Radius Global Infrastructure | RBC Global Tower and Wireless Infrastructure Investor Access Day
September 28, 2021

Jon Atkin:

Good afternoon for most of you. Welcome to our fireside chat with Radius Global Infrastructure. With us from the company is Bill Berkman, Co-Chairman and Chief Executive Officer. Welcome, Bill.

Bill Berkman:

Thank you, Jon. Thanks for having us.

Jon Atkin:

Thank you for joining us. I'm going to go through a couple of topics: general business strategy, balance sheet operational in nature. For those of you wanting to ask questions, I think there's a way to do so through the portal, time permitting. We will get to those, but first off, a general question: if you could just describe the current market and competitive dynamics within Europe and North America.

Bill Berkman:

Right. I definitely will. Just to remind everybody, Radius is in the business of owning and acquiring properties and triple net leases that are underlying wireless cell sites. We presently operate in around 21 countries and growing and in terms of the actual dynamics of the countries, they're all very different. Part of that's predicated on initial contracts between a mobile network operator who may have built the tower and leased the property. And again, we're the property owner, or it could be the tower company. And so we see different types of leases. We see different types of annual escalators in these contracts. But on the whole, our business just at the million-foot perspective is approximately 80% of rents tied to inflation-linked escalators in our local countries, in terms of dynamics, as anybody would imagine, the actual prices we pay to acquire properties differ by country. They differ by effectively, not just FX or equity risk premium, but the availability of leverage in a country and the internal dynamics of that country and how people view real estate and how transactable people are. I'm going to stop there and see if I answered at least the high level of your question. I can go into more detail if you want.

Jon Atkin:

Yeah, no, I think that's good. You know if you want to maybe talk about the biggest geographies, types of structure, that type of thing. Maybe one level, one layer deeper? Yeah. Yeah.

Bill Berkman:

I mean, so we are presently operating in Europe, Latin America, North America, and Australia; specifically in Europe, it is Ireland, Belgium, UK, France, Spain, Italy, Germany, and Netherlands. In North America, it’s Canada, US, Mexico; Latin America being Brazil, Colombia, Chile. And then we, as I mentioned, we have Australia and a couple others we've yet to announce that is sort of the overall picture in terms of rent breakdown or property breakdown, a value approximately 60 to 65% is in Europe, 20% to 25% North America and Canada, with the remainder being sort of Australia and Latin America.

Jon Atkin:

Maybe, maybe drilling down then on Europe and North America from a competitive dynamic of standpoint.

Bill Berkman:

Well, there is the competitive dynamic that revolves around the fact that, again, we're an originator. So we've got a couple of hundred people across all these countries, every single day, buying properties, typically from a highly fragmented market of individual landlords. And so the competition we see has typically been from tower companies who want to own the property underlying their tower for the simple and obvious reason is you can't have a tower without a piece of property, unless it can magically levitate. So they're out there and yes, we do see them, we compete against them, but to remind everybody how large the total addressable market is in the countries we operate there's about a million cell sites. And that breaks down into both ground-based towers, where we buy the ground underlying the tower or rooftops, where we buy effectively the easement or the property right for the entire rooftop. In that situation, when we own a rooftop, it really isn't any different than a tower. We have the ability to lease up like a tower and most of the tower companies try to buy rooftops as well.

Jon Atkin:

Thank you for that, for that overview. Anything going on from a macro standpoint, it could be COVID related. It could be related to taxes what's going on to the macro economy, but I think changing the pace of origination, buyer-seller you know, sort of negotiations or dynamics what how would you kind of describe the last year and how that was different from the preceding period of time?

Bill Berkman:

So now looking back is no, it was not, it was business as usual, or maybe it was business better than usual. We'll find out next year, the next year, the next year come, I would say when COVID first broke out, the interesting thing is people didn't know what to do. Should they transact? Should they not transact? And then in certain countries where there's civil law, that a common law where you need a notary, you know, we had a couple of our people sneaking out of their apartments when there was quarantined to go visit the local notary, to then get a property properly documented. So we could then close on it. Those are the major, I think, changes that we saw vis-a-vis COVID in terms of the macro economy and landscape right now, you know, our heritage, if people aren't familiar, we had both been one of John Malone's largest investors over the multiple decades, as well as having sold out to him twice.

Bill Berkman:

And so we're kind of a junior tax nutty like he is. So we've watched the taxes closely, and it'll be interesting to see whether they put an interest deduction cap for real estate companies. If that's the case, it means that we may want to consider becoming a REIT perhaps sooner than we had already other already otherwise thought about it. Because the last thing we want to do is pay taxes. When we think we can deploy those dollars more efficiently than letting the government deploy them and whatever else they want to do, that doesn't mean I'm a complete libertarian, but it means I think about it sometimes.

Jon Atkin:

Got it. You talked about having a good quarter in to Q 21 for origination. Any sort of view on second half of ‘21, 3Q and beyond,

Bill Berkman:

I think that I'm permitted to say, as, as told by my general counsel and head of investor relations, that the guidance we gave in our last earnings report about the next two quarters being Q3 and Q4 of roughly a hundred million for each quarter is something that people should look back to that is of originations. And then of course, that corresponds to rents. We don't know exactly what that visibility, what the rent will be until we actually acquire it because as I try to remind friends and our internal people doing a thousand to 2,000 deals in a year is like a social process, because you have all the idiosyncrasies of closing, many, many deals, and each person on the other side of the table has certain needs. And so you never know, are they going to really close? Do they need the money now? Or they wait another year? Because oftentimes we'll touch people three years earlier and we get a phone call saying, okay, I'm ready now. I need some money to purchase cattle. I need some money to fix up a business. So that's the, I think difficulty with projecting too far out as to what we think we can acquire at what pace and at what price.

Jon Atkin:

Got it. And then maybe just touching on organic growth a lot, a lot of what you're doing is, inorganic in nature, but what, what are the main drivers as we, as we think about organic growth goals?

Bill Berkman:

Sure. No, that's a great question. So organic growth, I would break down between rooftops and ground on the rooftop. We certainly see organic growth when we put another tenant, another mobile network operator, or even a tower, a company who wants to be in our roof. And that can actually inure to our benefit in a significant way. On the ground-based side, we'll see lease up from an additional generator or other needs for a piece of land or property that could be putting in a shelter, or it could be for renting space to put an edge data center. Now I say that, but we've spent our own amount of time thinking about what else can we use our excess property for, for other alternative purposes or complimentary purposes. You know, we own approximately 6,000 sites and to simplify it, and this isn't the exact number, but if each site we own a thousand square feet, that's 6 million square feet, less call it 30 to 40% we've rented or leased to the tower company or the mobile network company that owns the tower.

Bill Berkman:

All that excess space is something we give a lot of thought to as to either how do we lease it up or what else can we use it for? And then of course the most valuable part of our organic growth comes from the fact that when our tenant leases expire, oftentimes they're not at market. And our goal is typically to bring them up to market. And because we are the largest landlord of almost every tower company out there, we have perfect information as to what the lease rates should be. And so we typically try to bring those up to market if they're very, very below market. So that's sort of what gets driven in our organic growth: lease renewal, use of the space for lease up, those are the big drivers.

Jon Atkin:

Well put on the capital market side, $265 million convertible senior notes offering, I guess, net proceeds of just over $220 million. Talk a little bit about your approach to funding acquisitions and over what type of a timeframe are you looking to be funded through these sorts of proceeds?

Bill Berkman:

No, that's a great way of framing the question. As of June with the convert, we have approximately $550 million of reported cash on our balance sheet. Now that being said, we're buying every day. So the number is definitely less than that. The way we think about it typically is we try to stay levered down at our subsidiary that owns the properties at around eight to nine times, depending on the country, we go back to the Malone heritage of ringfencing things into silos. So that us is separately financed from international. And we have another group of assets that are unencumbered that we are looking to finance. And then when we think about the fact that we are an acquisition machine, we always try to make sure that we have enough capital to effectively fund either half a year or a year outstanding. The reason I'm hedging on that is if we do really, really well in a quarter that would've taken our projection for that whole year down to, uh oh, we only have enough for the half year.

So those are the things you're always balancing: in a perfect world, you kind of want just-in-time equity because when you run an acquisition business, you can't fund it all in debt. And in November we go, we become S-3 eligible because we had moved our corporate domicile out from London or BVI technically, but from the London Stock Exchange to NASDAQ and the SEC then allows us to do at the money offerings at that time should we need the funding. So I can definitely expect that we will periodically raise equity capital but we're always every year refinancing, adding on more leverage because the rents that we own are de-leveraging naturally due to the escalators, but also the rents we're acquiring, you know, they also, we would like them to stay at sort of that steady leverage amount. Cause we think that's a nice optimum for driving the type of returns we're looking for.

Jon Atkin:

So you mentioned listing venue: recently you were added to the Russell 3000 index. What have been your observations around impact on the shareholder base, level of investor interest, amount of ownership from passive versus active, anything to kind of call out from where you sit?

Bill Berkman:

You know, I really don't because maybe I'm just not knowledgeable enough because some of the technical flows are still a black box for me as to what did the Russell 3000 really drive? What didn't it drive? When did it drive it versus the fact that are getting out there more and being fortunate to have people like you have sessions where we can share what we're up to with shareholders or prospective shareholders. I don't know what drives some of the liquidity, you know, doing a convert was helpful because other people became familiar with our story. And at some point besides coverage and research analysts and doing a lot of presentations, I'm sure we will raise our profile from a PR perspective, which is, you know, I always feel like when you go public 18 months ago, you're still in the sea legs period, getting your machine well-oiled. And then, you know, we can hopefully just keep growing at a good clip, driving returns based on really good underwriting because at the end of the day, underwriting is everything we do.

Jon Atkin:

How do you view M&A right now, big picture? Is it a matter of maybe doing more bolt-ons or are you thinking about larger portfolio acquisitions to increase your scope and scale and the geographies that are particularly target-rich?

Bill Berkman:

Yeah. Great question. The answer is absolutely. We have a benefit table on a couple large transactions that we just weren't able to be the winner of. There's a couple that are coming soon that are going to be that people are pretty familiar with, a couple of which we may stretch and we really want to own to your good point. We weigh return, we weigh risk, but we also see the benefits of increasing scale. That range is not just from achieving a lower cost of debt, but it goes just operationally in G&A as well. Now, the other thing is we've launched sort of a build-to-suit effort, which we had done previously before we took this public and hopefully we'll be successful at. To remind you, we built a large fiber to the tower business throughout rural America for AT&T, Verizon, Sprint and US Cellular.

We sold that to Kenny Gunderman at Uniti in 2016. Wow. It's been five years for approaching $500 million and our President, Scott Bruce, sits on Kenny's board. So these are the type of things we like and we're good at. We've been building networks for a long time, so we will always keep a watchful eye out for those types of things. I think the other thing I should mention is we have also expanded what we're focused on. We've been buying indoor DAS system rent streams. So if you go to a hospital in some countries, the carriers will rent the space internally from the hospital owner to put their DAS system in and we'll buy that rent stream. We don't break it out because to us it's the same exact quality of cashflow from the same person. And we'll also buy fiber aggregation points, which are meet-me points for fiber in some countries. They can have a cell site on the roof, they can have a mobile telephone switching center. We all remember STC before routers came in. You know, there's things like that that have real value based on their location, their space. We'll own the structure and we'll own the property. So we like those a lot, but they are episodic when we're able to buy them.

Jon Atkin:

And then when you, when you've lost out on some of the M&A activities, has it been to financial players? Has it been to other operators? What what's kind of the general trend that you've seen?

Bill Berkman:

A mix of both, you know, you've got, you know, this better than I do. You've got the infrastructure funds, you've got the sovereign wealth funds, you've got the large American Tower, Crown, Cellnex, Vantage, et cetera. You know, these are all people who have different strategic needs or return requirements. So yes, we will occasionally lose out to them.

Jon Atkin:

And then maybe talk about developed. I so appreciate the comments about DAS and fiber aggregation points. I was going to ask about that, but you've kind of already answered it. What about developed markets going forward versus emerging markets? Is, is that even the right way to think about it or is each country just so different that that's not the right sort of dichotomy to draw?

Bill Berkman:

No, I think we do break it apart that way. Although in the emerging markets, we break them down one level I guess, lower. So Chile, as an example, compared to Brazil, there's just a difference in what we see there in terms of access to capital, leverage. Chile is an OECD member, which helps us with our borrowing. So those types of things we'll break down. Like I typically haven't wanted us to be above 20% of our rents from quote unquote emerging markets. It's not a red line, it's just something that we sort of put out there. So we're careful with the countries we go into and the dynamics in those countries.

Jon Atkin:

Got it. So getting kind of, to the end of our time here, I wanted to ask a little bit about you know, as edge compute, updated thoughts on the attractive that this or that opportunity, how you might, how you might participate.

Bill Berkman:

Well, first and foremost, you know, we need to see some driving applications that require that type of latency, you know, cause when you look at the speed of light between 10 miles, 20 miles, there isn't that much latency. If you can have a piece of fiber going as the crow flies and even as it snakes around, it's just not that much if, and when their applications, whether it's autonomous cars or otherwise you know, that very could drive it. There's other reasons I think to have edge compute. And this is going to sound funny, which is just distributing data on a wide geographic area, I think allows a different type of redundancy, you know, the same way blockchain distributes the ledger across many people, geographic distributions helpful. So when we think about it, we absolutely have enough space to do it. We have access to power to do it. The question is, will there be other owners of space that when a business from an edge data center provider will be the tower company that wins it, should we vertically integrate and become an edge data center provider ourselves? You know, typically we only want to build it. If we already have a customer there's not a field of dreams and how we think about, you know allocating capital.

Jon Atkin:

Excellent. I'm just about out of time, unless I miss something I want to thank you for you know, kind of covering the landscape with us, unless there's anything we missed that you want to kind of hammer home?

Bill Berkman:

No, I think you know, we have to keep running our business. It's a rules-based business, not that rules don't dynamically change. And I think to your good point, we have watchful eyes out for much larger opportunities and we have not just capital on our balance sheet, but between Centerbridge being our largest shareholder. And you would imagine for funds, sovereign wealth pensions, we talked to them all the time. Capital is not the issue. It's finding the right opportunity at the right price and for the right risk. So, I mean, that's, that's what we're hoping to do.

Jon Atkin:

Well put, thank you again for your time.

Bill Berkman:

Thanks for having us, Jonathan. We appreciate it. Take care again.