The Case for Cell Tower REITs

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Cell tower REITs lease antenna space on thousands of towers to major wireless communication providers. These REITs combine predictable long-term revenues with significant long-term cash flow growth. Annual three percent rent escalators provide inflation protection and the ability to add multiple tenants to the same tower provides significant cash flow growth. Demand for new cell towers is driven by population growth, technology innovation and data proliferation.

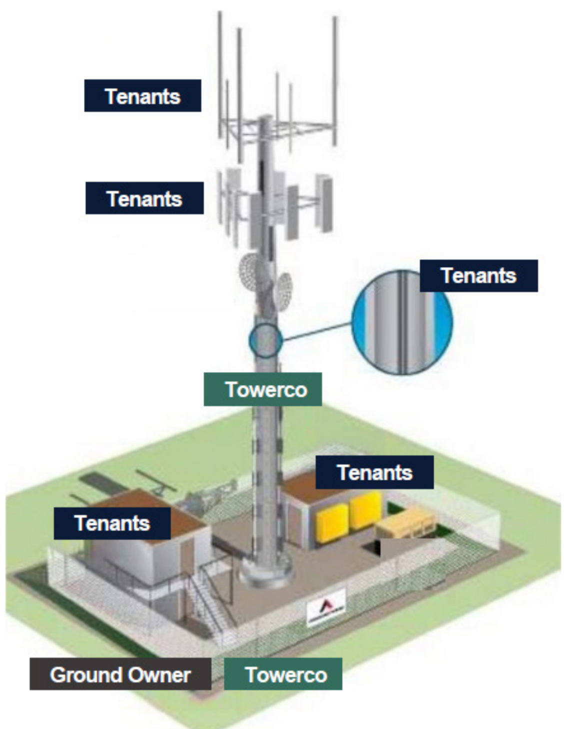
Tower Ownership Model

Tower REITs own a network of vertical tower structures upon which their tenants place their communications equipment. Their tenants are large telecommunications firms (i.e. AT&T, Verizon, T-Mobile/Sprint, Dish Wireless) that provide cellular phone service to consumers and businesses. These telecommunications firms enter into long term leases with the Tower REITs to host their equipment on the REIT's towers.

Tower Ownership Model

What is a tower?

- A vertical structure
- The tower does not transmit or receive
- Wireless tenants lease space on the tower
- Typical capacity for 4 - 5 tenants



Owned by Towerco

- Towerco owns vertical steel structure
- Towerco typically enters into a long-term lease for land parcel, but may buy it

Owned by Tenants

- Wireless tenants lease space on the tower
- Wireless tenants pay for, own, install, insure and maintain all equipment:
    - Antennas and cables
    - Shelters
    - Base station (electronics)

Source: American Tower.

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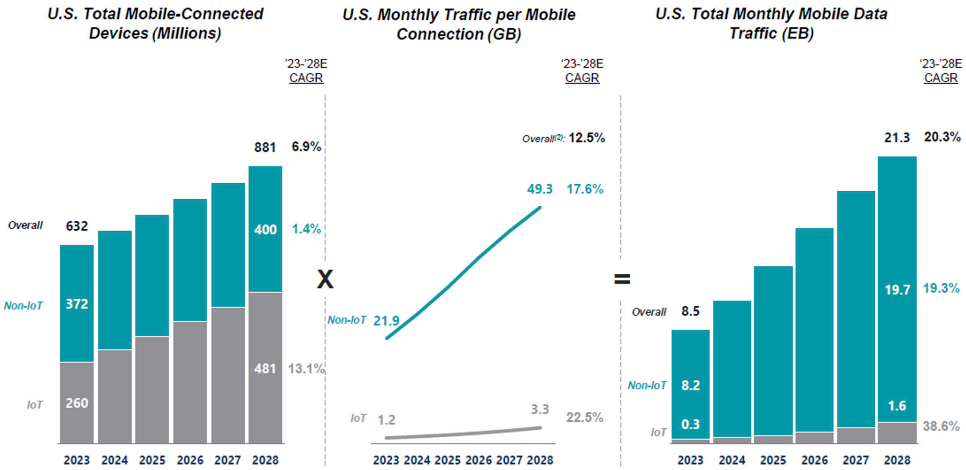
Tower Demand Drivers

Demand for the towers is driven by several macro trends, including population growth, technology innovation and data proliferation. Population and smartphone growth increases the utilization of cell towers and necessitates the development of more towers to improve call quality and down/upload speeds. Technology innovation refers to the network that the telecommunications firm tenants create (i.e. 4G, 5G and one day 6G). The move from 4G networks to 5G will result in a higher quality signal that travels over a shorter distance. This will necessitate building a denser network (more towers) to handle the new, higher quality signal. Finally, data proliferation is driven by the creation of more applications that utilize cell tower capacity (streaming, social media, e-commerce, AI, crypto, video conferencing). The increased utilization of the cell tower network with data-intensive applications drives the demand for more towers to increase network capacity. The tower networks are mission critical infrastructure for the telecommunications firms without which, they cannot operate their businesses.

Data & Device Growth[1]



(1) Forward-looking data points reflect research estimates.
(2) Overall average data traffic CAGR lower than both non-IoT and IoT CAGR due to mix shift from higher usage non-IoT devices to lower usage IoT devices.

Notes: IoT based on M2M module connections, traffic and data usage; Non-IoT includes everything other than M2M modules (e.g., smartphones, tablets, laptops and feature phones).

Source: American Tower Corporation: Financial and Operational Update. Second Quarter 2023.

The Internet in 2023 Every Minute

Source: eDiscovery Today and LTMG.

Tower Economics

Competing telecommunications firms often host their equipment on the same towers to leverage the capital investment of the Tower REITs. As the table below demonstrates, owning a tower that you are the sole tenant on is not a lucrative investment. This is why the telecoms sold their towers to the Tower REITs in the first place. A Tower REIT with two or three tenants on each tower generates significantly higher returns on investment. This is because adding a second or third tenant does not materially increase the operating costs and does not require an additional capital investment. Adding additional tenants to an existing tower drives significant margin expansion and return on investment.

In the U.S., cell towers can generally be built for $275,000 and the initial tenant usually pays a discounted level of rent. Cell towers with one tenant generate Gross Margins of ~40% and an ROI of ~3%. However, the addition of the second and third tenants drives margin expansion and return on investment growth. This tower can now be sold for a ~30x to ~40x multiple of its cash flows, creating significant value for the tower developer and eventually the tower owner (Tower REITs).

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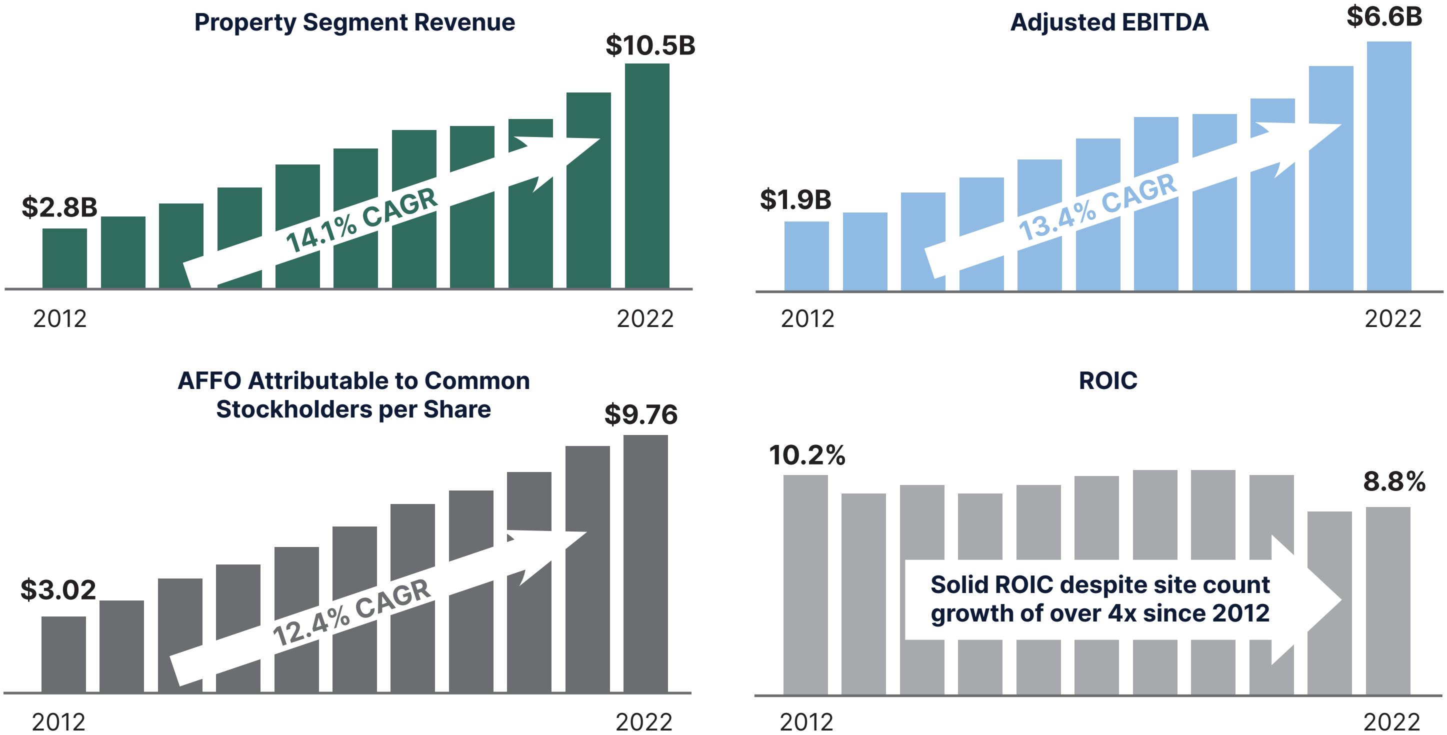
U.S. New Macro Tower Build Economics Drive Strong ROI

	One Tenant	Two Tenants	Three Tenants
Construction / Upgrade Costs ($ in USD)	$275,000	-	-
Tenant Revenue	$20,000	$50,000	$80,000
Operating Expensed (including ground rent, utility, monitor)	$12,000	$13,000	$14,000
Gross Margin	$8,000	$37,000	$66,000
Gross Margin (%)	40%	74%	83%
Gross Margin Conversion Rate (%)	-	94%	97%
Return on Investment	**3%**	**13%**	**24%**

Source: American Tower.

This arrangement benefits both parties as the telecommunication firms can offer similar national coverage networks without having to fund large capital expenditures. The Tower REIT benefits from increased utilization of their tower network, which drives margins and return on capital.

American Tower Results

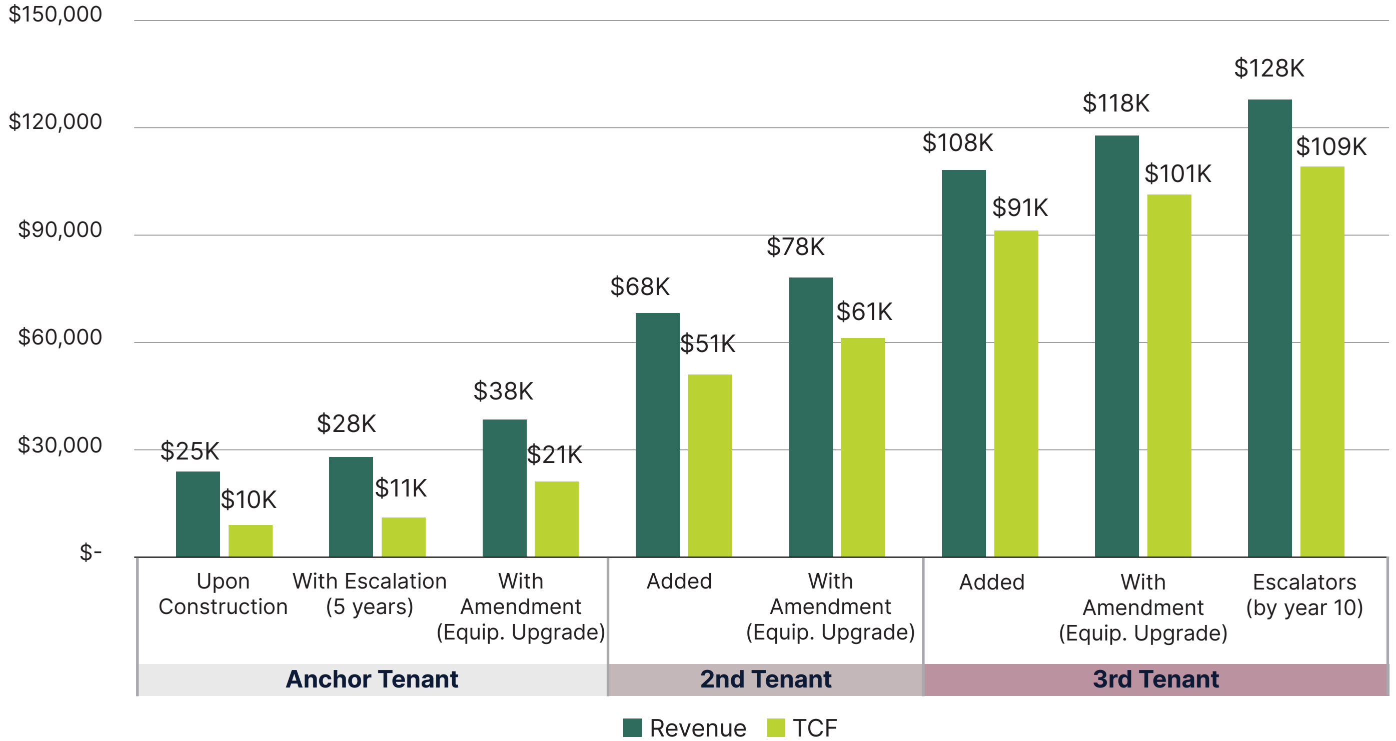


Complemented by average annual dividend per share growth of >20% since 2012

Source: American Tower.

Tower cash flow multiples are elevated because of the transparent long-term cash flow growth each tower possesses. First, tower leases contain annual three percent rent escalators that provide built-in cash flow growth. Second, when telecommunications firms upgrade their equipment on the towers (i.e. 4G to 5G) they pay additional rent. Finally, adding new tenants to the tower drives strong revenue and cash flow growth. The ability to grow cash flows by 100%+ is what keeps acquisition multiples elevated.

Example of Modeled TCF Growth Over Extended Time Period



Tenant adds and equipment upgrades drive TCF and value creation

Source: Peppertree Capital.

Why Invest in Cell Tower REITs

Cell Tower REITs provide essential services to society by enabling wireless communications. Population growth, technology innovation and data proliferation all drive the demand for more towers. Long-term lease agreements with wireless telecommunications providers ensure reliable cash flow with inflation protection and significant growth potential.

The success of Cell Tower REITs is rooted in the growing demand for increased data at faster speeds, leading to the need for more towers and periodic equipment upgrades. Investing in Cell Tower REITs offers investors a unique opportunity to diversify their portfolio and enhance returns within the realm of infrastructure-related real estate. Cell Tower REITs provide rising dividends and the potential for long-term growth, making them an attractive option for Canadian investors.

We invite you to partner with us.

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