to return value to shareholders within the next two calendar years.

In our current fiscal year ending March 31, 2022 based on our current sales pipeline we continue to forecast signing contracts with proceeds over \$200 million. Looking ahead through fiscal year end 2024, we intend to sign approximately \$1.8 billion of contracted proceeds, totaling about 50% of our nation-wide spectrum value. By fiscal year end 2024, we would expect to have collected approximately \$300 million to \$500 million in cash proceeds with the remaining more than a \$1 billion contracted due to be collected soon thereafter. And beyond that point, we expect to continue to grow with 50% of our spectrum value still on our balance sheet available to monetize, as well as the residual value of our lease renewals, plus our ability to explore and develop potential new revenue opportunities with partners.

Foundational to all this momentum is a modern communications platform, driven by the utilities' need for connectivity to provide situational awareness and allow for the command and control of millions of distributed assets across a growing utility footprint. Our 900 megahertz low band spectrum specifically addresses these needs and is propelling the demand side for Anterix's spectrum offering reflected in our growing list of pilots and industry activity.

Let's now spend a few minutes discussing the significant additional signs of momentum that we've seen just since Investor Day. First, an additional three companies have applied for experimental licenses on our 900 megahertz spectrum. These entities include the utility Tampa Electric, as well as technology leaders Ericsson and Burns & McDonnell. It's worth noting that utilities are no longer pursuing pilots to confirm private LTE as a technology. Pilots are more often being used to demonstrate use cases and to build support internally for investment business cases.

As Ryan's detailed in the past, not every utility will seek an experimental license before they move forward with private LTE, but they are a good indication of continuing momentum throughout the industry.

Let's spend a few moments discussing key areas of focus for each of these three new experimental licenses. Tampa Electric is a Florida-based investor owned utility, who per the FCC experimental license application is exploring use cases in support of electric and gas utility operations, including AMI, SCADA and other uses.

Tampa Electric joins more than 10 other utilities, who have leveraged 900 megahertz spectrum to better understand the unique resiliency, reliability and security features of a dedicated private LTE network. It's also worth noting the Tampa Electric is one of the 11 utilities that also purchased CBRS licenses at auction. And like several other CBRS licensees is working with us to explore the complementary nature of these bands, which is helping us develop our integrated solution.

Ericsson, a global leader in broadband communications; and Burns & McDonnell, a leading engineering, construction and consulting firm to utilities, are each independently showcasing the value of 900 megahertz private LTE in solving multiple use cases. Ericsson joins both Nokia and Motorola as infrastructure thought leaders working hand-in-hand with Anterix to help drive 900 megahertz education, development and ultimately adoption.

We have other major efforts underway to increase awareness and attractiveness of our spectrum to utilities, such as the Anterix Active Ecosystem Program. As a reminder, we announced the program in May with 37 world-class technology industry leaders coming together to provide a wide range of solutions for 900 megahertz private LTE networks. The number has now grown to over 50 technology leaders, including Cisco, GE, Hitachi, Qualcomm, and many more. These ecosystem members have a vested interest in supporting private LTE at 900 megahertz and are actively engaged with our team to collaborate on devices, services and solutions that can support and address the current and future needs of utilities and other critical infrastructure entities.

Since the launch of this ecosystem program we've heard from numerous utilities about the significant value they see in this active ecosystem effort. As I've previously described, we also expect the relationships in this ecosystem program to develop into commercial opportunities for Anterix. And I want to highlight one example that we just announced.

This morning we issued a press release outlining a new relationship with Federated Wireless. For those of you who don't know Federated, they were the leading proponent at the FCC in bringing the CBRS spectrum to market in its novel shared model. And are a key provider of the CBRS SaaS platform service that's required for access to that mid-band spectrum. As discussed in today's press release, we're beginning – we're bringing to market a combined and complementary offering of dedicated use of our 900 megahertz broadband spectrum paired with Federated Wireless's shared spectrum SaaS services for use on a CBRS band. This is a logical relationship as we are already working with many utilities on the hybrid approach of combining low band 900 megahertz with an overlay of mid-band CBRS to add capacity and coverage in the incremental areas as needed.

As we identified at our Investor Day, the remaining 70% to 85% of the utility spend on private LTE network deployments and operations beyond the cost of our 900 megahertz spectrum creates an opportunity for Anterix to identify low capital intensive ways to build incremental value for our shareholders. This relationship with Federated is a good initial example of the kind of opportunities we referenced. We look forward to sharing more about these options for incremental developments throughout this coming year.

We also are seeing continued significant positive momentum from policymakers. Yesterday, the Senate voted to pass the Infrastructure Investment and Jobs Act. Language in the Act embraces the intersection between grid modernization and private broadband communications, as well as the connection between utility private LTE deployments and the support for rural broadband. The bill provides billions of dollars earmarked to support these efforts. The legislation now moves to the House for their consideration. As we've detailed in the past, we do not need legislation to deliver on our business plan. However, the education of policymakers and the industry alone has already aided in heightening the awareness of the importance of our efforts.

Washington's focus on decarbonization, distributed energy and infrastructure has shined a light on our goal of helping to modernize America's electric grid. That being said, with this bill's passage we would expect that this would be a further catalyst to securing utilities' interest in Anterix's offering.

And another important milestone for Anterix in the last few weeks the FCC granted our first broadband licenses for several counties of our initial customer Ameren. Those grants are the culmination of a lot of hard work by our team, the utility sector and the team at the FCC. They also represent formalization of our effort to deliver broadband for mission critical needs across the United States.

As we shared at our Investor Day, Anterix tends to become the de facto private wireless broadband solution provider to the utility and critical infrastructure sectors. With our breakthrough achievements, continued significant momentum and tailwinds, we feel we are well aligned to achieve this mission and look forward to sharing more about our continued progress with you all soon.

Thank you very much. With that I'll turn it over to the operator to open the call for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you, ladies and gentlemen. The floor is now open for questions. [Operator Instructions] Your first question is coming from Phil Cusick from JPMorgan. Your line is live.

Philip A. Cusick

Analyst, JPMorgan Securities LLC

Q

Hey, guys. Thanks. Maybe dig into that \$200 million of contract value, I think, you said by March 31, 2022. How do you count the ones that have been signed already in that and how many should we expect between now and then?

Robert Schwartz

Chief Executive Officer, President & Director, Anterix, Inc.

A

Sure. Hey, Phil. This is Rob. As we've talked about Investor Day, the \$200 million is the incremental contracts we intend to sign through the end of the fiscal year. That can be all kinds of mixes given the breadth of the pipeline we have over 50 utilities. And so, I don't know, Ryan, do you want to add anything, any other color to that, Phil's question?

Ryan Gerbrandt

Chief Operating Officer, Anterix, Inc.

A

Yeah, I'd be happy to. Hi, Phil. Let me come back to a little bit as Rob said, so in the aggregate, net incremental contract proceeds of \$200 million. And we get to that – we talked a lot about it in the Investor Day around how we're qualifying and what we see in terms of opportunities in the pipeline. And I'll just reiterate, Rob hit on a few of the very key points in the earlier remarks. But let me add a little bit of depth to some of it. So, in addition to what we're seeing now, in the growth of the over 50 accounts, representing over \$3 billion. We break that down into the various phases.

And it's those different phases in the evolutions of accounts through those phases, which are really the basis of how we think around operationalizing the path towards both \$200 million goal and the year-end fiscal year 2024 goal. The highlight that I take away from what we've seen in terms of that momentum that builds the capability

and what we see in terms of the confidence has really been defined in terms of some of the evolution that we've seen into what we call the Phase 2 category, Phil.

With today already roughly one-third of the pipeline value, represented in that phase, and that's important to me because that's where a lot of the opportunity pipeline growth is coming from. In addition to obviously what we have already in Phase 3, which as I said at the late stage of contract negotiations are kind of the bottom of the funnel as we ultimately think about it. But with that doubling in the overall growth of the pipeline and then frankly just the diversity that we're seeing, so we've now scaled a world class front end sales organization to be able to capture not just singular opportunities that we see in front of us, but to really lean in and capture all of the interest and demand that we're seeing across the whole market. And that creates a powerful set of optionality. As we think both to the near term and the long term, we now have a diversity of large, medium and small sized customers that gives us a variety of paths actually here now in the \$200 million goal for this year and as we look out to fiscal year 2024.

Philip A. Cusick

Analyst, JPMorgan Securities LLC

Q

Thank you. And I know, it's only been, what? Six, eight weeks since the Analyst Day, but any change in the Phase 2 count or the types of customers coming in there and then movement from Phase 2 to Phase 3? Thank you.

Ryan Gerbrandt

Chief Operating Officer, Anterix, Inc.

A

Yeah. No, and as you said Phil it's not been a lot of time in between. So, we've not seen a dramatic set of changes in any of the overall categories that I think is worth noting. What we are though continuing to see and this is playing out literally day by day, week by week is just the overall intersection of, what I'll say, with what we've been driving in terms of market education, market awareness, coming off the heels of some of the things like industry and customer participation in the Active Ecosystem Program, a broadening understanding and awareness as we see across the entirety of the pipeline, and that's measurable as I'm seeing the new customers coming into the top of the funnel. A year ago, most customers coming in had an interest in PLTE, didn't know a lot about it. We had to spend a lot of time in cycles really educating them on the ins and outs of what the technology is, how it fits into their business cases, what are the applications we have that they can support on it. One very positive thing that I'm continuing to see is how that education has landed. And it's not just us delivering it anymore. It's coming from across the entire market and ecosystem, is that they're coming in more educated. They're coming in more aware with information in hand that they've been able to source either directly from us or through others, either indirectly through the eco system or through organizations like UBBA, who've been all collectively doing just a fantastic job driving the overall education and awareness of the broader set of customer base.

And that matters to me from a pipeline trajectory perspective, really because it helps the process move faster earlier. So, we don't need to invest as much time in that front end and really get into the brass-tacks, that's helping to work through the details of the business case and executive buy-in and sponsorship, which really we can put some of our best skills to work in the world class team that we've been able to assemble.

Philip A. Cusick

Analyst, JPMorgan Securities LLC

Q

Okay. Thanks, guys.

Robert Schwartz

Chief Executive Officer, President & Director, Anterix, Inc.

Thank you, Phil.

A

Operator: Your next question is coming from Simon Flannery with Morgan Stanley. Your line is live.

Simon Flannery

Analyst, Morgan Stanley & Co. LLC

Thank you and good evening. I wonder, Rob, if you could update us on the progress with Ameren and SDG&E, and how are you getting on with the clearing? It sounds like you're making some progress with the FCC. But how do those two stand and what's the latest thoughts in terms of cash receipts for the balance of the funds from them?

Q

Robert Schwartz

Chief Executive Officer, President & Director, Anterix, Inc.

Sure. Why don't I talk about the relationship continuing, and Tim, maybe you want to jump in on the cash receipt side. But you know individually Ameren, SDG&E are both progressing tremendously from my view, in that we are actively working with them. I think, of them both as really sandboxes for us, of the – not just the deployment of our spectrum, but also on better understanding how utilities are using and getting value out of private LTE networks. And so, we've got teams that are working across the board with Ameren on – they're planning their deployment. You heard the great news about their first licenses coming from the FCC, that was a really momentous occasion for us because it really showed that despite us talking about it and getting rules, now the process works and we can apply for and get granted on a reasonable short-term licenses to be able to fulfill our obligations under the contract.

A

So, SDG&E the same thing, continue to see their innovative thinking on use cases. They're active participants across the board, and nationwide also working with UBBA and with other vendors helping us drive the ecosystem forward. They've made comments to us about how much they appreciate the – how we brought together that ecosystem. So, I think, overall those are relationships that are really just getting started from our standpoint and will continue to grow. I do think the relationship with Federated Wireless that we mentioned and our ability to now be able to bundle together a combined CBRS 900 solution is valuable for all utilities, but specifically the first couple of customers we have. And I think, we'll hopefully see some more developments there as well.

Tim, you want to talk and update on the cash receipts?

Timothy Gray

Chief Financial Officer, Anterix, Inc.

Sure. Well, let me talk about clearing first, Rob and Simon. I think, we've made good progress in both territories on the clearing front, and we'll continue to do so with what we see in front of us. So, the FCC put out the rules for applying for broadband licenses in May. We were in-line with the first several bunch of counties for Ameren, it seems we could be on the day that it opens, and the process has been rather seamless working with the FCC. So, as Rob mentioned, we'd start to get our first set of broadband licenses and would expect our next payment from Ameren to be in the next few months based on the timeline that we've laid out with them. So, we feel like we're in a really good shape with that as well. So, all things are progressing forward.

A

And the last thing I'll say Simon is, I mean, as a part of playing for broadband licenses, we've also begun to work with the FCC on anti-windfall payments. Their calculations have been right in-line with where we expected, which gives us even more confidence in our overall nationwide estimate for our clearing costs that we've talked about before going \$130 million to \$160 million. So, overall clearing is progressing as we'd hoped at this point.

Simon Flannery

Analyst, Morgan Stanley & Co. LLC

Q

Great. And that's helpful. Maybe one for Ryan. I think that the CBRS thing is really interesting. Do you think we might see the utilities active in the upcoming Auction 110 to 3.45-3.55 GHz? I know, it's sort of bigger license areas. And relating to that as we've talked a lot about LTE today, but how is 5G coming into the conversations as the utilities think about should I be waiting to deploy a 5G network rather than doing LTE for now?

Robert Schwartz

Chief Executive Officer, President & Director, Anterix, Inc.

A

So, Simon, it's Rob. Maybe I'll start on just the – on that other band. And obviously, we can't share anything we know confidentially under NDAs with our relationship with utilities. But just broadly speaking, I'm not hearing about any considerable interest from utilities specifically in that, in that band. That's not to say that there aren't utilities that may be thinking about it overall. But Ryan, maybe you want to step in on the rest of the question.

Ryan Gerbrandt

Chief Operating Officer, Anterix, Inc.

A

Yeah. No, and I agree with you on that. I'm not hearing anything specific at this time also, Simon. But let me, let me come back to the 5G part of the conversation. We do encounter this question. Obviously, there is, there is a lot of hype, you know I'll say still put into the 5G conversation coming from various stakeholders. I find utilities though are pretty pragmatic in what they're anticipating in terms of their evolution of network functionality and really the roadmap toward supporting some of these next evolution networks like 5G. And a lot of it's rooted in the use case and the capabilities that they really need today and a broad understanding of kind of what they can get and the value proposition that a 4G LTE network brings is more than sufficient what they need. And we also talk a lot about risk aversion. Utilities aren't known for wanting to be on what I would call the cutting edge of the technology landscape. And so, there's some wariness in terms of letting others prove the technology and capabilities; and being really able to capture that value at a potential time in the future. And so, it's not been a big focus of the conversations that we're seeing in the utility buying process today. But they're not blind to it either, I think, is really the point in terms of looking at both the capabilities today as it's ready, it can be deployed, and they can put it to work very, very quickly. But thinking through the long-term perspective of their architecture and the various systems, as they're putting together the design and the vendor choices that they're making, to keep open the optionality around how at the right time, with the right ecosystem and with the right demand and use cases in place, I think, it naturally evolved to that outcome when they're ready.

Simon Flannery

Analyst, Morgan Stanley & Co. LLC

Q

Great. Thanks a lot.

Robert Schwartz

Chief Executive Officer, President & Director, Anterix, Inc.

A

Thank you, Simon.

Operator: Your next question is coming from Walter Piecyk with LightShed Partners. Your line is live.

Walter Piecyk

Analyst, LightShed Partners

Q

Hi. Thanks. Hold on. My dogs are going nuts. Rob, can you put some more meat on the bones of the Federated deal? Meaning, like are you the one going to the utilities and saying like, hey, could you package or package the [ph] GA (23:35) licenses and are utilities willing to use [ph] GA (23:38) licensing? I know, you had that the San Diego one that like they had their own licenses, but – and you have that whole layer cake concept. But can you do that -- or are other utilities you think willing to do that with [ph] GA (23:52) licenses as opposed to priority licenses at the San Diego utility owns?

Robert Schwartz

Chief Executive Officer, President & Director, Anterix, Inc.

A

Yeah. Thanks, Walt. And I'm glad to hear your dog is excited about Anterix as you are. The – look, the Federated deal as – and you know the leadership of Federated led by Iyad Tarazi, a good friend and colleague, former – also former Nextel are really smart and capable group of people that really were trailblazers on this idea of sharing spectrum, and were critical in getting the FCC to put that band in the scheme that it is which is both the licensed and unlicensed. The agreement between us, which I can't really talk about the terms specifically because just we're prevented from doing so. But it does contemplate economic benefit for both of us, right? So, the idea is that we're – we are really a powerful channel for them into the utility space. And that's what I think they value in the relationship and what we value is their extreme expertise in CBRS and all of the elements around that. They really help drive the ecosystem in a great way. They understand the deployment of the strengths and limitations. And so, it's a great relationship for us. And really while it's – I would say the spending in CBRS may not be as material in the overall scheme of utility spend. For us, it's a good example of how we translate these ecosystem partners into win-win situations, where obviously we get the benefit of combining this product and making it more appealing to the customer. Federated obviously gets access to this great group of customers, who we've invested years of building relationships and the customers getting a better solution. That's really what matters at the end of the day. We think it helps with the adoption. I do think Walt that we'll see more utilities well beyond. We talked about Tampa Electric as being a CBRS licensee. There's plenty of power license holders, right, licenses that were won at auction, but the unlicensed the [ph] GA (25:53) licenses, I think, that absolutely are a great additive value. Once you have the foundational element of 900, right.

You then can put the building blocks on top of that of unlicensed spectrum, applications devices, all the things. So, we really see that our job beyond 900 is helping build the value of this solution set of which CBRS is an important piece. We think other bands eventually through that layer cake approach can be. That's the beauty of adopting LTE as the standard, which is new to utilities. But they get the value of that. That it's a forward compatibility plan, add more capacity, add more capabilities as the evolution occurs. The E of LTE and its evolution.

Walter Piecyk

Analyst, LightShed Partners

Q

Got it and then different question, but I think – I believe Motorola Solutions is in your ecosystem. Greg Brown just reported a very good quarter and look tremendous traction with public safety and his camera security business is really taking off. Is that – where are you, I guess, with them in terms of like obviously the electric utilities, great opportunity, very obvious in terms of nationwide, but beyond utilities where is Motorola with perhaps broadening that market to other market segments that might be interested in the spectrum?

Robert Schwartz

Chief Executive Officer, President & Director, Anterix, Inc.

A

Yeah. I think, with Motorola obviously we've longstanding relationship. As you know, they were the key technology partner of Nextel, and continue to be an important partner of ours from beginning of Anterix, even PDV prior. We're actively working with them. They are part of the ecosystem. They have a very unique set of assets and skills that we think are really valuable to utility customers and are complementary to a lot of the other ecosystem providers. So, I think, all of the applications, skills they have, you've talked about a lot of which have been further developed through their FirstNet experience. A lot of them are translatable into being applications and skills for utility network. So, we think we see strong capabilities. The other thing to remember is that a lot of the incumbent licenses that we're retuning here are two way radio customers, LMR customers, a lot of which are Motorola's and so their ability to understand that, understand the migration path of those two way radio systems as utilities get more comfortable with the idea of mission critical push-to-talk, which FirstNet again is driving and Southern Company as a utility has adopted already. We see that they have a very big role in helping with that migration of LMR to LTE for mission critical push-to-talk. And just migrating those networks as utilities understand that the future of communications is LTE and private LTE, I think, they can be a great partner in doing that.

Walter Piecyk

Analyst, LightShed Partners

Q

So, I see that – so what you describe though is basically good value to them in terms of selling radios, LTE radios to their existing safety, or maybe to a utility base. I guess, the question is, is there an opportunity for them to integrate this LTE, this spectrum, your spectrum for sales to non-utility customers to public safety customers, other industry segments that they do well with. Obviously, you're targeting the utilities and that's a great ecosystem. And but like if these guys – if some of these utilities want to drag their feet and someone else in that same market in a different industry sector like public safety wants to grab that spectrum, is that a realistic opportunity? Do you think is that something that Motorola is looking at?

Robert Schwartz

Chief Executive Officer, President & Director, Anterix, Inc.

A

Yeah. I think, without getting specifics into Motorola's objectives, for us the utility space is clear Bulls eye.

Walter Piecyk

Analyst, LightShed Partners

Q

Yeah.

Robert Schwartz

Chief Executive Officer, President & Director, Anterix, Inc.

A

But as we've always said we see those concentric circles of other critical infrastructure users as being complementary. We've had lots of discussions, and we do talk to a lot of the vendors and ecosystem on how we can get additional usage of these networks. So, for us now we're focused – yeah, there's substitutes of other sectors. But I think, it's really complementary users in a lot of ways. And so, as you start putting together these individual pieces of networks, each individual service territory of utility is an example, and start to – that becomes a network of networks and eventually a nationwide network of networks. That's a valuable asset.

And I always go back to the Southern Company example through the Southern Linc because they're further ahead in having deployed private LTE. And they've taken it further in saying, we're going to host on our network, allow other municipal utilities, guest co-ops to use that network. They even have public safety customers on that network that because of the way they built their network with greater resiliency and greater reliability and greater

cybersecurity, longer battery backup, things that they bring uniquely because of their needs, other critical infrastructure entities want that as well. So, I think, yes, there's an opportunity for a substitute of other critical infrastructure segments. But I think more likely it's complementary that they find ways to work together, share costs, share the benefit of this nationwide network of networks.

Walter Piecyk

Analyst, LightShed Partners

Roger that. Thank you.

Q

Robert Schwartz

Chief Executive Officer, President & Director, Anterix, Inc.

Thanks, Walt.

A

Operator: Your next question is coming from George Sutton with Craig-Hallum. Your line is live.

George Frederick Sutton

Analyst, Craig-Hallum Capital Group LLC

Thank you. Along that same line of that concentric circle concept. We – as we've talked to folks in the industry, we're getting a larger – hearing a larger focus on rural broadband opportunity. And I'm wondering if that would be by your definition, complementary or would that be incremental opportunity?

Q

Robert Schwartz

Chief Executive Officer, President & Director, Anterix, Inc.

Hey, George. Thanks for the question. So, we've talked about rural broadband and in fact we've been recently out promoting what's soon going to be a paper published on the topic, working in conjunction with a number of partners. From our view, there's a couple of key values about rural broadband. As utilities build their infrastructure for private LTE, and already utilities have a lot of infrastructure that's being leveraged for third party communications networks. But as they start to pull more fiber and build more towers to get private LTE coverage, those assets are a critical piece of unlocking the opportunity to serve rural broadband. And so, we do see, and we've been talking with a number of parties from NARUC, the National Association of State Regulators, to Edison Electric, the Industry Association and then to the utilities themselves about how they individually want to facilitate that from happening – to happen.

A

A lot of utilities want to enable ISPs to build those rural broadband capabilities, leveraging their networks. And so, we're talking to a series of utilities about their individual models of how they want to do that. I think, it's less likely that utilities are going to want to serve those end users in rural broadband. But I think that most utilities are going to want to enable those models and that could be leasing their fiber, using their towers, supporting that deployment. Because it's in their interest and one of these utilities said to us that they want to make sure that these communities especially the rural communities keep their residents because they're investing in infrastructure to serve power and other things to those customers. And they don't want to see a migration of those customers to cities or elsewhere. And so, it's very important. I think, the legislation you heard about I'm sure and I'm sure you wrote about it as well, George, puts a lot of capital again into both the last mile, the fibers and broadband to the end user. But middle miles are really important piece of it too, as talked about in legislation, middle mile being the – a lot of the investment of what utilities are putting into their fiber and their infrastructure. And I think, we'll see a lot of support for investment in that middle mile to support rural broadband.

George Frederick Sutton

Analyst, Craig-Hallum Capital Group LLC

Q

You mentioned NARUC, I know, you've conducted multiple webinars in conjunction with their commissioners. Can you just give us a sense of their comfort with all of these different opportunities that you're looking at? Our sense is it could accelerate some of your approvals in the future.

Robert Schwartz

Chief Executive Officer, President & Director, Anterix, Inc.

A

Yeah. I could start and maybe Chris Guttman-McCabe, our Chief Regulatory Officer wants to jump on that. But I think, overall, we spend a lot of time educating about the importance of broadband wireless in completing the communications to all these important assets, but also the importance of it in supporting as we just talked about the rural broadband as well. Chris, do you want to elaborate?

Chris Guttman-McCabe

Chief Regulatory & Communications Officer, Anterix, Inc.

A

Yeah. Thanks, Rob. Thanks, Rob. And hey, George. We – I think, Rob hit on the key term which is education. We tend to – when we first sort of knock on the door of a policymaker, we tend to do it in the context of trying to educate them particularly about the intersection between grid modernization and in advanced communications platform.

And so that's been our goal over the last couple of years at NARUC. And I think we've made great strides as Rob referenced, we've seen them now being NARUC and particularly the public utility commissioners individually begin to talk about grid modernization and include communications as a component, and as they also talk about closing the digital divide, really focusing on rural broadband to – and broadband to unserved. There's been a focus on this middle mile component and we've had them and watched them evolve through our education process from talking only about fiber to talking about fiber and the components of a wireless network as well.

So I think we've made some great headway that really is mirrored in what we just saw come out of the Senate as Rob referenced. And I think that helps. I think it's circular in nature somewhat that the work we did at NARUC helped us on the federal legislative front and the work we've done at the federal level will help us, and perhaps more importantly will help our utility customers as they pursue rate cases at the state level.

George Frederick Sutton

Analyst, Craig-Hallum Capital Group LLC

Q

Super. And last question for me, you talked about use cases San Diego Gas and Electric has been fairly excited about one of the use cases which is the ability to shut off a power line before it hits the ground and therefore avoid all of these fires, and of course, much of our country having had fire issues recently. I would sense that that creates accelerated pace of discussions for many of the utilities. Can you just discuss that use case specifically?

Robert Schwartz

Chief Executive Officer, President & Director, Anterix, Inc.

A

Yeah. Ryan, you want to talk about falling conductor a little bit if not I can jump in.

Ryan Gerbrandt

Chief Operating Officer, Anterix, Inc.

A

Absolutely. Yeah, let me take that one. So falling conductor protection, you're absolutely right. San Diego has put a lot of focus on it as part of their proactive wildfire mitigation plans and obviously with the urgency, again, here we are in the middle of wildfire season out in the West Coast, I mean the application supports obviously all utilities across a variety of geographies that are facing similar kind of challenges.

And the essence of the technology and is complementary to a lot of the other wildfire strategies that we see publicized from the utilities is really the proactive ability for a utility grid to be able to detect a down power line. And just as that down power line becomes a potential ignition source for wildfires, if it touches the ground, the technology is designed to be able to drop the power effectively to that phase of the transmission line or distribution line to be able to limit the potential of it causing a source of fire.

Now obviously the requirements of it are, it needs a broadband low latency kind of communication system. The ability to communicate in near-real time across the various assets, technology that are necessary to enable the solution are quite critical. And that is an important alignment actually to what we're talking about in terms of private LTE.

And so, I do anticipate just as we are and we're going to continue to see conversations about it. And I'm sure other similar kinds of technologies as an industry, we continue to come together to try to find more and more innovative technology based solutions to be able to support all of the nation's utilities with dealing with some of these environmental disasters like fires.

Chris Guttman-McCabe

Chief Regulatory & Communications Officer, Anterix, Inc.

A

And, again, not to sort of reiterate the same set of issues, but the Infrastructure Act and the legislation as it came out of the Senate, really recognized the need to move funding towards resiliency, redundancy of the grid and particularly to help stimulate technologies that can prevent utility line caused wildfires. So there is that additional, I don't know, catalyst I guess I would say that is out there.

George Frederick Sutton

Analyst, Craig-Hallum Capital Group LLC

Q

We absolutely love catalysts. Thanks, guys.

Robert Schwartz

Chief Executive Officer, President & Director, Anterix, Inc.

A

Thanks, George.

Operator: Your next question is coming from Mike Crawford with B. Riley. Your line is live.

Mike Crawford

Analyst, B. Riley Securities, Inc.

Q

Thank you. Given all the cash you're expecting to collect and then return to shareholders in the next three to five years, why wouldn't Anterix convert to a REIT?

Robert Schwartz

Chief Executive Officer, President & Director, Anterix, Inc.

A

Thanks for the question, Mike. Just I mean as we've said before, obviously we see this trend towards the prepayment as being very positive. And as Tim talked about at Investor Day will give us the opportunity to contemplate returning capital over the next couple of years. We do have our NOLs in-place. And Tim, maybe you want to kind of detail our thinking on how we're planning for it at this point.

Timothy Gray

Chief Financial Officer, Anterix, Inc.

A

Yeah, Mike. Thanks. And good question. And we get that one quite often. So right now we've got over \$250 million in federal NOLs that will get us through the next several years with the proceeds that we see coming in and how they impact taxable income. And so, with that we have some runway to look at and fully analyze whether or not we want to be a REIT. I would say we're examining that possibility with our advisors and trying to figure out if that's, one, possible, and then two, the best path forward for us. So more to come on that as we move forward through the process. But it's something we're actively looking at.

Mike Crawford

Analyst, B. Riley Securities, Inc.

Q

All right. Thanks, Tim. And then, I know that spectrum lease cost itself is a relatively small portion of overall investment utilities would make to deploy private broadband network. But has there been any reaction from your customers following this wildly successful auction of 3.5 gigahertz spectrum in Canada that came in 2 to 3 times, what probably people thought would clear at?

Robert Schwartz

Chief Executive Officer, President & Director, Anterix, Inc.

A

Good question, Mike. We saw your note on [ph] bio (41:40), it's well explained. And I think look our view is we always talk about the value of our spectrum in these conversations being fair market value and obviously any new data points that occur in between these transactions go into that discussion and calculation of fair market value. So you should assume that as we're both internally and using our external experts positioning the value of spectrum which, as you know, over time has shown historically to increase in value over a pretty significant trend line. We're not surprised to see other good high watermarks and to continue to use those in our negotiations and discussions to continue to drive getting what we think is good, strong fair market value.

Mike Crawford

Analyst, B. Riley Securities, Inc.

Q

Okay. So, I know it's only been a couple of weeks, but you haven't seen any like accelerated interest to just sign on the dotted line somewhere given lower prices you're talking about versus what the big three carriers paid up north?

Robert Schwartz

Chief Executive Officer, President & Director, Anterix, Inc.

A

I don't want to say anything disparaging about Canada because our Chief Operating Officer, Ryan Gerbrandt is from Canada. But I think it's an important data point but it's clearly not in the context of all the other data points. It's just – like any anything where you have comparables, it's another important one to show the positive trend, an upward trend of spectrum. Ryan, anything you want to add there.

Ryan Gerbrandt

Chief Operating Officer, Anterix, Inc.

A

No other than I'll confirm I'm from Canada. But I think you hit the nail on the head. I mean there's a lot of considerations obviously that the utilities are going into in their buying process here, and there's no doubt seeing other auction transactions at good quality prices only help support the conversations that we're at. But it in itself doesn't change the process that the utilities have to go through. And there's still as you said working their way through justification and stakeholdering on a deal that size much larger than what we see in just the spectrum transaction. And that's still a necessary process, even though they are and I'm confident in this, seeing the urgency and the scarce nature of what the spectrum offering is, that's promoting a lot of the conversations we're seeing.

Mike Crawford

Analyst, B. Riley Securities, Inc.

Okay, great. Thank you.

Q

Robert Schwartz

Chief Executive Officer, President & Director, Anterix, Inc.

Thanks, Mike.

A

Operator: Your next question is coming from Chase White with Height Capital. Your line is live.

Chase White

Analyst, Height Capital Markets

Thanks. Thanks for taking the question. First one, were the utilities the ones driving the Federated agreement and just the general conversation or was that more you guys and Federated coming together? And are you in discussions with any other SaaS providers like Amdocs or Google for similar collaboration?

Q

Robert Schwartz

Chief Executive Officer, President & Director, Anterix, Inc.

So, hey, Chase, how are you? On the genesis of our relationship, we've known Federated almost since they started probably again, Iyad Tarazi, their CEO is a former Nextel colleague and colleague of ours and friend. And so we've been working with them from the beginning. And so thinking about the complementary aspect of this arrangement that we have with them.

A

So there's nothing – so it was driven by us because we've been following CBRS from beginning and see this complementary aspect. I always compare it to you're using Wi-Fi in your home or office and go outside and use cellular. That's the way I see the complementary aspect of CBRS very much. It's mid-band. It works well in buildings and campuses. But as soon as you start having a cover wide service territory, you need a foundational spectrum like 900 MHz. And Federated gets that from beginning.

They've got a great team of people. But there's nothing particularly exclusive about that from the utility standpoint, right. Our view is we have a really strong long-standing relation with Federated. We want to help them create a better product that's integrated with ours to be able to offer it to utility customers. But as you said, there's a lot of choice on SaaS providers, we do think Federated has a very, very strong offering in that, it's what they do solely and are very focused on how to bring that kind of shared spectrum solution to marketplace. And so we're excited about the relationship.

Chase White

Analyst, Height Capital Markets

Q

Great. And in terms of returning capital to shareholders once you've started to roll up more of these leases over time, assuming that they're similar to the Ameren contract what it sounds like you guys are thinking that they will be where the cash is received in stages pretty much upfront. Given the credit worthiness of these utilities, do you see an opportunity to take on leverage to accelerate [indiscernible] (46:17) the capital returns?

Robert Schwartz

Chief Executive Officer, President & Director, Anterix, Inc.

A

Look, we're always looking at optimizing our financial returns for investors including our capital structure. So, I think it's probably premature for us to talk about what we could – what we would do. But clearly you can look at our history both through the use of leverage in the early days of Nextel and through other companies at the right time if it makes sense in the context of what Tim said earlier about our financial planning, it would be something we would consider. Tim, anything else you want to add there?

Timothy Gray

Chief Financial Officer, Anterix, Inc.

A

No. I would only add that Chase, yes, we're going to look at all the things we can put into our toolkit and see what's the best use for both Anterix and for our shareholders, and so more to come on our thoughts on that as we move forward with these contracts.

Chase White

Analyst, Height Capital Markets

Q

Perfect. Thanks guys.

Robert Schwartz

Chief Executive Officer, President & Director, Anterix, Inc.

A

Thank you, Chase.

Operator: We have no further questions from the lines at this time. I would now like to turn the floor back to Rob Schwartz for closing remarks.

Robert Schwartz

Chief Executive Officer, President & Director, Anterix, Inc.

Thanks, Catherine and thanks everyone for the continued time and interest. We look forward to talking to you all again soon. Have a good day.

Operator: Thank you, ladies and gentlemen. This does conclude today's conference call. You may disconnect your phone lines at this time and you have a wonderful day. Thank you for your participation.

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