June 1, 2023

Cellnex Telecom

Current share price: **€37**	Target price: **€56**	Upside: **51%**

1. Company description

Cellnex Telecom (or "Cellnex" or "the Company") provides services related to infrastructure management for telecommunications through the following segments: Telecom Infrastructure Services, Broadcasting Infrastructure and Other Network Services. The Company is the main neutral (without the mobile network operator holding as a shareholder) infrastructure operator for wireless telecommunication in Europe, with close to 130,000 towers in 12 countries. In 2022, with 3,000 employees, Cellnex generated revenues of €3.5bn and adjusted EBITDA of €2.6bn.

2. Investment case thesis

Despite the challenging macro environment in 2022, marked by geopolitical tensions with the war in Ukraine, raising inflation, tighter monetary conditions, Cellnex grew strongly thereby consolidating its position as the leading independent telecommunications infrastructure company in Europe.

Cellnex is incentivized to increase its tenancy ratio from the current 1.36x. Tenancy sharing (or collocation) growth is supported by 5G where Cellnex is well positioned to benefit from its leading market position within the European 5G ecosystem.

Towers are like real estate in the sense that they comprise only the infrastructure. Therefore, the trend has been for telco operators to sell their towers to passive infrastructure operators. We believe Cellnex is likely to keep being active in and benefit from consolidation in the fragmented European tower market.

We see short-term catalysts coming up over the next few months:

- Recent appointment of Marco Patuano, the new CEO, starting June 4th
- Guidance update
- Investment grade rating by S&P earlier than expected
- Strong cash flow improvement as capex decreases
- Takeover target

3. Telecommunication

Cellnex has been growing strongly over the past few years thanks to geographical expansion. The Company benefits from the 'classic' telecommunication companies selling their towers business.[1] Towers comprise only the infrastructure. The trend has therefore been for the towers to be managed by a non-classic-telco operator as tower management is a different business. Tower owners/operators are incentivized to increase the tenancy ratio (attaining 2-3 customers per towers provides good solvency). Tenancy growth is technological advances, such as 5G. The business is lucrative for main neutral infrastructure operators such as Cellnex.

The Company is well positioned within the telecommunications sector. Over the last few years, operators of networks and infrastructure have managed to ramp up capacity, benefitting from heavy investments in an unprecedented roll-out of networks. "Fibre-optic connections and high-speed

[1] Such as Telekom Austria

mobile technologies enabled the exponential increases in data consumption that occurred. This connectivity has facilitated personal and professional proximity in a historic period of isolation (referring to the Covid pandemic lockdowns). Cellnex has benefited from and contributed to this digital transformation, much of which is likely to stay."[2]

4) Organic vs Inorganic growth

Building scale: Inorganic growth

Up to the end of 2022 and since 2015, Cellnex has made over 40 deals, enabling the Company to become the European market leader of telecom infrastructure in Europe. The reasons for being so acquisitive are due to:

- limited interest in acquiring and owning towers
- limited competition
- low pricing

These three key factors[3] allowed Cellnex to make numerous acquisitions and build significant scale; this is how Cellnex became an important player in the European market. Then, competition drew in, making it more difficult and more challenging to complete deals that fit Cellnex's strict financial criteria. Furthermore, in today's current market environment, increasing interest rates make it more expensive and difficult to finance transactions.

In short, the good deals of the past are now scarce, and that should hold for the foreseeable future.[4] The strategy is now shifting, but we do not rule out any acquisitions, if conditions and pricing allow.

Strategic pivot: organic growth

In 2023, with the strategic pivot, organic growth will be become the focus, thereby opening a new chapter in the equity story of Cellnex. The Company currently has 15 anchor tenants.[5] Cellnex's diversification across 12 countries will allow to leverage on these existing customers.

Cellnex is well positioned to benefit from its strong position within the European 5G ecosystem which will inevitably accelerate organic growth.

As per an interview with the Chairman, Cellnex will put a greater focus on organic growth to reach investment grade by S&P.[6]

Understanding organic growth: the mechanics

The driver of organic growth occurs when MNOs (mobile network operators) add the number of antennas to Cellnex's towers, which is required to provide spectrum to customers.

There are 2 elements that contribute to growth: 1) CPI-linked (65%) and 2) escalators (35%)

CPI-linked (65%)	Vast majority of contracts have a floor at 0%
Escalators (35%)	Fixed escalators between 1% and 2%

[2] Cellnex Integrated Annual Report 2020, page 4, comments from CEO
[3] As described by the Chairman of Cellnex
[4] Interview with the Chairman and the CEO of Cellnex - Integrated Annual Report 2022
[5] Anchor tenants – those for whom Cellnex built a tower via BTS
[6] Interview with the Chairman and the CEO of Cellnex - Integrated Annual Report 2022

The blended average of CPI-linked and escalators is 3.0% - 3.5%.

Revenue growth: Base x CPI / escalators

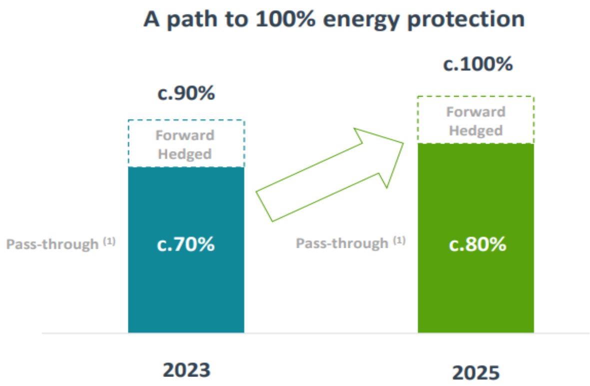
Secondly, volumes from Build-to-Suit (BTS, where clients pay to have an antenna on Cellnex's tower) and collocations add another 2.5% growth.[7] The guidance of PoPs' growth[8] of 5% provides Cellnex with a cushion for 2023.

Note that any second tenant (non-anchor) who adds his antenna to an existing tower will pay 50% of the price that the anchor tenant pays (1.25% vs. 2.50%). Let's assume the following example: Telefonica contracts Cellnex to build a tower for them so that they can deploy fibre/5G. In turn, Cellnex builds the tower. Once built, Telefonica becomes the anchor tenant. Now, Iliad wants to place an antenna on that tower, the price would be 50% of that which is paid by Telefonica. These clauses are stipulated in Cellnex's contracts.

<u>Nature of contracts</u>

15-year leases, with 15-year renewal mechanism.

As per IR, close to 100% of contracts are pass-through for electricity. This translates into a neutral impact at the EBITDA level.



As per the chart, Cellnex is on its path to 100% energy protection.[9]

Energy consumption	- Energy consumption is related to either customer equipment consumption or Cellnex's own (direct) consumption - Customer's energy consumption is invoiced to customers as a pass-through or other mechanisms - Cellnex's own consumption is mainly related to data centres, active equipment, and broadcasting - Active strategy based on forward hedging contracts and Power Purchase Agreements resulting in long-term price certainty and a more intensive use of renewable energy sources
Raw materials	- Only c.1/3 of BTS Capex associated with constructions costs - Hedging contracts with suppliers and customers to mitigate increases

[7] Note that the growth, as indicated by IR, are only related to the Telecom infrastructure Services division, which constitutes ~90% of sales. For a split of the divisions, please see Appendix a) Cellnex segments
[8] From Orange, SFR, Bouygues or Telefonica for example
[9] Cellnex Q3, 2022 results presentation, page 25

Why would MNO's join Cellnex towers

Cellnex is an independent infrastructure operator. Its' goal is to create an "efficient, neutral, quality telecommunications platform with innovative management to drive digitalisation in Europe". MNOs choose Cellnex because of its neutrality, its dense coverage, and its knowledge. Cellnex benefits from industrial expertise and therefore can assist MNOs by providing them with appropriate solutions.[10] Cellnex plays the role of a partner, where partnerships last for many decades.

5) Tenancy ratio development

When analysing a tower company one of the key KPIs is tenancy ratio; the average number of tenants sharing tower infrastructure.[11] Improved tenancy ratios indicates growth and expansion in specific markets and is an important component of new revenue creation, providing a relatively low cost means to increased profit.[12]

	Q1, 2022	Q2, 2022	Q3, 2022	Q4, 2022	Q1, 2023
Spain	1.95	1.94	1.98	2.01	2.02
Italy	1.52	1.53	1.54	1.57	1.6
France	1.17	1.17	1.17	1.17	1.17
Rest of Europe	1.25	1.26	1.27	1.24	1.25
Tenancy ratio total	**1.35**	**1.35**	**1.36**	**1.35**	**1.36**

As per the table above,[13] the tenancy ratio total remained stable in Q1, 2023 vs. Q4, 2022, at 1.36x (vs. 1.35x 4Q22). We note that, for instance, peer Inwit had a tenancy ratio of 2.16x by the end of 2022,[14] Vantage Towers had a tenancy ratio of 1.45x by the end of 2022.[15] There is clearly ample room for Cellnex's tenancy ratio to increase.

During Q1, 2023 tenancy ratio improvements come from Spain and Italy, and Rest of Europe.[16]

Spain: The number of sites remained flat at 8,769, while the number of tenants improved +83 (4Q22: +338), leading to an improvement in the tenancy ratio to 2.02x (vs. 2.01x in 4Q22).

Italy: The number of site additions remained strong at +289 vs +366 in the last quarter. The number of tenants improved +1,102 in 4Q22. The tenancy ratio therefore improved to 1.60x (vs. 1.57x in 4Q22).

France: The number of sites improved +310 (4Q22: +583), while the number of tenants improved +345. The tenancy ratio remained broadly stable at 1.17x

Rest of the Europe: The number of sites improved +509, driven by the UK and Poland with +133 and +252 site additions, respectively. The number of tenants in the Rest of Europe segment improved +1064, driven primarily by Poland and Portugal with +337 and +444 tenant additions, respectively.

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[10] Comments from IR

[11] Network sharing is a business model in which two or more communications service providers share network resources through joint ownership or by third-party-enabled network sharing (open networks). Definition of Network Sharing - Gartner Information Technology Glossary

[12] Improving the Tenancy Ratio: Creating Digital Twins of Assets | vHive

[13] Barclays Research: Cellnex – Steady quarter, CEO announcement next catalyst, page 4

[14] INWIT, financial statements at 31 december 2022 approved – INWIT

[15] 20230131_VantageTowers_Q3FY23_EN_release.pdf

[16] Rest of Europe includes the Netherlands, the UK, Switzerland, Ireland, Portugal, Austria, Denmark, Sweden, and Poland

The UK contributed +196 tenant additions in 1Q23. The tenancy ratio in the Rest of Europe segment therefore improved to 1.25x (vs. 1.24x in Q422).

Long-term

As Cellnex builds new towers, the tenancy ratio declines automatically. Now that BTS and expansion capex are being reduced, organic growth will largely be driven by collocation, and therefore, the tenancy ratio will increase. IR estimates that the ratio will increase to ~1.42x in 2025.

6) Q1, 2023

Cellnex delivered in-line results with solid operational momentum. Revenues, EBITDA and RLFCF (Recurrent levered FCF) were all in line with consensus.

EBITDA was €3m/0.4% below consensus, with France the main delta. Telecom site build was also slightly below estimates, driven by BTS phasing (capex remains elevated)

Highlights

- Tenancy ratio: 1.36x
- PoPs (Points of Presence) organic: +6.8%
- Revenues increasing +15%
- Adjusted EBITDA: +15%
- RLFCF: +12% - FCF trending to neutral by the end of 2023

Key points as per Q1, 2023 presentation

- Q1, 2023 was a solid quarter, both operationally and commercially
- Organizationally aligned on the execution of strategy (announced in November 2022) and meeting targets
- Focus remains on execution, maximization of cash flow, and conditional committed to Investment grade rating
- Continued focus on organic growth and operational efficiencies.
- Working on pushing debt maturities forward.
- Closing and integration of the Hutchinson Towers in the UK (2022)
- Better capital allocation policy to optimize returns
- Reiterating guidance for 2023 and 2025

7) CEO announcement

In early January, CEO Tobias Martinez announced his resignation with his departure effective June (In conjunction with the AGM). He has been with Cellnex since 2000, and CEO since 2014. At first, it seemed expected that his replacement would be internal (CFO and deputy CEO).[17] However, the

[17] Over the past 7 years, the other developed market towercos (INWIT, American Towers, Crown Castle and SBA) have all similarly promoted their CFOs to CEO.
Initial internal candidates
1) Jose Manuel Aisa Mancho (CFO & M&A Director since 2014). He is responsible for coordinating and heading Strategic planning, Management control, Investor Relations, Finance, Tax and Corporate Development.
2) Àlex Mestre Molins (Deputy CEO since 2021). His role includes working closely with the CEO, focusing particularly on identifying and implementing inorganic growth opportunities. He is also responsible for monitoring the development and growth of business units in all the countries where the Group operates
J.P.Morgan: Cellnex – The CEO saga intensifies. What could happen next, page 1

decision was made the day after the Q1, 2023 results to name Marco Patuano the new CEO. This decision was somewhat unexpected.

Marco Patuano has extensive experience in the telecommunications sector, as well as knowledge of the telecommunications tower ecosystem in Europe, as is the case with Cellnex, where he served as President (2018-2019). He also spent 25 years in executive positions at Telecom Italia (TIM) where he developed his career in key markets in Europe and Latin America.[18]

8) Asset sales/divestment

Cellnex is selling assets. The funds to be generated will serve to reduce debt. The priorities when it comes to selling assets are:

i) To divest minority stakes: process is short
ii) To divest operations in small countries: a) the sale process takes longer when compared to minority divestments b) small countries are in a phase of growth, so the full benefits are not yet achieved.
iii) To divest operations in large countries: full disposals would entail losing the opportunity to consolidate the market

These are all positive avenues to deleveraging.

9) Takeover target

It is not new that Cellnex is a takeover target. In February 2023, there were rumours that American Tower would make a takeover bid for Cellnex. The online newspaper OKdirario reported that American Tower had hired Alejandro Kowalski as new communication director for Europa, with the aim of reinforcing the communication staff ahead of the takeover that would make American Tower much bigger in Europe. However, it turned out the article had little credibility. Speculations of a takeover bid will support the share. In any event, we would not rule out any takeover bid from private equity.

Services

Cellnex's core assets are its towers. The Company's services are aimed at ensuring the conditions for reliable and high-quality transmission for both fibre and wireless telecommunication.[19] Furthermore, there are opportunities around the towers: fibre to tower, edge computing, which are part of the 5G network topology.[20]

5G

5G supports Cellnex's organic growth, but could allow for additional opportunities to keep growing with existing customers. As per the IR, 5G is in its infancy in Europe, well behind 5G deployment in the US.

5G technology offers an extremely low latency rate, the delay between the sending and receiving information. From 200 milliseconds for 4G, we go down to 1 millisecond(1ms) with 5G.[21]

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[18] Cellnex CEO role for Marco Patuano (broadbandtvnews.com)
[19] Cellnex Integrated Annual Report 2022, page 30
[20] Interview with the Chairman and the CEO of Cellnex - Integrated Annual Report 2022
[21] What is 5G? A helpful illustrated Q&A (2022) (thalesgroup.com)

Given the low latency, more space needs to be covered, so more PoP are needed, and therefore more antennas.

There is a long-term structural trend supporting Cellnex's growth in the years to come.

10) Investment grade (IG)

Management has committed to achieving investment grade (BBB- by S&P) by 2024. As per management's recent comments, this should be achieved soon, as it is a "overarching priority".

Once IG, management will need to refine two points: a) remuneration to the shareholders, and b) capex allocation/growth. Many capex programs are made available, but Cellnex will need to be selective in order not to deploy all funds upfront. Both items need to be constant with investment grade with S&P.[22] Cellnex already has an investment grade rating with Fitch.

Being investment grade with S&P will enable Cellnex to be in a better position to refinance the existing fixed debt in the bond market.

11) Cellnex versus American Towers (AMT)

Comparing Cellnex to American Towers (large US player), IR comments the following:

- Cellnex is an industrial player and long-term partner of its clients while AMT is oriented towards real estate (industrial role vs real estate)
- In terms of pricing, AMT has price amendments slightly higher, but their contracts are shorter than those of Cellnex (downside is higher for AMT). Cellnex contracts are 30-40 years and can't be broken, thereby providing high visibility in terms of revenues, EBITDA, and cash flow.
- AMT has exposure to EM so FX plays a role. Cellnex has a focus in Europe and is therefore in very healthy markers in terms of risk profile.

12) Valuation

Cellnex trades on 15x EV/EBITDA 2024e (based on Bloomberg consensus). However, a more appropriate metric would be to use EV/EBITDAal,[23] in which case Cellnex would trade on ~19.5x EV/EBITDAal, as discount to peers. Vantage Towers, for instance, trades on 26x EV/EBITDAal.[24]

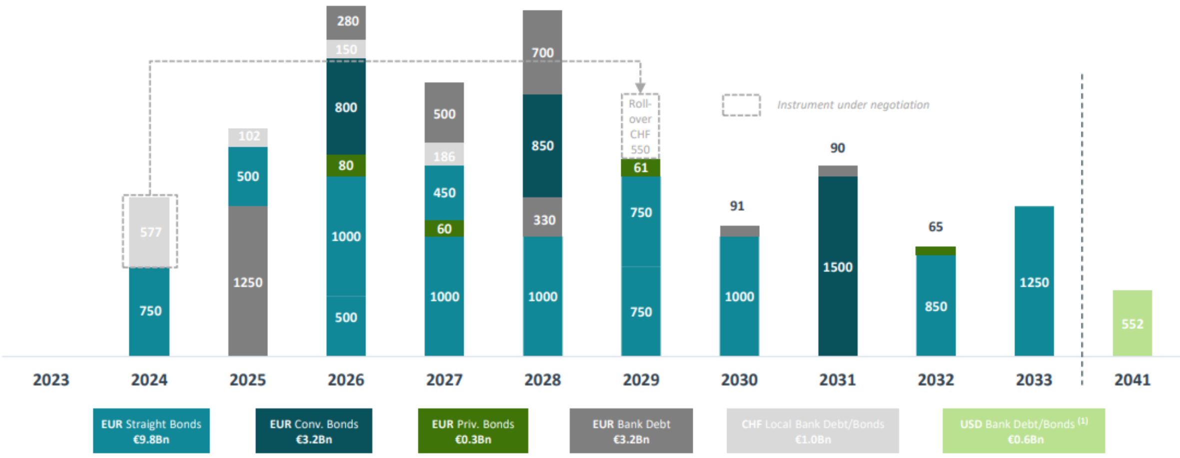
Capex for 2023: ~€2.16bn

Net debt 2023: ~€19.6bn

Cash flow should turn positive in 2024

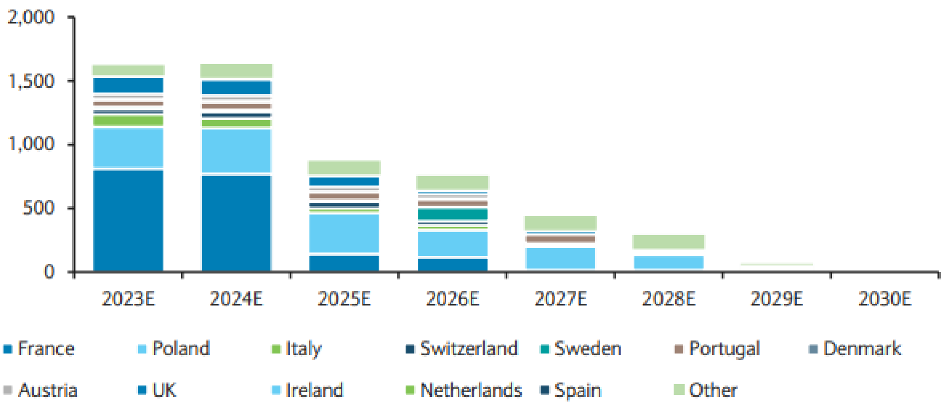
[22] Celllnex Q1, 2023 results presentation, comments from management
[23] EBITDAal – with "al" meaning "after lease"
[24] Barclays Research: Cellnex – Steady quarter, CEO announcement next catalyst, page 10

Debt



The chart above shows the Company's current financial structure.[25] Cellnex is currently working to push forward short-term maturities. As of Q1, 2023, there was a total availability of €4.3bn (€0.9bn cash and €3.4bn undrawn credit lines), with undrawn credit lines fully committed. Cellnex has a wide array of additional funding options available.

Deleveraging



The chart above[26] shows Cellnex's estimated BTS capex.[27] The Company continues to invest significantly in BTS programs (in majority in France and Poland). Capex for BTS should remain on high levels for the remainder of 2023 and 2024 at ~1.6bn, before being reduced in 2025 to sub €1bn. Following higher levels of capex, the following years will be driven by higher collocation rates and lower BTS.

Elevated expansion capex holds back deleveraging. Net debt/EBITDA stands ~6.5x, still below the 7x levels guided by management.

The strategy shift towards organic growth will enable Cellnex to deleverage.

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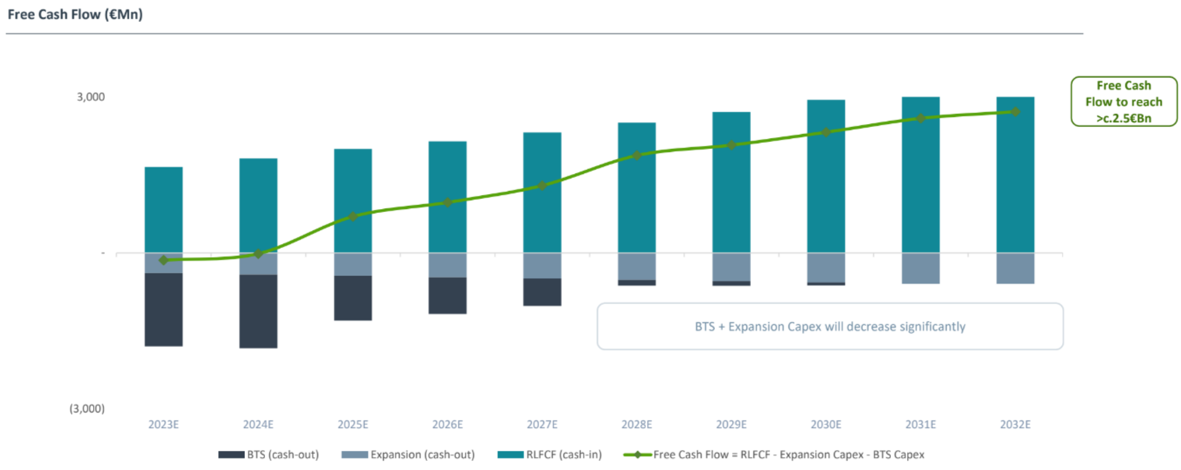
[25] Cellnex Q1, 2023 results presentation, page 9
[26] Barclays Research: Cellnex – Steady quarter, CEO announcement next catalyst, page 8
[27] BTS programs: Cellnex primarily operates and constructs mobile sites for telecom companies

Cash flow

On that basis, cash flow generation could be very strong:



The chart above shows how free cash flow generation becomes very strong once BTS capex as well as expansion capex decrease significantly.[28] Therefore, we conclude that even as bonds expire and interest rates remain high when refinancing, Cellnex is in a very strong cash flow generation position, and we are not concerned whatsoever about a capital increase. This has been confirmed by IR.

Shareholder return

There is an estimated €6bn total shareholder returns by 2027e, assuming a 5.5x target leverage (€8bn at 6x). This equates to ~23-30% of the current market capitalisation, even if this is likely to be back-end loaded due to the phasing of BTS build.[29] The Chairman comments that once investment grade, there will be more flexibility to increase dividends or implementing a share buyback program.

13) Conclusion

We like the fundamentals of the industry and believe that Cellnex is in a strong position to benefit from the acceleration in 5G across Europe. Continued tenancy ratio growth should help drive organic EBITDA growth. We do not exclude further acquisitions. Shorter-term catalysts such as the appointment of a new CEO and reaching investment grade should support the fundamentals.

14) Appendix

a) Cellnex's segments

I) Telecom infrastructure Services

Co-location in infrastructures of mobile telephone operators so that they can install their wireless broadcasting and telecommunications equipment there. Wide range of integrated network infrastructure services for mobile network operators, wireless telecommunications, and broadband.[30] As per IR, the division consists of ~90% of group sales.

II) Audiovisual broadcasting networks and infrastructure

[28] Cellnex Q3, 2022 results presentation, page 6
[29] Barclays Research: Cellnex – Steady quarter, CEO announcement next catalyst, page 8
[30] Cellnex Integrated Annual Report 2022, page 300

The broadcasting activity consists of the distribution and transmission of television and radio (FM) signals, the operation and maintenance of broadcasting networks, the provision of connectivity for media content, OTT broadcasting services over-the-top multi-screen services) and others.[31]

III) Other Network Services

Cellnex includes everything from the design, installation, operation and maintenance of Wi-Fi and mobile telephone networks (2G, 3G, LTE/4G) to roaming and download services. This activity includes connectivity services for telecommunications operators (other than broadcast operators), radio communication, operation and maintenance services, commercial services, Smart Cities/ IoT ("Internet of Things") and other services. [32]

b) Activities with the 3 segments

Telecommunications infrastructure services	Broadcasting infrastructure	Other network services
TIS	Broadcast	IoT
5G	Internet Media	Smart Services
Engineering Services		MCPN
Fiber		Connectivity
Utility fee		O&M
LTE		Other income
Pass through		
Others TIS		
DAS BL		
Land Aggreg.		
Datacenters		

List of activities within the three segments.[33]

c) Portfolio

Cellnex operates in 147,581 Point of Presence (PoPs) and counts a portfolio of 110,830 sites.[34]

Country	Number of sites
Austria	4,529
Spain	10,462
Ireland	1,921
Netherlands	4,079
Portugal	6,398
Sweden	2,864
Denmark	1,563
France	24,598
Italy	21,287
Poland	15,298
United Kingdom	12,410
Switzerland	5,421
Total	**110,830**

[31] Cellnex Integrated Annual Report 2022, page 300
[32] Cellnex Integrated Annual Report 2022, page 301
[33] Cellnex Integrated Annual Report 2022, page 301
[34] Cellnex Integrated Annual Report 2022, page 20, 33

Milestone 2022: concluding the operation with Hutchison in the UK and the focus on organic growth with industrial agreements in Cellnex's main markets.

Cellnex continues to diversify by markets. At the close of 2019 the Company was operating in 7 countries. Today, Cellnex operates in 12 countries, another important milestone in diversification of both markets and customer base.

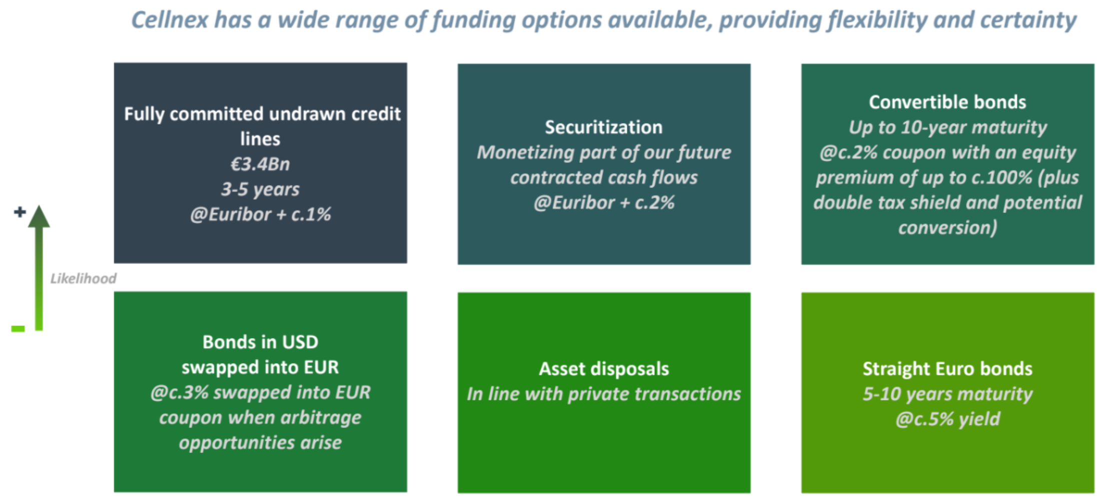
d) Key shareholders

Edizione: 8.53%; The Children's Investment Master Fund: 7.09%; GIC: 7.03%; JP Morgan Chase&Co: 5.38%; Canada Pension Plan Investment: 4.97%; Blackrock: 5.05%; CK Hutchison Networks Europe: 4.83%; Criteria: 4.77%; Norges Bank: 3.00%; Other shareholders: 49.35%.

e) Competitive landscape

Main peers: INWIT, American Towers, Crown Castle, and SBA

f) Funding options



As per the chart above, Cellnex has a wide range of funding options available, providing flexibility[35]

g) Costs and Inflation

78% of costs are at fixed rate. However, bonds need to be renewed in 2024.

Cellnex has inflation clauses in their contracts, thereby mitigating inflation pressures.

h) Risks

- Private equity interest for assets: competition from private equity in bidding for assets going forward
- Overpayment: pressure to overpay in order not to miss on an opportunity to consolidate the market
- Bond yields: tower share prices are inversely correlated to bond yields

[35] Cellnex Q3, 2022 results presentation, page 33

i) <u>ESG</u>

Target to reach carbon neutrality by 2035. The Company is well on track.

Target to reach net-zero by 2050.

Sustainability key pillars:

- People
- energy transition
- environment
- supply chain

Cellnex is included in Sustainalytics' 2023 Top-Rated ESG Companies List