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by Inside Towers

Digital Infrastructure Industry: Market Analysis Report

2024 Volume 3

Satellites in Wireless Networks

Diving Deep into U.S. Towers

Industry Expert Perspectives

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Private Tower Company Opportunities and Challenges

By Yannis Macheras, CEO, Harmoni Towers

A Quintessential Private Tower Company

Harmoni Towers is a portfolio company of Palistar Capital. The company is the product of an acquisition in 2022 when Harmoni acquired a competitor, Parallel Infrastructure. That combined operating company is the Harmoni Towers that we have today. We're the second largest privately held tower company in the United States. We own, operate, and manage macro towers. We have over 2,000 towers built or in development, nationwide. We build all of our assets which are engineered for growth. Our portfolio is entirely new, having been built in the past 10 years. The average age is less than five years.

Our coverage areas are predominantly suburban. We span 40 states currently with saturation in the Southeast, the Midwest, and the Pacific Northwest. Outside of the mobile carriers, we have some unique relationships - railroads such as the BNSF, transit systems like the New York MTA and Fast Track builds on military bases.

We invest heavily in customer relations and business development in general. We build towers, and then our model clearly requires us to add tenants. Accordingly, we are very focused on being an empathetic partner that makes that extra effort to work with, and solve problems for, our carrier customers.

Building and Monetizing Towers

The typical process is a private towerco engages with a mobile network operator who has capacity or coverage needs that are not solved by an existing asset. That existing infrastructure is just not available to them where they need it. In those situations, the MNO usually has several towerco partners that they will look to. Those towerco partners can consider developing a new asset with that MNO as the anchor tenant. That opportunity effectively is the catalyst for the development of the new asset. Once the asset is built with the MNO as the anchor tenant, the private towerco does everything it can to drive additional tenancies to that tower.

New towers are normally built at sites where there is a concentration of mobile traffic. The whole business model is predicated on adding tenants. The economics are not very attractive to build a tower just for an anchor tenant, so attracting that second and third tenant over time is paramount.

Harmoni Towers has been very disciplined over the years with our selection of new asset development opportunities. Part of our initial review process is gauging whether or not a second or third or potentially, fourth, tenant will find that new asset attractive.

Our thesis is that they will. We have a variety of tools that we use to help inform us. Then we would proceed with the development project, after resolving any issues with the anchor tenant. In the event we don't see a future lease up, the decision then is whether or not we want to proceed. However, that tower might be part of a batch of opportunities, most of which are attractive. There may be one or two that are less attractive, but over time, we make the same effort that we do for any other asset and try to drive tenancies up on those sites regardless.

5G Growth Outlook

Our motto internally at Harmoni is that 5G at this stage is really 'the end of the beginning.' It's not over. While the initial push created a strong base platform, our belief is that the remaining phase of 5G builds will play out in the coming years. For our company, as far as 5G is concerned, the equation remains the same as it always was. Escalating mobile data demand will drive increased deployments. The carriers simply need infrastructure partners to make those deployments happen. We believe, in the next deployment cycle, the highest probability of success will be in rural areas of the country, underserved by high-speed wireline alternatives.

When you factor that in, along with federal mandates to provide broadband access to everybody as a general policy initiative, and then consider the implemented measurable milestones the FCC has set for the carriers, we translate all of that as being particularly exciting for us over the next few years.

We have built and continue to develop assets in locations that fit that profile. We also take the position that the growth in mobile data demand from the existing services alone is going to continue to drive infrastructure. When you compound that growth in data from existing services with the whole ecosystem of application providers who are developing new tools and new uses, the carrier need for more bandwidth and low latency performance only increases. All of that translates into exponential future growth, so demand for our kind of infrastructure is predictable and just continues to accelerate.

We are confident because we have some visibility into the location of prospective sites, type and size of tower and other site elements. We marry a series of different points of intelligence. One is our interactions with the carriers. Two is the broad ecosystem of available market analysis and intelligence that we value and take into consideration. It helps inform our decisions. And then there's some element of common sense. We are utilizing all of these tools when determining our next move.

There are companies that are spending tremendous amounts of money developing mobile apps and solutions that the customer base will ultimately consume. Much of that will be dependent on networks which require robust, ubiquitous, high bandwidth, and low latency infrastructure. We're a part of that, so we see it coming. When you add up all the different points of data that we can analyze as a business, then use that to inform our decisions, it all points in the direction of continued growth.

M&A Environment for Private Towercos

Our sector, like many other sectors, is cyclical. Certainly, it's a competitive cycle when it comes to availability of capital. To build tower assets, in particular, we compete for carrier capex with their other funding allocations such as fiber, spectrum, and 5G deployments on existing assets. All of that impacts the capital dollars available for them to deploy new assets and to colocate on our existing assets. Upgrades are one thing; brand new installations are another.

When you factor in recent inflationary pressures that have resulted in higher interest rates, financing costs have materially increased. That, along with those competing priorities that the carriers have regarding where they spend their capital, has triggered what we consider to be a temporary valley and the ebb and flow of our sector's growth. With inflation seemingly slowing and Fed rate cuts on the horizon, we think that will serve as a catalyst for the start of a new spending cycle that will require new towers for 5G deployments.

There's been a great deal of consolidation already in the private tower sector over the past five to 10 years. Private tower sector multiples are driven by scarcity of inventory along with mandated investment money, meaning, bespoke investors are targeting a very particular investment profile.

Our inventory in the private towerco sector tends to be younger and therefore has more growth runway. The control element is that these investors can buy public stocks where they are effectively passive investors, whereas an investment in a private tower can often result in a position that gives them some involvement in the direction of that operating company.

The private equity markets also tend to view tower assets on a standalone basis, so they're using tower cash flow as the multiplier against that multiple. That's effectively what's driving value in their mind, versus a public company that calculates the multiple using AFFO, which includes operating costs.

The divergence between private multiples and publicly traded towerco multiples is real. Note that the public tower companies are tightly tethered to interest rates. They could post a stellar quarter, doing exactly what they said they would do, executing with precision and discipline, but if interest rates are not forecasted to move in a favorable direction, their stocks are punished, whereas a private tower company typically doesn't have that public burden. When interest rates go down, however, the public tower company stocks will go up, thereby narrowing that divergence that we see in the market today.

Public Towercos As Acquirers

Lower interest rates certainly will liberate the constraints the public towercos have right now to go out and buy things. For now, the cost of capital is an expensive fee when they are being punished in the stock market just because they're tethered to this interest rate environment. That limits what they can do because it wouldn't be accretive for them to go and buy something in the private market right now.

Once that divergence narrows somewhat, we expect the public towercos to be more involved. The irony is that theoretically, there's already an ample roster of prospective investors out there who are not public towercos. If you factor in the public towercos as investors, it further drives up demand for scarce assets that private tower companies like ours are developing.

Ancillary Revenue Opportunities and Risks

Some tower companies already have, or are looking at, ancillary businesses – fiber, small cells, or edge computing, for instance. These opportunities are available in the market. There are a number of very well-informed, well intentioned, well capitalized folks chasing them. We recently launched an advisory board at Harmoni with members from a range of adjacent industry interests, stemming from fiber, data centers, OEMs, carriers, and construction. We have invested quite a bit of time trying to understand these emerging growth opportunities that sit outside our core business. We're always looking for new entry or partnership opportunities.

That being said, we see small cells as complementary to towers. They definitely serve the purpose of filling in capacity. They serve other important purposes, especially in more dense urban environments. Ultimately our position has been that nothing compares to the breadth and reliability of macro tower networks. It's worth noting, from our perspective, the economics of small cells are quite challenging. When you consider the lack of ubiquitous availability of fiber at each of the nodes, we believe scaling small cells is a challenge.

We are aware that edge computing has been deployed in certain test markets on a fairly limited basis. As a towerco, we see our role in edge computing as a leasing partner, where, with appropriate planning, we could accommodate edge network infrastructure in our tower compounds.

There's a little bit of a misconception about the need for edge computing. Our advisory board recently discussed a case study of a rural automobile factory that was highly dependent on AI-enabled robotics. Certainly, that is a model data intensive use case. It turns out that the latency solution was met by a data center that was 50 miles away.

We don't see a ton of use cases in the world today where tower compounds are the optimal location for data centers or edge computing. Our core business is macro towers. That's what we're good at. That's what we do. That is where we're going to continue to be focused.

Yannis Macheras is Harmoni Tower's Chief Executive Officer, responsible for the company's overall integrity and performance.

Macheras has 25 years in various leadership roles in the communication infrastructure industry prior to joining Harmoni, including various key executive roles at American Tower Corporation.

Immediately prior to leading Harmoni, Macheras served as CEO of Parallel Infrastructure, a national tower development firm acquired by Harmoni from Apollo Global Management in late 2022.

Macheras is a graduate of Columbia University and Tulane Law School.

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