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Anterix, Inc. (ATEX)

Business Update Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, ladies and gentlemen, and welcome to the Anterix May 2020 Investor Update Conference Call. At this time, all participants are going to be placed on a listen-only mode and the floor will be open for your questions and comments after the presentation.

It is now my pleasure to turn the floor over to your host, Natasha Vecchiarelli. Ma'am, the floor is yours.

Natasha Vecchiarelli

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

Good afternoon, everyone, and thank you for joining us. With me today are Brian McAuley, our Chairman; Morgan O'Brien, our CEO; Rob Schwartz, our President; and Tim Gray, our CFO.

Before we begin today's discussion, please note that any statements we make during this call that are not based on historical facts constitute forward-looking statements and our actual results could differ materially from those implied. Information regarding the risk factors that could cause such differences can be found in our public filings, including our current report on Form 8-K, which we filed with the SEC on May 18, 2020 and our quarterly report on Form 10-Q for the quarter ended December 31, 2019. Copies of our Form 8-K and Form 10-Q can be found on our Investor Relations webpage.

With that, I'll to turn the call over to Rob Schwartz.

Rob Schwartz

President & Chief Operating Officer, Anterix, Inc.

Thanks, Natasha, and good afternoon, everyone. On behalf of Anterix, it's my great pleasure to welcome you all to our first ever investor call where the FCC Report and Order is behind us and we can fully focus on the commercial opportunities ahead of us.

At last week's significant event, the FCC unanimously voted to enable broadband deployment in 900 megahertz. After a 5.5-year journey by Anterix, joined by industry, we now have a well-defined path to convert our nationwide narrowband spectrum that we hold in every county in the US into valuable broadband spectrum. Rather than summarizing in our words, let me read you a quote from FCC Chairman Pai from a recent press interview. "The record demonstrates that there is an ever-growing need by utilities and other industries for increased access to reliable broadband services and that businesses need wireless capacity that can accommodate a variety of applications to secure their operations against cybersecurity threats and natural disasters."

And in order to better assist our investors with their understanding of this historic rulemaking, on Tuesday, we published a shareholder letter that discusses the key elements of this order and the impact of the rules on enabling Anterix's business model. Morgan's going to elaborate on the ruling and our next regulatory steps in his comments shortly and we encourage you to read this shareholder letter which is available on the Investor Relations section of Anterix's website.

So now, we're unshackled to move forward with our customers, no longer held back by regulatory overhang or uncertainty. And now, it's all about execution, building up the substantial industry momentum that we have fostered to date. The [indiscernible] (02:58) is already changing, and it's not just us saying so. It started with the recognition of the utility industry needs by Chairman Pai, which I excerpted earlier, and is now being embraced by industry and government leaders in their own words.

One of the best places to see this is in the recent special addition of Public Utilities Fortnightly, the industry bible for utility regulators and C-level executives. If you haven't seen this yet, it's a must-read as it specifically focuses on the benefits of the 900 megahertz rulemaking to the utility industry and why utilities need to act fast if they are to capture this once in a generation spectrum opportunity.

Besides Chairman Pai, and please don't miss his video interview, the issue features interviews from Senator Mark Warner talking about the value of the scarce spectrum asset and its necessity for utilities. It features Southern Company's CEO and industry leader, Tom Fanning, explaining how as a pioneer in private LTE they reap tremendous benefits, including resiliency and cybersecurity, and also features the National Association of Regulatory Utility Commissioners or NARUC's President, Brandon Presley, talking about the valuable impact to rural broadband. And with this as a backdrop, I want to tell you more about the current customer engagements and our outlook for the future. So let's first focus on the market opportunity as defined by the scope of the demand from prospective customers that we've generated to date.

When you look at the full landscape of activities, we have been driving over the past couple of years at Anterix to stoke this demand, it includes pilots based on experimental licenses, our program with the Department of Energy's National Renewable Energy Lab, the Utility Broadband Alliance, and of course, our significant number of direct customer discussions with our business development team. In fact, when you combine all of these important and growing initiatives that are the entry points for utilities, there are over 60 discrete entities engaged with Anterix in these programs, all assessing their potential approach to building a private 900 megahertz broadband LTE system. And while we can't name specific customers that are under NDA, let me describe some of the select current opportunities.

One utility is moving rapidly to replace a legacy system that cannot support necessary future applications, and at their pace, they actually could be the next customer agreement in this fiscal year. In another customer instance, we're deeply involved in an RFP process for grid modernization. As part of this process, we're assessing the potential customer and demonstrating the necessity for the proposed system to their public utilities commission.

We anticipate giving support in a customer pilot demonstration with strategic partners to show the breadth of consumer benefits.

And then a third example, through another RFP process, we continue to help a large transmission customer move forward on their grid digitization and transformation program, commencing with a pilot scheduled for this year. Most excitingly, we also see this project potentially expanding into a regional opportunity with other utilities as we help the surrounding companies with their communication strategies.

Even in advance of achieving a regulatory milestone, our prospective customers have continued to progress through the pipeline. Our pipeline of over 40 utilities gives us greater confidence in our success and indicates the continued strong demand for our spectrum and as time has passed and now the cloud of regulatory uncertainty has lifted, we see the seasoning of many of these customers in the pipeline as they move through the sales process from initial interest into in-depth discussions to RFPs and pricing proposals and eventually, contract discussions.

While it's only a week after our Report and Order, with all of this positive momentum in mind, we're optimistic about signing agreements with one or two of these significant customers this fiscal year, keeping us on pace with our target projections.

On the new business front, our team is expanding and continues to present pricing proposals and respond to customer RFPs. These are often part of utilities' broader plans for advanced communications to support their grid modernization needs. Private LTE has been an important factor as it provides for replacing legacy networks that do not scale efficiently, but also enables future use cases as well with minimum incremental spending.

While customers have leveraged different on-site tools such as proof of concepts in the past, they're also leveraging virtual ways to learn and engage through our webinars, other meetings, and information-sharing from the NREL demonstration. Additionally, they're speaking with other utilities, engineering firms, and equipment manufacturers that have experience with private LTE. These activities are providing a solid and efficient foundation for commercial progress.

We are also keenly focused on our commercial readiness, especially within our sales, marketing, and operational support organizations. And our new COO, Ryan Gerbrandt, has been onboard now for about three months, preparing our operational capabilities and driving a robust pipeline of targeted customers towards execution of agreements and implementation as customers. Ryan's substantial leadership background in building and driving sales of valuable communications products, solutions and services to utilities specifically, gives me great confidence in executing on our important commercialization phase.

On the marketing front, we're executing on a series of events that leverage the big FCC news to drive further awareness and interest. As a sample, we had a roundtable hosted by Pete Tseronis, the former Department of Energy Chief Technology Officer, with a conversation among executives from Ameren; NIST, the National Institute of Standards and Technology; Burns & McDonnell, the leading engineering firm for the industry; and of course, Anterix. And yesterday, we participated in an industry roundtable hosted by Dentons' Co-Chair of their US Energy practice and featuring executives from Southern Company and Guidehouse talking about the breaking news of the Report and Order. We collectively gave firsthand views of the considerable value, necessity and urgency of the deployment of private LTE. We're also earning considerable industry media coverage and have a schedule of future events as well.

With the breadth of the growing demand, our primary focus remains on the larger investor on utilities as they're at the forefront of tackling grid modernization and have resources available to implement these plans. And despite past regulatory delays and current COVID-19 impacts, we still feel comfortable with the targets we set out last year in our Investor Day.

And with that, I do want to provide some additional color from an incremental learning since last year. One important element to understand is the scale of individual potential contract values of these target IOUs. As we do our work to prepare proposals and respond to RFPs, we see the opportunity for spectrum lease transactions with total contracted revenues over the life of initial lease that could range from the tens of millions of dollars for medium-sized entities up to the low hundreds of millions of dollars for larger entities, these being the most expensive spectrum markets typically.

Also worth pointing out is the geographic variability of pricing. As you may have seen from market comparables of spectrum auctions and private market transactions, pricing does vary greatly by geography, with the densest markets traditionally commanding the highest valuation premiums.

In the 600 megahertz FCC Incentive Auction, there was a 200-fold difference between the least expensive market and the most expensive market when measured on a megahertz-pop basis. Since the fair market value of spectrum is the most important input in our lease pricing, we expect to see significant geographic variation as we conclude pricing with customers.

And no investor call would be complete in these challenging times without discussion of the impacts of COVID-19 so I want to share some of our observations on the potential impact to the utility industry and therefore, Anterix.

Industry sources are reporting that utilities are focusing on operating through the current crisis, and there may be delays in capital expenditures and delays with some rate cases. We are being advised that this is expected to be temporary as the electric grid is seen by regulators as more vital than ever, including its importance in supporting our health care system and our economic recovery. It's clear that US electric companies remained strong, especially on a relative basis to other sectors and we expect to see continued focus on private LTE as a solution for increased resiliency to all forms of threats, including this COVID challenge.

And with that, I'll pass it to Morgan.

Morgan Edward O'Brien

Chief Executive Officer & Director, Anterix, Inc.

Thanks, Rob, and good afternoon, everyone. Any of you on today's call who are regular listeners may note that Rob Schwartz and I have reversed our order on speaking. This is principally symbolic and not a sign at all that Natasha has bumped me to second chair now that our long thought FCC decision [ph] is on hand (11:50).

The positioning does reflect a new and a pretty wonderful fact but first and foremost topic of concern to our investors from today forward will be our execution of the Anterix business plan, in particular our spectrum leasing business and just how quickly and efficiently we convert interest in the 900 megahertz spectrum to revenue. But I think you'll all agree that Rob should take first place as messenger with this crucial message.

Notwithstanding my joy at having put the FCC process mostly in our rearview mirror, I do intend to spend a few minutes this afternoon wrapping up that subject. Most of you know that we filed Tuesday this week a comprehensive analytical piece on the FCC's Report and Order where we'd lay out our view of how the new rules will govern the issuance of broadband licenses, a complicated process coming after years of consideration. But anyone interested in the details is best off consulting that paper. So I won't try to repeat that process here. I'm going to limit myself to just a few minutes sharing my personal view of the long-awaited outcome. What follows is my channeling David Letterman the top 10 things I love about the Report and Order.

Number 10, licenses are issued by county and Anterix is uniquely licensed in every one of the US counties.

Number nine, the technical rules. Strict enough to protect incumbents but consistent with global mandated equipment.

Number eight, to deal with the railroads. By swapping with 10 Anterix channels, the railroads give up six channels, three of which are in the broadband allocation and they fund their own retuning costs.

Number 7 in my top 10 list, a license term and build-out requirements. A 15-year initial term, a 10-year renewal expectancy, an achievable 6 and 12-year build-out requirement.

Number six, no auction. To avoid the uncertainty and delays inherent in an auction, the FCC has put a reasonable price on a vacant spectrum and then offers it only to the single broadband applicant.

Number five, mandatory retuning. Within the largely voluntary environment for retuning incumbents, there are some [ph] teeth (13:57), but just enough [ph] teeth (13:58) to discourage hold-outs.

Number four, any 240 but only 240. That means a broadband applicant may choose any 240 channels in a county out of 390 as the ones to give up, but only 240 are required. So when they access channels, over 240 can be kept.

Number three on my best list, virtually no user or use restrictions. As is its long-standing preference, the FCC opens this broadband spectrum to the widest possible variety of users and use cases.

Number two, a full 6 megahertz nationwide. That's two channels of LTE, plenty of capacity, and attractive latency for dozens of use cases.

And number one and my favorite, it's done and it was unanimous. Next time we host one of these calls, I plan to share a detailed view of our next regulatory challenge. Not a federal venue this time, but the states; not one FCC, but 50 state regulatory commissions.

Now, these state regulators we see not as barriers to be cleared but as important allies to be persuaded and won over. As we'll explain in the coming months, there are leaders as well as laggards among this group. Some are way ahead, some paving the way for or even requiring grid modernization investments. Our success at the states, unlike what we had to accomplish with the FCC, is not a condition precedent to signing leases and building a business. The resources we invest in these regulatory processes have a great advantage of adding strength to our product offerings by helping customers find an important source of capital towards their broadband capital requirements.

The goal we're setting is this: to develop a convincing rationale that spectrum leases at 900 megahertz are appropriate items for inclusion in the rate base and thus are eligible to earn a guaranteed rate of return. Of course, this is a process we began several years ago but our focus on the FCC was paramount until we got to the end. But now, many other projects have been underway and they can now come to the fore. But we're now moving to supplement our existing strong team with even more expertise.

The first example is the transition in the last few weeks of former FCC and California PUC Commissioner, Rachelle Chong, from serving on our board to a newly created position as Co-Chair alongside former Governor Jack Markell of an Anterix regulatory advisory council. Rachelle will make available substantially more of her time now then as a director to lead our effort to the state and federal level. [ph] We do believe she has (16:29) an equal knowledge and experience as the intersection of telecom and utility regulation. We are so pleased to have her on the team.

Joining Rachelle is another new player with a unique position to be useful as we further develop our state regulatory strategies. Brien Sheahan recently left service on the Illinois Public Service Commission as a commissioner and former chair of that body. Brien has been active not only in Illinois but nationally through his active role in the National Association of Regulatory Commissioners.

Now, Brien's a visionary leader and he'll play a pivotal role as we position Anterix to help utility customers through the ratemaking process. Among Brien's major accomplishments has been securing cloud services as a capitalizable element of rate of return regulation, a really good example and analogy across his Anterix position, including spectrum leases and rate base.

Adding even more strength to our bench is Bob Gee, President of Gee Strategies Group and a 40-year veteran of the energy industry. Bob is our team's second former chair of the PUC, having served as the chairman of the Texas Public Utility Commission. His resume also includes stints at NARUC, Department of Energy, Federal Energy Regulatory Commission or FERC. And just this morning, at Bob's instigation, he and I partnered on a webinar hosted by the DC chapter of the US Association of Energy Economics. We were given an hour with this important audience of academics, regulators, and policymakers to introduce and explain the FCC R&O as it benefits the energy industry.

There's going to be a lot more to come in the future about the efforts Bob, Brien, Rachelle and the rest of our team will be leading. Everything at Anterix speeds up as we're now free to take a broadband product to the marketplace. With no more FCC rulemaking needed, the process for perfecting broadband license is familiar to the team we have in place and we have a strong functioning partnership with our long-time ally, the Enterprise Wireless Association (sic) [Enterprise Wireless Alliance] for easing the retuning process.

I look forward to the next call and a chance to flesh out then the details of how we assess the opportunities of the regulatory process going forward. I'm really enjoying ramping up this next phase of our business.

Now, I'll turn it over to Tim Gray.

Timothy Gray

Chief Financial Officer, Anterix, Inc.

Thanks, Morgan. Good afternoon, everyone. I wanted to take you through some additional thoughts to support our confidence in our current long-term cash forecast and further elaborate on our revenue opportunities stemming from Rob's discussion earlier on our customer pipeline. Based on our customer prospects and corresponding revenue forecast, we have continued confidence in our previous revenue guidance and the associated projected timeline of achieving these goals that we announced last year at our Investor Day.

As we had shared then, we expect to exit our fiscal year 2024 with a portfolio of lease commitments which will have an annual run rate of revenues in the neighborhood of $125 million to $150 million, comprised of agreements with 6 to 11 of the top investor owned utilities. Our lease proposals continue to meet the customer demand and requirement for long-term, 20-year maturities. We continue to plan for these lease structures to contain annual pricing escalators and renewal options at 10 years each.

However, we believe some customers may opt to fully or partially pre-pay their leases for various reasons, including beneficial accounting treatment or that may be tied to the delivery of cleared spectrum. No matter how the customer chooses to pay their lease, even if we receive up-front payments representing the entire term of the lease, we will recognize revenues based on straight line payments over the term of the lease after any ramp-up period.

From a cash flow standpoint, these up-front payments will further strengthen our balance sheet and avoid the need for us to raise additional equity. Rob mentioned that we are still assessing what impact COVID-19 might have on our customers and specifically on decisions to move forward with the contract for our spectrum. Assuming no change in anticipated demand or customer contract delays due to COVID-19, we expect to begin to recognize spectrum leasing revenue by the fourth quarter of our current fiscal year and hope to report at least one or two signed agreements in addition to Ameren before March 31, 2021.

In some instances, we may receive a portion of revenue in advance of clearing a customer's full territory. For example, an LTE network can be deployed on a 1.4 by 1.4 band of spectrum versus the full 3 by 3 as we execute our clearing process in a customer territory and make available enough spectrum for them to deploy a 1.4 by 1.4 network, we could expect to receive a portion of the full lease payments for the use of that spectrum.

In that case, revenue would then increase as we ramp up to be able to provide capacity on the full 3 by 3 megahertz on which their network will ultimately operate. Revenues are dependent on the timing of the spectrum clearing process which varies by county, the FCC's administrative establishment of 900 megahertz licensing processes, and finally, the timing required by customers to approve spectrum leases.

While the visibility into the COVID-19 crisis impact remains limited, in the short-term, we are focused on maintaining current operating expense levels with the single exception of those investments required to expand our sales and marketing efforts, including our state regulatory goals in pursuit of customer contracts. Coming out of the crisis, we expect our expenses to rise as we add more resources to build-out our organizational capabilities. We are fortunate to have a significant cash balance which as of March 31, 2020 was approximately $137 million.

During our current fiscal year 2021, we expect to spend $50 million to $60 million, which does include spectrum clearing investments associated with making broadband available on our spectrum, which I will cover shortly. It's important to note that under the new rules, we remain in control of the rate of spend for spectrum clearing and can accelerate or decelerate as necessary based on customer opportunities and our available capital.

I'll also point out that because IOUs possess high credit ratings with strong balance sheets resilient to the current COVID environment, we believe we will be well-positioned to be able to finance or securitize our long-term spectrum leases if necessary. And to reiterate what we stated in our letter to shareholders earlier this week, based on our current forecast model, we do not expect the need to raise equity at this time.

With the FCC's ruling now behind us, we are focused on executing our spectrum clearing plans to pave the way for broadband on our 900 megahertz spectrum. And in the referenced shareholder letter, we also estimated that our go-forward spectrum clearing cost to be in the range of $130 million to $160 million. This estimate includes a series of cost, including those to relocate incumbents out of the broadband segment of the 900 megahertz band and into the narrowband segment, as well as cost to acquire incumbent spectrum and as needed, payments to the U.S. Treasury for the spectrum currently held by the FCC and needed in some counties to fulfill our broadband license application requirements.

As mentioned in the past, following the FCC's issuance of the Report and Order, we are now capitalizing all spectrum clearing investments, which will increase the value of our intangible asset on the balance sheet. When comparing our revised spectrum clearing cost to our previous projections of $90 million to $120 million, the approximate $40 million increase in such costs is primarily driven by anti-windfall provision mandated in the FCC's Report and Order.

This provision states that if the applicant cannot return 6 megahertz of spectrum, the applicant can acquire needed spectrum from the FCC's inventory and pay the U.S. Treasury which avoids a costly and time-consuming auction process. The anti-windfall payment is based on a megahertz per pop basis indexed in the 600 megahertz auction results. Anterix will minimize its overall costs where possible by weighing the benefits of acquiring additional incumbent spectrum versus utilizing FCC spectrum before applying to be the broadband licensee in each county.

We intend to spend a significant majority of these spectrum clearing costs over the next five years and we'll spend at our determined pace based on several key factors, including customer demand, market opportunity, and offsetting income from spectrum leases. Our initial three-year forecast of this spend was based on our assumptions that the FCC would limit the timeframe in which broadband licenses must apply for the broadband segment, which the final rules did not include. Therefore, we may choose to spread out the spend of our spectrum clearing costs over a longer period of time, further aiding in the preservation of our cash balance.

For the year ended March 31, 2020, we have spent $7.4 million and have commitments of $4.2 million related to spectrum clearing investments. In pursuing our clearing plan, we focused on areas with customer interest, for example, in Ameren's territory where we have a letter of intent for a proposed spectrum lease. We also recently announced a deal with Evergy to retune our spectrum out of the broadband allocation. This is of particular note given that it reduces the complexity of offering broadband services in the Evergy and surrounding service territories following the retuning. We have also recently signed an agreement with the largest spectrum holder in St. Louis to retune them out of the broadband segment.

Another final positive item to note. Since we only return a maximum of 6 megahertz to the FCC during the licensing process, Anterix will keep its 900 megahertz spectrum that it holds outside the broadband segment that isn't necessary for retuning. To add to that balance sheet asset, we will also likely expand our channel position in the band during the spectrum clearing process, which may result in approximately $100 million of spectrum value based on 600 megahertz auction prices.

As in the 900 megahertz proceeding as shown, some of the potential broadband customers have expressed their desire for additional narrowband channels and this will provide Anterix with further monetization opportunities. And as I stated earlier, some of these additional channels may be used to offset retuning-related cash spend.

That concludes our prepared remarks. I'll now turn it back over to the operator 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 Simon Flannery. Your line is live.

Simon Flannery
Analyst, Morgan Stanley & Co. LLC

Q

Great. Good evening. Congratulations again and thanks for all the detail in the letter and on the call tonight.

You talked about a pipeline of about 40 utilities. Could you give us a sense of what that TAM is in terms of covered households or covered pops? Are we talking about half the country or more or less than that? Any ballpark around there?

And then with the one to two contracts you're thinking of signing this year or you're hoping to sign this year, what's a reasonable expectation for the – to start seeing cash flows or revenues from that?

Morgan Edward O'Brien
Chief Executive Officer & Director, Anterix, Inc.

A

Hey, Simon. It's Morgan. Thank you. I'm going to see if Rob wants to take a stab at answering that.

Rob Schwartz
President & Chief Operating Officer, Anterix, Inc.

A

Sure. Maybe I'll start off on the pipeline piece and hi, Simon. How are you?

Simon Flannery
Analyst, Morgan Stanley & Co. LLC

Q

Oh, I'm good. How are you?

Rob Schwartz
President & Chief Operating Officer, Anterix, Inc.

A

The 40 entity that we talked about in our pipeline and 60 in aggregate including all those who have come in through the various activities like our Utility Broadband Alliance and NREL and the experimental licenses, they're really of a very broad sampling across the marketplace, not just the top 20 IOUs that we talked about in Investor Day. We're seeing plenty of those but also a lot of other representatives across the way, probably representing over 40 of the states around the country just to kind of give you a scale. So it's a very broad swath from a footprint standpoint.

Simon Flannery
Analyst, Morgan Stanley & Co. LLC

Q

Good. And then on the timing of the revenues and cash flows?

Timothy Gray
Chief Financial Officer, Anterix, Inc.

A

Sure. Simon, this is Tim. As I said during the call, right now, we're currently expecting to be able to start recognizing revenue on the spectrum leases in the fourth quarter of this fiscal year.

Simon Flannery
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Good. You don't have to have cleared the spectrum or that you would have cleared at least a 1.4 by 1.4?

Timothy Gray
Chief Financial Officer, Anterix, Inc.

A

Yeah. We would have cleared enough to start getting payments in from Ameren to start to recognize that revenue.

Simon Flannery
Analyst, Morgan Stanley & Co. LLC

Q

Great. And that was helpful getting the kind of the contract – total contract value. I guess you're talking assuming a 20-year license term for that. Is that right?

Rob Schwartz
President & Chief Operating Officer, Anterix, Inc.

A

Yeah. That's correct, but we're not going to give you more details on that specific deal until we've got a definitive agreement.

Simon Flannery
Analyst, Morgan Stanley & Co. LLC

Q

Understood. And how much do you think you're going to be able to give us in terms of deal economics so we can kind of understand what the kind of the value equation looks like more clearly?

Timothy Gray
Chief Financial Officer, Anterix, Inc.

A

So, yeah. So thanks, Simon. So we're working on that right now as to the exact amount of details we want to give. We want to give a right balance, [ph] want to give (29:16) investors the right amount of information but also keep the terms close enough so that as we negotiate with other utilities, we're not handing out enough to change potential other contract terms. So we got to manage that balance correctly.

Rob Schwartz
President & Chief Operating Officer, Anterix, Inc.

A

And just to add some of the good news for us is that it's market-based as far as the terms go and we talked about kind of the reference points of some of the way we get to fair market value as a basis and key input for our leases. So, confident that when we do reveal the scale of that agreement, which we will as we get further down the path, that will be enough information for investors to really understand the kind of scale we're talking about. And so we gave the broad scale numbers now and hopefully, we can narrow it down when we get closer to our ability to disseminate that more fully.

Simon Flannery
Analyst, Morgan Stanley & Co. LLC

Q

[Technical Difficulty] (30:07-30:28).

Morgan Edward O'Brien
Chief Executive Officer & Director, Anterix, Inc.
A

Simon, I'm sorry. I think your phone is breaking up as you were asking the beginning of the question. If you could repeat it, please.

Simon Flannery
Analyst, Morgan Stanley & Co. LLC
Q

You talked about $130 million to $160 million over five years, and I think you told us $50 million to $60 million of that will be in the first year. So I was just trying to get why you've gone from a three-year spend to a five-year spend and how should we think about fiscal year 2022, fiscal year 2023 as a drop-off significantly from 2021.

Timothy Gray
Chief Financial Officer, Anterix, Inc.
A

So, Simon, this is Tim. I did mention we would spend roughly $50 million to $60 million this year and the expectation is that roughly 50% of that is OpEx and 50% of that is going to be related to our spectrum clearing activities. And then we'll continue to ramp up into FY 2022 coming out of this year.

Simon Flannery
Analyst, Morgan Stanley & Co. LLC
Q

Okay. So, is that a good ballpark for [indiscernible] (31:17) as well, that $50 million to $60 million?

Timothy Gray
Chief Financial Officer, Anterix, Inc.
A

Yeah. From a spend standpoint, that sounds reasonable.

Simon Flannery
Analyst, Morgan Stanley & Co. LLC
Q

Okay, great. Thanks a lot.

Operator: Your next question is coming from [ph] James Radcliffe (31:25). Your line is live.

Q

Thanks and congratulations. A couple questions, if I could. First of all, following up on Simon, do have assessment of kind of what Map 1 and Map 2 look like from a pops perspective versus geographically?

And secondly, you're talking about interest from non-utility customers and are there any lists or trade-offs associated with your signed deals with utility customers for certain geographies that makes it potentially tougher if there is a customer out there that might be interested in a nationwide sort of footprint? Thanks.

Morgan Edward O'Brien
Chief Executive Officer & Director, Anterix, Inc.
A

Yeah. I'll take a stab at that, [ph] James (32:00). It's Morgan and then I'll ask Rob to fill in behind me.

As I stressed in my portion, there really are no restrictions on users or uses other than once we more or less impose upon ourselves. So, we've made it pretty clear publicly and in discussions with a number of potential users that we will do what's in the best interest of the shareholders of Anterix as we look at each opportunity. There's, in our view, a very compelling argument for the utilities to move quickly and seize the opportunity to have a de facto national footprint at 900 megahertz. But that, of course, is going to be up to the decisions that the individual utilities make and the timing in which they make them.

And in the meantime, as you know, we have UPS trialing and we have others looking at the spectrum position and there's nothing in the rules to prevent us from picking one type of user in one market and another type of user in another other than I say the sort of well, the strong arguments for why a nationwide utility network would be a great idea.

So, we'll have to see. You can rest assured each time we'll be sitting there saying as we ought to, what's in the best interest of the shareholders of Anterix.

Rob, do you want to fill in some on the first part of [ph] James' (33:33) question?

Rob Schwartz
President & Chief Operating Officer, Anterix, Inc.

A

Yeah. I think on the non-utility customers, just to add on that. I think we've talked about the experimental license with UPS as an example of broader interest. And you saw as part of the FCC Order, the railroad agreement that we completed with the American Association of Railroads (sic) [Association of American Railroads] and with that, we had to really work with all of the major freight railroads. And so we've built relationships with all of them and see interest there, in oil and gas complementary as well all. We think to utilities, the water sector, ports are all interesting segments for us.

So, I think we do see a lot of opportunity across numerous sectors. With that, we absolutely are focused on, we think, is the bull's-eye of our focus is utilities because of their ability and needs, right? The ability is that they – the ability to raise capital especially in this environment where they're still very robust companies with strong needs. And if you listen to any of the recent press things I just cited earlier or just was on this conference yesterday in this roundtable with Tami Barron, the CEO of Southern Company, where she really was talking a lot about these explicit needs that they have that can't be met by anything but a private network. And so both the capital needs and the operational requirements that are happening now, we think, that's just the best place for us to be focused.

Morgan Edward O'Brien
Chief Executive Officer & Director, Anterix, Inc.

A

[ph] James (35:01), could you repeat the first kind of part of your question? I think it had to do with coverage.

Q

Sure. So, you provided the maps in the shareholder letter, showing where you have greater than 50% of the band and where you have 90% [ph] testing (35:19) broadband segment and the like. Do you have some color on what those numbers look like on a pops basis as compared to a geographic basis? The counties where you're 50% or more, what percentage of US population that makes up?

Morgan Edward O'Brien
Chief Executive Officer & Director, Anterix, Inc.

A

Yeah. We don't have that data offhand, [ph] James (35:34) that I can quote to you now. I'm happy to maybe on a follow-up basis, but I think the key thing for us and the interesting thing is we translated the pops for the benefit of all of the folks who like us who come from the wireless space. But when you go in to talk to utility, interesting, their count is on meters and looking at service territory where they're covering a lot of area that doesn't even have people. It has substations and power lines and things that are there where there's value to spectrum that in traditional models there isn't. But let us follow-up and see if we can find you some data to look at those two on a pop basis.

Q

Thank you.

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

Mike Crawford
Analyst, B. Riley FBR, Inc.

Q

Thanks. Mike Crawford from B. Riley. So, I understand you can't divulge details of these non-disclosure agreements you have with people you're negotiating with, but when you're looking at metrics to help you to frame pricing discussions, when you get into that point, I mean is the 600 megahertz clearing price of $0.93 per megahertz-pop across the country, is that basically one of the best-selling points, or what else is important in these discussions?

Morgan Edward O'Brien
Chief Executive Officer & Director, Anterix, Inc.

A

Hey, Rob, you want to answer that?

Rob Schwartz
President & Chief Operating Officer, Anterix, Inc.

A

Sure. Sure. So, as we said and obviously, we don't want to disclose our full pricing model. The key input is fair market value, which is the 600 megahertz auction is one of the historical auctions, as you know. There's the AWS auction. There are other both public comparables, but there's also been a number of private market transactions that we use. So, it depends on the geography and we've got a great team that's been in the auction space since auction number one back in our Nextel days. And so we understand the data and the value.

So that's kind of getting to the fixed value then obviously, there's the financing value, the aspect of then putting on lease terms and being able to spread it out over terms that we said typically 20 years we look at with renewables. And so there is a factor that then says how do we make sure it's fairly priced over that period of time? So, does that answer your question?

Mike Crawford
Analyst, B. Riley FBR, Inc.

Q

Sure. That's helpful, Rob. And then what about the long-term structure of this company? This one where once where you've got all these leases, but then you would setup like a [ph] REIT like a teleREIT (37:59) or is this asset better placed into the hands of maybe existing strategic player that's already doing that once [ph] you have done the heavy lifting (38:09).

Morgan Edward O'Brien
Chief Executive Officer & Director, Anterix, Inc.

A

Let me take a crack at that, Mike. I think we have terrific variability in outcomes for this company and this stock and this asset that we've acquired. My own personal view of the future is that as a trusted agent of the utility industry, we become a foundational player in grid modernization and that's broadly defined, and I think we can play an important role. We're, I think, a necessary part of that as I see the future. So there are numerous ways that we can build value off of that.

On the other hand there, you can easily name strategic partners for whom integrating our opportunity into a broader business plan that they have might make perfect sense and it'll be something that our shareholders would definitely applaud. So, where we were in the past, focused, as most of you know, only at winning at the FCC. Everything else was weighed second.

Now, we have the opportunity to look and we are looking now at some of these down the road strategic opportunities to build value. Rob, do you want to add to that?

Rob Schwartz
President & Chief Operating Officer, Anterix, Inc.

A

No more. I think that really answered the question well.

Mike Crawford
Analyst, B. Riley FBR, Inc.

Q

Great. Well, thank you very much and congratulations.

Morgan Edward O'Brien
Chief Executive Officer & Director, Anterix, Inc.

A

Thank you so much.

Rob Schwartz
President & Chief Operating Officer, Anterix, Inc.

A

Thank you.

Operator: Your next question is coming from George Sutton. Your line is live.

Adam David Kelsey
Analyst, Craig-Hallum Capital Group LLC

Q

Hey, good afternoon. This is Adam on for George. Rob, sounds like you've been off to a pretty good start out – coming through with the pipeline. I was hoping you could add a little more color on the importance of timing with potential customers due to where they might be with the PUC for the rate case or resource plan?

Rob Schwartz
President & Chief Operating Officer, Anterix, Inc.

A

Sure. Hi, Adam. Thank you. So, there's a couple things a bit kind of mixed into the question. First of all, just about rate cases in general and as Morgan mentioned, this is something we have been focusing tremendously on really to understand the landscape and it is a landscape. Each state has their own public utility commissions and has a different paradigm. While they share information, they're centralized organizations like NARUC that we mentioned. They really have individual authority and when you go to an attorney to talk to about these issues, the answer is always – it's always and it depends based on the state, based on the utilities.

And so we're putting this tremendous effort, as Morgan talked about, about diving deeper and determining where and how we facilitate that process with utilities. There are utilities that need to go to the PUC in order to get their approval, in order to put in private LTE systems and there are those that actually that don't, and we've got everything in between. So don't means that they may already have a large pool of funds that's been approved, that includes a line item for communication systems and that can apply and we've seen typical cases like that.

We've seen others where they have an ability to in certain rate case environments where they can spend the money first, indicating that they're planning on going back to the PUC after the fact. And the scale of this, while it seems large to us, is relatively small. The scale for the spending for a private LTE system is small relative to the large tickets that they're talking about for their full grid monetization. So that's really to the PUC process.

So, on timing, it's typically dictated by the utility and their PUC. We see – they range one to three years typically as far as how frequently the cycle time of going back for rate cases. There are rate cases that happen in between that cycle if necessary. We saw that in California, for example, for dealing with some of the wildfire mitigation and in other areas where they needed money with. In the COVID time now, we're seeing some funding that has to come through to deal with certain issues. So it, unfortunately, is not a clean, single answer because it is something that's very different and individualistic by state.

So, Morgan, anything you want to add to that one?

Morgan Edward O'Brien A
Chief Executive Officer & Director, Anterix, Inc.

I do. I do want to. It made me think of something I want to add to this, Adam, which is that anybody who is looking at the papers sees that there is a growing interest in and debate over infrastructure funding, particularly responding to COVID and all the many deficiencies out there that have been shown up by COVID. I would expect and I think I hate to gain an advantage for something as terrible as this pandemic but I think the pace leading from the federal side, the pace of attention and resources put on grid modernization is going to pick up. It has to pick up. I see that everywhere that I read and as I say, I regret that it takes something like that to increase the pace but increasing the pace will benefit us.

Adam David Kelsey Q
Analyst, Craig-Hallum Capital Group LLC

Great. Thanks. One final question for you. In terms of the excess spectrum that you will have and plan to acquire, can you give us some thoughts on what you're considering strategically doing with it?

Morgan Edward O'Brien A
Chief Executive Officer & Director, Anterix, Inc.

Well, as Tim said, it's kind of the first and most obvious is that in major markets where we have, those are the situations where luckily we have additional spectrum. In those major markets, there's a hot demand for narrowband. Narrowband hasn't gone away. So narrowband continues to be a factor and as a part of negotiating with some of these very large potential users for broadband, we can see and we have had discussions with making available narrowband spectrum as well.

Other than that, if you look down the road far enough, you can see that 4 megahertz spectrum, which is what's left when you carve out the 6 megahertz, this 4 megahertz spectrum similar to the 6 megahertz can begin to accept, at some point, new types of technologies and that make it more efficient and more useful. We're not, in any way, promoting moving large incumbents off of that 4 megahertz as we presently are talking about moving them onto that 4 megahertz, but just as you look down the road.

So as Tim says, it's just a very beneficial aspect of the whole retuning process broadly defined that we're going to end up with significant spectrum value on our balance sheet that doesn't factor into the 6 megs.

Operator: [Operator Instructions] We have no further questions from the lines at this time.

Morgan Edward O'Brien

Chief Executive Officer & Director, Anterix, Inc.

Operator, then I'll just take a moment – it's Morgan O'Brien – to say to many of you our deep gratitude for your patience with us through this long process. It was a joint effort on our part and the faith of our investors for which we are always very grateful. And as we say, it will be a relief for us and hopefully for you to shift your focus on sort of the more normal metrics of measuring a successful business and we think we're going to do equally well there.

So, on behalf of the whole team, Natasha and Tim and Rob and the whole team, thank you so much for this opportunity and we look forward to the next chance of talking.

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