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EDITED TRANSCRIPT

CCI - Q1 2016 Crown Castle International Corp Earnings Call

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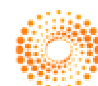

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PRESENTATION

Operator

Good day and welcome to the Crown Castle Q1 2016 earnings call. Today's call is being recorded. At this time, I would like to turn the call over to Son Nguyen. Please go ahead, sir.

Son Nguyen - *Crown Castle International Corp. - VP Corporate Finance*

Thank you, Melanie, and good morning, everyone. Thank you for joining us today as we review our first-quarter 2016 results.

With me on the call this morning are Ben Moreland, Crown Castle's Chief Executive Officer; Jay Brown, Crown Castle's Chief Financial Officer; and Dan Schlanger, Crown Castle's Senior Vice President.

To aid the discussion, we have posted supplemental materials in the investors section of our website at crowncastle.com, which we will refer to throughout the call this morning.

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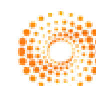

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This conference call will contain forward-looking statements, which are subject to certain risks, uncertainties, and assumptions, and the actual results may vary materially from those expected. Information about potential factors which could affect our results is available in the press release and the risk factor sections of the Company's SEC filings. Our statements are made as of today, April 22, 2016, and we assume no obligation to update any forward-looking statements.

In addition, today's call includes discussion of certain non-GAAP financial measures. Tables reconciling these non-GAAP financial measures are available in the supplemental information package in the investors section at the Company's website at crowncastle.com.

With that, I will turn the call over to Jay.

Jay Brown - *Crown Castle International Corp. - CFO*

Thanks, Son, and good morning, everyone.

As highlighted on slide 3, our first-quarter results exceeded the midpoint of our first-quarter outlook and allowed us to raise our full-year 2016 outlook. Our increased midpoint for full-year 2016 outlook for AFFO per share of $4.70 represents an increase of over 9% compared to 2015.

During the quarter, we also strengthened our balance sheet by accessing the bond market with our inaugural investment-grade issuance. This was another successful step in our effort to lower our cost of debt and equity capital.

Operationally, we continued to invest in both small cells and towers, which we believe will drive future growth.

These continued investments, together with our portfolio of approximately 40,000 towers and 16,500 miles of fiber supporting small cell deployments, position us as the leading US wireless infrastructure provider, with unique capabilities and assets to provide network solutions throughout the country and across a variety of different network architectures.

Shifting to the first-quarter results on slide 4, site rental revenue grew 9%. The organic site rental revenue growth of $55 million represents growth of 8% year over year, comprised of approximately 7% growth from new leasing activity and 3% from cash escalations, net of approximately 2% from tenant nonrenewals.

Moving to slide 5, our first-quarter results for site rental gross margin, adjusted EBITDA, AFFO, and AFFO per share exceeded the midpoint of our previously provided first-quarter 2016 outlook. Site rental gross margin benefited from approximately $1 million of one-time items that were not expected in the previously provided outlook, comprised of a benefit to site rental revenues of approximately $4 million and offset by an increase to site rental cost of operations of $3 million.

Additionally, AFFO for the first-quarter 2016 benefited from $10 million in lower-than-expected sustaining capital expenditures, which is due to timing as full-year 2016 outlook for sustaining capital expenditures remains unchanged. Excluding the benefit of these nonrecurring and timing items, we still would have exceeded the midpoint of our previously provided first-quarter 2016 outlook for each of these metrics.

Turning to the investment activities during the first quarter, we invested $193 million in capital expenditures, of which $10 million was sustaining capital expenditures and $183 million was discretionary investments. Consistent with our proactive approach to producing stable and growing cash flow over time, we invested $21 million in land purchases to further strengthen our control of the ground interests underneath our towers. Today, nearly 80% of our towers' site rental gross margin is generated from towers on land we own or control for more than 20 years.

Additionally, the average term remaining on our ground leases is over 30 years.

The balance of our discretionary investments were in revenue-generating capital expenditures. A significant portion of this investment was in our small cell business, which today consists of 16,500 miles of fiber, supporting approximately $385 million in annualized site rental revenues or approximately 12% of our consolidated site rental revenues.

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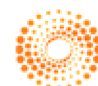

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We are as excited as we have ever been by the opportunities in small cells. Our small cell conversations with the carriers have increasingly become more positive with the passage of time and we are seeing the business model of small cells play out very similarly to that of towers.

To that end, we thought it would be helpful to walk through two case studies that illustrate the colocation economics of small cells as the fiber infrastructure is shared among multiple carriers over time. On slide 6, we lay out one of our systems in Denver. The initial system consisted of 14 miles of fiber connecting 18 tenant nodes on 18 poles for the first carrier.

On the slide, the lines represent fiber that we own and the circles represent tenant nodes. We define a node as a tenant location that generates revenue and a pole as a physical structure on which we install the carrier's broadcast equipment. The picture shows a representative physical structure onto which tenant nodes have been installed.

Since the initial buildout, we have successfully added two additional wireless carriers to the system, which now consists of 17 miles of fiber connecting 65 tenant nodes deployed on 26 poles located in the public right-of-way.

In aggregate, this system currently generates a yield of approximately 20%, based on the recurring cash flows and the capital we invested in the system. As you can see with this system, we have been able to leverage the initial investment by co-locating additional tenant nodes on the fiber to drive our returns.

Turning to slide 7, this is a system we have in Las Vegas. This system consists of 36 miles of fiber supporting 77 tenant nodes deployed on 77 poles for two carriers, generating a yield of approximately 13%. In addition, we are currently working with a third carrier to co-locate nodes on this fiber network and anticipate adding that third carrier to this system in the next six months.

Unlike the Denver example, where the majority of the colocation of tenant nodes occurred on the same pole as the first carrier, in this example the colocation occurred at different pole locations along the existing fiber. Because the majority of the investment relates to deploying fiber, our yields increased by colocating additional notes on our fiber, regardless of whether the colocation occurs on the same pole or on another pole along the fiber.

This is why we often describe the fiber as a tower laid on its side upon which we are aiming to colocate tenant nodes.

As we look at our entire small cell business, colocation of our fiber networks have driven a meaningful improvement to the yields initially generated on the systems we acquired or constructed over the last several years. Given the returns we are seeing from small cells, we believe our continued investments are consistent with our strategy of allocating capital to drive long-term growth in dividends per share.

Returning to investments and financing activities, subsequent to the quarter and as previously announced, we acquired TDC for approximately $461 million in cash. The TDC portfolio consisted of 336 towers located in the US and Puerto Rico. Based on TDC's run rate contribution, the transaction is immediately accretive to AFFO per share.

Consistent with our long-held capital allocation philosophy, we intend to pursue discretionary investment opportunities, such as TDC and small cell, that we believe will drive long-term growth in dividends per share.

Continuing with financing activities, during the quarter we paid a quarterly common stock dividend of $0.885 per share or $298 million in the aggregate. In January, we closed on our current $4.5 billion unsecured credit facility and issued $1.5 billion in unsecured notes. These attractive debt transactions highlight the appeal of Crown Castle's high-quality cash flows and strong business model.

Moving on to our full-year 2016 outlook on slide 8, we have increased our expectations at the midpoint for site rental revenues by $45 million, site rental gross margin by $31 million, adjusted EBITDA by $25 million, and AFFO by $24 million. The increase in our full-year outlook reflects the strong results from the first quarter, the inclusion of our TDC acquisition, and the timing benefit related to tenant nonrenewals occurring later than we previously expected.

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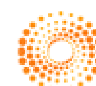
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It is important to note that our overall expectations for the number of tenant nonrenewals in the aggregate remain unchanged.

On a per-share basis, AFFO is expected to be $4.70 at the midpoint, compared to $4.30 in 2015, representing an increase of over 9% year over year. As you will hear from Ben, we believe that we are well positioned to capitalize on the long-term positive industry fundamentals that we expect will position us to achieve our stated goal of delivering compound annual growth of 6% to 7% in AFFO and dividends per share.

Lastly, I'm excited to welcome Dan Schlanger to the Crown Castle team. Dan will step into the Chief Financial Officer role on June 1. He is a great addition to the team, with his unique combination of financial and operational experience. And with that, I will turn it over to Ben.

Ben Moreland - *Crown Castle International Corp. - President, CEO*

Thanks, Jay. Thanks for everyone joining us on the call this morning.

As Jay mentioned, we are ahead of plan to deliver on our stated goal of generating AFFO-per-share and dividends-per-share compound annual growth of 6% to 7% organically, which remains our long-term view.

Our expectation is based on the intersection of two things -- anticipated exponential growth in demand for wireless connectivity and our unique portfolio of towers and small cells that can help carriers address their network needs.

On this first point, according to Cisco, US mobile data consumption grew 56% in 2015, compared to 2014. The year-over-year growth alone represents a staggering amount of data consumption. It is almost equivalent to all the mobile data that crossed the cellular networks in 2013.

Importantly, as we look out to the future, this growth is expected to continue. US mobile data consumption is projected to increase sixfold between 2015 and 2020, a compound annual growth rate of 47% or roughly doubling every two years.

Given these projections and consistent with carrier commentary, we expect the carriers to continue to invest on a consistent basis to maintain and improve network quality.

According to a recent survey conducted by consulting firm Accenture, 60% of residents were dissatisfied -- of respondents were dissatisfied with their wireless connectivity and experience, while 71% of respondents would be willing to pay more for better connectivity. Against this backdrop, network quality is a competitive necessity as carriers seek to retain existing customers, attract new customers, and drive further subscriber economics.

Equally as important, network quality is a prerequisite as carriers seek to develop new revenue streams and use cases such as over-the-top video, machine-to-machine connections, smart city management, and fixed wireless broadband. As we move beyond connecting people to connecting things, the reliability of networks become even more critical.

The latency, capacity, and coverage required for connected cars or for smart cities that manage traffic and energy grids using mobile sensors, where connections need to work everywhere all the time, is much different than managing a network against dropped calls. The higher threshold of reliability and the corresponding need for network densification suggests that we are in the midst of a sustained investment cycle by the carriers.

Across towers and small cells, we have a unique combination of assets and expertise that positions Crown Castle to assist the wireless carriers in densifying their networks, regardless of geography or network topology. As the leading US shared wireless infrastructure provider, Crown Castle is assisting wireless carriers in this endeavor by providing them with speed to market and cost-effective access to wireless infrastructure.

Our portfolio of approximately 40,000 towers, with 72% located in the top 100 markets, remains the first option in improving network quality, given towers' efficiency and cost effectiveness. With our existing base of over 80,000 tenant installations, we believe there is a long runway of growth opportunities via amendments as tenants add more capacity to their existing installations.

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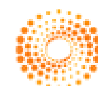

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Further, with an average tenancy of 2.2 tenants per tower, which effectively puts us at 40% to 50% occupancy, given the addressable market of the big four wireless carriers, plus a host of other tenant opportunities, there are significant opportunities for new colocation as carriers work to increase network capacity by adding additional cell sites.

We are further expanding the size of this opportunity by our investment in small cells, which is a natural extension of the carriers' network densification efforts needed to address network capacity. When presented with the challenge of providing continuous, consistent, high-capacity wireless broadband service across urban and suburban geographies, carriers are increasingly turning to small cells as an essential tool to improve their networks, as illustrated in the Denver and Las Vegas examples that Jay discussed.

With small cells, we are investing in a business model that shares the same shared economic model as towers and we are encouraged by what we are seeing.

Longer term, we believe we are well positioned to capture a significant share of this larger market opportunity. By focusing our investment in the top metro markets, we believe our fiber footprint of over 16,000 miles is in the right locations with the capacity necessary to support significant small cell deployment longer term. We believe this critical combination of location and capacity facilitates system deployments with time-to-market and economic advantages.

To support the growth in small cells, over the last several years we have also built an organization that can execute at scale. Our team's deep RF fiber and real estate management skills and capabilities allow us to offer our customers a turnkey solution, a service level and value proposition that we believe is the best in the industry.

While small cells are providing the much needed additional network capacity, towers continue to play an important role in providing the first layer of coverage and capacity in an increasingly mobile world. In addition to bolstering network capacity through additional spectrum and cell sites, whether through towers or small cells, future networks are expected to add capacity by improving network architecture through increasing interconnectedness.

As the only wireless infrastructure provider that can offer tower and small cell solutions at scale, we believe we are in an excellent position to capitalize on the future evolution of wireless networks through the extension of our shared infrastructure model, a model that continues to efficiently serve carrier needs and provide a compelling total return proposition of dividends and growth for shareholders.

Before wrapping up, I would like to extend my welcome to Dan Schlanger, who is joining the team as CFO June 1, as Jay mentioned, as we move forward with our announced succession plan with Jay Brown moving to CEO and my move to Executive Vice Chairman. I am confident that our executive management team will continue to execute our business plan, performing for customers and shareholders under Jay's leadership.

Finally, I want to thank all my colleagues at Crown Castle who have worked so hard to achieve what we have accomplished. These men and women are true professionals. As their primary spokesman on these calls over the last eight years, it has been my privilege to report to you their latest accomplishments every 90 days and I am confident there are many more accomplishments to come.

With that, Operator, we will be pleased to address some questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Simon Flannery, Morgan Stanley.

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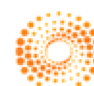

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Simon Flannery - *Morgan Stanley - Analyst*

Thanks for all the color on small cells and breaking out the segment information. That's very helpful. I wonder if you could just talk about the overall leasing environment. We did see Verizon's CapEx and wireless down 9.5%, although they did comment about keeping the full year back-end loaded. Is that what you are seeing here from the carriers broadly?

And related to that on the tenant nonrenewals, do you have clarity now about the timing of those disconnects or is it still possible that there will be further pushing out of this? Thanks.

Jay Brown - *Crown Castle International Corp. - CFO*

Sure, Simon. On the first question around the leasing environment, as we talked about over the last couple of calls, our view is that leasing activity in the full year of 2016 is going to be very similar to what we saw in 2015. And we continue to hold that view.

The guide that we provided was based upon how we outperformed in the first quarter, along with our view that the tenant nonrenewals were going to occur a little later in the year, and that's really what changed in our outlook. So our view of activity is about the same.

Similar to past years, the other thing I would note is that if you look at our total new leases that we would expect during the course of the year, and that would be a combination of new leases on towers, as well as amendments to existing leases, that activity is about 40% in the first half of the year and about 60% in the second half of the year. So, it is back-end loaded, but in about the same way as we typically find in the business.

On your second question about the nonrenewals, our view is that in total from consolidation churn that we have talked about over the last several years, in total we think that amount is about the same as it was previously, so we have moved out portions of that. Some portion of that we moved to 2017 and the balance of it we moved to periods that are beyond 2017.

So, at the moment, our view would be the total nonrenewal stays about the same. We are just pushing it out to the right a little bit.

There is more details in the supplement if people would like to see how we moved each of those and on our view in each of the calendar years, but I would say overall we think it is about the same total amount of nonrenewals.

Simon Flannery - *Morgan Stanley - Analyst*

Great, thank you.

Operator

Brett Feldman, Goldman Sachs.

Brett Feldman - *Goldman Sachs - Analyst*

Just a quick question to start. I noticed you generated about $113 million from discontinued ops on your cash flow statement. Just to start, get a little color on what was the source of that.

Ben Moreland - *Crown Castle International Corp. - President, CEO*

That's Australia. [Same] with Australia last year.

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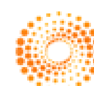

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Brett Feldman - *Goldman Sachs - Analyst*

Is there any more to come or is that a final earnout?

Jay Brown - *Crown Castle International Corp. - CFO*

That would be the final amount.

Brett Feldman - *Goldman Sachs - Analyst*

Okay, and then looking at the disclosures, which are very appreciated, on small cells versus towers, if we look at the cost structure of the small cell business, it does look like year on year your costs are going a bit faster than your revenues. I know that's probably impacted somewhat by the Sunesys deal. But could you maybe just give us a little color on where you are in terms of establishing a fixed level of G&A or anything we can think about to model the operating leverage we should expect from small cells from this point forward? Thanks.

Ben Moreland - *Crown Castle International Corp. - President, CEO*

Sure, Brett. I think at the site gross margin line, obviously as you bring on new systems, we're going to bring on new costs, and so those margins are somewhat representative. But on the -- on what you would think of as overhead, primarily people and infrastructure, it looks to us like we're getting pretty close to a stabilized run rate at this current level of activity.

Now I qualify that because to the extent the pipeline would grow materially over time, these are fantastic investments and we have seen productive growth in yield on that investment and it takes additional variable costs in the form of overhead and people. So, I would tell you for modeling purposes we're pretty close as to the Q1 run rate and less volume changes dramatically. (multiple speakers).

Jay Brown - *Crown Castle International Corp. - CFO*

Yes, Brett, I think to, specifically if you're trying to do the year-over-year comparisons, the step in the costs are obviously mostly related to the Sunesys acquisition, which comes at a lower margin and therefore it is a cost flowthrough. If you're looking at the incremental margins, it is -- the incremental margins are not going to look as high as what we typically see when we are constructing new small cell systems, so I think that would be one thing I would raise.

And then if you look at the total cost structure for the full year, as we talked about last quarter, the G&A in the fourth quarter, third and fourth quarter of last year, is about what we expect for the full year of 2016, so by the time we exit the year, if you look at it on a full-year basis, it starts to stabilize, but you are still feeling the effects if you do Q1 2015 over Q1 2016 as the costs grew throughout the calendar year -- calendar year (multiple speakers).

Brett Feldman - *Goldman Sachs - Analyst*

Great, and just one last question on costs. Are you entering new markets as a small cell operator or are you fairly comfortable with the markets you are in?

Ben Moreland - *Crown Castle International Corp. - President, CEO*

I would say that for the most part it is markets we are already in. I could find you a few new ones, but we're working in the top 25 cities already and that's where -- the vast majority of what we are doing, and so you should expect that's where most of this is going to be.

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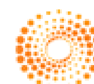

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Brett Feldman - *Goldman Sachs - Analyst*

Great, thanks for taking the questions.

Operator

Phil Cusick, JPMorgan.

Phil Cusick - *JPMorgan - Analyst*

So, the other side of the gross margin question is it looks like your tower gross margins are calculating a little lower than we would have thought, given your peers. What is driving that difference or am I just completely missing something?

Jay Brown - *Crown Castle International Corp. - CFO*

I think there is two components, Phil, that is driving it. One is, as we have discussed, the churn is basically offsetting a big portion of the new leasing activity that we are seeing. And then as you look at the GAAP revenue numbers and the segment for towers, you don't see in those GAAP numbers the benefit of the escalation, the contracted escalations that we have in the business, as those are straight-lined over the term of the lease. So when you go down to the AFFO metric, we get the benefit at the AFFO line of those cash escalations.

The other component I would point out is as we have talked about last quarter around some of the fees that we received when tenant nonrenewals occur. We refer to those commonly as pay-and-walk fees that we receive from the carriers. Last year, there was about $30 million to $40 million of those pay-and-walk fees in our services business. We don't expect anywhere close to that scale of activity in calendar-year 2016 as we saw in 2015, and so as we guided to services, we guided down in services from the removal of those kind of fees to the tune of about $30 million to $40 million year over year.

And so, if you are just looking at the tower segment and you are looking at adjusted EBITDA or segment operating profit, you're going to see mostly impacted from the loss of those non -- what we would refer to as non-core services activity.

Phil Cusick - *JPMorgan - Analyst*

Okay. And then on the other side, long term, where do you see small cell gross margin, operating margin reaching? How do we compare that to the tower margin?

Jay Brown - *Crown Castle International Corp. - CFO*

I think if you looked at an individual system, what you would find is when it gets to three carriers, the direct margins from those systems against the direct operating costs, those margins are very likely to be higher than what we typically would find with a tower that had three tenants on them.

As a part of the -- as you look at the whole business, though, there is two things that affect that, back to my prior comment about the Sunesys acquisition. Obviously, the incremental growth in revenues is going to be offset by the costs that come with an acquisition, so if we have acquisitions, that will impact the totality of the margins in that segment.

But the other aspect to it is that we are deploying a meaningful amount of capital to build additional fiber and additional small cell networks, and as we put those systems on air, they are going to tend to mute the growth that we would have.

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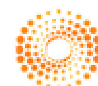

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So, there is a bit of a -- we often refer to it as a vintage analysis internally where we look at the systems, similar to those that we showed this morning in Denver and Las Vegas that we've had on air for a period of time. As we add those tenants, the direct margins on those systems we believe will look at least as good or if not better than what towers would.

But as we look at the totality of the segment, it is going to depend on how much investment opportunity we have there as to whether or not the full benefit of that colocation flows through to your margins or whether it is offset by the value of investing in future systems that come on at a lower margin level.

Phil Cusick - *JPMorgan - Analyst*

Got it. Thanks, Jay.

Ben Moreland - *Crown Castle International Corp. - President, CEO*

And most importantly, obviously, is yield on the capital. So we start off typically at a higher initial yield than the tower and then grow it over time, at typically a rate that exceeds the equivalent tenancy on a tower, so that was some of Jay's comments around those two case studies.

Phil Cusick - *JPMorgan - Analyst*

Thanks, Ben.

Operator

David Barden, Bank of America.

David Barden - *BofA Merrill Lynch - Analyst*

Thanks for taking the question and welcome to Dan, as well. Ben, I was wondering if I could follow up just on that comment. I think in prior quarters you have been able to map out the history of the investment in the small cell business to date, and I noticed that you're now breaking out the CapEx for the small cells specifically, which would allow us to track that return evolution on a go-forward basis.

If you could bring us up to speed on the total capital investment to this point in time as a starting point for 1Q 2016, that would be a helpful beginning so we can see how that is evolving.

And then, second, these slides on the system developments are super helpful, I think, in part because they give us some granular node and pole detail, which I think would be super helpful to have for the totality of the small cell business, which I notice is not part of the disclosures anymore. So could you give us an update on some of the metrics that go along with these new revenue numbers? That would be great. Thank you.

Ben Moreland - *Crown Castle International Corp. - President, CEO*

Sure. I think the simplest way, Dave, to look at where we are in the business is to annualize for the run rate of margin in the segment, so 61 times 4, call it $240 million or so, against $3 billion of capital spent over time.

And it is easier to remember the $3 billion because we can remember the two distinct events. One was $1 billion for NextG at about a 4% yield and the Sunesys acquisition last year of $1 billion at about a 6% yield. So you can see that obviously the incremental contribution on that last $1 billion, then, is very significant, gets into double digits to drag the whole thing up.

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And that is illustrated -- that is a macro view, and then it is illustrated, obviously, in Jay's two case studies we walked through.

So, it is a great question and it is one we look at -- it is probably the number one thing we watch. It is just are we dragging that overall yield up with that incremental contribution, both from new systems and then the colocation that occurs.

And as Jay said, it is a long race because as you bring on new systems with single tenants, it is a land grab, not unlike the tower business has been, so you're bringing on somewhat lower yields and then as that grows every time.

In terms of metrics, one of the things that we are -- and we have now given you a lot more detail, we realize, around segment reporting -- that will probably increase over time. One of the things that Jay was talking about was tenant nodes, and that's why we illustrated these two systems where you can have tenant nodes locate by themselves on the common fiber, so you can either have them colocated themselves where you have two tenants on one pole or you can have two tenants on two poles.

And so, the node metric gets somewhat confusing or lost, and it is why I think it makes sense to go back to the financials, and then over time there is various things that we may decide to discuss would be revenue per fiber mile, for example, obviously a key driver. The fiber is the vast majority of where the capital goes.

And so, we are working to find some simple metrics for everyone like we have in the tower business. It's just not quite as simple, but hopefully it is getting better.

David Barden - *BofA Merrill Lynch - Analyst*

All right, looking forward to it. Thanks, Ben.

Operator

Jonathan Atkin, RBC Capital Markets.

Jonathan Atkin - *RBC Capital Markets - Analyst*

Yes, so I was interested in learning a little bit about just the Sunesys contribution to incremental growth, if there is any color you can provide there, given their legacy lines of business. And then, secondly, I was interested in what the competitive environment is around small cells from other fiber-rich providers, and then I have got a quick follow-up after that. Thanks.

Jay Brown - *Crown Castle International Corp. - CFO*

Yes, Jon, on your first question, as we talked about the Sunesys acquisition, our view of that was that that was fiber plant that provided an opportunity for us over time to reduce the capital costs required for us to deploy small cells. So, we put it into the business and we are not focusing on it as a separate business from our overall small cell business.

So, the contribution there, frankly, we are much more focused on driving the return, as Ben talked about it, on the full $3 billion and using that fiber to deploy additional small cells against it.

With regards to the competitive environment that we're in, obviously there are a number of folks who look at this business and see it as attractive and can obviously see the public comments that the wireless operators are making about the importance of small cells and how they are necessary to improve their networks, along the lines of what Ben's comments were, and the necessity of small cells in order to accomplish the density of networks that are required to meet the consumers' expectation for devices.

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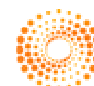

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And so, we do find competition. Sometimes that competition comes from more nationally-based fiber operators, and then at other times as we're in certain markets, there may be a provider of fiber that is specific to a single market alone, and so we will run into them as we're going through the process of a request for proposal from the carriers where a local provider may be in that process.

So at the end of the day, we believe that our opportunity here is based upon our access to a cost of capital and a return on that capital that we think is very attractive, given what we have seen over the long period of time that we have been in the tower business. We also believe that we are the best at it, so we have built in terms of scale, I think, unmatched scale and operating capabilities when compared to anyone, and certainly as we talk to the wireless operators, we make that case.

The last thing that I would say in terms of what we run into is the vast majority of this fiber and small cells are purpose built. They need to be in specific locations along routes where we can install on poles, as we showed in some of the fixtures and illustrated in some of the cases. And this fiber is very different than -- we believe is very different than what we have seen historically deployed. And so as we go out and purpose build this fiber, it really -- as we are in the process of working with the carriers, that is where the operational expertise and scale is helpful to us to win those next projects.

Jonathan Atkin - *RBC Capital Markets - Analyst*

Thanks. And then on Denver and Las Vegas or any other equivalent examples that you have, whether it is two or more tenants, I'm just interested about what is it about those deployments that made small cell the right solution for the tenant, and did the tenant come off any nearby macro sites as they located on to your infrastructure?

Jay Brown - *Crown Castle International Corp. - CFO*

In both cases, as you can see from the map, there are locations there that would obviously make sense for towers to be located, and there are, and those carriers have macro coverage in both Las Vegas and Denver in those areas.

Small cells are largely an opportunity for the carriers to offload some of the data traffic off of a macro site onto a small cell, which improves and enhances the value of the macro site to cover a larger geography. And we have not seen as we've deployed, as we've talked about, nearly $385 million of run rate revenues, we have not seen carriers come off of macro sites.

In fact, we believe, and from the comments that the carriers have made and our own experience, that it actually enhances the value of their macro sites.

So, this is a product that enhances their network. It is not a substitute.

And the last point I would make about that is from a cost standpoint if there is a macro site that solves the problem or the challenge or improves the network, the macro site is always preferable as a solution because it is much more cost effective to the carriers. So small cells are a solution when macro sites really can't solve the need, and then it becomes a necessary component of the network at that point.

Jonathan Atkin - *RBC Capital Markets - Analyst*

Thank you.

Operator

Ric Prentiss, Raymond James.

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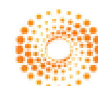
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Ric Prentiss - *Raymond James & Associates, Inc. - Analyst*

Thanks again. Echo as we have been pushing a long time for small cell segment, so I much appreciate it. In the no good deed goes unpunished category, though, I am going to ask some more questions on it.

I appreciate what your comments were about nodes and it is getting confusing, but can you help us understand what the pipeline is or what the revenue growth might be on the small cell side? I think previously maybe like $55 million was the anticipation of what small cell incremental might be in 2016?

Jay Brown - *Crown Castle International Corp. - CFO*

That's correct. We still believe that the contribution to revenue growth is about $55 million. So, I made the earlier comments about towers. I could have said the same thing about small cells. Our view of revenue growth is unchanged in terms of what we expect in calendar-year 2016 from contribution of small cells of about $55 million, as you said.

Ric Prentiss - *Raymond James & Associates, Inc. - Analyst*

Okay, and as far as -- is there a broad tenants per system number? I know you have got a mixture of vintages, but we're all also just trying to imagine the colocation trends there, how best to think of that.

Jay Brown - *Crown Castle International Corp. - CFO*

I think maybe over time as we continue to develop and enhance the operational information systems that we have internally, and obviously as we brought in the Sunesys acquisition and the growth we have seen in the business, we're working on that. We may come to a place where we have an operating metric that we think is helpful.

Frankly, as we manage the business, what is a little different between small cells and towers is that I wouldn't describe the rent as much of a standard rent as what you typically see in towers. The systems are priced and we provide them to the carrier based on a return, and so as we look at the business, we tend to go back to the financials and look at what's the net capital we are investing in the systems against the recurring cash flows in those systems. And then, how do we price appropriately both the first tenant and then future tenants on those systems?

So, we have talked about things like you remember back in the early days of the tower business where we had things like BDEs, which was a broadband equivalent for towers, and that was a revenue metric. And we just want to make sure that as we focus the next leg of disclosure as the business has got larger that we described it in a way that is helpful, and so we may over time get to a place where we feel like some of those metrics are more helpful. But at the moment, we think probably the best way to focus the attention is around the segment reporting that we provided, and then some of these case studies may be helpful as you start to understand operationally how they are deployed, how the carriers think about them, and how we are investing capital into fiber against which we are trying to colocate as many nodes as possible.

Ric Prentiss - *Raymond James & Associates, Inc. - Analyst*

And so, we should not be thinking of it, really, as a rent per node, which is the old way, more of a yield return base, here is how much we have spent on the network? Is that what you are suggesting?

Jay Brown - *Crown Castle International Corp. - CFO*

Exactly right, yes. Exactly right.

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Ben Moreland - *Crown Castle International Corp. - President, CEO*

Yes, that will get you to the right place.

Ric Prentiss - *Raymond James & Associates, Inc. - Analyst*

Okay. And then as far as another question on the revenue side, are there escalators baked into the small cell sites? How does that fit into a return-based negotiated price?

Jay Brown - *Crown Castle International Corp. - CFO*

Yes, our contracts in small cells are very similar to that of towers, where we have an initial term of 10 to 15 years and annual escalations on those revenue streams. Similar to towers, they would be straight-lined over the term of the lease, and the cash escalations would grow on an annual basis.

Ric Prentiss - *Raymond James & Associates, Inc. - Analyst*

Is that a 3% escalator or a 2% escalator? I'm just trying to think. There's been obviously (multiple speakers)

Jay Brown - *Crown Castle International Corp. - CFO*

Typically, it is about 3% would be the average, very similar to towers.

Ric Prentiss - *Raymond James & Associates, Inc. - Analyst*

All right, last question. I started with so much detail, we're consuming it all; back to Brett's question on the margin side. It did seem like G&A as a percentage of small cell revenues went up sequentially from 4Q to 1Q and you would have thought -- we would have thought Sunesys would have been fully baked into 4Q, so we're just trying to figure out is it really more midteens we are talking about or just trying to understand that quarter-to-quarter difference also?

Ben Moreland - *Crown Castle International Corp. - President, CEO*

It went up a little bit Q4 to Q1.

Jay Brown - *Crown Castle International Corp. - CFO*

Yes, I think it is just as we were building the run rate and folding in Sunesys. Some of the -- as we looked at the Sunesys acquisition, some of the expertise, as we've found in, frankly, the other acquisitions that we've done over time, we've found opportunities for folks that we thought could continue to grow and enhance our business over the long term. And so, we've probably ended up retaining a few more folks than what we would have thought initially going into the process.

And so as people come out of what would have effectively been the foldout -- fold down and run down of the prior business, we are now folding them into the run rate on the ongoing small cell segment.

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Ric Prentiss - *Raymond James & Associates, Inc. - Analyst*

Right, and no breakout on Sunesys anymore? Is that what we should expect?

Jay Brown - *Crown Castle International Corp. - CFO*

That's correct.

Ric Prentiss - *Raymond James & Associates, Inc. - Analyst*

Okay, thanks, guys. Ben, good luck becoming, what, Vice Chairman of dividend performance?

Ben Moreland - *Crown Castle International Corp. - President, CEO*

I will do my best, thanks.

Operator

Matthew Heinz, Stifel.

Matthew Heinz - *Stifel Nicolaus - Analyst*

As a follow-up on the small cell competitive landscape question, I'm curious how you see the exclusivity of these systems in a given metro area. And I guess most -- are most of the anchor builds you're doing now the first of their kind in the metro? And how much sense would it make for a competitor to come in and put up competing systems in the general vicinity of the ones you have already built?

Ben Moreland - *Crown Castle International Corp. - President, CEO*

Sure, Matthew. There is a lot of inherent exclusivity in what we're building, and it goes really to the purpose-built nature of the fiber and the very significant capacity and strand count that is required on these systems today.

So while it is possible for someone to come in -- we don't have exclusivity, obviously; somebody can come overbuild, technically. Economically, it doesn't make any sense.

And I would go back to the question of the addressable market and the competitive landscape. It is an enormous world out there, obviously. When you start looking at the world block by block, and I look at -- we're in Houston and I look in Houston today where there is two large systems getting built, one by ourselves and another by a competitor, and we don't overlap at all. And so, that's the way these are working all across the country, where it makes sense.

I think it is unrealistic on our part to think that a carrier is going to give us 100% of their market share in a particular area. As much as we would love that to happen, that is just not realistic. And so, we have competitors. They are gaining in terms of their own capability, and the economics around the transactions make it such that, very much like towers, it just doesn't make any sense once you have the capacity in the market and you have one or two carriers already on that system to come in and essentially duplicate that infrastructure.

It is not already there, I guess is the point, and we're having to largely build it or occasionally buy it, like we did with Sunesys, where some of you will recall when we bought Sunesys it was only 27% utilized on average in terms of strand count, so we have a lot of capacity in those metropolitan

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markets where Sunesys fiber was. And, obviously, that is a speed-to-market advantage and efficiency around cost. It's a lot cheaper to buy it with a run rate than to build it scratch.

Matthew Heinz - *Stifel Nicolaus - Analyst*

That's very helpful, thanks, and then as a second question, I'm wondering how we should think about the services revenue and OpEx you are allocating to small cells. Seeing as it is coming in at a much lower margin than the tower services revenue, is that sales or that revenue primarily coming from carrier reimbursements on the anchor builds?

Jay Brown - *Crown Castle International Corp. - CFO*

Yes, Matt, it's largely related to the equipment that gets installed. In some occasions, the carriers will actually have us purchase the equipment, their equipment, for the system, and then there is a slight markup to that, which is how the margin is generated.

As you can see from the numbers, it is a relatively small contribution to services gross margin, a couple of million dollars. We don't expect that to grow. It is very different than what we would expect on the tower side, obviously, so frankly from a margin standpoint, I don't think that's that interesting. I would tell you that our expectation would be we will probably produce somewhere between $2 million and $10 million a year of margin, but unlikely to be more than that from services margin in the small cell segment.

Matthew Heinz - *Stifel Nicolaus - Analyst*

Okay. I guess I was trying to just get a sense of where that reimbursement revenue is flowing into, and it sounds like the site rental piece is more of a pure number on rental dollars are.

Jay Brown - *Crown Castle International Corp. - CFO*

Correct. That's correct.

Matthew Heinz - *Stifel Nicolaus - Analyst*

Okay, thank you.

Operator

Amir Rozwadowski, Barclays.

Amir Rozwadowski - *Barclays Capital - Analyst*

Just to dovetail some of the other questions on small cells, I was wondering how do you feel about your current asset footprint? As you mentioned, this is seemingly like a tower lying on its side. Is there a potential for you to build out that capacity via additional inorganic means in order to accelerate a [bold, new] footprint? And then, I have got one follow-up after that.

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Ben Moreland - *Crown Castle International Corp. - President, CEO*

Yes, this is Ben. Look, we took a big step with initially NextG, which was a little bit early, maybe, and has worked out pretty well, and then Sunesys last year with the footprint we acquired, to your point.

We have also done, I think, two or three smaller, just single-market deals that made sense, based on specific engagements that we had where we could buy versus build. And we're constantly looking at those opportunities, but I don't -- there's nothing out there on the horizon that is significant today that I would tell you, and it has to pass the filter of -- we're supporting wireless infrastructure, first and foremost. We are supporting the wireless broadband capacity buildout that is happening on the small cell networks.

And so, that takes us to these top 25 metros, typically, which is an enormous geography to cover when you start thinking about it that way, again at the block-by-block level. So there is just not that many in the universe of addressable targets. We may do a few more, but I wouldn't say there is anything on the horizon right now that looks like a Sunesys.

Amir Rozwadowski - *Barclays Capital - Analyst*

Thank you very much. And then switching a bit away from the small cell discussion, it seems as though there has been a debate, at least among the investor community and maybe among your carrier partners, on how to think about the AWS-3 spectrum deployment over the mid to longer term, particularly as to whether or not pre-existing either MLAs or pre-existing equipment could facilitate the deployment of that spectrum?

I would love to hear your thoughts around that. Can this be an opportunity for further amendment revenues as that spectrum gets deployed? And what are you guys thinking in terms of timing?

Jay Brown - *Crown Castle International Corp. - CFO*

I think what I would say to that end, and we tried to be pretty careful about this over the last several quarters with the carriers, is we don't want to get in front of them in terms of what their network architecture is, and that's really a question they should speak to, how they are thinking about equipment and installations on towers.

I would tell you as we look at the activity in total on towers we think that activity, which is going to come from a myriad of sources, including the one you referenced, we think that is about the same level of new leasing activity this year as what we had last year. That's a bit elevated from the levels that we saw in 2014. And as we talk about our long-term targets that Ben and I both mentioned of 6% to 7% growth in AFFO and dividends per share on an annual basis, what we have embedded in that is a leasing environment for towers that looks fairly similar to what the environment we are currently in today.

And our experience over a long period of time is that as the carriers either acquire additional spectrum or upgrade their technologies to the newest and latest technology is the sources of that revenue growth tend to move among the carriers, among the technologies, and among the spectrum band.

But we see a relatively consistent amount of revenue growth year to year. In fact, as you go back over a multiyear period, you can find that the vast majority of the leasing activity in any given year is within a band of about 10% to 20% up or down, and so it gives us a lot of confidence in the business as we think about, longer term, our 6% to 7% metric in AFFO growth that it would appear to us our assumption of that current level of leasing growth is a fairly well-placed assumption as we look at it through a number of different cycles over a long period of time.

So we certainly spend some time watching and having conversations with the carrier about what they're doing specifically with certain technologies, but we will let them speak for that and we will focus on what we think the impact to revenues are as they take those various actions over time.

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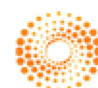

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Ben Moreland - *Crown Castle International Corp. - President, CEO*

And just to finish the thought, for most of you you have heard me say this many times, that up or down 20% on tower leasing in any given year is about a 1% change in AFFO per share outcome and one of the many reasons we like this business.

Amir Rozwadowski - *Barclays Capital - Analyst*

Thank you very much for the additional color.

Operator

Michael Rollins, Citi.

Michael Rollins - *Citigroup - Analyst*

Just a follow-up and then a couple quick questions. With regards to small cells, is there a way to think about the backlog of revenue relative to capital that has already been recognized in the financial statements, but you either haven't turned the service on yet or it takes time for the customer to grow into the full revenue spend that it is committed to?

Jay Brown - *Crown Castle International Corp. - CFO*

Sure. It generally takes us about 18 to 24 months to build a brand-new system, so the pipeline that we are currently working on today, it would be in the soft cost stage for systems that we won't turn on likely until 2017 and 2018.

For new tenants, when they are -- as they are colocating on existing systems, that process can take anywhere between nine and 18 months, depending on the dynamics in a market, and so we have a pipeline of those activities as well.

What we are seeing in terms of the revenue growth in small cells this year at $55 million, those would have been projects that we started a number of years ago that are now into the run rate.

So, I would say in small cells we have a little bit more visibility about what the revenue growth is going to look like, given the construction time frame, whether that is colocation or new systems. So we do have a view for that.

And back to my prior point, that is baked into our view of growth of 6% to 7% AFFO per share. So we're assuming that we continue to see the current level of activity over an extended period of time. To the extent that we have opportunities beyond that, then we would have to revisit that growth rate, but our working assumption is that we both invest and see activity that is in and around the same levels we are currently seeing.

Michael Rollins - *Citigroup - Analyst*

And do you have an update on how the acquisitions, the two big tower portfolios that you acquired over the last few years, how they're doing in terms of growth versus the rest of the portfolio?

And then just a final thing I was curious about, just back to the churn questions from earlier in the call. Is there a reason the carriers are giving you for the delay in churn relative to what you anticipate? It just seems like the churn keeps getting pushed out, which you get more money in the interim for that, but is there a business reason for it? And is part of that maybe the possibility that they want to keep some of those locations that you had anticipated that they wanted to churn? Thanks again for answering those.

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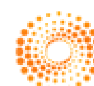

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Jay Brown - *Crown Castle International Corp. - CFO*

Sure, Mike. On the AT&T and T-Mobile acquisitions that we did, those towers in terms of their new revenue growth are performing in line with the rest of our towers, so we haven't seen any meaningful difference in leasing, which was our underwriting assumption going into those acquisitions.

In both cases, we assumed that we would add about one tenant per tower per year over the first 10 years of ownership, and as we look at our consolidated results, that is about what we are seeing in terms of new leasing activity across the whole portfolio. And we're seeing it pretty consistently across many.

On your second question about churn, we have obviously had discussions with the carriers, but again I would like to be careful about guarding some of those conversations. They have been pretty public about their desire to ramp those legacy networks down. We think the locations are obviously great and at some point were picked specifically for those networks. So there may be the opportunity over time for some of those sites to get renewed, but right now, based on what the carriers have both said publicly and indicated to us, we think the best long-term assumption is to say that those sites will eventually not be renewed, and so we have baked that into our outlook.

Michael Rollins - *Citigroup - Analyst*

Thanks very much.

Operator

Colby Synesael, Cowen.

Colby Synesael - *Cowen and Company - Analyst*

Two questions, if I may, on growth. First, now that you're breaking out small cells versus the macros, I was wondering if you could tell us or give us a proximity of organic growth for each of those two businesses that get us to that 8% that you did in the first quarter?

And then, also, when I look at that 8%, as part of that you did 6.8% growth in new leasing activity, but when I look at your guidance for the year, you are assuming it is just 6%. So, obviously, at some point between the next three quarters, you are assuming that goes below that number.

And when I listened to your response to I think it was Simon's question, you mentioned that you are still expecting 60% of activity in the back half of the year versus 40% in the first half, so I am trying to understand why we would be going below 6% over the next three quarters to get you to your guidance versus the 6.8% you just did in the first quarter. Thanks.

Jay Brown - *Crown Castle International Corp. - CFO*

Sure. On the first question, I think it is probably a level of granularity that at this point we haven't disclosed around organic growth.

You can obviously see from the two businesses that the growth on small cells is much higher on a percentage basis than that of towers, which in part come from the fact that we are coming off of a much lower base, and so as we add tenant nodes across the systems, that is going to result in higher percentage growth.

With regards to the 6.8% moving down towards 6% over the course of the year, we look at the business and find it to be helpful to look at it much more on a year-over-year basis, rather than digging into quarter to quarter, as there can be things, whether it is the timing of the nontenant nonrenewals or the timing of leasing, that impacts that.

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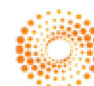

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And you brought up exactly the right point when you referenced my earlier comment to Simon about 40% in the first half of the year and 60% in the back half of the year. What happens, in past years as 60% of the leasing activity went on the towers late in the balance of 2015, those come into the run rates obviously from reported numbers, whether that is GAAP numbers or the organic metrics that we have. Those won't show up until basically the first quarter in fulsome this year. So that has some impact to those numbers.

And as we go over the course of the year, the licenses, and I was specifically referring to the new leases that we would do with carriers over the course of the year, those leases that we sign in the fourth quarter of this year will have very little to no impact to site rental revenue in this calendar year. Those will just be in the run rate as we go into next calendar year.

So there is some balancing over time that leads to those differences.

The other thing I would point out is just -- you have just got the law of large numbers, also. So as you move through the -- over time, from a percentage basis we are going to lose somewhere in the neighborhood of about 40 basis points, assuming a constant level of activity, 40 to 50 basis points, on the revenue growth number.

From an activity standpoint, and that's why we spend so much time talking about $115 million of nominal growth on the tower side is, that is really the best indication of what is activity doing either up or down from that baseline number. So, the percentage change is a combination of looking at quarters and trying to figure out what does it look like period to period, and then also law of large numbers.

Colby Synesael - *Cowen and Company - Analyst*

Great, thank you.

Ben Moreland - *Crown Castle International Corp. - President, CEO*

And probably, also, we should speak to the 6% to 7% longer-term view on AFFO is inclusive of the headwind from the law of large numbers and why you'd come off a higher year this year, 9% in the guidance, and then over time we look at the convert coming in next year, for example, and things, that's a fully baked number that includes the inherent accretion for making smart capital allocation decisions that drive that over time. Do you have another question?

Operator

Spencer Kurn, New Street Research.

Spencer Kurn - *New Street Research - Analyst*

Thanks for taking the question. So, are you seeing any competition from cable companies in your small cell markets? And could you elaborate on what exactly is so different about the purpose-based fiber that you are deploying for small cells versus the existing fiber in a lot of those markets? I know cable has been leveraging their fiber for Wi-Fi hotspots, which seems pretty similar to what carriers would need for a small cell. But, yes, I would love some -- I would love to hear your thoughts on what's different and why you have the right to it. Thanks.

Ben Moreland - *Crown Castle International Corp. - President, CEO*

Sure, the cable companies in various markets would be in the list of competitors. From time to time, we run across them.

And in particular, your question, Spencer, around the uniqueness of the fiber, it really goes to the capacity and the fact that all the cable plant, whether they dedicate it to either cable or enterprise, is experiencing dramatic growth in bandwidth requirements across the universe. And as we

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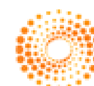

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look at what the small cells require in terms of typically a distributed antenna system architecture, it takes a pair of strands for every node, that is a very -- essentially like a dark fiber connection. That's a very significant burden to put on existing plant in many markets.

And so, certainly there are some, like we found Sunesys that had capacity. Obviously, we moved on that. But as a general matter, it is not uniform and it is not interchangeable. And so, you really have to look at it almost block by block, city by city. Where we have an engagement and where we can take advantage of existing fiber, either through leasing something occasionally or acquiring it, we will. But that's in the vast minority, except for this -- the footprint we acquired with Sunesys.

So, that's probably about as clear as we can be. Appreciate that bandwidth requirements for all connectivity is going up, not just wireless.

Spencer Kurn - *New Street Research - Analyst*

Great, thank you.

Operator

Matt Niknam, Deutsche Bank.

Matt Niknam - *Deutsche Bank - Analyst*

Thank you for taking the questions. Two, if I could. One on small cells, so public comments from two of the four nationals has obviously talked about a bigger focus on small cells for densification this year. Without getting too specific around carriers, can you maybe just talk about whether others are indicating interest in deploying small cells more materially as part of the near-term network strategy?

And then, secondly, on the macro side in light of the TDC deal, what is the latest you are seeing on the acquisition pipeline on the macro site front, both in terms of available assets and valuations in the market? Thanks.

Jay Brown - *Crown Castle International Corp. - CFO*

Yes, I think on the first question, we obviously showed -- we showed two systems there. We tried not to pick actually the best systems that we had, but we tried to pick some that we thought were somewhat representative as the markets develop, and we have got three carriers on one of those and a third carrier going on in the next -- inside of the next six months.

So, we are seeing activity from all four of the operators on small cells, and the business and contribution of the revenues in that business is not being driven solely by one carrier any longer, so we are seeing good diversity of revenues and opportunities with the carriers and think that will continue.

Ben Moreland - *Crown Castle International Corp. - President, CEO*

We also tried to pick two examples that were a little counterintuitive because we have all -- we can all envision a CBD market where that would be the urban core. These being out in a more suburban environment indicate the scope of the opportunity out there and the addressable market is enormous.

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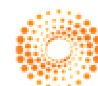

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Jay Brown - *Crown Castle International Corp. - CFO*

On the acquisition pipeline, from time to time we may find an opportunity that makes sense to acquire and roll some towers in. TDC was a bit of a unique circumstance for us. That was a firm that we partnered with back in the 2008-2009 time frame to go out and build towers and acquire some towers, and then we had an option to call those assets in at an appropriate -- what we thought was an appropriate financial return at some future date. So we exercised a call option that we had in that transaction.

We see towers from time to time trade, but they are relatively small acquisitions and, frankly, most of the capital as we have had opportunities to deploy it outside of the TDC acquisition, which I would describe as a bit unique, we've focused most of our efforts in capital investment on small cells and have not seen attractive multiples in the tower space recently.

Matt Niknam - *Deutsche Bank - Analyst*

And just one quick follow-up on small cells, in the past you have talked about the split between new leasing and colo activity about 75%/25% split. Has that changed at all of late?

Jay Brown - *Crown Castle International Corp. - CFO*

It is about the same, currently. It's about 75% new systems that we are building and then about 25% colocation.

Matt Niknam - *Deutsche Bank - Analyst*

Great, thank you.

Operator

Walter Piecyk, BTIG.

Walter Piecyk - *BTIG - Analyst*

I just have a couple questions on slide 6. The dots that are there, are those cutting directly into the fiber underneath them? Should we just assume that there is no run and that cuts right into the fiber?

Jay Brown - *Crown Castle International Corp. - CFO*

They would have a tail off of that. I think, if I understand your question correctly, they would have a tail off of that node like similar to the picture that we are showing that would go down to the fiber run, which would be in the street.

Walter Piecyk - *BTIG - Analyst*

But directly underneath them, so if there is not dots, they're patching into the same location along that run, right?

Jay Brown - *Crown Castle International Corp. - CFO*

That's correct. That's correct.

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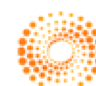

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Walter Piecyk - *BTIG - Analyst*

Great. Second question is by the scale, it looks like they're about three-quarters of a mile away from each other. Is that enough for coverage or is there an opportunity for the carriers to add additional -- I am just going to call them dots, because of the map, dots along those runs?

Jay Brown - *Crown Castle International Corp. - CFO*

There is, and as we -- as Ben just mentioned a second ago about how we picked these examples, if we were to show this in a central business district, if we were to show you even New York City and the systems that we have deployed in New York, you would see that those nodes are much closer together than three-quarters of a mile.

Ben Moreland - *Crown Castle International Corp. - President, CEO*

It's like every corner.

Jay Brown - *Crown Castle International Corp. - CFO*

And so, it really depends on density of population, the amount of traffic that would be required in order to provide the solution.

Walter Piecyk - *BTIG - Analyst*

Right, so then if -- in the case of New York City, this would look more like a crisscross, given the population density and size of buildings and things like that, correct?

Jay Brown - *Crown Castle International Corp. - CFO*

That's correct.

Ben Moreland - *Crown Castle International Corp. - President, CEO*

It also speaks, Walter, over time you will likely have densification over time, even on these systems. So as the load continues to grow, you will have more on these existing systems.

Jay Brown - *Crown Castle International Corp. - CFO*

And one of the points just to the earlier questions about metrics and how to look at this, this example is also helpful if you were to compare it to a central business district. The cost of deploying that fiber is significantly more expensive, too.

So, you can't look at a system like what we have laid out in Denver or Las Vegas on a -- if you just looked at a node per mile, you would expect to have fewer nodes per mile. That may deliver the same yield as meaningfully sensor nodes per mile in a central business district, and that would come down to cost and rent and other things, which we negotiate with the carriers in each system based on the cost and needed returns.

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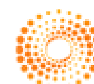

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Walter Piecyk - *BTIG - Analyst*

Excellent. Third question is just on the -- and the last question, if anyone was worried -- is on the picture. The text on that says representative pole with two tenant nodes. Other small cell providers have indicated that even on a single carrier, there is multiple of those boxes that are required just to use all of their spectrum. So are you representing the technology that you are deploying is that you can put multiple carriers in all of the spectrum of those multiple carriers in a box that is approximately that size?

Jay Brown - *Crown Castle International Corp. - CFO*

It depends. In some markets, the answer to that question is yes, so it depends on what spectrum the carriers are deploying and what the local zoning and planning restrictions are.

So in the example that we gave in Las Vegas, you can see that as we had multiple carriers come along, we went on what we would commonly refer to as -- we call it the next pole over. Really, that is another pole that is along the existing fiber strand. Oftentimes that is driven by local zoning and planning restriction, and so it really does not matter to us whether it goes on the same pole (multiple speakers)

Walter Piecyk - *BTIG - Analyst*

But I'm just looking at that picture. You are saying that picture is showing that that box --

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Jay Brown - *Crown Castle International Corp. - CFO*

Has two.

Walter Piecyk - *BTIG - Analyst*

-- has (multiple speakers) wireless carriers in it?

Jay Brown - *Crown Castle International Corp. - CFO*

Yes, it has two in it. Yes.

Walter Piecyk - *BTIG - Analyst*

Okay. Great, thank you very much.

Operator

Nick Del Deo, MoffettNathanson.

Nick Del Deo - *MoffettNathanson LLC - Analyst*

Thanks for taking my question. I will be like everyone else and ask one on small cells. If the FCC implements its new special access/business data services rules in a manner that is broadly consistent with what we have read about today, what do you think the puts and takes will be for your DAS business, if any? I recognize that it is hard to have any firm opinions if you don't know exactly what the rules are going to be, assuming they even pass, but your big-picture thoughts would be helpful.

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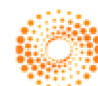

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Jay Brown - *Crown Castle International Corp. - CFO*

Yes, I think we will have to take a look at where those rules ultimately come out and then analyze what -- where that falls out to our business.

I would say that the tone in Washington, as well as the deployment of these networks, is largely positive for our business, but we will wait and see what the final form of those rules come to and then we would be happy to comment at that point about it.

Nick Del Deo - *MoffettNathanson LLC - Analyst*

Okay, I will keep it to one, given the time. Thanks.

Operator

Michael Bowen, Pacific Crest.

Michael Bowen - *Pacific Crest Securities - Analyst*

Thanks for squeezing me in here at the end. Wanted to talk to you a little bit about -- I apologize if I missed it a little bit, but the margins for small cells. I understand the heavy investment in the near term, but how should we think about expansion of the margins, both gross and operating margins, going forward?

And then, one thing I noticed also, straight-line revenues, the adjustment keeps coming down. Is that basically what we should anticipate continuing here as we layer in the small cell business as well? Thanks.

Jay Brown - *Crown Castle International Corp. - CFO*

Sure, on the first question, the margins on small cells are impacted by two things. One was the Sunesys acquisition that we did, so that makes incremental margins and growth in revenue look a little different than what we would typically see if it was just systems without the acquisition that we put into it. So that's part of the impact.

The other thing is exactly what you said, which is we have systems that have been on air and are benefiting from colocation, as well as we are putting meaningful amounts of capital investment in for systems that start with just one tenant, and so the combination of those two things, along with the colocation, is what metes out the ultimate margin.

Again, we are looking at two things. One is the underlying business, is colocation happening and how does that develop over time? And the second thing is as we allocate capital, new capital on new systems, does that make sense against the broader environment? And we think on both fronts we are growing in our comfort in the business and encouragement and excitement about what could be in the small cell business as it develops very similar to what we have seen over a long period of time with towers.

To your second question about straight-line revenues, just taking the simple example of a 10-year lease, in the first five years of that 10-year lease, the reported GAAP revenues would be above the cash received, and in the second five years of the 10-year contract, the cash received would be above the GAAP revenue. So as you note on that slide there, we refer to that as the revenue eclipse that is occurring and we are nearly there. So we believe without meaningful amounts of extensions, what is likely to be the case over the next several years is that we will have cash receipts that are in excess of reported GAAP revenues, and that's why we spend so much time focusing on AFFO per share because it removes that vagary and focuses on the cash receipts from those lease contracts.

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Michael Bowen - *Pacific Crest Securities - Analyst*

And then, does the same thing happen on the expense side there for straight line or how does that (multiple speakers)

Jay Brown - *Crown Castle International Corp. - CFO*

Yes, ground leases, exactly.

Michael Bowen - *Pacific Crest Securities - Analyst*

Yes, okay. All right, thank you.

Jay Brown - *Crown Castle International Corp. - CFO*

Maybe we have time for one more question this morning.

Operator

Batya Levi, UBS.

Batya Levi - *UBS - Analyst*

You mentioned that you have very good visibility for colocation and new systems for small cell buildouts. Looking out to 2017 activity, do you see any incremental testing or trials from the carriers for 5G deployment?

Jay Brown - *Crown Castle International Corp. - CFO*

I think we will let them comment on their plans for 5G.

Ben Moreland - *Crown Castle International Corp. - President, CEO*

Directionally where we are headed with fixed wireless broadband, whether it is 4G or of the beginning of 5G, is obviously very positive for us, but we will see how that develops.

Batya Levi - *UBS - Analyst*

Okay, thank you.

Ben Moreland - *Crown Castle International Corp. - President, CEO*

Sure. I think that wraps us up. Thanks for everybody hanging in a little longer with us today. We had a long list of questions, and look forward to another very good year. Thanks very much.

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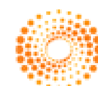

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Operator

That does conclude today's conference. We thank you for your participation. You may now disconnect.

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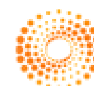

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