

# In The Know: Episode 68

## Cellnex: pricing power, moats and the next phase of shareholder returns

### Announcement (00:00):

The information contained in this podcast is for general information purposes and does not constitute investment advice. You should seek investment advice tailored to your circumstances before making an investment decision.



### Host (00:14):

This is In the Know, a monthly investment podcast brought to you by Magellan Investment Partners.

### Marco Patuano (00:20):

Everybody talks about AI, but the digital ecosystem starts from something that is very little digital and very much real. But the infrastructure make possible that the software world happens without the connectivity, forget about having a hyper-connected world.

### Host (00:44):

That's Marco Patuano, Chief Executive Officer of Cellnex. Welcome to In the Know. This episode was recorded by GLIO, the Global Listed Infrastructure Organization. Roy Harrison, investment analyst in the Magellan Global Listed Infrastructure team, and Cellnex CEO, Marco Patuano. Together they unpack the tower business model and its economic motion and why Marco believes the market may be mispricing Cellnex's risks. They also cover the drivers of organic growth, the company's shift from debt-fueled M&A to balance sheet repair and shareholder returns, and Marco's view on the investment case as free cashflow builds.

### (01:32):

Magellan Investment Partners would like to thank GLIO and Cellnex for the opportunity to bring this conversation to our audience.

### Roy Harrison (01:43):

Hello, my name is Roy Harrison. I'm the communications infrastructure analyst as a member of Magellan's Global Listed Infrastructure team. We invest in infrastructure companies globally, focusing on high quality infrastructure companies. We have 17 billion Aussie dollars in funds under management. I would like to start by thanking GLIO for Hosting this event and for all the work it has done to promote the listed infrastructure asset class, which I'm obviously a big fan of. Today, we have Marco Patuano, CEO of Cellnex, joining us. Thank you, Marco, for taking the time to have this conversation with me. I'm looking forward to it.

### Marco Patuano (02:17):

Thank you. Thank you, Roy. And thank you for inviting me.

### Roy Harrison (02:20):

So Marco, maybe to briefly introduce Cellnex, it's a large diversified European tower company across 10 markets, and owning and managing around 112,000 cell towers. Your market cap is around \$20 billion. So Marco, I'm going to ask you a very basic question, but I think it's one that all investors need to answer before

they put capital to work. And maybe if we even just look at a single asset, like a monopole in the Italian Alps at a ski resort, or a rooftop tower in the heart of Paris. And fundamentally, how does Cellnex make money?

**Marco Patuano** ([02:56](#)):

Well, if you go at the real core of the tower business, the business model is relatively simple. We own the passive infrastructure, let's call it the tower. In reality, it's a little bit more than the tower because most of the time we manage also the electrical infrastructure and sometime the fiber infrastructure. And these are designed for having the mobile operator installing their active equipment, call them antennas, on our towers, and we receive a recurring fee in return. So the main source of revenues comes from the contract we have with an anchor tenant, which is the M&O, the operator who is renting the tower first, or sometime, we built or we acquired the tower from.

([03:42](#)):

And this is a long-term contractor, normally is 20 or more years long. And the contractor is CPI indexed. So there is an indexation to inflation or there is a fixed escalator that is a proxy of a normalized long-term CPI in a single market. Once we have the tower and we have an anchor tenant, then what we do is we rent the space, the further space, to a second tenant or a third tenant in order to increase the volume of revenues that we do from a single tower. Today, if you take our average, what is called tenancy ratio, so the average number of antenna per tower, it's approximately 1.6.

([04:28](#)):

We see normally as a target to be above two, or above two. So it means that in some markets, we are still spaced for improving our revenue per towers. So just to give you an idea, when you have a revenue with an anchor tenant of 100, so you have to imagine the anchor tenant pays 100, then you have a second tenant who pay approximately 50. And then we have what is called RAN sharing. The RAN sharing is the possibility that the single antenna is shared by two operators. And in this case, the second operator, so the so-called RAN sharing operator, pays a sort of 30. So 150, 30.

**Roy Harrison** ([05:13](#)):

For me, it's the natural operating leverage that you get from your business. So when you add an additional tenant to one of your towers, you can do that at low incremental costs. So the majority of that extra revenue drops straight to your bottom line.

**Marco Patuano** ([05:29](#)):

Yeah. Normally, the second tenant comes with relatively low CapEx and relatively low OpEx. So the profitability of a second tenant is normally pretty high, both in terms of margin and in terms of return on invested capital. Time to time, it happens that you have to strengthen the tower itself because of the weight of the new antenna. But compared with building a new tower, it's relatively modest. So the profitability and the CapEx intensity of the second tenant is high profitability and good return on invested capital.

**Roy Harrison** ([06:05](#)):

Perfect. Now, I mean, that sounds like a pretty good business model, but good businesses, they generally attract competition. So what we like to look at at Magellan is a competitive moat of a business or the durability or ability to own high return on invested capital for a long period of time. So I mean, why can't I move to a ski resort in Italy or to Paris, build my own tower, and try to win your customers onto my tower? Maybe if you could attack this question from first the industrial perspective, and then overlay the contractual protections on top of that.

**Marco Patuano** ([06:41](#)):

Yeah, yeah, yeah. Sure. Well, industrial speaking, what seems to be a relatively simple process, I define where I need a tower and I put a tower is not so simple. There is a lot of things that you have to imagine. So the correct location needs to be agreed with a mobile operator. And then you have the permitting. Permitting is normally pretty long process, which can take up to 18 months. So it can be extremely long, and requires a lot of know-how. So both the engineering phase, let me say, administrative phase is pretty complex.

[\(07:17\)](#):

Then you have to negotiate with the landowner the possibility to have a space on which you have to build your tower, or eventually your rooftop if you're in a dense urban area, which again, adds complexity. So the basically two "protections" when you look to this business model, which is normally a natural oligopoly. So it's not a space in which you have several player or too many players operating in each market. Point number one is that once you build a big portfolio, this big portfolio is hard to replicate. Hard to replicate exactly for the reason I was telling you. It's not so easy to find a different location that can substitute a good one that already exists.

[\(08:04\)](#):

Or even more importantly, it's not easy to have a permit if there is already a tower in the nearby. So let me say that there is a first protection, which is more a natural protection. We have 110 or more than 110,000 towers. If you imagine to replicate 110,000 towers, I don't want to say that it's impossible, but it's incredibly cumbersome. And the other is a contractual protection. So what we normally agree with the anchor tenant is an agreement in which each of the two party tends to protect what is very relevant to them.

[\(08:42\)](#):

So when the operator has the vast majority of their towers with an infrastructure peer like ours, they want to be sure that we will not become too hungry in terms of price and power. So we agreed on the price scheme that is very long. And what we agree with them is, in a certain moment, they cannot cherry pick. So if they enter with us in an agreement for a certain portfolio of towers, this portfolio should remain more or less the same for the entire duration of the contract. So there is a contract for protection that is called all or nothing. That is, every time there is the renewal of an agreement, you should renew all or you should abandon all the towers.

[\(09:32\)](#):

And as I told you before, abandoning all the towers is a no-go because it's so difficult to replicate. Imagine in Italy, we have 20,000 towers. If you have to replicate 20,000 towers, be my guest. So it'll last you forever. So every time you enter in an agreement with the counterparty which has to last 20 years or 25 years or 30 years, you need clear rules, and then you need to maintain the relation with your client in order to avoid that these becomes something that makes the client unhappy.

**Roy Harrison** [\(10:08\)](#):

Yeah, thanks. I think a fun fact for you, you probably know this already, but in the US, they call those sites that have no alternatives. It might be because of the topography of the land or the zoning restrictions in the local area. They might have three, four, five tenants on them. They call those sites Mona Lisa sites, which I think is quite nice.

**Marco Patuano** [\(10:31\)](#):

Sorry if I jump in. Please consider that there is a big difference between Europe and US. In Europe, approximately 40% of our 110,000 towers are on city rooftops. So if you go to the mayor of a European city and you ask for replicating or duplicating tens of thousands of towers, it's a no-go because there is also an urbanistic impact. Imagine you are in downtown Paris and you have two needs. One, you know that you have a lot of people walking in the street who need connectivity, but on the other hand, you have the beautiful Paris and the mayor doesn't want to have an ugly antenna that is making the landscape not as beautiful as before.

[\(11:20\)](#):

So Europe has these, that 40% of what we call towers, in reality, is not a tower. It's something that is placed on a roof, which makes our resilience in terms of quality of the portfolio even higher.

**Roy Harrison** ([11:36](#)):

Interesting. I might pivot to the organic growth drivers of Cellnex. So you spoke earlier about the revenues indexing at inflation or a fixed price escalator. But I mean, what's driving the real growth component? You talked about adding tenants to towers and building or acquiring new towers through your build-to-suit agreements. What's the underlying demand for your assets that's driving that?

**Marco Patuano** ([12:04](#)):

Yeah. So the growth comes from three major buckets. So the first, as we said, is the inflation adjustment. It can be a CPI indexation, it can be a fixed escalator. At the end, it's not so different. Let me say that, up to an inflation of 3.5%, we are very effective in passing the inflation to our clients. Above 3.5%, what normally enter are some caps. Why? Because our cost structure does not suffer inflation that much, mostly because energy for us is a pass through. Every time I manage the energy for my client, in reality, I'm making a service. So I buy the energy and I resell the energy. So for me, it's a pass through.

([12:58](#)):

So we agreed that having caps depending on the market can be three, four, 5%. Switzerland is not Poland, with all the respect. So the level of stability of the different markets is different. Fixing a cap in Switzerland, 3% is a pretty high cap. So the second is what you call build-to-suit. I prefer to call it network expansion. Network expansion. So you have to imagine that networks continue to evolve. The network of a mobile operator evolves for tens of reasons. So one is the topology of a city changes because the city... You have to imagine that we are working with the same operator 20 years. In 20 years, the city's not the same. A new server becomes a university area. So imagine how much a density of data traffic is required. So one is topology.

([13:53](#)):

New services. So now with AI kicking in, the consumer AI kicking in, the pattern of traffic are changing. And this is, again, something that requires more network. So there is more network that continue to arrive. So it's what is called densification on one side. If you're in urban area, you don't need only the coverage. So the coverage is the basic. I need the signal. The densification, I don't only need the signal, I need a good signal with a good capacity to let me use the service. So network creation is the second bucket.

([14:28](#)):

And the third is co-location. So we have an existing asset, and we, as I told you before, we explore it more. So we put a second tenant or we add additional object that can be on the tower. It can be an FWA, it can be a sensor, it can be other things that we can place on our antenna. So this is basically the three buckets. To give you an idea, we are growing at sort of a four to 5%. So out of these four to 5%, a bit less than... So it was, let's say 5%. Sort of a 1.5 to 2% is inflation adjustment. So the remaining 4% is, a bit more than 2% coming from more network, and a bit less than 2% is on additional tenancy on additional tenants on our towers. So this is more or less how it works.

**Roy Harrison** ([15:26](#)):

Perfect. I think that pretty well covers off the fundamentals of the business. I'd like to talk about your strategy going forward, but I think it might be helpful to provide some historical context for our audience. I mean, I classify Cellnex into three distinct phases, or it's equity story into three phases. The first phase, I think you call it something different, but I call it the debt-fueled M&A spending spree, which I believe began in 2016. And through a series of sale and leasebacks, Cellnex became a large diversified company across 12 markets.

([16:03](#)):

Then came phase two when interest rates started to rise. You joined the business in June 2023, correct me if I'm wrong, and you did a couple of things. Firstly, you divested non-core assets, so the Austrian and the Irish tower portfolios and the French data center portfolio. And then second, and more importantly, you reached an investment grade credit rating. Cellnex used to have almost eight times net debt, including leases, divided by EBITDA. It's now tracking towards your goal of five to six times. And that takes me to phase three, which I called the business optimization and shareholder returns phase. Now, that's my version of history. So please correct me if I've missed anything there.

**Marco Patuano (16:55):**

You're basically right. So the inorganic growth story was fundamental because it moved as more local player into the largest operator in Europe and the third largest in the world. So it was crucial. More than 43 billion euros of capital deployed. This is the users, the sources for capital raise for a total of approximately 15 billion euro, approximately 20 billion euro of debt capital market. And all the cashflow that has been generated has been reinvested. So, until this year... That's again, no dividend had been paid. So the entire free cash flow generation was devoted to the growth.

**(17:42):**

So you are right when you say that one of the major element which caused the first change of strategy was the increase in the interest rate, but it was also something that it was... So this growth was everything, but also a little bit chaotic, because you continue to, would imagine, more than 40 acquisitions. So you have more time for integration. So at a certain point, the portfolio was big, very big, but the company needed a moment of reorganization. So the reorganization was basically, you mentioned what was the financial part of the story. So we had a leverage that was way too high. So we needed to reduce our leverage.

**(18:30):**

And be honest, the sale of two countries was because we needed to deleverage quickly. Then we can argue how we decided that it was a island in Austria basically because those two countries were not big enough. So it was difficult to have an optimal size. But at the same time, the growth opportunity were not so high. So it was a mix. Or we are difficult to improve our efficiency and difficult to improve our growth. So they became the perfect candidate for being sold.

**(19:01):**

We bought back one convertible. So we made a lot of things on the financial side. But on the industrial side was even, I would say, as important, if not even more important. Because part of the divestment we made was also because some asset, we consider some asset non-core. You were mentioning that French data center. The French data center was subscaled, not enough know-how, with a business model that was simply not happening because we are talking about data center. In reality, we were talking about technical real estate, places of 80 square meters. So with not enough energy, not enough capacity for **Hosting** for becoming a real data center.

**(19:49):**

But this was defocusing the management. Because at the end, you can do 10 things or three. If the seven you're canceling are small, you make available a lot of time to your management team to be focused on what really makes the difference. So then we had clear in mind that we had to increase our level of internal efficiency, and internal efficiency can be achieved only working on processes and working on automation. So IT, automation, progressively artificial intelligence, et cetera. And we monitor our capacity to improve our performance using the operating leverage.

**(20:32):**

When I say that our revenues are growing 5%, my EBITDA has to grow more. My EBITDA after lease has to grow more. My recurrent free cashflow has to grow more. So if I grow five in revenues, I have to grow between six and seven in EBITDA. I have to grow between eight and nine in EBITDA after lease, et cetera. And this is possible because we reorganized the company. We completely redesigned the company. So this is what we did. And in

order to do this, we redesigned also our CapEx allocation. We're a CapEx allocation that, in the past, was coming mostly as, let me say, a future execution of an M&A. In an M&A, I buy a portfolio, and then I have a future execution of further tower to be built or to be acquired.

(21:23):

Now, in this moment, these programs coming from the past are coming to an end and we are redesigning our capital allocation. Our capital allocation now is strictly monitored in terms of return. Rates are not at zero. So we have to be more stricter in the capital allocation. We're privileging everything that ends in growth of revenues or additional efficiency. Additional efficiency, we launched a big project of land acquisitions, which is both strategically good because I protect my portfolio. If I'm the landowner, nobody can kick me out. But at the same time, it's a very nice financial investment. We are having returns well double-digit. So it's a very good capital allocation.

(22:18):

Going forward, of course, we are entering in our maturity. And our maturity is a generous cashflow generation. This year, 2026, is the first year in which the cashflow from operation will be sizable, and from the next year, even more, because the older projects of CapEx are coming to an end. So we make available more cash. And this cash is going to be allocated to three basic things. One, where we said that our optimal capital structure is between five and six. Today, we're not there. We are in 6.1, 6.2. So we are closed, but not there. And close is not enough. We have to be there.

(23:05):

The second is we have to maintain some CapEx devoted to growth. But as I told you, with the return profile that has to be coherent with the nowadays market conditions and market return, expected market returns, and all the rest goes to shareholders. So this is the maturity of this company.

**Roy Harrison (23:26):**

All the rest goes to shareholders. I like the sound of that. I wanted to press you on the build-to-suit CapEx component, but I think you covered it quite well. I just wanted to stress that. I mean, last year, your recurring leverage free cashflow was around \$1.9 billion. Your legacy build-to-suit CapEx was around \$1.1 billion. So that's 58% of your recurring cash flows being spent on these legacy build-to-suit agreements. Which your guidance for 2027 implies that the free cashflow after the CapEx is expected to 3X between 2025 and 2027.

**Marco Patuano (24:11):**

Yes.

**Roy Harrison (24:11):**

We're modeling internally a further step up in 2028. And so my question really was, what are you going to do with all that cash that's being freed up? But I think you answered that pretty succinctly in your previous answer.

**Marco Patuano (24:26):**

Well, yes. These old CapEx, as I told you before, they're coming to an end. And so the first question we have to make ourself is, is it possible to find a new CapEx that are in a different scenario? So the CapEx that are ending were designed in the world where the free risk rate was zero. Now, free risk rate is not zero. But it's also true that network densification will continue to exist. Is it possible to design a new phase, possibly smaller than in the past, but in which we can put at work CapEx with a return that is adequate for today's rate conditions?

(25:13):

And my answer is yes, it's possible. Of course, in the past, we had up to 1.6, 1.7 billion. So forget it. It's not going to be that big. First, because I don't think that there is going to be a market need or market demand, such a big market demand. And second, because I think that we are not in these explosive phase of the growth. But you're

right. So this year, if you take 2025, 2026 is 2X, 2027 is 3X, and 2028 is going to be higher than 2027. So you are absolutely right.

(25:56):

So what have been the priority? We defined a minimum dividend payout that... Well, it's not a payout, it's an absolute value. We defined that it would've been minimum 500 million starting in 2026 and growing 7.5% a year. You have to set a minimum, and this is the minimum. So we already paid the first half of 2026. And in couple of days, in July 15, we're going to pay the second half. So 2026, we pay. But of course, we have more cash than this. We're going to have more cash than this. This year, we invested 300 million extra in share buyback. The share price was an ease, way too low, and therefore it represents an opportunity for us to buy shares whose return is particularly high.

(26:56):

And of course, this is going to be the quantity. What we said is that 800 million is going to be the floor. But as I've said, we have way more than this. So how to allocate? Well, until when share price buyback will be convenient, we will mix dividend and share buybacks. But this is something that the board of director allocates dynamically based on the conditions. And as I told you before, we are not willing to retain. There is a minimum level of indebttness where we want to go, but it's not rationale to go too much below this.

**Roy Harrison (27:38):**

Yeah.

**Marco Patuano (27:38):**

So when you think about the cash available for cash to equity, you have to imagine that, at a certain point, we will start to de-leverage too much. So part of the resources will come also from keeping the leverage at the sweet spot where we want to stay. And this is relatively soon.

**Roy Harrison (28:03):**

Yeah. Well, that makes sense to me. I think we should talk about the risks to the business. If we put a bit of context around how the market is perceiving the risks to Cellnex, five years ago, Cellnex was trading at 24 times EBITDA or thereabouts. Fast-forward to today, it's now at more than half that, at around 11 times. So clearly, the market is pricing in some kind of stranded asset risk, given your medium-term cash flows are relatively insulated. You've got \$100 billion of revenue contracted in the backlog.

(28:39):

So let's talk about a few of those risks. The first one is customer consolidation. There's a few markets in Europe that have four telcos. If they move to three, then at face value, it looks like your total addressable market has dropped by 25%. So I'd like to get your reactions to that, and how do you respond to that risk?

**Marco Patuano (29:02):**

Well, I said many times that we are not against M&O consolidation. Why? Because the reality is that the telecom market, especially the mobile telecom market, became irrationally too cheap. And this is preventing the M&O from having a good return on their investment, and therefore they invest less. So if you take the last document issued by the European community, which is the status of the digital decade in Europe, what clearly refers to the EU is we need better networks. And we needed to go in the direction of a policy that allows to have better networks.

(29:54):

So why the regulator are going to allow, let me say, a market design that is a four to three? Not because the three is a magic number better than four. The original idea to bring the market design to four operator was for having accessible prices. The problem is that the prices became too low to sustain investment. And now, what is

needed is more investments. So when you think to a M&O market consolidation or in-market consolidation, what you see is that the networks, day one, there is a process of network rationalization, and then there is a network expansion.

(30:43):

The example is the UK. Another example, that is going to be France. So what we demonstrated is that we can support our client in order to have a market rationalization without losing material revenues, or inventory without losing any revenue. And one of the ways that we can use in order to trade with them is, if you are going to make a rationalization and an expansion, I allow you to make a part of your rationalization today, and tomorrow, you will make your expansion with me. And DCF of these will be positive to me. So there is a first part in which we say the rationalization itself has to be neutral. And then when I add, on top of the rationalization, the effect of the expansion, it becomes NPV positive.

(31:43):

So we went through these in UK. The impact has been basically zero on us. We did the same in Spain, and Spain is already showing some growth. Now, there is a big, big, big market for us, which is France, that is going through the risk process. It's complex. Because differently from the other markets, it's not emerged, it's a split. So one of the four operators, which is SFR, has been acquired by the other three and it's going to be split. So this is a process that will last long. It will last possibly five to seven years for making the entire split.

(32:25):

And therefore, what we need to agree with the operators is, what is going to be the impact on us? We gave visibility to the market what is our best case scenario. Our best case scenario is a scenario in which the short-term pain is more than compensated by the medium-term gain, and the short-term pain is modest in terms of absolute value. And by the way, our first interactions with the clients confirm our vision. So they will continue to need the vast majority of the towers that we built or bought from SFR. So this is basically the single most important risk that the market is pricing. Or if you allow me, it's ultra pricing in our share price.

(33:17):

There are other two risks that are, let me say, factored by the bearish sentiment of the market. One is what is called contract renewal. So, is there a risk that at the renewal of the contract, the all or nothing agreement that I described you before cannot be respected? The question has been raised because this happened in one market, by the way, not with us, in another European market. And it is something that is in the process of being managed. But what we did is we already renegotiated in Spain twice, we already renegotiated in the Netherlands, we already renegotiated in England, and we already renegotiated in France, and nothing happened. So, again, I think that it's way overstated, overestimated.

(34:14):

And there is a third one, which is even more bizarre, which is Elon Musk effect. So is it going to be the satellite the new network provider for mobile users? You can make the question to every technician or every telecom engineer on earth, and by the way, also to Elon Musk himself. There is an interview to Mr. Musk in YouTube in which he says, "No, we are going to be complimentary. We're not going to be substitutive." But sometimes, fear is not necessarily rationale.

**Roy Harrison** (34:50):

Yeah. Could you maybe step us through briefly the technical reasons that-

**Marco Patuano** (34:54):

Oh, yeah.

**Roy Harrison** (34:54):

... makes direct-to-device satellite technology stop the towers? I mean, we talked about moat before and how difficult it is for me to move to Paris and build my own tower. But can you disrupt towers from space?

**Marco Patuano (35:09):**

Yeah, there are several reason why. But let me go for the real big ones. Okay? So point number one, the satellite is, best case scenario, 350 kilometers above our head, or more normally 450 to 600 kilometers above our head. This means that when a satellite makes a cone of coverage, this cone is big, because it cannot be laser. It's big. It's a sort of, let's say, 20 to 30 miles. And the quantity of data capacity that you can transmit down or up is not so big. So if you are in an area with very little population, possibly you can serve this population with enough data bandwidth.

**(36:06):**

But the closer you get to a city or whatever concentration of population, these becomes a quality of service that will impede you from making a very simple Teams or a video conference as we are doing in this moment. The second, or if you want linked to the first, is the spectrum. So the quantity of spectrum that is allocated to satellite is relatively limited. But even worse, in Europe, the spectrum is allocated on a national basis. So if you buy a spectrum in the US, you cover from Florida to Alaska. If you want to do the same in Europe, you need spectrum in Greece, in Croatia, in Italy, and so in every country. You need spectrum everywhere.

**(36:59):**

And the satellite, the satellite goes around the earth. So every time the satellite cross the border, they have to change the spectrum if they have, because it's not obvious that they will have spectrum. So this is the second reason of complexity. There's a third reason of complexity, which is, if you look around you and if you think, "Okay, I'm having the signal in my phone, where is the signal coming from?" The signal is coming from a window. Because you have a tower nearby you that is not too high, and so the signal enters from your window, or it has to penetrate a single wall that is the wall of your house.

**(37:42):**

If the satellite is above you, the signal comes from above. So it has to penetrate. Imagine that you are at floor five of a building. The building where I'm in this moment is 21 floors. And I'm in floor 14 in this moment. So I have seven floors above me. So the poor signal has to go through seven floors before reaching me, which is basically not possible. More than 50% of the mobile communication happen indoor. So people believes that we use the mobile phone outdoor. No, the vast majority of what we do is I'm in the office and I have to chat with my wife. So this happens indoor.

**(38:24):**

So there are several elements that tells you that the non-terrestrial networks and the terrestrial network will be complimentary. It's plenty of areas. If you think some regions of the world of the Western world, US, Canada, Australia-

**Roy Harrison (38:44):**

Australia as well. Yeah.

**Marco Patuano (38:45):**

... where it's simply illogic to build up a mobile network in the middle of the Arizona desert or in some part of the inner Australia. So the satellite will be fantastic for covering the uncovered. But it's not so obvious that the satellite can substitute existing terrestrial networks for a bunch of very good reasons. I heard someone saying, "Yes, but Mr. Musk is making possible things that were considered not possible."

**(39:22):**

To those people, I suggest, "Hey, folks, why don't you go to YouTube and you put Musk talking about satellite networks?" Because Mr. Musk himself says, "I can do a lot of things, but I cannot work against the physics."

**Roy Harrison (39:36):**

Yeah.

**Marco Patuano (39:36):**

So the law physics work for everybody. I think that yes, it's important to keep monitoring the complementarity between SaaS networks and terrestrial networks. But for many years in front of us, the possibility of a full substitution is simply not doable.

**Roy Harrison (39:57):**

Perfect. I might wrap things up by summarizing everything we've said into something that's a bit more digestible for an investor to take away. So I believe, looking at the Cellnex stock price today, we're looking at around a 15% total return per year over the medium term. We do a lot of detailed discounted cashflow analysis at Magellan. But if I just provide some back of the envelope numbers, if you look at the free cashflow yield, excluding the build-to-suit CapEx, your stock is trading at around a 9% yield. So that's fairly cheap. That's compelling in and of itself.

**(40:35):**

And then on top of that, I think the underlying cashflows of the business are growing at around 6%. So I'm going to conservatively say the revenue is at around four, if you take the inflation indexation, the new towers, the additional tenants on existing towers. And then you've got the tailwinds from the cost optimization initiatives we spoke about. Buying land under towers, reducing your leases expenses. You've got the tailwinds from buying back shares from the free cashflow that you're generating. And then I think that more than offsets the headwinds you're facing from refinancing relatively cheap debt from the low interest rate era. So call that tailwind the net effect of that 2%.

**(41:21):**

So when you add the nine and the 6% together, you're looking at a fairly compelling investment proposition for what is a highly defensive infrastructure asset. Is that a fair way to frame the investment proposition, Marco? Is there anything you'd like to add?

**Marco Patuano (41:38):**

Yeah, it's only one thing I would like to add because you captured our investment thesis very well. The question is, is growth going to an end? So, is this a sector that should, at a certain point, plateau to a CPI growth only? And my answer is no. My answer is no exactly because of what we discussed before. When we talk about the digital ecosystem, so everybody talks about AI, but the digital ecosystem starts from something that is very little digital and very much real. So the infrastructure make possible that the software world happens without the connectivity, forget about having a hyper-connected world.

**(42:31):**

And the connectivity is more and more mobile. Why? Because we don't like wires because we pretend that everything works everywhere. We are in the underground, we are in the cellar, we are everywhere, and our mobile phone should work perfectly. And this does not happen by magic. It happens because someone puts more antenna. The antenna don't fly. So the antenna need towers, need fiber, need energy, need resilience, need batteries, needs a lot of things. And to everybody who thinks that the tower operators are a financial engineering, I'm sorry, no. Come to visit us and you will see some of the most beautiful engineers that you can find in the market. So we are engineering companies with a lot of finance, of course, because this is what we do. But if you take an energy company or if you take a railroad, you will see that there is a lot of finance.

**(43:36):**

But what we do? We are part of one of the most promising ecosystem of the world, which is a digital ecosystem. Think about the world the way you want, it's impossible that you think a world that is less digital. The world can only be more digital. And this means that there's a long way to go.

**Roy Harrison** ([43:59](#)):

Thank you, Marco. And thank you everyone for joining Marco and myself today. And don't forget to look out for the next interview in the GLIO CEO video series. Once again, thank you, Marco. I really appreciate that it was very insightful.

**Marco Patuano** ([44:14](#)):

Thank you. Thank you very much, and enjoy.

**Host** ([44:17](#)):

That was Roy Harrison, investment analyst in the Magellan Global Listed Infrastructure team in conversation with Cellnex's CEO, Marco Patuano. We trust you've enjoyed this episode. For more information on previous episodes, visit [magellaninvestmentpartners.com/podcast](http://magellaninvestmentpartners.com/podcast), where you can also sign up to receive our regular investment insights program. Thanks for listening.

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