Q4 2023 Earnings Call *(Corrected version)*

⌵ Event Details

Date: 2024-01-25
Company: Crown Castle, Inc.
Ticker: CCI-US

⌵ Company Participants

Kris Hinson - Crown Castle, Inc., Vice President of Corporate Finance & Treasurer
Anthony J. Melone - Crown Castle, Inc., Director, Interim President and Chief Executive Officer
Daniel K. Schlanger - Crown Castle, Inc., Executive Vice President & Chief Financial Officer

⌵ Other Participants

Simon Flannery - Analyst
Ric Prentiss - Analyst
Michael I. Rollins - Analyst
David W. Barden - Analyst
Brendan James Lynch - Analyst
Nicholas Ralph Del Deo - Analyst
Jonathan Atkin - Analyst
Batya Levi - Analyst
Richard Choe - Analyst
Eric Luebchow - Analyst

MANAGEMENT DISCUSSION SECTION

Operator

00:00:12 Good day, and welcome to the Crown Castle Fourth Quarter 2023 Earnings Call. All participants will be in listen-only mode. After today's presentation, there will be an opportunity to ask questions. Please note this event is being recorded. I would now like to turn the conference over to Kris Hinson, Vice-President of Corporate Finance and Treasurer.

Kris Hinson

00:00:30 Thanks, Scott, and good morning everyone. Thank you for joining us today as we discuss our fourth quarter 2023 results. With me on the call this morning are Tony Melone, Crown Castle's Interim Chief Executive Officer; and Dan Schlanger, Crown Castle's Chief Financial Officer. To aid the discussion, we have posted supplemental materials in the Investors section of our website at crowncastle.com that will be referenced throughout the call this morning.

00:00:54 This conference call will contain forward-looking statements which are subject to certain risks, uncertainties, and assumptions and actual results may vary materially from those expected. Information about potential factors which could affect our results is available in the press release and the risk factor sections of the company's SEC filings. Our statements are made as of today, January 25, 2024, and we assume no obligation to up-date any forward-looking statements. In addition, today's call includes discussions of certain non-GAAP financial measures. Tables reconciling these non-GAAP financial measures are available in a supplemental information pack in the Investors section of the company's website at crowncastle.com.

00:01:34 With that, let me turn the call over to Tony.

Anthony J. Melone

00:01:38 Thanks, Kris, and good morning everyone. Thank you for joining us. Before I begin, I'd like to take a moment to thank Jay Brown for his 25 years of service to Crown Castle, including the past seven as CEO. We are grateful for his many contributions over those years, and wish him well in his retirement.

00:02:01 As we work to identify the next CEO, I am also thankful for the board's confidence in me to lead the company during this interim period. I'm excited to serve in this capacity. I have been associated with Crown Castle for over 25 years, principally as a customer, but also as a joint venture partner in the early days, and most recently as a member of Crown Castle's board of directors. Over that time, I've witnessed the Crown Castle team of dedicated, talented people grow the company into the nation's leading provider of shared communications infrastructure. In my first few weeks in the new role, I have been impressed by the open, candid, and thoughtful discussions I've had with teammates throughout the organization. I am enthusiastic and optimistic about our path forward.

00:03:01 In the near-term, I will be focused on the following priorities. First and foremost, I am committed to ensuring that our organization continues to execute for our customers, positioning us to meet or exceed our financial and operating goals in 2024. Secondly, I want to facilitate a seamless transition to the company's next CEO. And lastly, I will assist the board in evaluating the alternatives that may come out of our strategic fiber review and help position the company to maximize shareholder value regardless of the outcome of that review.

00:03:46 My confidence in achieving these priorities is bolstered by having a closely-aligned leadership team that is focused on delivering strong operational performance. To that end, I'm pleased to announce that Dan Schlanger will continue serving as Crown Castle's Chief Financial Officer. Dan has been a valuable member of our executive leadership team for the past seven years. His expertise, leadership, and institutional knowledge will be vital as we position the company for success in 2024 and beyond.

00:04:25 In addition, Mike Kavanagh, currently our Chief Commercial Officer, has been appointed Chief Operating Officer for the Tower segment. Chris Levendos will remain in the role of Chief Operating Officer for the Fiber segment. The Tower, Small Cell, and Fiber Solutions sales teams currently under Mike will be distributed across these two organizations. I believe this change in leadership structure provides an enhanced focus on generating the highest returns in each business segment and will best enable us to maximize value across our portfolio.

00:05:12 We have also recently taken steps to further strengthen our company's board with the addition of three new directors: Jason, Sunit, and Brad, each bring valuable financial, operational and industry experience. We look forward to benefiting from their unique insights and expertise as we work to leverage our strong foundation and position Crown Castle for the future.

00:05:43 At this point, I'd like to share some of my personal insights into how I see Crown Castle positioned. In my 30-plus years of experience in the wireless industry, I have seen the tower business grow tremendously, particularly during periods of generational upgrades. During my time at Verizon, the shift from 3G to 4G required more tower densification than initially expected and more than initially deployed. The coverage and capacity from the new 4G technology and corresponding new spectrum that it was deployed on was not sufficient to meet the promised performance levels of that technology. This was especially true at cell edge and resulted in further densification over time.

00:06:41 I think a similar dynamic is in play with 5G. The remaining densification required to deliver on the promise of 5G performance will drive not only robust tower growth, but also significant demand for small cells. As the largest shared communications infrastructure provider in the US with a unique portfolio of towers, small cells, and fiber, I am excited to see how we can take advantage of these industry trends and deliver value to our shareholders.

00:07:20 As a final note, the work of the CEO Search Committee is underway. And the Fiber Review Committee is well into its work as it oversees the board and management's review of strategic and operational alternatives that maximize value across our enterprise. We will provide updates on each as developments warrant.

00:07:46 With that, I'll turn the call over to Dan.

Daniel K. Schlanger

00:07:49 Thanks, Tony, and good morning everyone. I want to start by saying how glad I am to continue serving as Crown Castle's CFO. This is a great company and a great industry, and I look forward to helping deliver on our 2024 plans, while positioning the company to grow long-term shareholder value.

00:08:05 Moving to 2023 results on page 4, we finished the year in line with our expectations. Full year site rental revenues grew 4%, which included $212 million of core organic growth excluding the impact of Sprint Cancellations. In the year, tower organic growth was 5%, supported by our decision to pursue holistic long-term agreements with each of our major customers. Tower growth remained resilient despite the industry-wide slowdown in tower activity in the middle of 2023. Additionally, small cell growth was 6%, resulting from 8,000 new nodes in 2023. We completed an additional 2,000 nodes in the year that are expected to begin billing in the first quarter of this year.

00:08:51 Finally, fiber solutions revenue was flat in the year. The slowdown in tower activity in 2023 had the most pronounced impact in our services business, driving a $100 million decrease in our margin year-over-year. The decline in services contribution along with increased interest expense from the rise in interest rates in 2023, partially offset our revenue growth, resulting in 2% AFFO growth for the year.

00:09:18 Turning now to page 5, our full year 2024 outlook remains unchanged. Strong underlying growth across our business continues to be supported by increasing data demand and the network densification required to meet it. We continue to forecast tower activity levels consistent with the back half of 2023, as well as accelerating small cell growth. With 2,000 nodes shifting from 2023 to 2024, we now expect to deliver 16,000 new nodes this year.

00:09:47 With respect to fiber solutions, we returned to growth of 3% in the first quarter of 2023 and continue to expect 3% organic growth in 2024. However, as discussed in our call last quarter, the following three items are expected to negatively impact our 2024 results. First, the $170 million of Sprint Cancellation payments we received in 2023 will not recur in 2024. Second, we anticipate a combined $250 million reduction in non-cash items, specifically to our straight-line adjustments to the amortization of prepaid rent. And lastly, we expect $55 million in lower contribution from services gross margin.

00:10:31 Due to these impacts, our 2024 outlook shows year-over-year declines in site rental revenues of $160 million or 2%, adjusted EBITDA of $250 million or 6%, and AFFO of $270 million or 8%. Normalized for the impact of the items I just mentioned, site rental revenues, adjusted EBITDA, and AFFO would show year-over-year growth of 4%, 5%, and 3%, respectively.

00:11:00 Turning to page 6, expected organic contribution to full year 2024 site rental billings remains unchanged, with consolidated organic growth of 2%, or 5% excluding the impact from Sprint Cancellations. The 5% consolidated organic growth consist of 4.5% growth from towers compared to 5% in 2023, 13% growth from small cells, as we expect 16,000 new nodes in 2024 compared to 6% growth in 8,000 nodes in 2023, and 3% from fiber solutions compared to flat in 2023.

00:11:37 Full year 2023 site rental revenues were $21 million above the 2023 outlook at the midpoint, inclusive of approximately $5 million higher-than-expected nonrecurring tower segment revenue in the fourth quarter. Our 2024 outlook for site rental billings remains unchanged and we expect year-over-year core leasing activity to be within the growth ranges in the chart.

00:12:00 Moving to page 7, we expect to deliver $65 million of AFFO growth at the midpoint, excluding the impact of Sprint Cancellations and the non-cash decrease in amortization of prepaid rent.

00:12:13 Turning to the balance sheet, in December of 2023 we issued $1.5 billion of long-term fixed rate debt, allowing us to end the year with approximately $6 billion of unutilized capacity on our revolving credit facility, a weighted average debt maturity profile of 8 years, and 92% fixed rate debt. Lastly, our 2024 outlook for discretionary capital remains unchanged at $1.5 billion to $1.6 billion, or $1.1 billion to $1.2 billion net of $430 million of prepaid rent received.

00:12:49 To wrap up, strong underlying growth across our business continues to be supported by increasing data demand and the network densification required to meet it. The contracted agreements we have in place provide line of sight into continued underlying growth over a multiyear period. We believe this growth provides a stable foundation for our current dividend and supports our 2024 CapEx plan without issuing equity. Our unparalleled domestic portfolio of tower, small cell, and fiber assets provides a growing number of opportunities to create value for our shareholders.

00:13:37 With that, Scott, I'd like to open the call to questions.

QUESTION AND ANSWER SECTION

Operator

00:13:44 We will now begin the question-and-answer session. The first question comes from Simon Flannery with Morgan Stanley. Please go ahead.

Analyst: Simon Flannery

00:13:59 **Question – Simon Flannery:** Thank you very much, and good morning. Tony, I appreciate the comments on the densification. It'd be great to get a sense of what you think the shape of that looks like. I think you just assume that we continue at that levels for the last couple of quarters. Do you think we sort of pick up then over the next two, three, five years as the traffic continues to grow? Or is it going to be a little more lumpy than that? And any comment on the current leasing environment? We did hear, I think, Nokia's CEO earlier this morning talking about expectations of some green shoots in the second half of this year. So if you're kind of having better more constructive conversations around plans, that would be interesting to know as well?

00:14:39 And then, Dan, just one thing for you on the discretionary CapEx. If there was a decision to do something on the fiber side, to what extent is that CapEx committed today versus still being something that could change later on, depending on what the committee comes up with? Thanks.

00:15:00 **Answer – Anthony J. Melone:** Simon, thanks for the questions. Appreciate it. Let's start with the shape and trajectory. It's hard to speculate obviously on the progress that the carriers might make in terms of densification. A lot depends on their own personal capital allocation decisions. My personal opinion based on history is that it will likely be a fairly non-lumpy approach over time. But it's very hard to speculate exactly how it will play out. In terms of some of the commentary recently, it's too early for us. We have not seen anything that would cause us to change our view of 2024.

00:15:52 **Question – Simon Flannery:** Okay. Thank you.

00:15:53 **Answer – Daniel K. Schlanger:** And I'll take the CapEx question, Simon, thanks. Most of what we have on the small cells side of our business is committed because we have customer obligations to build the small cells, those 16,000 that we have coming on air that we're building throughout 2024. But we obviously are going to be looking at through the strategic review anything we can to drive the most value possible including what our CapEx plans are. So we'll have that in mind, and if anything does change out of that, we'll update everybody. But as of right now, we see the same capital going for 2024 that we expected when we gave guidance in October.

00:16:31 **Question – Simon Flannery:** And could you just clarify that $2000 that sort of slipped into 2024? What was the situation there?

00:16:37 **Answer – Daniel K. Schlanger:** Sure. I think we discussed that a lot of the small cell node build that we had for 2023 was going to be back-end loaded, it was. And we built some at the very end of the year that we weren't able to start billing until the beginning part of 2024. So we're talking about something crossing over a year. So being a month later than we expected or even less than that. It just – when we get into trying to figure out exactly when a node is going to be completed, it's hard to stick to a day. But we feel like we have made the progress we expected to make during the year in 2023 of delivering for our customers, and the fact that the billing didn't happen just kicks it over into 2024.

00:17:20 **Question – Simon Flannery:** Great. Thanks, Dan.

00:17:22 **Answer – Daniel K. Schlanger:** Sure.

Operator

00:17:31 Our next question comes from Ric Prentiss with Raymond James. Please go ahead.

Analyst: Ric Prentiss

00:17:36 **Question – Ric Prentiss:** Thanks. Good morning, everyone. And Tony, good to talk to you again.

00:17:41 **Answer – Anthony J. Melone:** Thanks, Ric.

00:17:43 **Question – Ric Prentiss:** Couple of questions. First, Dan, appreciate the color on the 2,000 nodes for Simon. How should we think about what the disconnect of nodes were in 2023? And then I think there's another disconnect of nodes in 2024 probably around the middle of the year. Can you kind of help us understand was that like maybe 2,000 or 3,000 disconnected last year and maybe 3,000 to 4,000 getting disconnected this year from that Sprint and other?

00:18:10 **Answer – Daniel K. Schlanger:** Yeah, Ric, as we discussed in 2023, a lot of the Sprint Cancellations happened and some of those were on small cells. We churned about 5,000 small cells in the year, which is if you look at kind of the number of small cells we have on air, we started at 60,000 at the beginning of the year, took them down to 55,000 during the year with those 5,000 nodes, and now we're back up to 65,000 that are generating revenue for us at this point. I think we had talked about that. There is no more going into 2024 of actual churn, but there are some lop-over impact of having churn in the midpoint in the year that will then have a full year churn impact in 2024 which is what you're seeing. So we don't anticipate any significant or any churn really at all in our small cell business in 2024.

00:19:05 **Question – Ric Prentiss:** Okay. And then I think previously one of the churn slides had anticipated maybe 25 million of small cell churn split between 2024 and 2025. Is that still the case?

00:19:17 **Answer – Daniel K. Schlanger:** That is still the case.

00:19:19 **Question – Ric Prentiss:** Okay. And then one more esoteric question. American Tower has started recognizing some capital expenditures for exercising purchase option from carrier transactions. I think in your 10-K you all talk about you maybe have about $9 billion of purchase options that could come due over the next many years. How should we think about how that flow of money comes in? Is it ratably equal over those different periods, whether it was an AT&T set of towers or a T-Mobile set of towers, or any thoughts about giving us a table at some point about when that $9 billion worth of value could come in? And I think I did see a note that less than $10 million would come in before 2025. Just wanted a little more color on that, if I could?

00:20:04 **Answer – Daniel K. Schlanger:** Sure. So try to give a little bit of color is that as we went into some of the transactions where we purchased towers from our carrier customers, some of those were structured as long-term leases where we had a purchase obligation at the end, which is what you're referring to, the $9 billion obligation that we had. Those are not ratable. They really start to kick in in the mid-2030s area. And we will consider your comment there of providing more color or more certainty around when they come in in the future in some sort of table, but we're not close enough right now for that to be an obligation that we need to worry about at this point – sorry, and it's an option at this point, it's not an obligation. We have the option of doing so or not of that language on my part. But we can provide some of that color as we get closer, but we're still a long way away for that being a material number for us. And as you pointed out, less than $10 million just, it isn't something that in the near-term has much impact. And as it does and as we get closer whenever that might be, we can provide more color at that point.

00:21:12 **Question – Ric Prentiss:** Okay. Very good. Thanks, everybody. Stay well.

Operator

00:21:18 The next question comes from Michael Rollins with Citi Investment Research. Please go ahead.

Analyst: Michael I. Rollins

00:21:25 **Question – Michael I. Rollins:** Thanks. Good morning. Tony, I'm curious based on the experience you have over a whole number of years on the network side, as you look at the fiber segment for Crown, how do you see the opportunities for Crown's improved marginal returns on capital? And how quickly that could potentially happen within the organization with some of the changes that you're making and maybe some of the opportunities that you've been able to identify while you've been on the board and now serving as the CEO? Thanks.

00:22:05 **Answer – Anthony J. Melone:** Thank you, Michael. Certainly. As we look at performance in the fiber segment of our business, if I go back to my three priorities, clearly, improving performance in those segments is part of the strategy in terms of how we achieve our 2024 results and how we position ourselves better for the future. So, I have benefit from my own experience over 30-plus years obviously working with the management team here, but we also have the benefit of the strategic fiber review that's going on right now. So I will be informed from a lot of different directions. And based on that, I'm sure I'll get good insight in terms of the things that we can do. But as you saw from the announcement, there are certain things that I think we need to do right out of the gate. Personally, I like a management structure where accountability is unambiguous. The change in the COO structure I believe provides an opportunity to improve the returns we're getting out of the fiber segment. And I expect that to happen in 2024. I think there's other levers that are likely to be pulled that we'll be looking at through the process, things like capital allocation, things like cost structure, et cetera. And in terms of timing, yes, I do believe that we can make those improvements – make improvements in 2024 on the trajectory of our performance and our returns in that segment.

00:23:47 **Question – Michael I. Rollins:** Thanks. And then just one other question. Over, I suppose a few months ago, there were the press reports about Crown Castle considering selling or monetizing, I should say, part of its land portfolio, and there was some discussion of that on the last earnings call. Has Crown come to a decision about what to do in terms of monetizing land on a go-forward basis as part of capital allocation for the company?

00:24:14 **Answer – Daniel K. Schlanger:** Yeah, I don't think we commented at the time when those press release rumors came out one way or the other of what we were doing, but I do think that the overall concept remains that one of the things that we want to make sure of is that we are maximizing the value of all the assets in our portfolio, and if that includes something that we think that we can sell and generate better value for it in an external place than we can internally, then we would absolutely look at it. And that would include land under our towers, but only if we believe that the value we could get from an external party would exceed the value that we get as owning that asset. And like I said, that's true of all the assets we own. And if something does come up, we would obviously identify it and talk about it with our investors. But at this point, we don't have anything to talk about.

Question – Michael I. Rollins: Thanks.

Operator

00:25:08 The next question comes from David Barden with Bank of America. Please go ahead.

Analyst: David W. Barden

00:25:14 **Question – David W. Barden:** Hey, guys. Thanks so much for taking the questions. Dan, not that you went anywhere, but welcome back. Good to have you. I guess, Tony, my first question is could you talk a little bit about the order of operations of what's going on? Is the plan to make a plan with respect to fiber and then find the right CEO to fit with the plan or is the plan to find a CEO to help create the plan to own that plan and execute that plan? It would be interesting to kind of hear what is actually the plan and what the timetable is going to be?

00:25:56 And then, Dan, when we set 2024 guidance, lots hasn't changed. But what has changed is the rates environment, attitudes, opinions, consensus views around rates in 2024. And can you kind of elaborate a little bit on how that element of the 2024 outlook didn't change from what we were thinking in the third quarter guide? Thank you.

00:26:23 **Answer – Anthony J. Melone:** David, thanks for the questions. So both committees, the CEO Search Committee and the Fiber Review Committee's strategic review are underway. I think it's too early to speculate on how it will play out. I have great confidence in the CEO Search Committee and their process of evaluating and determining the best fit for our company. At the same time, I'm sure we'll have information coming out of the strategic review and that process. And so I think the two will naturally come together and provide us clarity in terms of how we move forward. So, at this point, it's too early to say a whole lot more about that. But I am very confident that the two committees will be approaching this very thoroughly.

00:27:18 **Answer – Daniel K. Schlanger:** Yeah, and Dave, on the interest expense, as you are well aware, market perception of interest rates moves around quite a bit. It moves up, it moves down. There are plenty of things in our guidance where we have ranges and what we think are reasonable expectations of what could happen. Some of those sometimes go better, some of those sometimes go worse, and very rarely do we get it right.

00:27:47 So what we do when we're talking about guidance is think about things in an overall perspective. And we believe at this point there isn't enough clarity around what interest rates are going to do, and even in the last, I don't know, two weeks the perception of what interest rate cut likelihood is in March has changed dramatically. So, we're not comfortable enough with what the interest rate environment looks like over the course of 2024 to make a change at this point.

00:28:14 And like I said, there'll be some impact at the AFFO level and there's going to be positive and negatives throughout the course of the year based on what we thought was going to happen and what actually happened. Only when they start to exceed the ranges that we've given will we consider changing the guidance at that point.

00:28:32 **Question – David W. Barden:** All right, great. Helpful, guys. Thank you so much.

Operator

00:28:37 The next question comes from Brendan Lynch with Barclays. Please go ahead.

Analyst: Brendan James Lynch

00:28:43 **Question – Brendan James Lynch:** Great. Thanks for taking the question. You guys have guided to 5% organic tower growth through 2027, which is largely already contracted in your MLAs. Can you talk about what level of consistency or volatility we should expect on a quarter-to-quarter basis for core leasing activity?

00:29:04 **Answer – Daniel K. Schlanger:** Sure. Just to clarify the comment you made, we've given some disclosure that through 2027 we believe our tower growth will average 5%, and 75% of that is contracted to date. And I think you can understand that there's more contracted in the early years than there is in late years but we believe that the amount of activity will support our 5% growth going forward

00:29:30 And in terms of volatility on a quarter-to-quarter basis, our business is very stable. But that doesn't mean that every quarter is the same. So, we will have volatility quarter-to-quarter, but over the course of the year, I think it is pretty stable growth pattern. And that has been proven over time. But even in the years, we grew at 5% in 2023, we expect to grow at 4.5% in 2024, that level of volatility will likely remain something in that vicinity. But when you talk about a business of our size and scale, that's not a huge amount of volatility overall. So, we feel good about both the stability of our cash flows and the growth of those cash flows over the next several years.

00:30:11 **Question – Brendan James Lynch:** Great, thanks. That's helpful. And then on churn, it was the lowest that you've had in at least five years, in 2023. Are you expecting it to be structurally lower going forward? Of course, this is excluding Sprint.

00:30:27 **Answer – Daniel K. Schlanger:** Yeah, we have said that we believe our churn is going to be between 1% and 2% per year. We were on the low end of that obviously in 2023, as you pointed out. There's nothing that would say that we're going to be outside of the 1% to 2% range, but we do think we're going to be on the lower end of it in the near-term, just given some of the churn historically has been related to consolidation churn that is not occurring anymore other than the Sprint consolidation that you just spoke of.

00:30:54 And we think that churn in the industry is very low. It's one of the reasons that it makes the tower business such an attractive business, is that we have growth driven by the things that Tony was talking about, densification, continuation of data demand, limited capital expenditure requirements, and limited churn, so we can have long-term growth without having to spend a lot of money. That's a great place to be, and we believe that churn will remain relatively low, on the lower side of that range for a bit.

00:31:23 **Question – Brendan James Lynch:** Great. Thanks for the color.

Operator

00:31:24 The next question comes from Nick Del Deo with MoffettNathanson. Please go ahead.

Analyst: Nicholas Ralph Del Deo

00:31:36 **Question – Nicholas Ralph Del Deo:** Hey. Good morning. And, Dan, glad to hear that you won't be going anywhere.

00:31:41 **Answer – Daniel K. Schlanger:** Thanks, Nick.

00:31:42 **Question – Nicholas Ralph Del Deo:** First, there's obviously been a lot of change and uncertainty in a pretty short period of time. I think about the reduction in force, the leadership and the board changes, the U-turn on the plan to centralize the organization, and obviously what's going on with the fiber review. In light of all that, how would you characterize morale and the state of the workforce? And are you confident that there won't be any sort of operating impacts or unwanted loss of human capital stemming from all that?

00:32:13 **Answer – Anthony J. Melone:** Nick, thanks for the question. Yeah, so in my time here, I've spoken to great number of employees, and I would say that the morale is good. I mean, obviously change is unsettling for people, but the employees want to just get down to work. They want to serve their customers, they want to drive the business forward, and I think they're excited about moving forward. So, I have not experienced in my short time here any evidence to say that people are reacting in a way that I would be concerned about our ability to execute on our plan in 2024 and beyond. So I've been happy with everything I've seen so far, and I think the employee morale is very good.

00:33:09 **Answer – Daniel K. Schlanger:** I'll add a couple things to that. I probably have a little bit more context given my perspective here First it's been great to see how Tony has engaged with our employees He's been talking to a lot of people. And I think the response has been very positive both as Tony just said from his perspective, but also people have appreciated his coming in with plans and ideas and not just sitting here doing nothing. Like, hey, we're going to make this better. And I think people like that. I think people like the direction. And as you pointed out, Nick, there's been a lot of change and a lot of uncertainty. And I think Tony has projected a view of understanding what we need to do and having an idea of how to get there, and I think that has been helpful.

00:33:57 And lastly, even in the fourth quarter, we delivered on what we expected to do, and there couldn't have been much more turmoil than in the fourth quarter for us. So I think that's just a testament to how well people stay focused on, as Tony pointed out, delivering for our customers and generating what we need to do for the business. And the overarching commentary that I've received recently has been just let us go back to work. There's been a lot of turmoil. We like what we do. We like working here. We like delivering for our customers. Just let us go do that. And I think that's the overarching feeling that we've gotten from most of our employees. And to which I would just say thanks to all of them who are listening. I know it's been a tough time, and appreciate all the dedication you've shown to getting things done anyway.

00:34:48 **Question – Nicholas Ralph Del Deo:** Okay. That's terrific to hear. If I can ask one more about fiber solutions, your bookings in that segment in Q4 were at a level that would get you to your 2024 guidance if they were sustained over the course of the year, and it was a nice step up from what we have seen over the last 1.5 years or so. I guess can you talk a little bit about what's behind the improvement so we can get additional comfort in its sustainability?

00:35:17 **Answer – Daniel K. Schlanger:** Sure. I think we tried to address this through 2023, because I think a lot of people were rightfully skeptical that we would return to 3% growth in the fourth quarter and as we talked about it. But we gave a couple reasons for that. One was we saw more activity in the first half of the year and we thought that it was going to come through by the fourth quarter and we had year-over-year comps that were a little easier to meet on the fourth quarter. So what we are seeing is a level of activity based on customers wanting more data to move and more connectivity for all of the general macro trends that are going on in the world right now that you're very well aware. Things like artificial intelligence and moving data to centralized data center locations or the cloud, whatever you want to call it, and just an overall amount of data increasing, data demand increasing from a wired perspective, not just wireless.

00:36:12 And we're seeing those transact in our favor and because of our focus on larger businesses, government agencies, education, medical, financial services, those types of industries, that demand generally has been a little bit more predictable than we've seen in the other parts of the fiber market like the small and medium business parts of the fiber market. And what we expected to come true has come true. Those bookings did happen. We did see the growth, and we do see that going into 2024 and all of the industry information and analyst expectations that we've seen would support our view that 3% growth is achievable in 2024.

00:36:52 **Question – Nicholas Ralph Del Deo:** Okay. Got it. Thank you, guys.

00:36:57 **Answer – Anthony J. Melone:** Thanks, Nick.

Operator

00:36:58 The next question comes from Jon Atkin with RBC Markets. Please go ahead.

Analyst: Jonathan Atkin

00:37:05 **Question – Jonathan Atkin:** Thanks, and welcome back, Dan. So with several new board members involved and obviously the new acting CEO, I just wondered if you could give a little bit of color about the operating metrics you're going to be examining or are examining around small cells and fiber that will inform your strategic review whether it's same tenancy growth and for fiber metrics and the small cell metrics may actually be separate. Can you give a little bit more color as to what you'll be looking at as you conduct a review or asking the committee to look at?

00:37:42 **Answer – Anthony J. Melone:** Jon, thanks for the question. I would answer that by saying the review will be a very thorough holistic review that will take into account all aspects of our operation. So to get more specific than that in terms of the nuances, you can be assured it will be a very thorough process. And obviously we'll allow the board and management team to be very informed in terms of what the best path forward would be.

00:38:13 **Question – Jonathan Atkin:** And I might have missed it, but what's kind of the timeline that you're looking at for conducting that?

00:38:22 **Answer – Anthony J. Melone:** We have not – I'm not going to speculate on how long the process will take. What I will tell you is we're very much into the process now. The board and management has been active in this since the beginning of the year. But I can't give you a timeline on when that will complete.

00:38:43 **Question – Jonathan Atkin:** And then two more questions. I'm interested in the backlog of small cells and roughly what portion of those incremental nodes are kind of second and third tenant versus requiring capital, maybe a rough split? And then lastly, I think it might be useful to review the history. You've done a lot of acquisitions over the years of NextG and Sunesys and Wilcon and FPL and Lightower and so forth. And as you look at the totality, the fiber business in particular, how would you characterize the product mix, how much would you consider to be more infrastructure versus managed services. Any kind of views on that I think would be useful to hear. Thanks.

00:39:30 **Answer – Daniel K. Schlanger:** Let me take the first one of those, Jon. In the backlog, we have about 50,000 nodes in our backlog, of which about 60% are co-location nodes. So as we've talked about, that number has moved over time where the majority of our nodes have been anchor builds for a long time and the majority of our nodes in the backlog right now are co-location nodes. So we're seeing a progression there. And I think that that does speak to over time a decrease in capital intensity to get to the same amount of growth.

00:40:05 On the product mix of our fiber acquisitions or our fiber business around infrastructure versus managed solutions, I think I would go back to what I said earlier which is what we really focused on was trying to deliver the right products to a larger base of – or base of larger customers that are generally more sophisticated than the general fiber market, which leads us more towards in many times an infrastructure build. But as the market does move and managed services becomes important, we are evaluating our product set to make sure that we remain top-of-mind with our customers and are delivering exactly what they need. But the vast majority of what we do is aimed at kind of those large scale enterprises. And they generally do have more sophistication in how they manage their networks internally and require less of the services that have become more in vogue recently in the fiber solutions business.

00:41:07 **Question – Jonathan Atkin:** Thank you.

Operator

00:41:11 Our next question comes from the line of Batya Levi with UBS. Please go ahead.

Analyst: Batya Levi

00:41:17 **Question – Batya Levi:** Great, thank you. Couple of questions. Can you talk about how we should think about capital allocation in terms of maximum leverage you would like to take on in the next year or two? And maybe an update on the operational efficiencies and cost control as you continue to take on the strategic review? And I think you had positive relocations. Is there any impact that we should be thinking about from that? And lastly, the pacing of tower leasing activity for 2024, the guide is 4.5% for the year. Should we expect guidance was more second-half weighted? Thank you.

00:41:57 **Answer – Daniel K. Schlanger:** Let me take the first one on leverage. Our target leverage is around five times debt-to-EBITDA. We understand that given the spending of capital over the course of 2024, along with some of the non-cash reductions that are going to reduce – or non-cash impacts that are going to reduce EBITDA, our leverage will tick up a bit. But we believe that over time, the growth in our business will allow us to naturally de-lever back to our five times and believe that we are in a good shape to do so.

00:42:29 I wouldn't talk about a maximum leverage at this point. I don't think we need to talk about it that way. What we want to do is maintain somewhere close to our five times. And then when we tick above it like we have recently and will continue to do in 2024, have very good line of sight into how we can bring it down with good capital management and good operating performance, which is what we think will happen.

00:42:51 **Answer – Anthony J. Melone:** Dan, why don't you answer pacing of the leasing, and then I'll circle back on the operational efficiency question.

00:43:01 **Answer – Daniel K. Schlanger:** Sure. On the pacing of leasing, it's generally level-loaded through the year. Like we said, we believe the level of activity in 2024 approximates what we saw in the back half of 2023, and we think that will remain relatively consistent. There is a little bit, as is typical, that is back-end loaded. There's a little bit more in the second half than the first half typically when we see the leasing, mostly because our customers act that way. They spend more money in the second half of the year than they do in the first half of the year. But it's not anything that I would speak to would cause a significant change in pacing of leasing activity in 2024.

00:43:38 **Answer – Anthony J. Melone:** Thanks, Dan. Regarding operational efficiency, the move to – with COOs with P&L responsibility, obviously is a step that I feel will improve our line of sight on the efficiencies needed in each segment, and I think that in and of itself will allow us to drive efficiencies. In addition to that, the work we did in 2023 in the middle of the year with consolidations, it's important to distinguish that from the consolidation that you're referencing that we reversed. Those are complete. The benefits of those were in the 2023 results and will continue and flow through into our 2024 results as well. So, we feel very comfortable with achievement of those efficiency initiatives.

00:44:35 When I looked at the consolidation that had been planned for the end of 2023 and early 2024, if you recall, we did not identify specific savings, and quite frankly, those savings were more longer-term in nature. So, the guidance we provided for 2024 and the efficiencies that we needed, I feel strongly that those efficiencies can and will be gained, irrespective of our decision to cancel the consolidation that was previously announced. So, I don't have any concerns in terms of achieving the efficiencies we need with respect to the change in that consolidation plan.

00:45:25 **Question – Batya Levi:** Got it. Thank you very much.

Operator

00:45:30 The next question comes from Richard Choe with JPMorgan. Please go ahead.

Analyst: Richard Choe

00:45:36 **Question – Richard Choe:** Hi. I just wanted to follow up on the backlog for small cells. Is that still being added to, but the overall level should come down given the higher build pace that you're having for 2024? And then I have a follow-up.

00:45:51 **Answer – Daniel K. Schlanger:** Yeah, the short answer, Richard, is yes, we continue to add to our backlog. It's just in small increments at times. And because we want to make those rounded numbers, we won't always announce everything we do. But given the size of the orders that we got from specifically T-Mobile and Verizon, we're working through that backlog with those customers, and that is the majority of the work that we're doing. And that is the majority of the 50,000 node backlog that we have currently. So, we do anticipate that as we deliver the 16,000 nodes that we expect to deliver in 2024, that the backlog will come down, based on the moving the amount of backlog into revenue generating, which is actually we think a very good thing.

Question – Richard Choe: And then, given the transition and strategic review period, is there potentially

00:46:44 a shift maybe to allocate more capital to towers in terms of builds or acquisitions, or is that something that you've largely stayed away from and that will continue?

00:47:06 **Answer – Anthony J. Melone:** Yeah, Richard, I think all options are on the table with the strategic review. I think it would be premature to conclude that we would do or not do anything specifically in terms of capital allocation. I think it's all fair game, and we'll be informed by the review. We'll be informed by just opportunities in the marketplace.

00:47:37 **Question – Richard Choe:** Great. Thank you.

00:47:41 **Answer – Daniel K. Schlanger:** Okay. Operator, I think we have time for one more question.

Operator

00:47:47 Our final question today comes from the line of Eric Luebchow with Wells Fargo. Please go ahead.

Analyst: Eric Luebchow

00:47:55 **Question – Eric Luebchow:** Hi. Thanks for taking the questions. So just – I know you said all options were on the table, but just wondering at a higher level with fiber solutions and small cells, is there any possibility you could consider divesting fiber solutions while retaining your small cell business or are they more or less married together where it's very hard to really split them apart from one another?

00:48:19 **Answer – Anthony J. Melone:** Eric, thanks. I think it would be pure speculation on my part. I think as I said, all options are on the table. I would not dismiss any option and would not suggest any option is more likely than another at this point in time.

00:48:40 **Question – Eric Luebchow:** Got you. And then, as you look at fiber solutions and small cells, I guess do you think there are ways you could operate the business more capital efficiently without sacrificing the future growth of the business, or does that just kind of naturally come from your improvement in the mix of co-location nodes versus anchor tenant nodes? Thank you.

00:49:00 **Answer – Anthony J. Melone:** I think we can improve how we operate the business and without impacting the future growth prospects, yes.

00:49:14 **Question – Eric Luebchow:** Okay. Appreciate it. Thank you.

Operator

00:49:20 The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.