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Crown Castle International (CCI) Earnings Report: Q4 2014 Conference Call Transcript

The following Crown Castle International conference call took place on January 22, 2015, 10:30 AM ET. This is a transcript of that earnings call:

Company Participants

- Son Nguyen; Crown Castle International Corp; VP Corporate Finance
- Ben Moreland; Crown Castle International Corp; President and CEO
- Jay Brown; Crown Castle International Corp; CFO and Treasurer

Other Participants

- Phil Cusick; JPMorgan; Analyst
- Simon Flannery; Morgan Stanley; Analyst
- David Barden; BofA Merrill Lynch; Analyst
- Ric Prentiss; Raymond James & Associates Inc; Analyst
- Jonathan Atkin; RBC Capital Markets; Analyst
- Michael Rollins; Citigroup; Analyst
- Kevin Smithen; Macquarie Research; Analyst
- Amir Rozwadowski; Barclays Capital; Analyst
- Colby Synesael; Cowen and Company; Analyst
- Mike McCormack; Jefferies & Company; Analyst
- Michael Bowen; Pacific Crest Securities; Analyst
- Spencer Kurn; New Street Research; Analyst
- Batya Levi; UBS; Analyst
- Jonathan Schildkraut; Evercore ISI; Analyst
- Ana Goshko; Bank of America; Analyst

MANAGEMENT DISCUSSION SECTION

Operator:

Good day and welcome to the Crown Castle International Q4 2014 earnings call. Today's conference is being recorded. At this time, I would like to turn the conference over to Son Nguyen. Please go ahead, sir.

Son Nguyen (VP Corporate Finance):

Thank you and good morning, everyone. Thank you for joining us today as we review our fourth-quarter and full-year 2014 results.

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

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

This conference 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

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factors which could affect our results is available in the press release and the risk factors section of the Company's SEC filings. Our statements are made as of today, January 22, 2015, and we assume no obligation to update any forward-looking statements.

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 investor section of the Company's website at crowncastle.com.

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

Ben Moreland (President and CEO):

Thanks, Son, and good morning, everyone. Thank you for joining us on this call.

As we indicated in our earnings release last night, we had another great quarter, finishing 2014 on a very strong note and allowing us to increase our full-year 2015 outlook, which Jay will speak to shortly.

In addition to the excellent financial results, we had several major accomplishments during the year that position us very well for 2015 and beyond. First, we have successfully completed the integration of the AT&T tower portfolio of 9,700 sites and are now seeing healthy application volume on these assets. The AT&T tower transaction represents the sixth carrier portfolio we have acquired in our Company's history.

As shown on slide 3, we have a portfolio of approximately 40,000 towers. Over time, we have accumulated a long track record of integrating and leasing our assets and delivering growth through various economic and industry cycles. We believe we are well positioned and on our way to delivering the same results with the AT&T and T-Mobile portfolios as has become our track record.

Similar to our acquisitions in the late 1990s and early 2000s, we acquired the AT&T assets and the T-Mobile assets at initial yields of approximately 5%. Long term, we believe we can drive the yield on these recently acquired assets to similar levels as our legacy assets, which currently yield approximately 15% on invested capital.

The AT&T and T-Mobile assets represent approximately 40% of our tower portfolio and provide an excellent opportunity for us to extend our runway of growth.

Second, during the year we meaningfully increased our small cell networks portfolio and capabilities. Small cell networks have similarities to towers, including the same customer base, the growth drivers, and similar contractual terms. Small cells are playing an integral role in solving capacity and coverage issues in areas not traditionally served by towers.

Today, our team is executing extremely well and we are focused on delivering on a growing pipeline.

Currently, a significantly majority of our small cell activity is being driven by Verizon . However, we are pleased that we are starting to see increased interest from other carriers to add small cell nodes across our fiber assets.

Our acquisition of NextG in 2012 cemented our leadership position in small cell networks. At the time of the acquisition, we had a stated goal of increasing adjusted EBITDA from small cells by five to six times over the next five years. I am happy to report that we are on pace to well exceed this goal.

Third, at the beginning of 2014 we commenced operations as a REIT and initiated our first dividend. Subsequently, during the fourth quarter, we meaningfully increased our dividend to a quarterly dividend of $0.82 per share, or $3.28 per share annually.

On this last point, I want to spend a couple of minutes discussing how our core business supports our

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commitment to the dividend and how we intend to grow our dividend over time by leveraging the investments we have made over the last several years, along with potential future investments.

We believe delivering a portion of shareholder returns through dividends aligns well with the fundamentals of the business. The wireless infrastructure assets that we own and operate, whether towers or small cells, are characterized by high-quality, long-term, recurring cash flows that are well suited for committed shareholder distributions.

As shown on slide 4, today we have about $22 billion of future high-quality revenues under long-term contract, primarily with the four major US wireless carriers. For context, these carriers have a combined market capitalization of approximately $415 billion and an operating cash flow of approximately $75 billion and a composite average borrowing cost of about 4.5%.

The quality and contractual nature of our tenant leases provide us with great visibility. In any given year, over 95% of our site rental revenues are typically under contract as of January 1.

Over time, we expect to increase our dividend commensurate with the rate of AFFO growth. Future organic growth is expected to come from a combination of contracted escalators, leasing on our existing portfolios, and investment opportunities that are additive to our long-term growth. We expect that these three avenues of growth will combine to generate AFFO growth over the next five years in the range of 6% to 7%, of which half is currently contracted via escalators on our tenant lease contracts.

Based on last night's closing share price, the combination of a dividend yield of approximately 4% and expected long-term organic growth in the 6% to 7% range delivers total returns 10% to 11%. Of this expected total return, approximately two-thirds is achieved via the current dividend and the contracted escalators under our tenant leases.

Frankly, we believe this expected total return of 10% to 11% sells our business model short. As we look at some comparables, such as the RMZ index, which has an average dividend yield of 3.5% and arguably lower growth, we believe our superior business model should attract a lower cost of capital over time.

This belief is based on our intentional strategy of avoiding volatile assets with risks, such as foreign currency and country risks, into our high-quality portfolio, thus giving us the confidence to make the commitment that we've made to a significant return of capital to shareholders.

Fundamentally, we view our dividend as a growing annuity paid to shareholders in the form of contracted, bond-like, recurring cash flows, plus the conversion of future growth opportunities that is supported by the increasing demand for wireless broadband services.

As effectively a flow-through entity or conduit of these cash flows, supporting the mission-critical wireless infrastructure of the four largest US carriers, we believe that our expected total return of 10% to 11% compares extremely favorably to the composite bond yield of our tenant customers of 4.5%, as I mentioned.

When we talk about the mission-critical nature of wireless infrastructure assets, we are referring to Crown Castle's role in enabling the US wireless carriers to deploy mobile broadband. Carriers utilize our infrastructure to support service to their subscribers. As a result, our long-term growth potential is driven by the dynamics that play out between wireless subscriber demand for mobile broadband and incremental economics that carriers can achieve by investing in their networks.

Towards that end, we believe our focus in the US, where carriers have the most apparent economic motivation to invest in the world, will drive compelling risk-adjusted total shareholder returns over time.

As you can see on slide 5, the US market is uniquely attractive, due to its relative size and robustness compared to other markets. The size of the US market is supported by the high average revenue per user,

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reflecting the insatiable demand the US wireless subscribers have for mobile data.

For context, a year ago the average smartphone user consumed 1 gigabyte of data per year. Today, it is estimated that the average smartphone user consumes 2 gigabytes of data per year, so what took six years to build up to, starting with the original iPhone, has taken just one year to double, given today's devices and applications. This increasing demand that US consumers are placing on the carriers' networks and the consumers' willingness to pay for such services incent the US carriers to continue to invest to improve and enhance their networks.

As carriers continue to compete on the quality of their networks, such investments help maintain and drive up ARPU, encourage new device and application adoption, and minimize churn.

The carriers' ability to generate incremental returns on their capital investment can be seen by the approximate $600 average annual revenues per subscribers that US carriers are earning, compared to the approximately $100 per annual investment per subscriber that they are making.

Relative to other countries, US carriers have opportunities to invest and generate returns at a much larger scale.

The ongoing AWS-3 auction further reinforces our belief that US carriers have a long-term and positive view on mobile broadband services. These spectrum auctions, in addition to spectrum that currently resides with wireless carriers that has not yet been deployed, require wireless infrastructure to be deployed and thus provide a long runway of future demand for our portfolio of assets.

As the US market leader with nearly 40,000 towers and a very attractive and growing small cell opportunity currently at 14,000 nodes, we are well positioned to help the US carriers meet the growing demand by consumers for mobile broadband services.

Before turning the call over to Jay, I want to take a brief moment to thank our team of Crown Castle professionals who have worked tirelessly during 2014 to make it such a successful year, and I look forward to another successful year in 2015.

With that, I am pleased to turn the call over to Jay for some more comments.

Jay Brown (CFO and Treasurer):

Thanks, Ben. Good morning, everyone.

Turning to the financial results, we had a terrific fourth quarter, exceeding the high end of our previously issued outlook for site rental revenue and adjusted EBITDA. The strong leasing activity continued during the fourth quarter and we believe that 2014's level of leasing will be sustained during 2015.

The combination of excellent results and completed acquisitions during the fourth quarter of 2014 allow us to increase our full-year 2015 outlook.

Turning to slide 6, in the fourth quarter site rental revenue grew 17% year over year, from $651 million to $761 million. Organic site rental revenue grew 7% year over year, comprised of approximately 4% growth from cash escalations in our tenant lease contracts and approximately 7% growth from new leasing activity, net of approximately 4% from non-renewals.

As can be seen on slide 7, our organic site rental revenue growth has been enhanced by the investments we have made over the last several years, including in the T-Mobile portfolio and small cells. Our legacy tower assets, excluding T-Mobile, AT&T , and small cells, generated year-over-year organic site rental revenue growth of approximately 4%, inclusive of nonrenewal headwinds.

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The 4% growth on our legacy US tower assets compares to approximately 6% for the T-Mobile portfolio. While we didn't present the AT&T portfolio here on this slide, because it wasn't owned for the entire 12-month period, the AT&T portfolio's revenue growth is similar to the T-Mobile assets after a similar period of ownership.

And based on our underwriting assumption of adding one tenant over 10 years, the AT&T and T-Mobile portfolios have added approximately 200 basis points to our expected long-term dividend growth target that Ben mentioned, which is 6% to 7% compound annual growth over the next five years.

Turning to small cells, we continue to see healthy growth. Site rental revenue from small cell networks is up approximately 30% year over year, contributing approximately 7% to consolidated site rental revenue. At the end of the fourth quarter, we had over 7,000 miles of fiber, serving over 14,000 small cell nodes, on air or under construction. We believe our strategically located fiber will continue to see meaningful addition of tenant nodes, thereby driving yields higher over time.

We continue to make investments in fiber to deploy these small cells, as we believe the investment is delivering attractive returns and will increase our long-term dividend capacity. On a unit economic basis, we are generally seeing initial yields from the fiber we deploy for small cells of approximately 6% to 8% on the anchor tenant. Similar to towers, we see these yields on our small cell networks being driven up into the low to mid teens from additional lease-up and amendment.

Turning to the investments and financing activities, as shown on slide 8, during the fourth quarter we invested $267 million in capital expenditures. These capital expenditures included $40 million in sustaining capital expenditures, which included approximately $3 million that was previously expected in our full-year 2015 outlook, but was accelerated into the fourth quarter of 2014.

Additionally during the quarter, we invested $35 million in land purchases. During 2014, we completed over 2,500 transactions, of which approximately 30% were purchases, with the remainder being lease extensions.

Our proactive approach to achieving long-term control of the ground beneath our sites is core to our business, and as we look to control our largest operating expense and produce stable and growing cash flow over time. Having completed more than 17,000 of these transactions, we believe we have the most secure portfolio of ground interest in the industry.

Today, approximately one-third of our site rental gross margin is generated from towers on land that we own and approximately 70% on land that we own or lease for more than 20 years. Where we have ground leases, the average term remaining on our ground leases was approximately 30 years. More detailed information regarding the ground interest beneath our towers is available in our supplemental information package.

Of the remaining capital expenditures, we invested $192 million in revenue-generating capital expenditures, consisting of $91 million on existing sites and $101 million on the construction of new sites, primarily small cell construction activity.

Further in the fourth quarter, we also invested approximately $286 million in acquisitions. This primarily related to the acquisition of ground interest underneath towers.

During the quarter, we also paid a quarterly common stock dividend of $0.82 per share or $274 million in aggregate.

As of December 31, our total net debt to last quarter annualized adjusted EBITDA is 5.4 times. Our weighted average cost of debt stands at 4.1% with a weighted average maturity of six years. Additionally, since the end of the quarter, we increased our revolving credit facility by $630 million. Our revolving credit facility now totals $2.1 billion, of which we have approximately $1.4 billion available.

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Moving on to the 2015 outlook on slide 9, we have increased our full-year 2015 outlook for site rental revenue by $11 million, half of which is organic, and AFFO by $8 million at the midpoint. The increased outlook reflects the strong results and completed acquisitions from the fourth-quarter 2014 and includes the negative impact from a decrease in foreign exchange rate assumptions related to our Australia business.

We completed several acquisitions during the fourth-quarter 2014, which did not materially contribute to the full-year 2014 results and are expected to contribute approximately $5 million to AFFO in full-year 2015.

We expect to generate approximately $1.46 billion in AFFO at the midpoint of our 2015 outlook. Of this amount, we expect to distribute approximately $1.1 billion in dividends and use the remaining portion to invest around our core business to drive our organic growth. These investment activities include purchases of land underneath our towers and construction of small cell networks.

We believe the combination of continued investment in our core business, the high-quality contracted cash flows generated by our tenant leases with built-in escalators, and, as Ben mentioned, the need for our wireless infrastructure as carriers continue to improve their networks position us to achieve AFFO and dividend growth of 6% to 7% organically on a compounded basis over the next five years. We believe our strategy of focusing in the US, which is the largest wireless market in the world, will drive growth in AFFO and dividends per share over the long term, which we believe will provide shareholders with very attractive total returns.

With that, Operator, I'm happy to open the call for questions.

QUESTIONS & ANSWERS

(Operator Instructions). Phil Cusick, JPMorgan .

Phil Cusick (Analyst - JPMorgan):

I guess I will start with my traditional question, which is what's driving the services strength? It was up even more in the fourth quarter. Can that continue, then, into the first quarter and what are you thinking about the rest of the year?

Ben Moreland (President and CEO):

Yes, Phil, we're forecasting 2015 to be essentially the same as 2014, which was a record year for us in terms of services margin, I think about $270 million or so.

What's driving that, frankly, is a lot of application volume and we are getting extremely good at capturing the addressable market that's occurring on our towers, and that's everything from the front-end preconstruction work of permitting and zoning, all the way through managing the construction of the installation or upgrade on the tower.

That take rate has been steadily climbing over the years and we have gotten very good at capturing that opportunity, and it's turned into a very nice business that -- it's application driven, but for us, it's opportunity. Obviously, we're making money at it and it's a great way to stay close to our customers and control most fundamentally what goes on our tower and what's happening at the tower site. We are very pleased with the business.

Phil Cusick (Analyst - JPMorgan):

Okay. Then second, can you talk to me about the land portfolio acquisition in the fourth quarter? It seemed like that was at a very high multiple. How should we be thinking about that? That was a fairly typical transaction and are there more of those to do this year?

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Ben Moreland (President and CEO):

I don't think there is more to do and it was a little bit atypical. It was a portfolio of sites that are a mixture of our sites and other sites, and it had some that were -- are more relatively short dated than we would have otherwise seen. So when you price that, you have to assume you price at rent growth over time as those expirys come up, and so, as a result, the price was a little higher than we would have otherwise normally expected.

I don't see a lot more of those to come, but in this case, they were attractive assets and it made sense for us to pursue it.

Phil Cusick (Analyst - JPMorgan):

Should we think you got held up a little bit on that?

Ben Moreland (President and CEO):

I don't think so, no. That's not how I would characterize it.

Phil Cusick (Analyst - JPMorgan):

Thanks, Ben.

Operator:

Simon Flannery, Morgan Stanley .

Simon Flannery (Analyst - Morgan Stanley):

Ben, it was nice to see the organic revision higher. It's still very early in the year. You don't always do that. Can you just talk about what you are seeing that gives you the confidence to move on that? And I think you talked about expecting activity from all four players, so perhaps you can just go through what's going on there.

Related to that, how should we think about AWS-3 at FirstNet. Are we going to get any revenues from that this year or how do you think about that for 2016? Thanks.

Ben Moreland (President and CEO):

Sure. Simon, we finished the fourth quarter very strong and -- run rate wise, and so we carried that through to our guidance for 2015.

We maintain a view that we're going to add about $100 million of organic revenue on the tower sites, which is similar to where we were when we initiated guidance back in October, so we haven't really changed our fundamental view of activity. We think 2015 looks a lot like 2014. We were pleased to finish strong in 2014, and that's what we reflected in the guidance.

We have increased guidance a little bit because we are running ahead of plan on the small cell side, and now I think we're at about $50 million of new revenue on that side.

All in all, we are very pleased with what we see for the year. We're three weeks in, so it's a little early, but we are sticking with our guns here. It looks to us like a year that's shaping up to look like 2014, a little bit of upside from the run rate beat on the Q4.

On the AWS auctions, I guess we take the view that obviously the auctions in terms of pricing have exceeded pretty much anybody's expectations, approaching $45 billion today. Our view is that spectrum needs to get

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launched. It will get launched and we could potentially see some activity late this year. It won't be of any real significance financially this year, but -- and it will depend somewhat on the identity of the winning bidders, which we will all know here probably in the next couple of weeks.

We're optimistic, and anytime there is spectrum that is auctioned, that's unsold inventory on a shelf for a carrier and they need to deploy it, and we stand ready to help them with that.

Simon Flannery (Analyst - Morgan Stanley):

And anything on FirstNet with it, because they will get some of the funding from the auction, obviously?

Ben Moreland (President and CEO):

They will get funded, which is positive, and we are staying very close to that situation. I don't have anything to announce this morning on the call, but it is positive certainly for them that they get their funding that was mandated out of the auction proceeds, and I look forward to getting some more clarity from them on how that network will proceed.

Simon Flannery (Analyst - Morgan Stanley):

Thank you.

Operator:

David Barden, Bank of America .

David Barden (Analyst - BofA Merrill Lynch):

Thanks for taking the questions. Two, if I could. Just the first one following up, maybe, Ben, on the AWS-3 auction. I guess because most of the carriers have an AWS spectrum deployment already, they might not be hugely incremental, if at all, but AT&T doesn't, so do you see that at AT&T -- if we find out that AT&T is one of the big winners here, does that create incremental demand, do you think, to the outlook that you have right now?

Then the second question would be maybe for Jay. I think in the release you talked about how the churn events that you are expecting from these acquired carriers are going to be lumpy, but do you have any specific color that you have gotten from the carriers -- for instance, in the turndowns in the first half -- that you could talk about and how we would model that out? Thanks.

Ben Moreland (President and CEO):

Sure, Dave. With respect to the AWS-3 launch over time, we do expect that to be incremental. As has been the case in the past, that typically comes with equipment swapouts and typically more, and that would be characterized as an amendment, and to the extent the carriers do that over time, that would be positive to us.

I don't look at it really as incremental to our guidance. Implicitly, the guidance back in October is a little more art than science sometimes, and so, implicitly, we have some of these things baked in, based on our experience over time in how these things roll out. In particular, our best guess on how each individual of the four carriers impacts that $100 million of add, we probably best case get within 20% on any particular carrier's activity, just because they don't know particularly what their allocations are and how things will go early in the year. We typically get it pretty close, but that's about as good as we can do, back in October of the prior year.

But I don't -- at least at this stage, I don't look at it to be incremental to the $100 million of gross adds for the year.

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Jay Brown (CFO and Treasurer):

On our assumption around nonrenewals, Dave, we have made an assumption, obviously, when we gave the outlook around the way it was going to come, and it is a bit lumpy.

The way we laid out the outlook for 2015 front-end loaded the churn events over 2015. The most significant amount that we would expect for the full calendar year we currently believe will happen during the first quarter, and as we look out over the course of the year, I think you'll see our sequential revenue growth quarter to quarter actually accelerate and be a little bit higher.

It's typically the case in the business that the year will be back-end loaded from an activity standpoint and we usually see that in terms of activity around leasing. This year, that will also be the case as a result of our assumption around churn.

I don't really have any new updates to that from what we said last time. The carriers have given us very specific feedback on what sites they would expect to take down and the timing of that, so we have tried to reflect that in our outlook. What we provided yesterday in the press release is very similar to what we provided in October, so our assumptions are effectively unchanged from last time on both revenue growth, as well as the nonrenewals, and then it is front-end loaded.

David Barden (Analyst - BofA Merrill Lynch):

Right, so the 1Q guidance includes the most significant churn event that you're going to have for the year, and then it will fade over the course of the year and we will start to see that revenue acceleration quarter to quarter.

Jay Brown (CFO and Treasurer):

That's true in terms if you were counting DBEs. Obviously, the impact of revenues, you won't feel the impact as much in Q1. You will start to feel it a little bit more in Q2 as those licenses are turned out -- turned off during the course of Q1.

David Barden (Analyst - BofA Merrill Lynch):

Got it, okay. Thanks, guys.

Operator:

Ric Prentiss, Raymond James.

Ric Prentiss (Analyst - Raymond James & Associates Inc):

A couple questions. First, can you talk a little bit about your leverage target? You guys, I think, were at 5.4 times. As you consider transactions that are out there, Verizon -- wouldn't touch [31] today, but Verizon extranet, what are you thinking about where your comfort is?

You compared yourself to the REITs, obviously, and the RMZ. REITs carry a higher leverage than you guys do. Some of your competitors maybe have the US levered more than the international, and the blended might look a little different. Considering you are a US-focused Company, help us to understand a little bit about where you are comfortable with leverage.

Jay Brown (CFO and Treasurer):

Sure. We have talked a long time about our target being 4 to 6 times and have set a course towards trying to get to an investment-grade credit rating, which we think has lots of positive implications for both the debt and

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the equity over time.

You have heard us talk about, as we think about various assets and other things, that for the right assets at the right price, we may tend towards the higher end of that range of leverage and trying to be efficient and get the right returns for assets. But I think typically you'll see us operate the business inside of that range and we've tended towards the middle of that range. We think it's about what it is going to take to get to an investment-grade credit rating.

It's really going to be a facts and circumstances decision that we will make. For the right asset, you will see us go above where we are today, potentially, but I think in normal course, assuming the business is operating as it is now, I think you will see us tend towards the middle of the range.

Ric Prentiss (Analyst - Raymond James & Associates Inc):

Then can you update us as far as where your NOLs are at? There were some reports out there that the minority partner in Australia might be selling. Just trying to understand that process.

Jay Brown (CFO and Treasurer):

Our NOLs today are at about -- right at about $2 billion, and --

Ben Moreland (President and CEO):

On the minority partner, Ric, we are not involved in that process. We are aware they may be exploring opportunities. I guess we have seen a press note on that.

They have been in it since inception and have generated a lot of value for their company, so they may be exploring options, but we are not directly a party to that.

Ric Prentiss (Analyst - Raymond James & Associates Inc):

When you consider, would someday that be an asset you guys would consider selling as well, and how would the NOLs in the US benefit the gains you would have on that nice sale, if it were to occur?

Ben Moreland (President and CEO):

Sure, I guess I got asked this question last time and covered it real quickly. Maybe a little better description is warranted here.

We have done extremely well in Australia and we really have enjoyed our experience down there. That business is about a $100 million EBITDA business today and I think when we bought it, it was $15 million, so we have created an enormous amount of value and continue to serve our customers very well down there.

Going forward, it is hard to argue -- while we enjoyed the market dynamics there, it is hard to argue as far away as it is that it's strategic. I think it's what I said last time.

To the extent there was someone who frankly wanted to own it for a value that compelled us to sell it, we would take a look at it. I don't know if there is one there. We are not actively seeking or pursuing anything there, but it is an interesting discussion, driven by the tax situation, as you partially noted.

That business will actually start to lose its tax shelter inherent in the depreciation over time, so we will start paying more and more taxes over time, which causes us to think about it. The NOLs that we currently have would enable us to shelter potentially all of the gain if we were to divest that business and bring the proceeds back to the US. The NOL would probably -- we would probably consume about half the NOL or so with the gain.

So it's an interesting academic discussion. There is nothing that we are pursuing today. We have enjoyed

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and continue to enjoy our experience in that business, and if something comes up in the future, we will let you know, but as an academic discussion, that's where we stand.

Ric Prentiss (Analyst - Raymond James & Associates Inc):

Great. Thanks, guys.

Operator:

Jonathan Atkin, RBC.

Jonathan Atkin (Analyst - RBC Capital Markets):

I have a question about the small cell business and just a strategic outlook in terms of acquiring other operators, and then in terms of the organic growth, if you could give a little bit of color.

You talked about the 6% to 8% returns going to low to mid-teens with additional tenancy, and when you bring on additional tenants, what types of additional buildout do you require, because not everybody has the same outdoor gas needs? So I was interested in your experience to date on when a second tenant comes on, do you need to outlay more capital?

Then, finally, when it comes to just expanding the plants, are you at the right organizational capacity or would you consider adding either contractors or employees to further make investments in the United States? Thanks.

Ben Moreland (President and CEO):

Sure, Jon, I'll take the last couple of those. As you add a second tenant -- we talked about our yields. It is very similar to the tower model, so you are adding additional yield. You are adding across a fixed base of capital and operating expenses, typically.

But the second tenant, it's a little more complicated because inevitably maybe you had a 30- or 40-node system and that carrier coming on as the second tenant may want most of that initial footprint, that they may want additional laterals, which require us then to invest additional capital, for which we get capital reimbursement as well, partially.

So there is always -- it is always a hybrid is what I should say. It's not quite as clean as just a second tenant on a tower. Nonetheless, the yield that ultimately results from that with the second tenant clearly pushes us into the teens area, and above that, clearly you can understand how the economics work. So as it stands (multiple speakers)

Jonathan Atkin (Analyst - RBC Capital Markets):

(multiple speakers). Can I briefly interrupt? So is the yield on a same asset basis or is it inclusive of the incremental capital?

Ben Moreland (President and CEO):

Inclusive, yes, inclusive, total invested capital. Yes, that's the way we would look at it.

There is -- it is definitely positive leverage as you go forward, but it always involves a little more capital because you are building out additional laterals to fit a footprint requirement of that second carrier.

In terms of capacity, we have ramped it up dramatically over 2013 and 2014. We have in the pipeline a task in front of us in terms of build activity that suggests we will probably continue to ramp it a little bit more, but not nearly the orders of magnitude we have done over the last 24 months. And so, I think you're going to actually

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be able to -- we will see the incremental margins coming out of that business that we have come to expect and enjoy in the tower business.

What we have done over the last two years, frankly, and I realize we don't segment report this for you, so you'll just have to take my word for it, what we have done in the last two years essentially is consume the growth in EBITDA, a lot of it, through G&A expansion as we're adding capacity to get to the point where we can build 5,000 to 6,000 nodes a year, which is where we are today, and the pipeline of engagements continues to build.

We are getting better at it, getting more efficient, but we have put in a management structure that will enable us to meet customer needs at that order of scale, and I think we are probably 80% down the road on where we are going to be on that.

Jay Brown (CFO and Treasurer):

Jon, your first question around acquiring other operators, I would tell you we have done two meaningful acquisitions in the space over a long period of time. NextG and NewPath were the two acquisitions that we've done.

Not only did we like the assets, where the fiber was located, as well as the existing nodes, but we were thrilled with the platform that they brought, the significant internal capabilities that both of those fronts have, and the talented folks that came with them.

We viewed it as an opportunity for us to expand our small cell platform and give us an opportunity to continue to grow the business, which has turned out to be everything that we expected and more and given us a lot of opportunities to pursue, more than we could have otherwise done if we had not been able to do those two acquisitions.

So I think those two have gone very well, and as we look at our capabilities today, I really don't see us pursuing another acquisition at the kind of multiples that we did with NextG and NewPath because we have a platform already. If there was an opportunity for us, I think it would look much more like a straight asset sale.

So you saw us in the fourth quarter. One of the small acquisitions that we did was a small fiber company in the Northeast where we had -- we already had nodes under contract, and we were -- we saw the opportunity to acquire fiber as a lower-cost alternative to building it ourselves.

So you may see us over time do some things like that, where there are assets that make sense for us to own and we do a buy versus build analysis. That may make sense, but in terms of looking externally for platforms and needing to do a more strategic thing there, I don't think that's a likely outcome for us.

Jonathan Atkin (Analyst - RBC Capital Markets):

Thanks, and then just a quick follow-up. Talk to broadband regulation and thoughts on how that would impact your business.

Ben Moreland (President and CEO):

Jon, we have looked at that and I don't think there is a direct impact on our business, and there is a lot of discussion out there and some emotion involved and so we will probably stay away from that question. We're independent and we're a neutral host, if you will, and the shared infrastructure model works quite well and we don't really have a dog in that fight currently.

Jonathan Atkin (Analyst - RBC Capital Markets):

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Thank you.

Operator:

Michael Rollins, Citi.

Michael Rollins (Analyst - Citigroup):

Thanks for taking the question. I was just curious, as you look at the aspirations that you lay out for the five-year AFFO growth and then I think what you talked about the dividend, is it a smooth line that investors should expect in terms of dividend growth or do you see it being accelerated on one part or the other of this five-year horizon period and, obviously, you talked about in between some of the churn impacts. I am just curious how that all relates to what investors should expect on a year-to-year dividend growth. Thanks.

Ben Moreland (President and CEO):

Sure, Michael, I will do my best. Good to talk to you. As you can see from our guidance this year, we are guiding up on AFFO per share of about 4.2%, 4.3%, so just a shade over 4%. Again, that's with about 700 basis points of churn headwind in that number.

If we are saying, as we are, that a compound annual growth rate we expect over five years to be 6% to 7%, well, then, obviously it has to be higher in the back four years of that.

And as Jay mentioned, 2015 looks like our peak churn year in terms of headwind. With normal activity, which I'm not giving you five-year guidance, but we are giving you a five-year target on what we think the cash flow growth is, if the activity holds and the churn rolls off as we expect, you will see a pickup in that AFFO growth rate over time of a couple hundred basis points in any given year.

It obviously has to get to 7% to 8% at some point to get into that 6% to 7% area for the whole five years. That's our expectation.

We are just trying to keep it very simple for everyone, so they can track back to their long-term modeling for us, and appreciate that as you get out into the latter part of that five-year period, you're coming off of bigger numbers, so those percentage changes become ever more challenging off of a static asset base, although we are growing the asset base, particularly around small cells.

So we expect that the dividend growth will track that. Our working assumption right now is that we will stay in and around the 75% payout on an annual basis, and so you will see it grow in that 6% to 7% CAGR over time, obviously a little bit lighter on the front end, probably, and then more over time as it tracks the AFFO growth.

Michael Rollins (Analyst - Citigroup):

Thanks very much.

Operator:

Kevin Smithen, Macquarie.

Kevin Smithen (Analyst - Macquarie Research):

I noticed that the small cell CapEx was elevated in Q4. Can you talk about how we should think about the seasonality for that, and specific small cell CapEx, how much of this is accelerated demand versus seasonality? Why don't we start with that?

Jay Brown (CFO and Treasurer):

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Yes, Kevin, we did spend more, obviously, in the fourth quarter than we had in the other quarters, and that's pretty typical in the business as people try to hit year-end targets.

So I'd expect, as we talked about on the last quarterly call, when we look at full-year 2015, we size the dividend, paying about 75% of AFFO, based on our expectation that about 25% of the AFFO will be invested in activities around the core business, and the majority of that would be related to small cell.

I think in terms of if you're looking for sequential quarter guidance, we would expect that number to come off of what we'd spend in the fourth quarter, and it will typically -- our expectation would be it will typically ramp up towards the back half of the year in any given year. That would be a pretty typical investment cycle.

Ben Moreland (President and CEO):

I would add, but we are not capital constraining that business. As we see these attractive opportunities, which we are continuing to pursue, it is continuing to grow and we will pursue them as they come in, and that's, we think, fundamental to what we are doing and makes a lot of sense.

Kevin Smithen (Analyst - Macquarie Research):

As that business goes from a negative total free cash flow to positive, is there a chance that you can increase the payout ratio, looking out two or three years?

Ben Moreland (President and CEO):

It's certainly contributing to AFFO growth and that's in our outlook, but as I mentioned in my notes, we're certainly ahead of plan over a five-year period, and I'm not going to forecast for you where we will be in three years in the small cell business, but it is certainly contributing to our growth over time and we expect that to continue.

Look, if we're putting capital to work at high initial yields in the geographies that we are currently working, where we have very high expectation that other carriers will co-locate on the systems over time, well, then it will be accretive to growth and certainly will contribute to the dividend over time. That's our working assumption.

Kevin Smithen (Analyst - Macquarie Research):

Can you give a little more granularity on CapEx trends by carrier? Verizon came in a little higher than they had previously guided to on 2015 CapEx today. We have yet to hear from Sprint or T-Mo, but I think AT&T caused a lot of concern in the industry, but how much of that is really just AT&T specifically and how much you are seeing an industrywide slowdown?

Ben Moreland (President and CEO):

Kevin, I am not going to get into specifically speaking for the four carriers, but I will say that we have reaffirmed our guidance today to add about $100 million on the core tower business, as we did in 2014.

We see a very robust pipeline of activity. As we sit here three weeks into the year, we are looking at a very nice pipeline. It gives us confidence to reconfirm to you that number, and that's made up of all four carriers doing various things on their network, everything from brand-new installations and new cell sites to significant augmentations and densification, and that's occurring really in varying levels across all the carriers.

The one thing I would say about AT&T is there has been a lot of press about that, and in any given year, carriers increase and decrease their activity for a number of reasons, and that's been the case forever. It doesn't happen on a straight line, and over time, we believe and it is certainly borne out in history that the carriers need to continue to invest in the network quality to support what we are all using as consumers and

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that we are the most efficient way for them to do that.

The shared infrastructure model is alive and well. It's very compelling for them to utilize our facilities versus try to build their own. That's how our industry really has been founded and that is continuing today.

We have a high level of confidence that you are going to continue to see that occur, and it ebbs and flows in any particular carrier's budget year to year. We don't get really too worked up about.

And I think the last thing I would say to that is while there is, I'd guess, some consternation about the high value that the spectrum auction is attracting, from our perspective it just solidifies the long-term view of the value of these networks and the value the carriers are obviously placing on delivering more broadband capability to all of us as consumers. And spectrum has to be matched with infrastructure in order to be utilized and we stand ready to help.

Kevin Smithen (Analyst - Macquarie Research):

Thank you.

Operator:

Amir Rozwadowski, Barclays.

Amir Rozwadowski (Analyst - Barclays Capital):

Just tailing off on some of the prior questions on small cells, it seems as though you folks are seeing much more constructive trends from not just Verizon , but other carriers in the marketplace. I was wondering if you could give a little bit of color in terms of the competitive landscape.

You folks have obviously made a diligent effort to invest in this market ahead of some of this growth that we have seen. Do you anticipate shifts in the competitive landscape or do you feel comfortable in terms of your positioning, whereby this can be a leading driver for you folks and perhaps increasing your share going forward?

Ben Moreland (President and CEO):

Amir, what I'd say is it's a big world out there with a lot of geography that the carriers are either currently or I believe in the future will identify that they need to employ small cell architecture to add capacity. We are only scratching the surface and we are going about as fast as we can possibly go, to tell you the truth. For my guys listening on the call, they would agree.

We're going to continue to ramp that capability, but I would tell you it's a competitive market and we expect -- we will continue to have competitors and probably more competitors over time, but the geographic footprint that we secure and build has the same dynamics and natural barriers to entry as a tower. Once you have got the embedded capital there, it is very efficient to add that second or third tenant over time, and so the model, we think, is very analogous to what we see on the tower side.

We are seeing more carriers in varying levels of interest and budget capacities become increasingly interested in what we have to offer. I don't have a huge announcement for you today on the number of new activities we have with other carriers. As we said in our comments, the overwhelming majority of what we are seeing right now is with Verizon in geographies that if I were to show everybody on the call maps of where they're going, I think we would have almost unanimous agreement that these locations make sense in terms of adding capacity in urban areas and a very high likelihood that the other carriers will come on those systems for the very same reason that Verizon has identified initially.

We are very comfortable with where we are. It is a competitive environment, but a lot of it comes down to

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execution. It is a more challenging undertaking than just leasing a tower, and we have the capability and we have, frankly, invested in the capability and the people to get us there.

Amir Rozwadowski (Analyst - Barclays Capital):

Then with that, if we are looking at -- you mentioned you're increasing budget or allocation of budget. Given the thought process around CapEx budgets, is it coming from macrocell investments and being reallocated to the small cell side or are you seeing this as incremental dollars relative to your macrosite investments that you are receiving?

Ben Moreland (President and CEO):

We are seeing it completely incremental. As I mentioned, Verizon being the majority of our first tenant adds on the new systems that we're building, I wouldn't begin to suggest we have seen any slowdown from Verizon on macrosites. In fact, they've been very, very active.

I think it's incremental. It's adding capacity in these networks that are going to be needed for everything we're all doing on the systems today and more in the future, and it's just a different way and an efficient way where a macrocell site really won't suffice or is not available to add that capacity.

Amir Rozwadowski (Analyst - Barclays Capital):

Great, thank you very much for that color.

Operator:

Colby Synesael, Cowen and Company.

Colby Synesael (Analyst - Cowen and Company):

You mentioned $5 million of AFFO coming from the M&A you did in the fourth quarter. Is that a fully burdened number, so assuming some form of debt financing associated with the M&A, which you did, there would arguably be an interest expense tied to that. Is that $5 million net of that number?

Then the second question, I was wondering if you could just give us an update on what your expectations are for CapEx for 2015. Thanks.

Jay Brown (CFO and Treasurer):

On the first question, Colby, it is a burdened number. We drew under the revolver to pay for the asset, so there is about $7 million to $8 million of interest expense associated with the acquisition, so that $5 million of AFFO was after that.

On your second question, we have sized CapEx assuming that we're going to spend about 25% of AFFO on CapEx in calendar-year 2015. Obviously, we do have some benefit of the prepaid rent on -- when the carriers go on sites and deliver to us prepaid rent, which covers a portion -- a large portion of the CapEx that we spend to improve the site in order to hold the next tenant.

So there is a bit of an offset that we get there from a cash standpoint, but broadly in terms of CapEx, net CapEx through net cash out the door, we are sizing that right at about 25% of our AFFO for 2015.

Colby Synesael (Analyst - Cowen and Company):

Does that, then -- is the CapEx, though -- M&A would be outside of that number, then.

Jay Brown (CFO and Treasurer):

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M&A would be outside of that number.

Colby Synesael (Analyst - Cowen and Company):

Okay, cool, thank you.

Operator:

Mike McCormack, Jefferies.

Mike McCormack (Analyst - Jefferies & Company):

Maybe, Jay, just a comment on the AT&T and T-Mobile tower outsized rental growth, and I'm just trying to get a sense for what you view as the longevity of that outsized growth versus the traditional core.

Then, secondly, thinking about carrier health, we've got one of your and your peers' biggest customers that burns a tremendous amount of cash. Just trying to get a sense for how you guys risk adjust that. I know you have got protections in place, to some degree, but just wondering how you think about that.

Jay Brown (CFO and Treasurer):

Sure, on your first question, Mike, the AT&T and T-Mobile portfolios have done very well since we acquired them. You can see from my comments if you look at the leasing on a percentage basis, it's about 50% higher than the legacy assets, so those assets have done exactly what we expected in terms of enhancing our growth rates and we have been pleased with how they've performed out of the gate.

Our underwriting assumptions, as we looked at the assets, was we believed that we were entering a cycle both in terms of spectrum auctions, as well as the activity from the carriers and technology migrations, et cetera, they were going to be focused on deploying a lot of new cell sites and increasing cell site density. It is certainly our expectation in 2015 that will continue, and frankly, as we think about a longer period of time, I think it's very likely that those two assets and their revenue growth will outpace that of our legacy towers.

As we talk about it on a percentage basis, obviously the benefit there on a percentage basis is they are coming off of a much lower base. When you get down to nominal dollars per tower, the differences would be smaller, but on a percentage basis, those assets that we acquired with low amounts of revenue and cash flow have a meaningful impact to our expected growth rate.

Ben Moreland (President and CEO):

Mike, on your other question, just thinking about the competitive landscape of the four carriers, I guess I keep going back to what's been true really since the last 15 years is that every time we look at our carrier landscape, there is always somebody on the outside looking to get in. On this call, I think there was a question about FirstNet, which has certainly a stated need to launch a national public safety network and it is yet to be determined how that is going to occur. We've previously (multiple speakers)

Mike McCormack (Analyst - Jefferies & Company):

Surprised (multiple speakers) Google yet, then.

Ben Moreland (President and CEO):

We have talked about -- you have got a rumor out this morning and an article in the Journal on the Google MVNO. I think all that speaks to -- and then DISH with their spectrum and unclear yet exactly how that's ultimately going to get launched so they can get a wireless product.

But ultimately, there is a consumer demand of over 300 million people with multiple devices continuing to load

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these networks. The node I mentioned earlier was smartphone utilization has basically, in terms of capacity, doubled in the last year. That's just incredible.

What's happening is the networks -- and regardless, almost, of who owns the networks -- are becoming more and more utilized, and that takes capital. There is other sources of outside capital that stand out there potentially ready to invest to get a share of that access to the wireless consumer, Google being the most recent description of that.

Over time, we are very comfortable that the business that we are in, which is providing shared infrastructure in a very efficient way, more efficient than them owning these assets on their balance sheet, is the way to go. The competitive landscape will sort itself out over time, but my perspective is the pie is only growing and attracting additional capital, and that's good for us.

Mike McCormack (Analyst - Jefferies & Company):

Great. Thanks, guys.

Operator:

Michael Bowen, Pacific Crest.

Michael Bowen (Analyst - Pacific Crest Securities):

I wanted to go back to some comments you made a little bit earlier on the call about in a potential Title II world, I think you -- I guess I will paraphrase. It sounded like you did not think that was going to be that impactful. However, the CFO of Verizon today was saying that while Title II, if that were enacted, would not impact their 2015 CapEx, it definitely would have negative ramifications on 2016.

So I'm assuming that they are also including in that wireless assets, the potential to be classified under Title II. Can you help us think through that, or do you know something that we don't know that you do not -- perhaps do not think that wireless will come under any type of Title II regulation? Thanks.

Ben Moreland (President and CEO):

Michael, I have actually spoken with all four carriers about this, and there are varying levels of views about the potential outcome on this and what it means for capital spending in their long-term plans for network investment and economics around that.

So I'm really not going to get into speaking for them on this. There are a variety of views. It is highly charged, as you can imagine, as you see comments out there, and from our perspective, the business that we are in is pretty agnostic.

There will be ultimately demand on these networks. Certainly, they are talking about forbearance on pricing over time. We will see where that goes. We don't spend a whole lot of time worrying about it and, obviously, that's something the carriers have varying lobbying efforts underway on that. We do pay attention to it, but don't find that it directly affects our business at this point.

Michael Bowen (Analyst - Pacific Crest Securities):

Have you handicapped -- and that's fair, obviously -- but have you handicapped any downside or upside versus status quo if it goes either way, as far as a revenue impact?

Ben Moreland (President and CEO):

No, I haven't. I could go back and we could talk about the spectrum auctions, but that spectrum is going to get

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put in the hands of the carriers who are going to utilize it, and that will -- I think that creates a runway that is, we think, far in excess of probably any potential negative that could come out of potentially Title II regulation on net neutrality.

I think there is a long way to go on that discussion, but to the extent the spectrum auction clears at these prices, which it certainly looks like it's going to, that spectrum is going to get launched and it takes infrastructure to launch that spectrum. That is about as far as we have to think through that right now.

Michael Bowen (Analyst - Pacific Crest Securities):

All right, thanks (multiple speakers)

Jay Brown (CFO and Treasurer):

One of the things I would just highlight for you, and we have talked about it a lot as we talk to investors. It's how we think about the business.

When we talk about total long-term returns to shareholders of about 10% to 11%, about 70% of that today or two-thirds of it, roughly, is either in the form of the current dividend or embedded in our contracted escalators.

The one-third of the balance of the return that we are certainly chasing and working hard at, and we have obviously laid out our forecast for the next 12 months and talked a lot about leasing, but as we -- you get into questions like this around, okay, what could the downside be? What could the upside be? We are talking about one-third of the total return, and so if you wanted to take a haircut to it, you're welcome to do that, but it's relatively muted on an overall total return to the shareholders.

I think that is in part why we made the decision last quarter to meaningfully increase the dividend, and we think the story is pretty compelling in virtually any kind of environment.

Michael Bowen (Analyst - Pacific Crest Securities):

Then just one last thing. With regard to the potential reseller agreement between -- or contemplated agreement between Google , T-Mo, and Sprint, can you see any scenario where that would be negative for the towers, just the industry itself? I don't really see it being negative, but would appreciate your thoughts.

Ben Moreland (President and CEO):

I can see no scenario where it would be negative. MVNOs, we have had them for a long time in the industry. They add capacity to a network and utilization, and that ultimately takes additional sites. To the extent that came with additional revenue stream or capital infusion in the host carrier, that would obviously be helpful for their continued investment in the network.

So I can see no negative downside from that, and it frankly just reinforces what we were saying earlier that there seems to be always people on the outside looking to get access to wireless subscribers, and that's good for us, fundamentally.

Michael Bowen (Analyst - Pacific Crest Securities):

All right, thanks. Good to know you didn't have any Google revenue in your outlook. Thanks.

Operator:

Spencer Kurn, New Street Research.

Spencer Kurn (Analyst - New Street Research):

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I just wanted to follow up on a comment that Ben made earlier. I completely agree that you look really attractive relative to the RMZ index or other dividend and yield oriented stocks. Are there any indices that you think you can eventually be included in?

I think one of the hesitations for investors would be going out of benchmark, so inclusion in an index could be a positive catalyst for your equity. Thanks.

Jay Brown (CFO and Treasurer):

Spencer, I will take that. We obviously think that the business, as we have talked about for a long period of time, we are a real estate business. And our hope would be that over time the various indexes that look at real estate will treat us and include us like they do other traditional real estate products.

I don't necessarily have any update to that, other than we continue to have conversations and would hope that over time the tower industry is embraced as another very stable form of real estate and think there are lots of characteristics of our business that would support that.

Ben Moreland (President and CEO):

And that's happened over time. About 50% of the market cap of REITs today are what you would consider nontraditional REITs, and most of them have made it into the indices over time, and so we will see how that goes over time.

I think from our perspective, there is a much broader -- while we are very pleased to participate and be evaluated against the real estate companies, and I think that's a relevant benchmark, there is a much broader universe out there of income investors that I think are attracted to our Company and our story, based on the predictable, long-term returns that we've talked about.

As Jay mentioned, two-thirds of our total return expectation is on the books when we show up in the morning. That's a very unique scenario. You don't find that very often. We spend all day long working on that last one-third and that's what we are pursuing every day, but it's pretty compelling in the low return and volatile environment we are today where you have got a 4% dividend yield and upwards of 4% contracted in terms of cash flow growth.

We like that model and it's why we have done what we have done to put us in that position, and we think over time it attracts the most -- the lowest cost of capital, which enables us to frankly continue to pursue this business model, which at its core is all about sharing.

I think it's important to go back through just real quickly when we talk about return on invested capital, that comes from sharing these assets, and as we talked about on this call, our legacy sites with 15% return on invested capital, typically those towers have three tenants per tower, so they are all paying about 5% a year to occupy the asset. That's fundamental to this business and why it is compelling for the carriers to utilize this, why it has been compelling for them to sell and lease back the sites to us, and we think a very efficient model really for the long term and why we are so bullish.

Spencer Kurn (Analyst - New Street Research):

Thanks, guys.

Operator:

Batya Levi, UBS.

Batya Levi (Analyst - UBS):

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A couple of follow-ups. One, can you provide the split on the new leases and amendments that you are seeing? I think it was about 75/25 in the last quarter, and how you expect that to trend into 2015.

Another question on the small cell business, of the $50 million incremental growth that you expect for this year, can you give us a sense on what percent is on the recurring long-term contracts versus maybe one-time projects that you have planned? Thank you.

Jay Brown (CFO and Treasurer):

Sure, on your first question, similar to what we saw in 2014, we are expecting new leases to make up approximately 70% of that activity and 30% to be amendments. If you looked at fourth-quarter (technical difficulty) outlook, it would be in that 70%/30% mix.

If I understand your question correctly on the $50 million of incremental, all of that is long term. All of that is long-term contracted revenue, so as we speak about that, we are talking about site rental revenue, and the contracts that we sign for small cells are very similar to that of the tower side, so they are, generally speaking, 10 to 15 years of initial terms with embedded escalation.

There is some component of services in small cells, but it's really pretty small, so as we speak about that number, we are talking about the long-term recurring -- the recurring numbers that flow through AFFO.

Batya Levi (Analyst - UBS):

Okay, thank you.

Operator:

Jonathan Schildkraut, Evercore ISI.

Jonathan Schildkraut (Analyst - Evercore ISI):

Great, thanks for fitting me in here. Two questions, if I may. First, I noticed that there was a small change in expected churn for the year. I think you took it down by 10 bps. Is that just a rounding error or is there something -- a pushout or some conversations around churn that are a little different than they were maybe a quarter ago when you put out initial guidance?

Then my second question just has to do with the organic site rental revenue growth by portfolio. As I look at the legacy US assets and the T-Mobile assets that you have laid out here, I was under the impression the T-Mobile assets had maybe 50%, maybe a little bit higher than that, tenancy versus legacy assets. In terms of incremental tenancy across those two bases, 4% on the legacy would imply slightly higher incremental tenancy versus the T-Mobile assets. I just want to know if there are some other factors I should be considering when I look at that. Thanks.

Jay Brown (CFO and Treasurer):

Yes, Jonathan, the list to dial in this morning was long, so happy to take the question.

On your first question around churn, if you look at both the escalator provision -- the amount from escalation on a percentage basis, as well as the churn, those tick down, I think, just like 10 basis points and that's because the organic site rental leasing in the fourth quarter was higher than expected, so it's coming off, then, a higher base, which causes the percent to be lower. But on nominal dollars, our assumption is unchanged. That's just the way the percentages fall.

On your second question, the T-Mobile assets had about 1.7 tenants on them at acquisition and the legacy towers at the time we did the transaction would have been in the high 2s or low 3s. There is a lot more -- a lot

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higher leasing existing on the legacy assets than there were on the T-Mobile assets, and so as we're adding additional tenants, obviously the percentage growth is going to be higher on those T-Mobile assets, and we are finding a similar thing on the AT&T assets.

So there is nothing -- I think you are looking for something maybe in the numbers there that may be a little different, and it's not. It's just coming off of a lower base. And then to Batya's around leasing components, we are seeing about 70% of the activity being driven by new leases, and the result of that is that the AT&T and T-Mobile portfolios do very well and that drives the higher percent growth rates.

Jonathan Schildkraut (Analyst - Evercore ISI):

So the incremental tenancy across the bases in terms of demand and everything is looking pretty consistent?

Jay Brown (CFO and Treasurer):

Very consistent.

Jonathan Schildkraut (Analyst - Evercore ISI):

All right, thank you for taking the questions.

Jay Brown (CFO and Treasurer):

Yes, happy to do it.

Operator:

Ana Goshko, Bank of America .

Ana Goshko (Analyst - Bank of America):

Quickly, two related questions just on what the readthrough is for the revolver upsize, and also with regard to a discretionary spending, potentially an acquisition. As you pointed out in the fourth quarter because of the land purchases, largely, you had to draw on revolver to fund the discretionary spending and the dividend. If we look at the AFFO for this coming year, it is really earmarked for the dividend and for the CapEx budget, so wondering does the $600 million upsize in revolver imply that you are likely going to draw on it over the course of the year to continue to fund acquisitions?

Jay Brown (CFO and Treasurer):

Yes, I would say we have used over time -- we have used the revolver as a bridge of sorts, if there are acquisitions that we tuck in. We think it's just good corporate governance and good financial discipline to have it there.

It gives us an opportunity when there is the right asset available for us to use that revolver to draw down and buy assets. You may see us do that over time, but all of -- everything that we do in terms of -- as we think about small cells or tuck-in acquisitions for towers or ground leases, all of those have to go through the filter of us believing that they are enhancing to the growth rate and to the dividend over time.

If it doesn't meet that criteria, then obviously we are not interested in doing the acquisition. So to the extent that there are opportunities in acquisitions that are out there, that revolver becomes helpful in the process of us going through that, but I wouldn't necessarily point you to assume that we're going to draw into that revolver or even use it.

As we sit here today, there aren't any acquisitions that I would expect us to be funding in the coming quarter. It's opportunistic and it's based upon the returns. Otherwise, what we see in front of us as opportunities that

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we are likely to invest in is really limited to about 25% of AFFO, as I spoke to earlier in the call.

Ana Goshko (Analyst - Bank of America):

Okay, great.

Ben Moreland (President and CEO):

And to the extent (multiple speakers) in size you would pay it, you would term it out over time would be our practice, typically.

Ana Goshko (Analyst - Bank of America):

Right, and then because you do run with a pretty lean cash balance, do you target a minimum availability under the revolver?

Jay Brown (CFO and Treasurer):

Yes, we do think about it that way, and typically we won't let it get below about $250 million to $350 million at any given time. Obviously, today we have about $1.4 billion of capacity, so we are well above that.

Ana Goshko (Analyst - Bank of America):

Okay.

Jay Brown (CFO and Treasurer):

Given the nature of the business, though, everybody pays rent as of the first of the month and that's the driver of all of the cash flow. So there's -- we don't have some of the working capital challenges that a lot of businesses have.

Ana Goshko (Analyst - Bank of America):

Okay, great. Thanks for the clarification.

Ben Moreland (President and CEO):

Sure. I think we are going to wrap up. I appreciate everybody staying with us an hour and 15 minutes this morning. We had a long list of questions.

Again, I want to express my appreciation to the team at Crown Castle for a terrific 2014. We got a lot accomplished. More than one thing at a time is what we talk about now. We can do more than one thing at a time very well. And we have a terrific outlook for 2015, so we are going to get to work and appreciate everybody's interest and we will talk to you next quarter.

Operator:

This does conclude today's conference call. Thank you all for your participation. You may now disconnect.

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