

Uniti Group Inc

4Q23 First look: Revenue and adj. EBITDA outlook misses Street expectations

Maintain Rating: UNDERPERFORM | PO: 3.50 USD | Price: 5.74 USD

Adjusted EBITDA and total revenue below expectations

Uniti Group reported consolidated revenue of \$285.7m vs. the Street at \$295.7m and our \$297.6m. Adj. EBITDA came in below at \$231.1m vs. our \$236.5m and consensus of \$233.8m. AFFO of \$91.6m came in above our \$83m estimate. UNIT has completed various asset sales which contributed \$4mn of revenue and \$9mn of Adjusted EBITDA respectively. In 2023, UNIT invested \$118.3m success-based capex in its fiber segment and \$277.2m in leasing capex to construct ~4,100 new route miles of fiber. We maintain our Underperform rating on high leverage, muted EBITDA growth, and decelerating free cash flow.

FY24 outlook below Street estimates

UNIT provided initial FY24 guidance for key metrics. UNIT's 2024 revenue outlook is below current estimates at \$1.154bn-\$1.174bn vs us and the Street at \$1.120bn. Adjusted EBITDA is guided to \$930m-\$950m vs the Street at \$950.3m and our \$953.3m. UNIT expects to incur \$500mn of cash interest expense, in-line with current estimates. The team recently announced a \$350mn bridge loan facility to potentially close an asset-backed securitization loan secured by certain Uniti Fiber network assets. We will look for comments on use cases for the new money loan and any details around the potential ABS deal, including potential markets in focus, valuation, and terms.

Focus on M&A activity, deals in the pipeline for 2024

UNIT noted a substantial decline in non-recurring revenue in 2023 vs 2022 due to lower ETL fees and one-time low-margin equipment sales. We expect to hear detail on UNIT's total revenue outlook for 2024, including expectations on customer buying decisions for the year ahead as well as early insight on new deals in the pipeline. Mgmt. is unlikely to comment on recent press reports that it may be in talks to recombine its business with primary lessee Windstream, but we expect mgmt. to elaborate on its philosophical view of such a recombination, costs and benefits, and thoughts on relative value.

Exhibit 1: 4Q23 results vs estimates

UNIT came in below on total revenue and adj. EBITDA for 4Q23.

| | Actual 4Q23 | BofA 4Q23 | A vs. E % | Y/Y Change | Q/Q Change | Cons. 4Q23 | A vs C. % |
|------------------------------|----------------|--------------|--------------|---------------|---------------|---------------|--------------|
| Leasing revenue | 214.9 | 216.8 | -1% | 3% | 0% | 215.5 | 0% |
| Fiber infrastructure revenue | 70.7 | 80.8 | -13% | -6% | -7% | 80.1 | -12% |
| Total revenue | 285.7 | 297.6 | -4% | 1% | -2% | 295.7 | -3% |
| Adj. EBITDA | 231.1 | 236.5 | -2% | 1% | -1% | 233.8 | -1% |
| Capex | 49.0 | 58.9 | -17% | -64% | -60% | 60.9 | -20% |
| AFFO | 91.6 | 83.2 | 10% | -21% | 1% | 88.0 | 4% |

Source: Company reports; Visible Alpha; BofA Global Research

BofA GLOBAL RESEARCH

29 February 2024

Equity

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Stock Data

| | |
|---------------------------------|---------------------|
| Price | 5.74 USD |
| Price Objective | 3.50 USD |
| Date Established | 7-Nov-2023 |
| Investment Opinion | C-3-8 |
| 52-Week Range | 2.94 USD - 6.01 USD |
| Mrkt Val (mn) / Shares Out (mn) | 1,358 USD / 236.6 |
| Free Float | 99.0% |
| Average Daily Value (mn) | 10.18 USD |
| BofA Ticker / Exchange | UNIT / NAS |
| Bloomberg / Reuters | UNIT US / UNIT.OQ |
| ROE (2023E) | NA |
| Net Dbt to Eqty (Dec-2022A) | NA |
| ESGMeter™ | Medium |

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Price objective basis & risk

Uniti Group Inc (UNIT)

Our \$3.50 price objective is based on a 7.0x EV/EBITDA multiple on our 2024 estimates. 7.0x is a fair target in our view given the recent trading of its closest wireline peers which average 8.0x. Uniti's REIT structure implies a tax-free cash flow stream in perpetuity, however, tough industry valuations and dramatic shifts in trends in wireline enterprise sector has challenged UNIT's market dynamics and financial outlook. UNIT has a higher cost of capital and high leverage compared to peers which limits its ability to access funding and may make M&A less attractive.

Upside risks to our price objective are 1) an attractive dividend yield, 2) stable liquidity profile through 2027, and 3) a value-unlocking M&A event with a third party. Downside risks are a dividend cut and a more contentious relationship with anchor tenant Windstream given new management there.

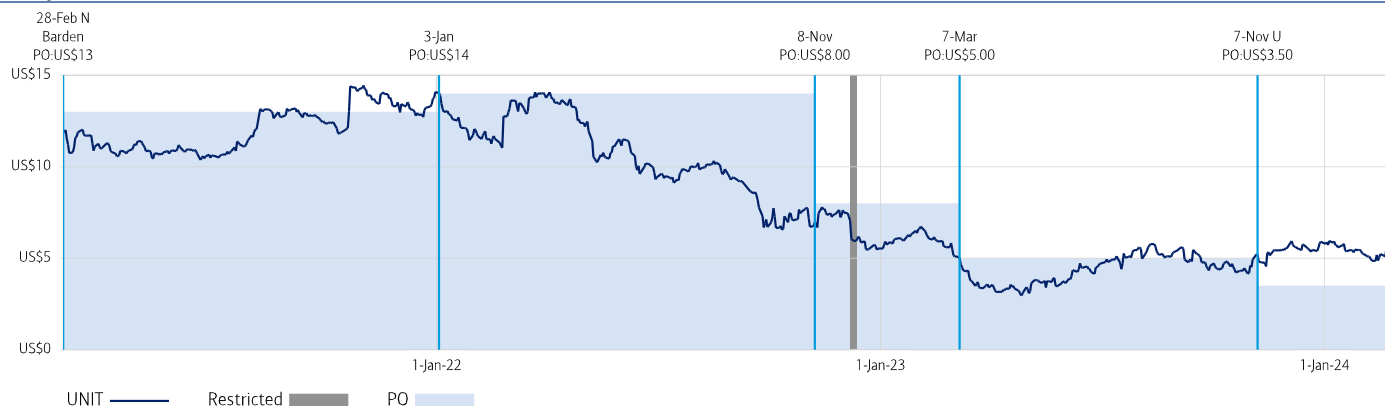
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Uniti Group (UNIT) Price Chart



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| Coverage Universe | Count | Percent | Inv. Banking Relationships ^{R1} | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy | 57 | 51.82% | Buy | 43 | 75.44% |
| Hold | 27 | 24.55% | Hold | 17 | 62.96% |
| Sell | 26 | 23.64% | Sell | 12 | 46.15% |

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships ^{R1} | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy | 1895 | 53.62% | Buy | 1083 | 57.15% |
| Hold | 832 | 23.54% | Hold | 454 | 54.57% |
| Sell | 807 | 22.84% | Sell | 383 | 47.46% |

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|-------------------|---|--|
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| Neutral | ≥ 0% | ≤ 30% |
| Underperform | N/A | ≥ 20% |

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