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EDITED TRANSCRIPT

CCI - Q1 2018 Crown Castle International Corp Earnings Call

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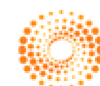

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PRESENTATION

Operator

Good day, ladies and gentlemen, and thank you for standing by. Welcome to the Crown Castle International First Quarter 2018 Earnings Call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Ben Lowe, Vice President of Corporate Finance. Please go ahead.

Benjamin Raymond Lowe - *Crown Castle International Corp. (REIT) - VP of Corporate Finance*

Great. Thank you, Hannah, and good morning, everyone. Thank you for joining us today as we review our first quarter 2018 results.

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

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. This call will contain forward-looking statements, which are subject to certain risks, uncertainties and assumptions, and 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 Factors sections of the company's SEC filings. Our statements are made as of today, April 19, 2018, and we assume no obligations to update any forward-looking statements.

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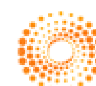

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In addition, today's call includes discussions of certain non-GAAP financial measures. Tables reconciling these non-GAAP financial measures are available in the supplemental information package in the Investors section of the company's website at crowncastle.com.

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

Jay A. Brown - *Crown Castle International Corp. (REIT) - President, CEO & Director*

Thanks, Ben, and good morning, everyone. As you saw from our press release last night, we delivered another great quarter of solid results, and 2018 remains on track to be another great year for Crown Castle, which Dan will discuss in greater detail in a few minutes.

I'd like to spend my time highlighting 3 themes we are seeing in the business, which are noted on Slide 3: increased leasing activity; fiber repeating the success of towers; and the early signs of potential future opportunities, including 5G.

On the first theme, so far this year, we are seeing accelerating leasing activity across towers and fiber as the rapid growth in data is driving demand for our shared infrastructure assets. This acceleration can be seen in our 2018 outlook for growth compared to the rate of growth last year.

Our unique portfolio of towers and fiber located in the top markets provides the essential infrastructure needed for wireless network deployment. In our tower business during the last 12 months, we've seen increasing leasing activity and have signed comprehensive leasing agreements with several of our top customers. These agreements speak to the value of our unique assets and capabilities and signal the beginning of a sustained period of network investment by our customers that will drive future growth.

Like towers, fiber has become an essential component to wireless networks, as evidenced by the increasing demand for small cells. As yet another proof point, we booked as many small cells in the first quarter as we did in all of 2016. As a result, our pipeline of nodes to be constructed increased to more than 30,000.

Typically, we complete the construction of nodes in 18 to 24 months after booking. Even more encouraging and answering one of the most common questions we receive on small cells, over 50% of the nodes booked during the first quarter are for co-location on existing fiber infrastructure, driving higher returns. Both the volume of activity and the returns we are generating on our fiber investments further validate our strategic pursuit of this expanding opportunity.

This is reminiscent to me of the early days of towers. We're seeing demand from multiple tenants on the same fiber, driving high incremental margins that grow our returns over time. And we aren't surprised by this level of demand because we intentionally focused our fiber investments primarily in the top 25 markets, where we expect to see the greatest demand for small cells.

While towers and fiber share many of the same attributes, there are some important differences. For example, we're seeing demand for our fiber from more than our wireless customers, thus increasing the diversity of our customer mix. It is a compelling opportunity to improve the already attractive shared economic model by providing fiber solutions that serve high-bandwidth customers who need access to fiber. When compared to small cell deployments, fiber solution opportunities tend to have faster payback periods on invested capital that occur within the initial contract term, compensating for the higher anticipated churn.

The combination of small cells and fiber solutions translate into a larger addressable market of opportunities that are accretive to long-term returns we are generating across our fiber investments.

Looking at 2 of our markets helps to illustrate both the success to date and the opportunity in front of us. In Phoenix, we're generating an 11% recurring yield on approximately $70 million of invested capital, with small cells driving the entire return on the fiber investment. In Philadelphia, we're generating a similar 11% recurring yield from a combination of small cells and fiber solutions on approximately $700 million of invested capital, inclusive of recent acquisitions. Obviously, those returns are very attractive, meaningfully exceeding our cost of capital. And I believe there's additional opportunity to grow cash flows from both small cells and fiber solutions as we market those products. With that strategy in mind, we are making very good progress on integrating our recent fiber acquisitions. We expect the integrations to be largely completed by early next year.

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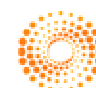

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Another difference between towers and fiber is the returns we're generating on our fiber investments, which are scaling faster than what we experienced with towers. In the early days of towers, we invested speculatively in new towers without anchor tenants, which contributed to approximately 3% initial yields on average across the business. In small cells, we are not investing speculatively, and we're generating 6% to 7% initial yields on our investments. Additionally, with towers, we have historically added the equivalent of one additional tenant per tower across our portfolio over a 10-year period of time.

With fiber, we're seeing small cell lease-up occur at nearly twice that pace, with the second tenant added on average within 5 years. Plus we have the added opportunity to put fiber solutions on the same fiber, as I mentioned before. To illustrate this point, we're generating a recurring yield of approximately 9% across the $23 billion we have invested in towers. That capital has a weighted average life of approximately 9 years. By comparison, we're generating a recurring yield of approximately 8% on the $12 billion of capital we've invested in fiber, with a weighted average life that is approximately 2 years.

We expect these growth trends that I'm speaking about to continue and the returns to hold. And if they do, we will pursue additional investments over time to increase our fiber asset base and expand our long-term opportunity. Those investments will likely take the form of new organic fiber builds with contracted revenue because the opportunity to acquire dense metro fiber with high strand counts in top markets is limited at this point.

The third and final theme relates to our role in the rapidly expanding digital world. We continue to underwrite our investments based on existing applications and technologies. However, with 5G standards expected later this year and as noted on Slide 4, all 4 of our wireless customers discussing plans to deploy 5G, upside relative to our assumptions is becoming more likely.

The network infrastructure needed to support next-generation services, including those enabled by 5G, has the potential to dramatically increase the demand profile for our tower and fiber assets. Industry estimates suggest that the current use cases associated with 5G networks will require a tenfold increase in network performance, as measured by latency, reliability and speed. This potential step function change will likely require a hyper-dense network of small cells and fiber and macro sites connected by high-capacity fiber.

We are uniquely positioned to benefit given our unmatched portfolio of towers and fiber. These 3 themes of strong leasing activity, fiber repeating the success of towers and future opportunities from new technologies give us confidence in our ability to deliver on our target of 7% to 8% annual growth in dividends per share.

And with that, I'll turn the call over to Dan.

Daniel K. Schlanger - *Crown Castle International Corp. (REIT) - CFO, Senior VP & Treasurer*

Thanks, Jay, and good morning, everyone. As Jay discussed, our unique portfolio of assets positions us to take advantage of the positive fundamentals underlying our business. In the near to medium term, we continue to expect higher new leasing activity in each of towers, small cells and fiber solutions in 2018 as compared to last year.

Supporting this view, we recently signed comprehensive leasing agreements with several of our largest customers that lead us to believe we're in the early stages of a sustained period of investment by those customers. Additionally, we've continued to win substantial small cell bookings, which have added to our pipeline and more than replaced the nodes we have put on air. And we continue to invest heavily in new fiber and small cell assets that set us up well for future growth. As a result, we remain well positioned to build on our track record of delivering compelling total returns to our shareholders through a combination of dividends, new investments and growth.

Turning to first quarter 2018 results. As you can see on Slide 5, we had an outstanding first quarter, exceeding the high end of guidance for site rental revenues, adjusted EBITDA and AFFO. Part of this outperformance was a result of 2 items that were not contemplated in our prior outlook. First, site rental revenues and adjusted EBITDA benefited from approximately $12 million of noncash revenues associated with the long-term agreements signed with AT&T. Second, AFFO benefited from approximately $11 million of lower sustaining capital expenditures due to timing as those expenditures are now expected to occur later this year. Even adjusting for the impact of these 2 items, we were able to exceed the midpoint

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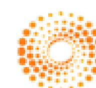

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of our prior outlook for site rental revenues, adjusted EBITDA and AFFO. From a balance sheet perspective, we continue to improve our financial flexibility while focusing on maintaining our investment-grade credit profile.

During the first quarter, we accessed both the debt and equity markets to reduce our leverage, proactively extend maturities and reduce our borrowing costs. We finished the quarter at 5.1x debt-to-EBITDA and intend to finance the business with approximately 5 turns of leverage longer term.

Now turning to Slide 6. As you can see in the chart on the left-hand side of the page, we increased our full year 2018 outlook for site rental revenues by $57 million, which is primarily attributable to this recently signed customer agreements. As we discussed during our last earnings call, our prior 2018 outlook included all the new leasing activity we expected to see from our customers other than what might occur due to the deployment of FirstNet. While we do anticipate an incremental new leasing activity as a result of FirstNet over the course of the next several years, the timing of new leasing in 2018 will not result in significant incremental revenues this year. Therefore, we have not increased our expectations for new leasing activity in 2018, although we have included the straight-line revenues associated with the AT&T agreement in our updated outlook.

Turning to the middle chart on the page. You can see we have increased our full year 2018 outlook for adjusted EBITDA by $48 million, which reflects the impact of the recently signed customer agreements, partially offset by higher anticipated expenses related to the increased activity we are seeing in our business.

Finally, as you can see in the chart on the right-hand side of the page, we have increased our 2018 outlook for AFFO by $36 million. This increase is mostly due to the impacts from our March equity offering and lower expected cash taxes, partially offset by the higher anticipated expenses that are impacting adjusted EBITDA as well as an increase in expected floating interest rates when compared to the rates assumed in our prior outlook. Taking all of this into account, the outlook for AFFO per share remains unchanged at approximately $5.50 at the midpoint.

Turning to Slide 7. We expect between $970 million and $1.015 billion in site rental revenue growth from 2017 to 2018. As you can see on the slide, when compared to the prior outlook, the only change is reflected in the floating bar from -- third from the left on the page, namely an increase of $60 million related to the expected change in straight-line revenues that I just discussed.

Moving on to Slide 8. We now expect between $395 million and $435 million in AFFO growth from 2017 to 2018. The only changes when compared to the prior outlook are captured in the other category that covers nonoperating items, including changes to interest expense and cash taxes.

In conclusion, first quarter 2018 was another quarter of strong financial and operating performance. For the remainder of 2018, we continue to expect higher new leasing activity across our business. And the recent comprehensive agreements we have signed with several of our customers suggest we are in the early days of a sustained period of investment by those customers. Momentum continues within our fiber business following a quarter in which we booked as many small cells as we did in all of 2016, and we're making very good progress on integrating our recent fiber acquisitions. All of this supports our goal of increasing our dividend per share by 7% to 8% per year while positioning us for the large potential upside created by 5G that Jay just discussed.

With that, Hannah, I'd like to open the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we'll go first to Brett Feldman with Goldman Sachs.

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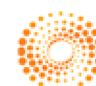

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Brett Joseph Feldman - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

I was hoping I could dig in a little bit to some of this moving parts in your guidance. You talked about the higher OpEx. I was hoping you could clarify what's driving that. Is that unique to the AT&T agreement? Is it more broadly driven by the larger funnel that you have? And then just in general, when are we going to get some visibility into being at a point of sustained level of site operating expenses such that we'll get a little bit more operating leverage as you grow the business? And then just one quick question we got this, why was your 1Q revenue affected by the new AT&T agreement? I think that was signed after the quarter ended.

Daniel K. Schlanger - *Crown Castle International Corp. (REIT) - CFO, Senior VP & Treasurer*

Sure, Brett. Thanks for the questions. So the higher OpEx is related to the bigger pipeline of small cells as we continue to build out that pipeline and increase it and increase the velocity of that. We do have to add some OpEx to continue to add to our capabilities to deliver on those nodes. And to your point of when will we see some visibility and when it will kind of slow down, the increase will slow down, it really depends on how quickly we book nodes. If we continue to see increases in the activity levels, we will likely see increases in the OpEx. But we think those are more than made up for by the incremental revenues we're going to make over time. I think the issue that we've pointed to in the past is that many times, the capital and the OpEx come before the revenues, and that's kind of what you're seeing here. And then...

Brett Joseph Feldman - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

AT&T.

Daniel K. Schlanger - *Crown Castle International Corp. (REIT) - CFO, Senior VP & Treasurer*

The AT&T deal, yes, just -- it was signed in time for us to get the impact economically into the first quarter. So the reason it impacted our first quarter is because it had impact on what our revenues were in the first quarter. So there's no specifics around that other than it impacted our first quarter.

Brett Joseph Feldman - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Okay, got it. And if you don't mind, one last question, just a housekeeping one. Since we have news again on T-Mobile and Sprint, do you have any updated disclosure on your exposure? I know you'd given that a little over a year ago.

Daniel K. Schlanger - *Crown Castle International Corp. (REIT) - CFO, Senior VP & Treasurer*

I think you can see in the supplement that T-Mobile is around 19% and Sprint around 14% of our total revenues at this point. The disclosure we gave last time was around how much -- when they were both on one tower, overlapping towers, that number is around 5% of our revenues, taking into account the churn that we already assumed in our forecast and talked about from acquired networks.

Brett Joseph Feldman - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

And do you know their weighted average remaining lease term on that 5%?

Daniel K. Schlanger - *Crown Castle International Corp. (REIT) - CFO, Senior VP & Treasurer*

Yes. They're 5 to 7 years.

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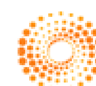

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Operator

We'll go next to Simon Flannery with Morgan Stanley.

Simon William Flannery - *Morgan Stanley, Research Division - MD*

On the commentary about the accelerating leasing, I think given what you've said about FirstNet and so forth, is it fair to think that during the course of '18, we'll see an acceleration in your leasing activity and then that would set up for '19 to be better than '18? And maybe related to that, are we now at the point where all 4, all big 4 of the wireless carriers are now spending at a fairly steady clip? Or is there still some more to come from getting everybody onboard?

Jay A. Brown - *Crown Castle International Corp. (REIT) - President, CEO & Director*

Thanks, Simon. To your first question, I'd point out 2 things. First of all, as we look at calendar year 2018 and the guidance that we provided for '18, it is an acceleration already over the levels that we saw in 2017. And we're seeing that across all components of the business. On the towers side, the wireless carriers this year are doing much more on macro sites than what they did last year. And then on the fiber side, both from solutions as well as from small cells, we're seeing an uplift in the amount of incremental revenues that we're adding across the fiber assets this year as compared to last year. So all components are already up in the outlook that we're giving. More certainly, in the comments about the accelerating leasing environment, I certainly intend to capture that movement from '17 to '18 in the way that I spoke about it. I think it's also the case that as we look at what's happening in the broader environment, both longer term, as I talked about from a 5G standpoint, as well as some of the customer leasing agreements that we signed and the activity that we're seeing around the business, that portends an increase from where we are. Now I would caution you in answering that question that oftentimes, in our business, people look for inflection points, and they look for some -- any given quarter, whether there's going to be this meaningful step in leasing and activity. And my experience -- I've been at Crown since 1999, and I have found those inflection points to be very rare, both for the positive and to the negative. And as I look at the landscape and what we're seeing, what I see suggests a very long runway of sustained investment and growth in our business. And that's what gives us confidence around our 7% to 8% growth in the dividends per share over a long period of time because there are a lot of components that look like we've got greater visibility and increasing leasing. So we're trying to take a balanced view and say, over a long period of time, we feel pretty good about the 7% to 8%. And I think what we're saying today and reflecting in both the comments and the press release as well as our prepared comments is that I think we're more confident about what that growth looks like over a longer period of time, and so I think that's there. The last thing, in answer to your second question around all 4 of the carriers, we are seeing activity from all 4 of the carriers. In any given quarter, it certainly varies in terms of how much we see from any one carrier. But we're seeing activity across macro sites and small cells from all 4 of the wireless carriers and believe, based on the recent customer agreements that we've signed as well as the activity that we're seeing from them, that we're going to go through a period here where we do see activity from all 4 operators for a sustained period of time.

Operator

We'll go next to David Barden with Bank of America.

David William Barden - *BofA Merrill Lynch, Research Division - MD*

I guess, first, to you, Dan, with respect to kind of the new agreements that you've signed from the "several of the big customers," could you talk about the terms and conditions that go around those? Or is there anything novel about those agreements that would lead one to kind of change a view about what their potential impact on the business could be? And then second, could you talk a little bit about maybe how the AT&T tower purchase agreement, which gave a free RAD Center to AT&T, on a go-forward basis, is affecting your ability to maybe monetize AT&T's activity level or how that factored into the agreement that was released last week and just generally kind of characterize how you think that it affects your ability to monetize FirstNet and AT&T?

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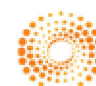

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Jay A. Brown - *Crown Castle International Corp. (REIT) - President, CEO & Director*

Sure. On your first question, I don't believe there is anything novel, really, here. We approached these agreements in the same way that we've done them in the past, same core principles in mind. We're trying to help our customers identify solutions that help them improve their networks and do those both cost-effectively and efficiently in terms of time while not compromising our ability to capture the appropriate economics in the business. I believe in all cases, the transactions that we've done over the last year or so, those have enabled us to realize at least as much value as what we otherwise would have if we had just gone kind of one at a time. So I don't believe there's anything new or novel associated with the agreements. I think we're running the same play that we've run for 20 years, being thoughtful about the value of the asset and the value that they're using on those assets and then providing a shared model that drives both our returns and is a cost-effective way for them to deploy network. On the second question, specifically, that agreement, obviously, was publicly filed when we announced that transaction. We didn't provide a free RAD Center to AT&T, and so I'm not sure the nature of that question. But what I would say holistically, going back to kind of my first comments, would be that, again, as we thought about it, we thought about valuation, value of the towers and small cells and what that would look like over time and believe we've realized at least as much value as we otherwise would have if we had just gone one at a time.

David William Barden - *BofA Merrill Lynch, Research Division - MD*

And so, Jay, if I could just follow up on that kind of comprehensive nature or holistic nature of these agreements, so are these agreements less activity-related and more kind of anticipatory, they kind of ratchet up at some known quantity over a course of time and then customers are able to do what they want to do within [bans reasonableness] over that period within those time buckets?

Jay A. Brown - *Crown Castle International Corp. (REIT) - President, CEO & Director*

Dave, I don't think I want to get into the specifics of how we structured them. Again, there was really 2 driving goals hearing the conversation from the carrier side. They were looking for time and certainty around the cost of deployments and what they saw in front of them. And then we need to realize appropriate economic value for the use of the asset, and we're open to being flexible about how we accomplish those 2 goals based on each customer's needs. And I would expect we'll continue to do that into the future as we've done in the past.

Operator

We'll go next to Jonathan Atkin with RBC Capital Markets.

Jonathan Atkin - *RBC Capital Markets, LLC, Research Division - MD and Senior Analyst*

So following up on that last topic, I was a bit surprised that the term didn't seem to change if you look at the weighted average remaining contract length with the customer for your most recent MOA, AT&T, and wondering what the thought process there was. I would have expected it to kind of extend a bit. And then can you clarify -- you mentioned it's kind of holistic. Is there a change in the base escalator with that customer or not?

Jay A. Brown - *Crown Castle International Corp. (REIT) - President, CEO & Director*

Sure, Jon. On your first question, again, I would go back to kind of the holistic comment. If you look at our tower business and small cell business over a long period of time, there is very, very low churn in that business. And so while someone might look at the contractual terms of those agreements, I would tend to look at the way we've looked at the business over a long period of time and believe that, that infrastructure is going to be there long after the current expiry of the current term in which they're in. And so at times, the carriers have desired to extend maturities, and other times, they haven't. And I think the 2 guiding principles that I mentioned are the way that we would think about the agreement and we'll be flexible with customers, depending on what their desires are. Secondly, in terms of the change of escalator, we did not change the base escalator in the agreements that we signed with customers. So as we thought about components of the agreements, we certainly believe that's a very

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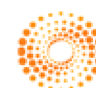

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valuable component of the leasing exchange that's done for the assets and the underlying value of the assets. And so that did not change as a part of these agreements.

Jonathan Atkin - *RBC Capital Markets, LLC, Research Division - MD and Senior Analyst*

And then turning to the fiber segment. Can you give us a little bit of a flavor of the breakout now that you have Lightower between enterprise and mobile infrastructure within that segment?

Daniel K. Schlanger - *Crown Castle International Corp. (REIT) - CFO, Senior VP & Treasurer*

Between -- Jon, are you asking between enterprise and small cells? Is that what you're asking?

Jonathan Atkin - *RBC Capital Markets, LLC, Research Division - MD and Senior Analyst*

Yes, yes.

Daniel K. Schlanger - *Crown Castle International Corp. (REIT) - CFO, Senior VP & Treasurer*

Okay, yes. It's about 75% fiber solutions and 25% small cells within the fiber segment.

Operator

We'll go next to Ric Prentiss with Raymond James.

Richard Hamilton Prentiss - *Raymond James & Associates, Inc., Research Division - Head of Telecommunication Services Equity Research*

A couple of questions. Looking at the change in guidance, it looks like -- I think you mentioned $60 million change in the straight-line adjustment in 2018. It looks like that drops to about a $40 million change year-over-year from prior view in '19 and then about $20 million change view-to-view on 2020. So it looks like kind of $20 million improvements as we look out '18, '19, '20. Can we use that as a ballpark measure maybe of saying if you're doing $3 billion-plus of tower revenue and maybe the cash benefit might be like 60 bps a year for long foreseeable future based on the long runway you talked about? Just trying to think if that math works back that way.

Jay A. Brown - *Crown Castle International Corp. (REIT) - President, CEO & Director*

Ric, I think there's a couple of components of this that -- first, I would basically affirm where you're, I think, directionally trying to take the question around. It certainly gets greater certainty to the -- our expectation of growth over time, and that's really consistent with the comments that we're making. I would probably caution anyone from quarter-to-quarter movements of trying to draw too many inferences 5 or 6 years from now because there's obviously a number of components that affect that. How many small cell nodes do we turn on in the quarter, what is the leasing activity in any given quarter can obviously move -- can move those numbers along with this, as we were talking about before, some of the customer agreements that we signed. But I think the directional nature of your question, I would affirm and say, yes, we've increased the certainty of growth around our business. And in addition to the kind of the certainty component, I think we're also seeing activity that would suggest a sustained increased level of activity in the business over the foreseeable future.

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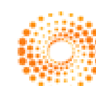

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Daniel K. Schlanger - *Crown Castle International Corp. (REIT) - CFO, Senior VP & Treasurer*

And Ric, as Jay pointed out earlier, I think -- sorry to interrupt, but just as Jay pointed out earlier, I think all of this gives us just more confidence in our ability to continue to grow our dividend over time. As we are signing these agreements, we are moving from what is potential new activity to contracted new activity, and that provides a greater level, as you just said, level of certainty around the business that we have.

Richard Hamilton Prentiss - *Raymond James & Associates, Inc., Research Division - Head of Telecommunication Services Equity Research*

Okay. And then on the carrier getting kind of speed, right? AT&T wanted to get more speed and certainty. Can you talk to us a little bit about the time frame from lease application to turning into revenue?

Jay A. Brown - *Crown Castle International Corp. (REIT) - President, CEO & Director*

Sure. Generally, on the tower side, it's 6 to 9 months it takes us from the time we get an application until we have it on air. It will be on the shorter end of that for amendments and longer end if we're doing a brand-new co-location on an existing tower. In the small cells, we've given the average of 18 to 24 months after the booking occurs in some geographies. Depending on how difficult it is to get it up, it would be longer than that. In places where it's a co-location, in a market that we've done a lot of work in, it may be on the shorter side of that. So it's a mix, but I think somewhere in the 18 to 24 months is the right timeline to use for small cells and 6 to 9 months is the best timeline to use for towers.

Richard Hamilton Prentiss - *Raymond James & Associates, Inc., Research Division - Head of Telecommunication Services Equity Research*

And one quick housekeeping. Do you see -- is there going to be an equity raise at the market in April? And is that in your guidance, not in your guidance? I know there's some confusion out there given the March equity raise.

Daniel K. Schlanger - *Crown Castle International Corp. (REIT) - CFO, Senior VP & Treasurer*

Yes. So we did the March equity raise. That obviously is in our guidance. We filed an at-the-market program, but that does not speak to whether we will actually use that or not in any given period. It gives us the ability to go out and market equity. What we said after the March deal was it got us down to what was really close to our target leverage rate range. And as we move out through 2018, we'll continue to add EBITDA and have capital expenditures that are all included in what we have given as outlook. And we think that we are comfortable with where our leverage profile is now.

Richard Hamilton Prentiss - *Raymond James & Associates, Inc., Research Division - Head of Telecommunication Services Equity Research*

Okay. So it's not like we're expecting an April offering right now or like that, it's just at-the-market filed out there, so it's available for when you want to do it?

Daniel K. Schlanger - *Crown Castle International Corp. (REIT) - CFO, Senior VP & Treasurer*

That is what that filing does for us, yes.

Richard Hamilton Prentiss - *Raymond James & Associates, Inc., Research Division - Head of Telecommunication Services Equity Research*

And so obviously not in guidance then.

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Daniel K. Schlanger - *Crown Castle International Corp. (REIT) - CFO, Senior VP & Treasurer*

Yes. So we have -- just to be clear on what we do with guidance, when we think about the guidance going forward, it has a lot of assumptions about how we finance the business, and we try to be very consistent with that over time. Where we are in guidance now, as we pointed out, is that some of the guidance change that happened was because we did the March equity, and it reduced the interest expense but it increased the share count. So I think where we are with guidance now at $5.50 is inclusive of all the financing activity that we anticipate.

Operator

We'll go next to Matthew Niknam with Deutsche Bank.

Matthew Niknam - *Deutsche Bank AG, Research Division - Director*

Just 2 on fiber and small cells. One, can you give us any more color on what drove the increase in your small cell pipeline up to 30,000? Particularly, was it one specific customer or more broad-based? And then secondly, on fiber, I think you mentioned maybe considering more organic builds in fiber just given the opportunity. Is this within your existing top 25 markets? Or is this maybe beginning to branch out a little bit more broadly?

Jay A. Brown - *Crown Castle International Corp. (REIT) - President, CEO & Director*

Sure. Thanks, Matthew. On the first question, the pipeline was driven by activity across all 4 of the operators, and we're -- our intention of giving the number was to be able to give you a sense of -- we're obviously putting nodes on air, and I think the math would roughly play out where we've put about 5,000-ish nodes on air roughly over the last year or so since we talked about the size of the pipeline. And then we've added about 10,000 more nodes to the pipeline to be constructed over future dates. So to give you a sense of kind of the activity relative to the pace at which we're putting them on air and all 4 of the operators are driving that increase in pipeline as well as all 4 of the operators saw the benefit of some of the nodes that were put on during the last 12 months or so. Around how we're thinking about markets, generally speaking, I would say the majority of both the CapEx and the nodes that we're receiving are going to be in markets that were already in, in those top 25 markets, although expanding the footprint of those markets. What we have seen happen, and this continues, we've seen this happen for the last 6 or 7 years, is when we first started investing in small cells, is there tends to be an initial investment in the most dense components of a given market. And then as investment happens over time, that investment spreads from city centers, maybe potentially central business districts, out into -- further into the community and further away from those central business districts. We've seen that pattern continue as the business has grown. So for the most part, the capital that we see in front of us in the medium term, the short term, that's going to be largely in the markets that we're already in. I do believe, based on the activity and growth in data, there's going to be a need for small cells beyond the top 25 markets, and we would expect to see, over time, the carriers expand their desire and need to deploy small cells beyond the top 25 markets. But the capital decisions that we've made to date and the vast majority of the operating activity that you're seeing us perform, that's primarily in the top 25 markets. And specifically to your comment around why are we making the comment around organic build, we're expanding the footprint that we either acquired or have built today in order to cover needs in those -- largely in those top 25 markets.

Operator

We'll go next to Nick Del Deo with MoffettNathanson.

Nicholas Ralph Del Deo - *MoffettNathanson LLC - Analyst*

First, have you seen any increased propensity for multiband antennas in the applications you received or the discussions you're having with the carriers relative to the past? I've heard mixed messages on this front, and I would love to hear your thoughts.

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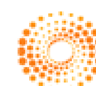

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Jay A. Brown - *Crown Castle International Corp. (REIT) - President, CEO & Director*

Nick, I would tell you, over the long term, the reason why you've heard mixed messages is because there's mixed approaches. The carriers have different approaches, and they take different approaches by market. Ultimately, they're trying to cost-effectively deploy the network in ways that make their network most efficient. And so depending on their spectrum position in the market, the amount of demand on those networks, they will make differing decisions. So the fact that you're hearing mixed answers is a pretty accurate way of describing the way it is ultimately deployed.

Nicholas Ralph Del Deo - *MoffettNathanson LLC - Analyst*

Okay, that's helpful. Then maybe one on the small cell front. We've also heard that some municipalities have gotten incrementally more difficult to deal with when it comes to permitting, maybe as the builds get more towards residential areas. Have you seen the same thing? And if you have, has it affected the timeline you've laid out for when the chunks of your pipeline will get turned up and start generating revenue?

Jay A. Brown - *Crown Castle International Corp. (REIT) - President, CEO & Director*

I mean, municipalities are obviously a component of what that timeline when we talked about 18 to 24 months to deploy small cells. And similar to -- if we were having this conversation 20 years ago, I think people would have asked a similar question about the deployment of towers. It is certainly a barrier to entry, and it's certainly something we have to navigate in the process of building the infrastructure. I don't know that I would necessarily describe the municipalities as becoming more difficult. What I would describe is the scale at which we're doing this over as many markets as we're deploying this infrastructure means there's more conversation in social media and in the press about the activities happening. We're pretty committed to working with municipalities because we want to be a long-term player in the market. And so following whatever rules, zoning and planning rules that they have in place is something we're committed to doing. We're going to do it the right way and be a good partner over a long period of time. And I have not found the difficulties, as you described them, with municipalities to be something that, in any way, inhibits our returns or our ability to deploy the infrastructure. It's a matter of going through the process and ensuring we're following the right rules and regulations of particular municipalities and working with them constructively to provide for some of the aesthetics that they desire and, at the same time, getting the infrastructure that's really needed to get that deployed on a timely basis.

Operator

We'll go next to Michael Rollins with Citi.

Michael Rollins - *Citigroup Inc, Research Division - MD and U.S. Telecoms Analyst*

If you look at the change in straight-line for 2018 of about $60 million and if you look at what that might represent in terms of total contract value, how should investors view that in terms of future activity because you have (inaudible) situation? It seems to represent the totality of activity that was expected from the carrier, whatever the upgrade or incremental deployment purpose was. So in this situation with these new agreements that you have, could investors look at what's represented by the straight-line as the totality of the expectation over the next number of years? Or you look at it more as a minimum? And maybe you can put that incremental opportunity into context.

Jay A. Brown - *Crown Castle International Corp. (REIT) - President, CEO & Director*

Mike, you were breaking up in some components of the question, but I think I got the basic gist of it. The short answer is that's a baseline of the level of activity. Obviously, what we straight-line would be the committed component or some portion of the committed component of the activity. And there is upside from there, and that would be true across all of the customer agreements that we've signed.

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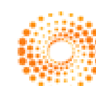

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Daniel K. Schlanger - *Crown Castle International Corp. (REIT) - CFO, Senior VP & Treasurer*

And Mike, I think as Jay pointed out earlier, it's hard to take exactly from straight-line and try to make that into this is exactly what the activity is. Although it could be higher than that, and this is kind of the low end or the baseline of it. What we're looking at, as we'd been talking about, is the fact that this is pushing in a lot of the activity that we had been counting on into a contracted element. And something that we're really excited about is the fact that we now see lots of clarity and understand where we're going to go over the next several years with one of our largest customers. And we've solved some of their issues and we've gotten some economics from it, and we feel really good about where we are. It's just hard to see exactly in the straight-line number and try to predict exactly what's going to happen with the activity. What we believe it is a signal of, though, is, as we've been talking about, increasing levels of activity across a multiyear period that we have more visibility into at this point.

Michael Rollins - *Citigroup Inc, Research Division - MD and U.S. Telecoms Analyst*

And is there a way to think about how much of that was driven by towers versus how much of that was driven by fiber?

Jay A. Brown - *Crown Castle International Corp. (REIT) - President, CEO & Director*

Yes. Well, you can look in the first quarter and see where the change in straight-line happened, and the vast majority of that was on the tower side.

Operator

We'll go next to Walter Piecyk with BTIG.

Walter Paul Piecyk - *BTIG, LLC, Research Division - Co-Head of Research and MD*

Last year, in 2017, your amortization of prepaid was $244 million, and the year before that, it was $203 million, so the change was about $40 million. I think in the past, you said to expect a similar change in 2018 versus '17. So if you look at that $79 million in the first quarter, and you just basically said there was no change in that whatsoever, that implies more of a $70 million increase. So is that amortization of prepaid going to decline over the course of the year in order to get down to that $40 million? Or is there higher amortization of prepaid expected?

Daniel K. Schlanger - *Crown Castle International Corp. (REIT) - CFO, Senior VP & Treasurer*

Yes. Thanks, Walt. It's not going to decline over the year. It is going to be higher. But about half of that, about $40 million of it, is related to the purchase accounting around Lightower, and so it's included in our acquisition bucket, not in our new leasing bucket.

Walter Paul Piecyk - *BTIG, LLC, Research Division - Co-Head of Research and MD*

Got it. So of the $79 million for the first quarter, you're saying there was $10 million up there that was -- that should be in the acquisition bucket? Or the $79 million is fully all prepaid?

Daniel K. Schlanger - *Crown Castle International Corp. (REIT) - CFO, Senior VP & Treasurer*

There's $10 million of it that would be in the acquisition bucket because it's related to the acquisition of Lightower. So the previous statement we made is that there was about the same year-over-year in our new leasing, and that is still the statement, is that the amount of prepaid in our new leasing is consistent from a dollar basis year-on-year.

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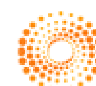

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Walter Paul Piecyk - *BTIG, LLC, Research Division - Co-Head of Research and MD*

Okay. So if that's $40 million and then there's an extra $10 million, then that means the $79 million shouldn't change throughout the course of the year. Should it stay at $79 million, around $80 million for every quarter this year?

Daniel K. Schlanger - *Crown Castle International Corp. (REIT) - CFO, Senior VP & Treasurer*

Yes, it's going to be around that, yes.

Walter Paul Piecyk - *BTIG, LLC, Research Division - Co-Head of Research and MD*

Okay. And just on prepaid in general, to the extent that -- there's a time, basically, it's reimbursed CapEx to a certain extent, like when you collect the revenue, you're collecting more revenue than the CapEx associated with it? Or is it -- are those equal dollars? Like how does that revenue fall through as far as the stuff is going to the deferred revenue bucket and then booked back onto the income statement?

Daniel K. Schlanger - *Crown Castle International Corp. (REIT) - CFO, Senior VP & Treasurer*

Yes, it's the same number as what we book in prepaid. We ultimately get in -- what we book in upfront prepaid is what we ultimately get in prepaid rent amortization. Look, and just to be clear, though, it's not cash at that point because the cash is coming upfront. So we get the cash upfront as a reimbursement of CapEx, and then we amortize that over the course of the life of the contract.

Walter Paul Piecyk - *BTIG, LLC, Research Division - Co-Head of Research and MD*

Right. So let's assume that your CapEx is $10 million, and you collect $12 million, right, because you're getting some return on that first tenant, right, that first build. Is it just the $10 million or $12 million that's going through the amortization of prepaid rent?

Daniel K. Schlanger - *Crown Castle International Corp. (REIT) - CFO, Senior VP & Treasurer*

So I'm going to try to change your example a little bit. It's not that we collect more CapEx than what we spend in order to get a return. It's that, in order to get our return, we get revenues and we get reimbursed a portion of our CapEx. So if we spend $10 million on anything, we would get some portion of the $10 million reimbursed to us, and then we would make our return over time by making revenues from that customer. So let's say of the $10 million, we get $2 million reimbursed. That $2 million is then amortized over the life of the contract.

Walter Paul Piecyk - *BTIG, LLC, Research Division - Co-Head of Research and MD*

Got it. So any of those -- any of that revenue that's effectively in the $220 million guidance for the year, there's a CapEx associated with it that completely offsets that revenue. I'm talking about the revenue in amortization of prepaid. Okay, got it.

Operator

We'll go next to Amy Yong with Macquarie.

Amy Yong - *Macquarie Research - Analyst*

Just a question on your fiber needs. When we think about the 30,000 nodes, how much fiber is required to support this? I guess we're just trying to size up how much fiber requirements are needed over the next 18 to 24 months.

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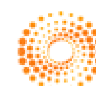

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Jay A. Brown - *Crown Castle International Corp. (REIT) - President, CEO & Director*

Amy, our historical average has been we've been adding about 2.5 nodes per mile of fiber. Among those 30,000 nodes, there's a component of those nodes that are -- as I mentioned in my comments, about half of the nodes that we added to the pipeline in the first quarter were going on existing fiber, so we would expect very little to no additional fiber needed there. And then for the other half, that's an expansion of the fiber footprint. As you extend that out to the whole pipeline of 30,000, we have a mix in there of new markets that we're building, as I was speaking to earlier, as well as co-location. So we will -- the fiber need is dependent upon whether we're expanding in new market or co-locating on existing.

Amy Yong - *Macquarie Research - Analyst*

Got it. And I guess the guidance for 1Q OpEx, is that the right base to use going forward? And at what point should we actually expect that number to drop down?

Daniel K. Schlanger - *Crown Castle International Corp. (REIT) - CFO, Senior VP & Treasurer*

Yes, Amy. The guidance we've given -- you can look at the full year guidance, and that would give you a good base for what to use going forward. I think your question around when it would drop down or at least to see the leverage, look, what we're looking at is, as Jay pointed out, a potentially highly increasing level of activity to the extent that 5G comes in. And what we're trying to do is position ourselves to have the right assets and the right capabilities to take on that demand and, ultimately, that market opportunity. And what we're excited about is that we have so much of that coming our way, and we've positioned ourselves uniquely to have the right assets to ultimately take advantage of that opportunity. And as that continues, if we continue to add small cells at a pace that's greater than what we've added to them in the past, we might have to add expenses, and we'll certainly have to continue to add capital. But those will all be investments that will be included in what we look at in terms of the returns we get. And what we're seeing is those returns are much in excess of our cost of capital over time. And with the potential increase in 5G, it would be even more upside for us. So what we're excited about is exactly that, is that we're in a good position to take advantage of that upside, and that may require -- or will require additional capital and may require additional expenses. But at some point, we do think that, that will turn, and we'll have most of the capital in place, most of the fiber in place and will come down on that expense -- those expense levels and the incremental capital needed. But that may be years from now, depending on when this opportunity plays out, and we, frankly, hope that it is years from now because that will just mean we get to take advantage of more and more of the opportunities that are set in front of us.

Operator

We'll go next to Robert Gutman with Guggenheim Securities.

Robert Ari Gutman - *Guggenheim Securities, LLC, Research Division - Senior Analyst*

On the small cell deployment, you said 18 to 24 months. You've also said in the past, I think, a 2-year cycle on new builds, on new fiber builds. I was wondering -- I assume there's a difference in deployment timing on existing -- when you have existing fiber versus a new build. And if it's still 18 months at the low end on existing fiber, what are some of the other factors that stretched out that long besides the permitting issues?

Jay A. Brown - *Crown Castle International Corp. (REIT) - President, CEO & Director*

Robert, the 18 to 24 months, we give that as a number, roughly the 2-year number, as an indication of how long it takes us on average across all of the activity that we're seeing. As I mentioned earlier, if it's a co-location on existing fiber, it's probably inside of that timeline. And if it's brand-new constructed fiber, it very well may be outside of that timeline. So we're just trying to give you a sense of average, when we give you a new pipeline number and activity, how far we are away from actually receiving revenue and cash flow associated with that. That's the purpose of doing that. I would tell you the biggest driver of that timeline, though, would be things related to the zoning and planning process and the difficulty of going

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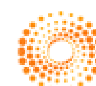

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through the real estate process of that. So if we think about the actual -- how long does it actually take us to construct the node once all the permits are in place, that's a relatively short component of that overall timeline. We spend most of the time -- most of that period of time really working on what you would think of as the soft costs associated with it of gaining the permits and construction rights to deploy the infrastructure.

Robert Ari Gutman - *Guggenheim Securities, LLC, Research Division - Senior Analyst*

Great. And did you say what the total on air and the total backlog is now given the changes at this point?

Jay A. Brown - *Crown Castle International Corp. (REIT) - President, CEO & Director*

We're about 60,000 total on air or in the pipeline, so we're about 30,000 that have been put on air and about 30,000 in the pipeline.

Daniel K. Schlanger - *Crown Castle International Corp. (REIT) - CFO, Senior VP & Treasurer*

Yes. And Robert, as Jay mentioned in the past, the last time we gave that number was around 25,000 and 25,000. So we put 5,000 additional on air and booked an additional 10,000 in order to get to those 2 numbers.

Operator

We'll go next to Spencer Kurn with New Street Research.

Spencer Harris Kurn - *New Street Research LLP - Analyst of Towers and Infrastructure*

I've got one question just on guidance and then one more strategic question. So on guidance, it looks like you came in $2 million ahead on cash site leasing rental revenue this quarter, but you actually lowered guidance for this metric for the full year. Usually, at the start of the year, I'd expect an organic beat to be annualized for the full year guidance. So I'm just wondering, what were the sort of offsetting impacts to the beat this quarter that caused you to lower the full year guide?

Daniel K. Schlanger - *Crown Castle International Corp. (REIT) - CFO, Senior VP & Treasurer*

Yes, Spencer. I'll just say that those are all within the ranges that we give, and getting into the $2 million to $3 million specificity is not something we're going to do on a quarter-to-quarter basis within our guidance. So we're just trying to keep it within the ranges, and everything you're talking about is in that range because otherwise, then we would just give the midpoint as the only point. So it's just in the range is what I would say.

Spencer Harris Kurn - *New Street Research LLP - Analyst of Towers and Infrastructure*

Got it. And then more strategically, you're obviously the most uniquely positioned tower company because you have a more hybrid approach between towers and small cells. Could you just talk about the benefits of this approach? And how do you weigh capturing incremental revenue growth on towers versus fiber? I'm really curious how you think about an incremental -- the value of the incremental dollar of revenue on towers versus fiber.

Jay A. Brown - *Crown Castle International Corp. (REIT) - President, CEO & Director*

Yes. I appreciate the question, Spencer, because this is sort of part and parcel of the way we think about capital allocation. The reason why we've invested in fiber is because we think it enhances long-term dividends per share. And that's the measure upon which we make all of our discretionary

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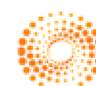

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capital investments, whether it's in towers or on the fiber side. And so the benefit to it over the long term is we think we'll provide shareholders with greater returns, particularly in the form of the amount of dividends we pay per share over the long term. I think we sit in a unique position, having watched the deployment of macro towers 20 years ago and then the need as it grew over time, the density of the network grew and the co-location activities and seeing the returns of those. What we're seeing in the fiber movie is basically a sequel of what happened in towers. In the early days, you have a carrier who needs to cover a given geography, and over a relatively short period of time, other carriers need to cover that same geography. So we're in the process of working with carriers and understanding their deployment plans and then assessing whether or not we believe the areas that they want to deploy small cells in have the opportunity for co-location. And as we spoke about in 2 specific markets, in the case of Phoenix and Philadelphia, I think we've done a really good job of identifying locations to deploy small cells for an initial tenant, and then we've seen co-location that's come after that, and that's driven very attractive returns. And you can see that in the micro standpoint of looking at individual markets, and we believe you can see that overall in the totality of the fiber business. Although granted, in the totality of the fiber business, it's a little harder to see the incremental benefit from it because we're continuing to invest heavily and expand into markets where we believe there will be future opportunities. So we're building very immature assets that, at the moment, that we believe have a significant amount of upside and future growth that will enable us, we believe, to continue our stated goal of 7% to 8% growth over a long period of time. And we're able to do it with customers that we know really well in the U.S. and in the top -- generally in the top 25 markets. So that's the approach, but it's based on thinking about what we think the incremental increase in dividends per share are going to be. That's how we're driving our capital allocation decisions. To the second part of your question around how we evaluate small cells and tower tenants, we want both of those is the short answer to that. And we're trying to figure out a way to grow as much revenue on towers as we can, and we're trying to grow as much revenue on small cells as we possibly can. Those businesses, obviously, have similar customers in many respects, but from an economic standpoint, they work very differently. As we've talked about in the past, small cell systems are not homogenous. So depending on the geography that we're working on and the underlying cost, then we need to appropriately adjust the pricing mechanisms in markets based on the underlying cost of deployments, and we do that. On the tower side, the revenue and rents tend to be more homogenous across markets and across assets.

Operator

We'll go next to Tim Horan with Oppenheimer.

Timothy Kelly Horan - *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

Could you give a little bit more color on the fiber business maybe in totality, what the organic growth is, churn, maybe pricing? Have you seen any effects in the total business from the tax restructuring here in the U.S.? And then specifically on that business also, when you have a second tenant coming on for small cells in a specific site, some of your competitors discount the second tenant pricing. Have you guys -- do you guys do that? Or do you try to hold the pricing similar to what you charge your first tenant?

Jay A. Brown - *Crown Castle International Corp. (REIT) - President, CEO & Director*

Yes. Generally, in the fiber business, I would go back to where we've talked about investment. Where we'll deploy capital, we get an initial yield on that capital somewhere in the neighborhood of about 6% to 7%. When we add a second tenant, our returns go into the double digits, low-teens area as -- from a yield standpoint, and that would be a recurring cash yield against net invested capital. And then if we get beyond that second tenant, obviously, north of that into the high teens in terms of yields on the assets. From a totality of the business, we're seeing 2 things. We're seeing the opportunity to continue to invest around that 6% to 7% area to expand into further markets. And then for the assets that have been online for a longer period of time, we're seeing those incremental yields at the levels that I just mentioned. And the second question around second tenant pricing, again, back to the answer on the first question. We haven't seen any change in pricing as we add additional tenants. There's great value in the shared infrastructure model. Whether we're talking about towers or talking about fiber and allowing a carrier to utilize that asset and share it across multiple carriers, that lowers their overall cost of deployment. And it's why the tower model has been so successful over time, and it's why, I believe, we've seen such great success on the fiber side. It's a cost-effective way for them to deploy small cells, and we don't need to discount the pricing for the second one. The value of the shared economics is already in play.

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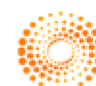

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Daniel K. Schlanger - *Crown Castle International Corp. (REIT) - CFO, Senior VP & Treasurer*

And Tim, just to...

Timothy Kelly Horan - *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

Yes, sorry, go ahead.

Daniel K. Schlanger - *Crown Castle International Corp. (REIT) - CFO, Senior VP & Treasurer*

Sorry, go ahead. Go ahead.

Timothy Kelly Horan - *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

So did you give the organic -- for the fiber business in total, the organic growth rate, did you guys give that by any chance?

Daniel K. Schlanger - *Crown Castle International Corp. (REIT) - CFO, Senior VP & Treasurer*

Yes. So that was where I was going to go with it. I think Jay was talking about more on the small cell side. So just to try to break out the businesses overall, towers, we've said that the new leasing activity is around $110 million this year; escalators, around the neighborhood of 3%; and churn is in the neighborhood of 1% to 2%. On small cells, we're seeing about $55 million of new leasing for this year. Escalators are about half of what we see in towers, about 1.5% on average. The churn is in that 1% to 2% range, very low. And then on fiber solutions, specifically, we're at $45 million of new leasing activity across our business, and the escalators are 0, and churn is in the mid- to high single digits per year range, so 7%, 8%, 9% per year. We think that those are all very attractive businesses. And as Jay was pointing out before, with small cells getting those returns that Jay was talking about, which were double what we saw in the same maturity cycle of towers, the ability to add something like the fiber solutions revenue to it that generates returns in and of itself is really an attractive place for us to be. It allows us to expand that shared infrastructure model to lower the cost to any one user by sharing it across multiple users. And the reason we're able to get the same pricing on the second tenant as we are in the first in a small cell system is basically, we're subsidizing that first tenant with the expectation the second, third and fourth tenant may come. So they're getting a lower price than they could get if they were doing it themselves or using somebody else, and we're passing that along by deferring that cost over more customers than just that first tenant.

Timothy Kelly Horan - *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

And then last, last. On the total CapEx, is this a good run rate? Or should it kind of pick up from here because of fiber demand?

Daniel K. Schlanger - *Crown Castle International Corp. (REIT) - CFO, Senior VP & Treasurer*

It's generally a good run rate. We're seeing incremental fiber demand as we talk, but it's not a significant number in the capital that would change where we are overall.

Operator

We'll go next to Phil Cusick with JPMorgan.

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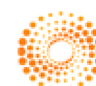

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Philip A. Cusick - *JP Morgan Chase & Co, Research Division - MD and Senior Analyst*

So can you help us think about the growth of small cells? And as we talk to investors, it seems like people sort of struggle with the high capital intensity here versus the percent growth that we're seeing off of small cell. And Jay, you mentioned, and I think it's a good point, that it's rare to see inflections in this business. Should we be thinking about an acceleration in the small cell organic revenue growth over time as this big backlog matures? Or should we just think about it as sort of steady growth on either percentage or a revenue basis as the business grows?

Jay A. Brown - *Crown Castle International Corp. (REIT) - President, CEO & Director*

Phil, I think there's 2 things that are happening. Let's assume that capital investment and activity stays relatively stable across the whole business. What I would tell you is it's a long runway of growth, we're, as we talked about, kind of a leasing activity, we're seeing a lease-up if you make an apples-to-apples comparison of adding the second tenant over a 5-year period of time. So people who have gotten comfortable with the way towers lease up were going at about twice that pace, so the incremental change, when you look at it in any given market or any given asset, is that the yield, the margins and revenue are growing at a faster pace, roughly double the pace of what we saw on towers. Now that's masked by the fact that the capital intensity that you can see on the financial statements and the continued investment that we're making around CapEx is related to the fact that we're having experiences like Phoenix and Philadelphia, where the early capital that we put in has resulted in exactly the returns that we anticipated, where we're into the low teens as we add a second tenant, which has encouraged us to continue to make investments. And those investments go into the mix at about 6% to 7% and require sort of that high intensity of capital. Now if we roll the play all the way forward and roll this out over a 5- or a 10-year period of time, I believe, just like we've seen in towers, we'll see activity over a long period of time where the carriers come back and increase the density of nodes that they have across the fiber. We'll see amendments to those nodes and that fiber as they add additional technologies over time. And we'll see carriers who are not initially on that fiber come to that fiber and need it as they build out the density of that fiber. So over a long period of time, we will get back to a place where there's sort of a stable level of revenue. But in a period of time like what we're in now, where we're continuing to expand the pie, the dollars of revenue that are going in are going to be increasing as a greater number of assets come online as we build out the fiber that we've contracted to build.

Philip A. Cusick - *JP Morgan Chase & Co, Research Division - MD and Senior Analyst*

So if I can sum up a little bit, maybe we should be looking at dollars of investment increasing. And then over time, as you have more and more of your new sites -- new small cells go on existing infrastructure, that dollars of revenue and percent intensity should start to normalize?

Jay A. Brown - *Crown Castle International Corp. (REIT) - President, CEO & Director*

Yes. I would -- again, it depends on how much we end up investing, how long do we get to before we have sort of a stable asset base, where then you look at it more on the way we would look at towers now and you compare year-over-year on a just pure dollars basis and say, did activity increase or decrease? It may take some period of time, depending on what the opportunity is ahead before we get to that place where we have a stable base of assets upon which we're making that comparison.

Philip A. Cusick - *JP Morgan Chase & Co, Research Division - MD and Senior Analyst*

Great, understood. And second question. As FirstNet gear goes on to towers, there's a risk that sites have to be hardened. Can you talk about your obligations to harden your towers, if any, or declared critical infrastructure? What's on you versus the carrier?

Jay A. Brown - *Crown Castle International Corp. (REIT) - President, CEO & Director*

Phil, I think that gets to the specifics of how we contract with customers, so I'm going to beg off of that question.

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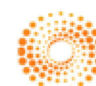

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Philip A. Cusick - *JP Morgan Chase & Co, Research Division - MD and Senior Analyst*

It just seems -- I know maybe it's a little cute, but it seems like sort of a change in strategy if you are obligated. With the rest of the business, it's pretty much on the carrier if they need something in the site to be changed for a contract, existing or new. Is there a shift in that strategy and what you're willing to be obligated for?

Jay A. Brown - *Crown Castle International Corp. (REIT) - President, CEO & Director*

Phil, I think I'd go back to the comments that I made earlier in the call about we approached the agreement with the same core principles and thoughts around the economic trade. So if the implication of your question is a loss in value to us, that wouldn't meet that core principle that I spoke about earlier.

Operator

We'll go to Brandon Nispel with KeyBanc Capital Markets.

Brandon Lee Nispel - *KeyBanc Capital Markets Inc., Research Division - Research Analyst*

I was wondering if you could give us the contribution for Lightower in the quarter. And then what type of small cell leasing activity are you seeing on Lightower versus some of your assets that you've acquired before? And then just last question on Lightower and then I have one more follow-up is, are you changing anything in you're doing in terms of integration? Are you seeing any synergies for that asset? And then one more question just on the guidance. I'm curious, how do you get a lease done with AT&T that doesn't include some sort of portion of new leasing activity from FirstNet when AT&T says they want to move fast in deploying that network?

Jay A. Brown - *Crown Castle International Corp. (REIT) - President, CEO & Director*

Yes. On your first question around Lightower, it's progressing as we expected. We had previously given an outlook for what we thought they would do this year, and I would say we're on track for our expectations. So no update to the guidance that we've previously given there, and the business performed in the range that we had expected in the first quarter. On the second question around integration, we haven't changed any of our approaches around integration, so we're continuing to run the play as we've run it in the past and welcoming some 900 employees from Lightower into the business, thrilled to have them. And they've done a terrific job helping us run the integration into the business. As I mentioned before, we think kind of late -- really late this year or probably early part of next year, we'll have those activities around integration complete. And then we'll be able to turn our sights towards how do we continue to grow beyond maybe just the markets that we're in, the opportunity to add additional revenues to the fiber plants that we own. On the last question, we tried to be specific that we had provided for AT&T the ability to deploy FirstNet. I know that's been a really common question over the last couple of years for us. So they do have the right as a result of this recent agreement to deploy FirstNet, and we would expect to see the impact -- although not material to our 2018 results, we would expect to see the benefit of that activity in periods beyond 2018.

And with that, operator, I appreciate everyone joining the call this morning. Thanks for the time. We're excited about what we're seeing in the business and look forward to giving you update next quarter.

Operator

And that concludes today's conference. Thank you for your participation. You may now disconnect.

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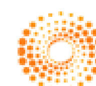

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