

CCI primarily operates in the cell tower, small cell and fiber business, focusing on infrastructure in the United States. The company boasts 40,000 cell towers, along with 115,000 small cells and 90,000 miles of fiber optics across the country. What sets CCI apart from competitors is its emphasis on small cells and fiber business solutions. Small cells, located mainly in high-density areas like Phoenix and Chicago, utilize the fiber backbone. Although they lack the range of large towers, they are more compatible with the stricter zoning laws typical in metropolitan areas.

The stock returns for CCI have been challenging in recent years, for three main reasons:

- 1) rising interest rates, which have pressured REITs
- 2) slower-than-expected revenue and profit growth in the small cell space; and
- 3) a proxy fight involving Ted Miller, a co-founder of CCI who has been retired for 21 years.

Rising Interest Rates

Morgan Dempsey, though not considering itself a macro expert, believes there's a lesser chance of significant upward movement in interest rates, with rates likely to stay in the 4-5% range (US 10-Year Treasury) or potentially decline to below 3.5%. The rough year for REITs in 2022, with the Dow Jones All REIT Index down 25.01%, impacted CCI, which experienced a 32.49% decline. However, the negative performance in 2023 and year-to-date is more company-specific.

Lackluster Results – Fiber/Small Cell

While the investment in fiber and small cells hasn't met initial expectations, it hasn't been disastrous either. In 2022, Elliott Management, a prominent activist investor, took a \$2.2 billion position in the company, advocating for operational improvements and a better strategic plan for the fiber space. Instead of resisting changes, Crown Castle signed a cooperation letter, agreeing to work with Elliott. Steven Moskowitz, formerly head of US operations at American Tower, was appointed as the new CEO in April 2024. CCI has engaged Bank of America and Morgan Stanley as investment advisors for strategic plans regarding the fiber business. Options include divestiture, spin-off, or joint ventures with other enterprises.

Proxy Fight

The ongoing proxy fight led by Ted Miller, while inconvenient and distracting, isn't expected to harm the company's ability to work with Elliott on addressing the fiber business. Miller lacks enough ownership to force decisions, and his attempt to install four directors on the board, including his son-in-law, lacks institutional support. CCI management supports Elliott's two directors.

Financial Performance

- Gross profit margins hit a 10-year high in 2023.
- EBITDA margins also hit a 10-year high in 2023.
- Net profit margins peaked in 2022 but declined slightly in 2023, still surpassing levels from 2014 to 2021.
- Revenues declined by 5.10% in 2023.

New Catalyst

Despite recent challenges, CCI's new catalyst lies in the clarity regarding the fiber business. Elliott and CCI, with support from investment bankers at Bank of America and Morgan Stanley, are working together. Management is engaging with multiple interested parties regarding the fiber segment, contemplating selling part or all of the business or improving its management. Shareholders are expected to benefit under any of these scenarios.

Current & Historical Valuations

Cell tower REITs generally trade at a premium to the general REIT universe. Crown Castle has an attractive valuation to the general REIT universe. The company is trading at the lowest levels we have observed since following the stock. We believe the new CEO, active approach by the board to monetize or optimize the fiber business combined with already observable improvement over the last two quarters sets this stock up for potential recovery in 2024.

Valuation Metric	Current	5-Year High	5-Year Low	Average	Vs. Industry
Price to Funds From Operations (FFO)	14.1	26.1	13.7	18.5	.95x
Price to Cash Flow	13.3	31.1	11.3	22.5	1.0x
Price to Sales	6	15	5.1	10.4	1.1x
Enterprise Value to EBITDA	16.8	33.8	16	26.2	.9x
Enterprise Value to Sales	10.2	19	9.6	14.8	1x
Dividend Yield	6.6%	7.3%	2.5%	3.7%	1.5x

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Morgan Dempsey Large Cap Value – Strategy Materials

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Note:

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Definitions

PE (Price-to-Earnings Ratio): PE is a financial metric that measures the valuation of a company by comparing its stock price to its earnings per share. It indicates how much investors are willing to pay for each dollar of a company's earnings. Trailing refers to the past 12 months and forward is on expected next 12 months of earnings.

Book Value: Book value is the net asset value of a company, calculated by subtracting its total liabilities from its total assets. It represents the theoretical value of a company's equity if all its assets were sold, and its debts were paid off.

Cash Flow: Cash flow refers to the money that flows in and out of a business. It's the difference between the cash generated from operating activities and the cash used for investing and financing activities. Positive cash flow indicates a healthy financial position.

Enterprise Value to EBITDA (EV/EBITDA): EV/EBITDA is a financial ratio used to assess a company's overall value in relation to its earnings before interest, taxes, depreciation, and amortization (EBITDA). It provides a more comprehensive view of a company's value, accounting for its debt and other financial factors.