



Anterix Inc. NasdaqCM:ATEX

Special Call

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CALL PARTICIPANTS	2
PRESENTATION	3
QUESTION AND ANSWER	6

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Presentation

Operator

Good day, and welcome to the Anterix investor conference call. [Operator Instructions] Please note today's event is being recorded.

I would now like to turn the conference over to Natasha Vecchiarelli. Please go ahead.

Natasha Vecchiarelli

Vice President of Investor Relations & Corporate Communications

Thank you, and good morning, everyone. I'm Natasha Vecchiarelli, vice president of Investor Relations and Corporate Communications, and I welcome you to Anterix' investor conference call. Joining me today are Rob Schwartz, President and CEO and Ryan Gerbrandt, COO; Tim Gray, CFO; and Chris Guttman-McCabe, Chief Regulatory and Communications Officer. Before we begin, I'd like to remind you that we will make forward-looking statements during this call regarding future events and our anticipated future performance, such as our commercial outlook and guidance. These statements are based on current expectations and assumptions that are subject to risks and uncertainties.

Investors are cautioned not to place undue reliance on forward-looking statements. Additionally, we do not undertake any duty to update any forward-looking statements. Important factors and risks that could cause actual results to differ materially from the company's expectations are disclosed in our most recent SEC filings. These files can be accessed on our website or on the SEC's website. After Rob provides his prepared remarks, we'll open the call for questions.

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

Robert H. Schwartz

President, CEO & Director

Thanks, Tasha. Good morning, everyone, and thanks for joining this call-in short notice. I'm very excited to share with you that this morning, we announced the signing of another utility spectrum agreement, our fifth with Lower Colorado River Authority or LCRA. This agreement will provide LCRA with broadband spectrum in 68 counties of their approximately 73,000 square mile service territory in Texas. This agreement highlights the value proposition of our spectrum solution throughout the entire utility sector. Unique to our previous customers LCRA is a public power generation and transmission utility and also a water management utility, providing a multitude of vital services to Texans, created by the Texas legislature in 1934 LCRA has the critical role of managing 600 miles of the Colorado River and securing the water supply for more than 1.4 million people.

Notably, they're one of the largest public power providers of electricity in the state of Texas with over 5,400 miles of transmission lines across Central and South Texas. They provide wholesale electricity to more than 30 retail electric distribution utilities including many municipalities and cooperatives. And they own and operate more than 40 parks, recreation areas and river access sites along the Colorado River.

This agreement also confirms the importance of our Anterix active ecosystem that works with over 100 member companies to drive innovation of valuable use cases on our networks. While many of these use cases that LCRA likely will pursue will be similar to our first 4 customers, there are unique needs involving LCRA's water management and park management roles that ultimately will be supported by their private wireless network. LCRA currently owns and operates a 900 megahertz narrowband to a radio system, which it uses to meet its communication needs throughout its service territory and shares this system with a wide range of customers.

The new 900-megahertz broadband licenses will enable LCRA to move from narrowband to next-generation broadband and provide mission-critical data and voice services for LCRA's needs and to more than 100 external customers, including electric cooperatives, schools and transit authorities. Our ecosystem of solution developers stands ready to support LCRA and their community. For Anterix, LCRA

represents our second customer in Texas, and they will be an important partner in our continuing effort to develop a Texas wide broadband solution. We are also particularly excited about helping to serve the Austin area, a vibrant technology hub within Texas, where we are seeing growing innovation in energy and electrification.

In the many rural communities in LCRA service territory, we believe will gain tremendously from the 900-megahertz connectivity and the resilience and reliability benefits of private LTE. Also worth noting, LCRA was initially opposed to our proceeding at the FCC. Ultimately, in the final FCC rules, they were designated as one of the few complex systems, meaning they had a significant incumbent narrowband operation in our 900-megahertz band. Like our earlier customer, SDG&E the FCC's complex system designation for LCRA ensured that they would not lose access to their 900-megahertz system or have their narrowband system impacted unless they decided to voluntarily engage with Anterix.

We believe then, and this historic agreement confirms now that we can help LCRA move toward a state-of-the-art secure wireless broadband future. As we've said in the past, and as we did with SDG&E also as a complex system, we will find creative, collaborative and accretive approaches to transacting with utilities that have this designation.

Now I want to share a few details regarding the agreement. The spectrum purchase agreement includes a total cash payment of \$30 million plus the material contribution of narrowband 900-megahertz spectrum channels currently held by LCRA.

We expect to receive the initial 50% of the proceeds in the second half of this calendar year. And then as Anterix delivers broadband spectrum to LCRA an additional approximately 25% expected in 2024 and the remaining 25% expected through 2026. And consistent with all of our contracts to date, the combined cash and spectrum channel consideration represents what we believe to be fair market value for broadband spectrum in this unique LCRA service territory.

In addition to the proceeds, this agreement also includes our intentions to collaborate with LCRA and the utility industry in several ways, including helping to drive a much-needed Texas statewide 900-megahertz private broadband network. Participating in Anterix' active ecosystem activities and supporting industry efforts to promote private LTE network of network capabilities. I want to wrap up my prepared remarks by saying that as you can imagine, we are incredibly excited about this agreement and what it represents.

With 5 signed contracts in 14 states, we believe the industry continues to coalesce around this common 900-megahertz broadband platform to collectively solve the critical needs of a modernizing electric grid. It memorializes the clearing of yet another complex system. It opens new opportunities and use cases for our spectrum, and it shows that we can move utilities from demonstrated intent to contract. You will not be surprised to learn that LCRA was 1 of the 15 utilities that we mentioned on our recent investor call that crossed our threshold for the highest level of customer demonstrated intent the term we define to show these utilities that have measurably shown their intent to move forward with Anterix on a 900-megahertz contract.

The momentum continues beyond this LCRA agreement, giving us increased confidence in our future. Just in February, we have seen notable signs of incremental demonstrated intent from 6 additional utilities that are not within the 15 that we described in our top category. We've also seen further development within the 15 that have crossed the threshold, actually 14 now with the signing of LCRA, representing roughly \$800 million of opportunity. Two of these utilities have applied for federal funding for broadband infrastructure and another moving toward initial deployment.

As Anterix' fifth agreement following Amarin, Sempra San Diego Gas & Electric, Evergy and most recently, Excel. We believe the combined industry commitment and trajectory shows a clear inflection point. This nationwide movement to embrace 900-megahertz broadband wireless has touched all corners of our nation's utilities with networks built on 900-megahertz being deployed now in 14 states, including California, Texas and across the Midwest and with public actions, including experimental licenses and other activities from utilities demonstrating intent from Florida to New England.

This fifth deal signals moving beyond the early adopters has seen critical mass and the network effect taking hold across the industry. We are now well on our way to achieving our mission of being the de facto private broadband wireless solution for utilities. With that, I'll open it up for questions.

Question and Answer

Operator

[Operator Instructions] Today's first question comes from Phil Cusick with JPMorgan.

Philip A. Cusick

JPMorgan Chase & Co, Research Division

Can you remind us why this system was so complex and talk about some of the headaches that it took to get through this deal?

Robert H. Schwartz

President, CEO & Director

Sure. Thanks, Phil. Maybe I'll start and let Chris fill a little bit more. To the first part of your question about why the system is complex, as you know, when the FCC put their rules in place, they allowed a small group of few utilities and other incumbents that had larger existing narrowband systems rather than being part of the mandatory retuning that's that everyone else is facing, they had -- they were protected under this complex system definition to have voluntary retuning.

As a result, those parties didn't need to move out of the space. But as we've demonstrated now with both San Diego Gas & Electric, what we did with -- now with LCRA as well, we've shown that while they were part of the prior opposition, it's worth noting, as I mentioned earlier, that LCRA, when we first proposed this idea was not necessarily in favor of it. But now I'm proud to say and honestly, having all this time to work with the incredibly talented team at LCRA, we're now collaborating moving forward and helping them build a broadband system for all of the significant needs that they have in enhancing the quality of life for the taxes that they serve. Chris, do you want to fill any more on that one?

Christopher Guttman-McCabe

Chief Regulatory & Communications Officer

Yes, sure, certainly. Certainly, Rob. So I think if we look back at that FCC report and order, they defined a complex system as a narrow band system that was in operation that have 45 integrated sites. That's deepened in the weeds. But there were, I think, 11 at that time, spread throughout the country. We've created solutions for Evergy in the San Diego Gas & Electric footprint and now with LCRA. So we're slowly not only knocking them off and helping to clear and retune them, but as Rob referenced, bringing them on as customers. So the definition comes from sort of the scale and scope of the existing narrowband system. And if it crosses more than 45 integrated sites, it qualifies as this complex system.

Philip A. Cusick

JPMorgan Chase & Co, Research Division

Got it. And can you remind us where in the -- I can't remember where the stages of completion has this deal been and for how long?

Ryan Gerbrandt

Chief Operating Officer

Phil, it's Ryan here. Yes, we have the 3 phases of the pipeline, I think, that you're referring to. And then we augmented that with the measures of demonstrated intent. So yes, this one did close out of Phase 3. And I think notably, we also referenced in the remarks that it was in the highest category of what we've seen with demonstrated intent and as we said, kind of this journey with them kind of goes back to even the process with the exploration of the FCC.

So obviously, it's been significant in terms of the duration through the whole time but they've been in the Phase 3 category for somewhere less than the last year or so.

Operator

Our next question today comes from Walter Piecyk with LightShed Partners.

Walter Paul Piecyk
LightShed Partners, LLC

Just curious, when you talk about fair market value, is it accurate to assume that the fair market value today is higher than it would be a year ago or 2 years ago for this property or any property for that matter?

Robert H. Schwartz
President, CEO & Director

Yes. Thanks, Walt. Maybe I'll start and Tim may want to fill in some. So as you know, and I know you've been a student of spectrum and spectrum values over the decade since we've started auctions. We've talked about fair market value really being kind of down the fairway between the bookends of the 600-megahertz auction and the AWS-3 auctions.

We've obviously seen transactions since then, then we've seen some step-up in value and we're obviously strong proponents of believing that spectrum continues to increase in value, especially as the expansion of private use cases well beyond just the commercial carriers and the continued shortage of especially low-band spectrum like ours.

Tim, if you want to add to that?

Timothy A. Gray
Chief Financial Officer

No. I mean, while I think it's imperative to note that our pricing model does take into account current market conditions, including those latest transactions and the impact of inflation. So that is all built into how we look at these deals on a go-forward basis. I also want to just make sure that people understand this deal is the highlight is \$30 million in value, but there's also a channel contribution that we're getting from LCRA, which is worth in and of itself a couple of million dollars in direct cash savings to Anterix with lower anti-windfall payments that we'll have to make, and we actually file for the broadband licenses of the FCC.

Walter Paul Piecyk
LightShed Partners, LLC

At one point, I had dialogue with, I think, consultants that deal with the utility companies. These are people that the utility companies themselves higher. I don't remember asking this question, but is it also safe to assume that if I'm a consultant and I'm doing an appraised value, right, to justify whatever cost increase or however these utility companies do this stuff, that they also factor this into their valuation models, basically cost of capital that increases over time.

So just time itself as it relates to CPI or whatever factors they so choose have an impact on how they view value of an asset.

Robert H. Schwartz
President, CEO & Director

Yes, absolutely, Walt. The utilities, I think every one of the customers of the 5 we've announced to date have all hired experts in the area that have been well experienced in understanding the spectrum market in both public and private market transactions as reference points and build them complicated models to get to valuation, including adjustments for the time value inflation and other elements in that. So these are obviously long and complex processes of us getting through the discussions and negotiations, and those are all elements that enter into the conversations -- negotiations that ultimately end with conclusion on pricing.

And in this particular case, one we think is really represents good fair market value, obviously, for a complex system. As we said, these are unique transactions that the small set of complex systems that

Chris referenced, we're taking what we consider to be creative and collaborative approaches to getting deals done that are accretive for our shareholders.

Operator

And our next question today comes from George Sutton at Craig-Hallum.

George Frederick Sutton

Craig-Hallum Capital Group LLC, Research Division

Nice to see the deal. So when we look at your enthusiasm around the state of Texas, that would be suggestive of others potentially being in your pipeline. Can you talk about others that might have shown demonstrated intent in your pipeline from Texas?

Robert H. Schwartz

President, CEO & Director

So yes, George, thanks for the question. Look, the state of Texas, given its size has considerably more opportunity beyond LCRA for us. And as you know from some of the unfortunate incidents that have occurred in Texas with some of the weather instances they've shown some of the weaknesses of power system. We think it's really important for the state of Texas to continue to expand this kind of network to be able to provide the resiliency required to keep that network supporting all of the growing use cases. We've got 2 customers; Excel also had some territory there in the state and several others that we consider to be part of our overall pipeline. So we will continue to pursue opportunities in Texas and are certain that getting this LCRA deal done will have good impact on the understanding from those other customers as well.

Ryan Gerbrandt

Chief Operating Officer

Let me add, George. I was just going to add, George, kind of to the broader perspective, you're kind of referencing on demonstrated intent just to refresh. Of course, demonstrating temp, we're looking across all of our pipelines. So there were 60 that we've got currently in the pipeline, not just across Texas, but certainly are continuing to see the development, as Rob highlighted, overall. And just to remind, I mean, this is part of our core operating process.

It's something that the team use every day. It's really tracked our understanding about the customer journey, the different indicators that we see of their progress and exciting to see kind of continued development as we cited the 6 that aren't in the top 15 as we highlighted in February. And also, we're continuing to track the momentum as they're building even from within that category because it's critical to be able to continue to see those now as we communicated before, it still remains difficult even with that understanding of the customer intent to be precise with kind of forecasting dates, could take 6 months, it could take up to 3 years.

But we feel really confident in terms of what we see of those indications as this is an industry where they're very risk averse. And by making these indications of progress and sometimes even being public with their intentions around how they communicate what their plans are and the value that they see for broadband we take it as significant signals in terms of what their true intentions are, even though there's a lot of process and a lot of stakeholders that we got to be able to work our way through. So optimistic that we'll see that continue to develop in Texas and across the nation.

George Frederick Sutton

Craig-Hallum Capital Group LLC, Research Division

Having lived in Texas for some of those power failures, I would suggest there's a demonstrated need. Second question relative to -- you mentioned there's 2 customers that are currently seeking federal funding, just to confirm, would that be through the infrastructure and jobs build? Or is there a different pocket of funding that we should be aware of?

Christopher Guttman-McCabe

Chief Regulatory & Communications Officer

George, it's Chris. I'll jump in. Yes, it's the IIJA, BIL and now called GRIP programs. And so concept papers were submitted. They received encouragement and so full applications are either in or being submitted. And one thing to keep in mind, this first tranche of the funding is only so the first tranche is the first 2 years of funding. There will be 3 more years of this funding. And so we're excited.

We see it sort of as -- we had worked hard to set the table. And now the industry is looking at opportunities here and they'll have 3 more years to really dive in. But the initial indications from the Department of Energy were encouraging.

Operator

And our next question comes from James Ratcliffe with Evercore ISI.

James Maxwell Ratcliffe

Evercore ISI Institutional Equities, Research Division

Two questions, if I could. One, just any sense on what population we're talking here, the 68 counties, is that LCRA's full footprint? Or is this only a portion of it? And secondly, can you give us any color on what needs to happen to free up the spectrum. I understand a portion of the that band in that territory has actually held by LCRA itself. You mentioned they're contributing that. But how many other providers are there? And if there are any complexities associated with that?

Robert H. Schwartz

President, CEO & Director

Thanks James, why don't I take the second question first, and then Tim can take the first. Just in regards to freeing up the spectrum, as you know, and for those who don't, the process of us delivering broadband under our agreements as it has been in each of our agreements to date is that we negotiate with incumbents, move them out of the band and apply then to broadband spectrum. We've done so successfully in a number of markets, including recently, San Diego Gas & Electric, which is one of the most complicated markets for us, both with the number of incumbents and the kind of incumbents. And so in this market, I don't see it as different clearly, we have some significant incumbents that are thresholds for us to be able to get the spectrum clear, deliver on the spectrum and get paid. But it's what we do.

We've got a team in place that has done this for decades. Honestly, this is part of the next telco competency what we had, clearing narrowband and turning to broadband. It is the way in which we built the nationwide network previously. And so while it's significant and challenging work, I'm very proud of our team and what we've accomplished to date and what we can get done in this regard here in Texas as well.

Timothy A. Gray

Chief Financial Officer

James, this is Tim. As you know, when we did the Excel deal, we're not providing for competitive and other reasons, the exact population so that you can get megahertz per pop as we look to the next set of deals moving forward. But I will tell you for back of the envelope purposes, the 68 counties represent a little more than 10% of the population in the state of Texas.

James Maxwell Ratcliffe

Evercore ISI Institutional Equities, Research Division

Got it. And that's the full LCRA footprint that you [indiscernible]?

Robert H. Schwartz

President, CEO & Director

It's the vast majority of it. Yes.

Operator

Thank you. And ladies and gentlemen, this concludes our question-and-answer session. I'd like to turn the conference back over to Rob Schwartz for any closing remarks.

Robert H. Schwartz
President, CEO & Director

Thanks, Rocco. All I want to say here is that we really couldn't be any more excited about this next customer and importantly, what it signifies for us in our continued mission to define the de facto standard for broadband wireless for utilities and beyond. Importantly, we're really proud of this meaningful mission for the role we're playing in helping bring reliability, security and clean energy to our nation's electric grid. And with that, thank you, everybody, for your time this morning.

Operator

Thank you, sir. This concludes today's conference call. We thank you all for attending today's presentation. You may now disconnect your lines, and have a wonderful day.

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