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CCI - Q4 2015 Crown Castle International Corp Earnings Call

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OVERVIEW:

CCI reported 2015 AFFO per share of $4.30. Expects 2016 AFFO per share midpoint guidance of $4.68.

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PRESENTATION

Operator

Good day and welcome to the Crown Castle International Q4 2015 earnings conference call. Today's conference is being recorded. At this time I'd like to turn the conference over to Son Nguyen, VP Finance and IR. Please go ahead, sir.

Son Nguyen - *Crown Castle International Corporation - VP, Finance & IR*

Thank you, Matt, and good morning, everyone. Thank you for joining us today as we review our fourth-quarter, full-year 2015 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 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 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 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, January 28, 2016 and we assume no obligations 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 investors section of the Company's website at crowncastle.com.

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

Jay Brown - *Crown Castle International Corporation - CFO*

Thanks, Son and good morning, everyone. As you saw from our release yesterday, the fourth quarter was another great quarter bringing 2015 to a strong close and positioning us to raise our full-year 2016 outlook. For the full year 2015, AFFO per share of $4.30 was up 8% compared to 2014. And our increased mid-point for full-year 2016 outlook for AFFO per share of $4.68 represents a 9% increase compared to 2015.

In addition to delivering great results and extending our track record of execution, 2015 was marked by several significant accomplishments. During 2015, we achieved an investment grade credit rating from each of S&P and Fitch rating. Also during the year, we redeployed capital in the divestiture of our former Australian subsidiary to further grow and strengthen our leadership position in wireless infrastructure in the US, which we believe is the most attractive market for wireless investment. Today, with our portfolio of approximately 40,000 towers and 16,000 miles of fiber supporting small cell deployments, we are able to provide wireless carriers comprehensive solutions across the country as they continue to upgrade and enhance their networks to meet increasing consumer demand for mobile data.

Shifting to the fourth-quarter results on slide 4, site rental revenue grew 9% year-over-year, from $723 million to $785 million, an increase of $62 million. The $62 million increase is comprised of $49 million of organic site rental revenue growth, less $17 million in adjustments for straight-line accounting associated with contracted fixed-rate tenant escalation, plus $30 million in contributions from acquisitions, which primarily consisted of (inaudible) and other adjustments. The organic site rental revenue growth of $49 million represents growth of 7% year-over-year comprised of approximately 10% growth from new leasing activity and cash escalation, net of approximately 3% from tenant non-renewals.

Moving to slide 5, our fourth-quarter results from site rental gross margin, adjusted EBITDA, and AFFO exceeded the midpoint of our previously provided fourth-quarter 2015 outlook.

Turning to investment activities, as shown on slide 6. During the fourth quarter we invested $251 million in capital expenditures, of which $29 million was sustaining capital expenditures, and $222 million was discretionary investments. Included in our discretionary investments is approximately $23 million from land purchases. Our proactive approach to achieving long-term control of the ground beneath our sites is core to our business as we seek to control our largest operating expense and produce stable and growing cash flow over time. Today, three quarters of our site rental gross margin is generated from towers on land we own or control for more than 20 years. Where we have ground leases, the average term remaining on our ground lease is approximately 30 years.

Of the remaining discretionary investments, we invested $199 million in revenue-generating capital expenditures consisting of $90 million on existing sites and $109 million on the construction of new sites, primarily small cell construction activity. Small cells continue to perform ahead of expectations and currently generate 12% of total site rental revenue and 11% of total site rental gross margin. Excluding the benefit from our recent acquisition of Sunesys, small cell site rental revenues grew approximately 30% year-over-year.

Today, our small cell network consists of approximately 17,000 nodes on-air or under construction supported by 16,000 miles of fiber. Of the 17,000 nodes, approximately 12,000 of the nodes are on-air with the other approximately 5,000 nodes under construction and expected to be completed over the next 12-24 months.

Continuing on to financing activities, during the quarter, we paid a quarterly common stock dividend of $0.885 per share or $295 million in the aggregate. For the full-year 2015, we paid quarterly common stock dividends in aggregate of $3.345 per common share. Additionally, in January we closed on a $5.5 billion senior unsecured credit facility. Proceeds from the new facility, together with cash on hand, were used to repay our previous senior secured credit facility.

As of January 26, we had $1.6 billion of availability under our five year revolver. As a result of the refinancing, our senior unsecured notes were upgraded by S&P to investment grade. Even more impactful than lowering the cost of debt, we believe that an investment-grade capital structure will ultimately drive down our cost of equity. Equally as important, we believe having access to a deeper pool of capital will result in a more stable, long-term cash flow and increased flexibility to pursue discretionary growth opportunities.

Moving on to the full year 2016 on slide 7, we've increased our expectations at the midpoint for site rental revenues by $10 million, site rental gross margin by $7 million, and adjusted EBITDA by $12 million, and AFFO by $11 million. The increase in the outlook reflects the strong results from the fourth quarter, our continuing belief that 2016 leasing activities will be similar to 2015, and the timing benefit related to tenant non-renewals occurring later than previously expected. It is important to note that our overall expectations for the number of tenant non-renewals in aggregate has remained unchanged. For more detailed information regarding our current book of contracted tenant leases, including our expectations for non-renewals, those are available in our supplemental information package.

At the AFFO per share line, the updated midpoint of our full year 2016 outlook results in 9% growth year-over-year compared to 2015, increasing from $4.30 per share to $4.68 per share.

Like 2015, 2016 is shaking up to be another great year. We believe the essential elements for long-term shareholder value creation are as attractive as they have ever been. We continue to see stable and consistent leasing activity from our carrier customers. We have a runway of attractive discretionary investment opportunities primarily in the form of small cells to enhance and grow our business. And we have an opportunity to manage the cost of debt and lower the cost of equity as we transition to an investment-grade balance sheet. All of this gives us confidence in maintaining our long-term goal of delivering AFFO per share and dividend per share growth of 6% to 7% on an annual basis.

Before turning the call over to Ben, I would like to take just a moment to discuss the announced succession plan. I'm honored and excited to have the opportunity to lead the Crown Castle team. I have had the privilege of working with Ben over the last 17 years, and he has been a great friend and mentor to me. Over the last 8 years, through Ben's leadership as CEO, we have grown the business significantly, increasing AFFO per share from $1.66 to $4.30, and have successfully doubled the size of our tower portfolio, established ourselves as the leader in small cells and strengthened our balance sheet, positioning us better than ever to capitalize on the tremendous opportunities that lie ahead.

I will benefit greatly in my new role from being surrounded by a very talented and experienced executive team that has been instrumental in all of these accomplishments. Together, with the rest of the Crown Castle team, we are looking forward to continuing to execute on our strategy of driving long-term shareholder returns, through disciplined capital allocation, dividend growth, and delivering for our customers.

And with that, I will turn it over to Ben.

Ben Moreland - *Crown Castle International Corporation - CEO*

Thanks to all of you for joining us on the call this morning. Extra early. I will touch on our succession plan in a moment, but first, I'd like to comment on 2015 results and what lies ahead.

In short, we had a great year, exceeding our expectations throughout the year, and executing on strategic actions through the sale of our Australian subsidiary and the purchase of the Sunesys fiber assets that really sets us up well to win in the future. I want to thank my colleagues at Crown Castle for their hard work in delivering on our commitments in 2015.

Now, on to the future. As Jay just mentioned, we believe we have the essential elements for long-term shareholder value creation and they're as attractive as ever. I'd like to spend a few minutes to further elaborate on Jay's comments regarding each of these elements. These include, a continued, healthy and sustained leasing environment over the next several years, a long runway of investment opportunities that we expect will drive high-quality, long-term growth, and all the while maintaining a strong balance sheet and managing risk appropriately to drive down the cost of capital.

First, on leasing, we believe that we're in the midst of a multi-year wireless investment cycle that will result in a sustained level of leasing activity, similar to what we have experienced in 2014 and 2015 and that is what we expect to see in 2016. For 2016, we're expecting approximately $170 million in new leasing activity, of which $115 million will come from tower leasing. The $115 million in tower leasing represents a pace of adding approximately one tenant equivalent over a 10 year period on our 40,000 towers, or 1/10 of a tenant per year per tower, which is approximately our average pace of annual leasing over the last 7 years.

Importantly, through those 7 years, we've been through a number of different macro economic cycles and covered several different wireless investment cycles, in terms of technology, level of engagement by carrier customers, and different environments. Given the underlying long-term perspective of positive fundamentals from the continued increase in mobile data consumption, we believe that this pace of leasing is a reasonable expectation for our future growth.

Industry research projects mobile data to increase sevenfold between 2014-2019, a compounded annual growth rate of 47% or roughly doubling every 2 years. Recently, some of the wireless carriers have reported mobile data growth even higher, in the range of 60% to 75% per year growth during 2015. Against this backdrop, we expect the carriers to continue to invest on a consistent basis to maintain and improve network quality which is the competitive necessity as carriers seek to retain existing customers, attract new customers, and monetize their networks through the deployment and development of new revenue streams such as over-the-top video and telematics.

As a shared wireless infrastructure provider, Crown Castle stands ready to assist wireless carriers in this endeavor by providing them with quick and cost-effective access to wireless infrastructure as they seek to upgrade and enhance their networks. With our tower portfolio and small cell expertise, we have the unique capability to deliver across all means of shared infrastructure to meet the network needs of our carrier customers. Additionally, the runway for our growth is further supported by the amount of spectrum that is expected to be deployed over the next several years, including the spectrum from last year's AWS-3 auction, the spectrum from this year's anticipated broadcast incentive auction and the spectrum currently held by the carriers and others such as Dish and FirstNet.

Turning to capital allocation, when we evaluate the various investment alternatives we have, whether it's small cells, share purchases, or acquisitions, our goal is to drive long-term growth and AFFO per share and dividend per share. By this measure, we are very excited by our recent and ongoing investment in small cells. To date, our $3 billion investment in small cells generates a yield of approximately 8% inclusive of our initial $1 billion investment in NextG, the acquisition we did in 2012, with an initial yield of approximately 3% to 4% and our continued Greenfield investments. We are underwriting new small cell builds with anticipated initial yields of 6% to 8% on the anchor tenant, where we believe we have the opportunity to drive yields higher through co-location with the second tenant expected to achieve low- to mid-teens yields and the expectation of further yield accretion when we add a third and fourth tenant over time.

On this point, in addition to the anchor tenant, we are seeing strong co-location demand on our small cell networks. We have focused our small cell efforts in the top 25 markets and believe that these early systems will be some of the most attractive locations in the future given their franchise value. Just like towers, the need for network densification is driving small cell growth. Given the challenges that the carriers face in bringing more capacity to many urban and suburban geographies, the need to get closer to the subscribers and focus on reusing spectrum more efficiently, carriers are turning to small cells as a critical tool to improve their networks. With a very similar business and economic model as our tower business, we see a long runway of attractive investment opportunities in small cells.

Shifting to the balance sheet and risk profile, we view our dividend as a growing annuity paid to shareholders where we effectively pass through the cash flows we generate from providing US wireless carriers with access to mission-critical infrastructure. Our goal is to protect and grow the dividend stream over time. Our dividend is supported by long-term, recurring, contracted leases that we have in place which currently represent approximately $20 billion in future contracted rent payments, plus future growth from contracted rent escalators and the continuing wireless investments being made that I previously mentioned. From this foundation, we are focused on managing financial and operating risk as we allocate capital and grow the business.

On the balance sheet side, we believe maintaining an investment grade balance sheet should provide us with access to a deeper and more stable pool of capital, reducing risks to our cash flows, and providing us with an increased flexibility to pursue potential investment opportunities. Both of which are supportive of a secure and growing dividend. This same perspective drives our capital allocations decisions as we continue to believe that the US market provides us with the most attractive risk adjusted return opportunities.

Bottom line, with a sustained level of leasing that we expect to continue over the next several years, the small cell opportunities we see ahead of us, the strength of our balance sheet and the quality of our business, we believe we can continue to deliver 6% to 7% AFFO per share and dividend growth per share. Further, we believe our expected growth rate, combined with our current dividend yield of approximately 4.3%, represents a very attractive long-term total return profile for shareholders.

Finally, I'd like to speak to our CEO succession plan that we announced last night. I began contemplating this and subsequently engaged the Board in this conversation some time ago after reflecting on a number of considerations that led me to conclude that 2016 was the right time to begin this transition.

First, as we discussed on this call, the company is incredibly well-positioned for this transition having accomplished a number of strategic objectives that I believe are important to set us up for the next generation of market leadership and value creation. Included on this list will be the assemblage of our unrivaled tower portfolio, the sale of our Australian business, the acquisition of Sunesys and leadership in the exciting small cell arena, and the strength in the balance sheet with the achievement of the investment grade rating late last year.

Second, Jay is ready to step up. We've worked together for 17 years since the early days of Crown Castle, and he has been an integral part of all we have accomplished. He has the trust and respect of the Board, the executive team, and the organization, as well as the investment community. I am very fortunate to have him as a successor and have absolute confidence that he is the right leader to lead the organization into this next chapter of success. Most importantly, though, Jay will be leading a team of seasoned professionals who are very good at executing for customers across all our assets, both towers and small cells.

Finally, on a personal level, it has been an unbelievable privilege to lead Crown as CEO these last 8 years. I have always found it valuable from time to time to push myself out of my comfort zone in search of new challenges. Many years ago, I lost my dad to a heart attack when he was only 47. In 2014, my wife had a breast cancer scare that fortunately was caught early and through surgery has resulted in a full recovery. With our kids out of the house now, our once structured lives have changed; it is with all these considerations and the reminder that life is short, that I sense it is the right time to initiate this move out of my comfort zone.

I look forward to pursuing many new challenges, some personal and some professional. I also look forward to my continuing investment and involvement with Crown Castle in this new capacity, ensuring leadership continuity as Executive Vice Chairman. I am proud of what we have accomplished and through this succession plan am highly confident this team will continue to reward shareholders, customers, and employees for choosing Crown Castle.

Thank you to all of you on this call who have supported me and this management team over the years. I look forward to our continued association. With that, Operator, I would be happy to turn the call over for questions.

QUESTIONS AND ANSWERS

Operator

Thank you, sir.

(Operator Instructions)

David Barden, Bank of America.

David Barden - *BofA Merrill Lynch - Analyst*

Hey, guys. Thanks, Ben. I know this is not the last quarter we are going to have a chance to talk, but thanks for all that and the contributions. And, Jay, congrats on the job. I'm looking forward to continuing to work with both of you guys.

Focusing on the Business, as we look ahead, I've got a couple of questions. One, just on the obvious, with respect to kind of all of the noise coming out of Sprint with respect to their network architecture. We don't have to talk about Sprint necessarily. Let's just say, there's a carrier out there that's looking to explore new, more efficient ways to build a network. And it seems that they are looking to re-evaluate their renewal schedule on tower leases as we go forward, and I was wondering if you can talk about what, if anything, you see ahead for that strategy?

And then, second, Jay, a year ago, we were sitting here, and I think the outlook was for new site leasing activity of maybe 5%, and now we're sitting here looking at actually 6%, a better outlook for this year. Over the course of last year, that outlook actually went up by about 1 percentage point. What are the factors that you see maybe evolving in 2016 that could do to this year's guidance what happened to last year's guidance, in terms of walking it up the curve over the course of the year? Thanks.

Ben Moreland - *Crown Castle International Corporation - CEO*

Sure, Dave. This is Ben.

First of all, without addressing Sprint specifically, what I'd like to talk about is the fact that three of the four carriers have reported thus far, and I think all of them in various ways have confirmed the need for macro sites being an integral part of their network now and in the future. That should not be surprising to any of us that are close to the business. Macro sites, i.e, towers, remain the most attractive and cost effective way to cover a given geography with the spectrum that they own.

That said, there are certainly hybrid sites and HetNet architectures that we participate in, and many people do, that are going to augment the capacity of the networks going forward. And that's the whole small cell underlay approach. And, frankly, sites that look like crosses between macro sites and small cells, dark fiber-fed and ultimately, that is sort of what C-RAN architecture starts to look like over time.

When you think about our Business fundamentally, it is a capital-intensive Business. Those with the lowest cost of capital tend to win. And when you introduce, on top of that, the notion of shared economics, i.e, the carriers only pay for the proportion of the asset that they need, it's an incredibly compelling model. And it's one that I think is going to continue to work, as it has for the last 20 years, for the indefinite future.

So, when carriers work on new deployments and new architectures with, certainly, an appropriate view to save costs, we are going to be right there with them at every step of the way. I can tell you that we are working with all four carriers, in that regard, to utilize our cost of capital and the sharing model to be an integral part of their solution going forward.

I think it has been helpful for the last couple of weeks that three of the four carriers have confirmed that macro tower sites are an integral part of their model going forward. That's not surprising to us. But I think this hybrid type network, going forward, is going to be very important, and we are incredibly well positioned with assets and capability to take advantage of that.

When you hear us talk about the cost of capital, it's not simply just to lower the cost on the balance sheet of our interest expense. It is very much to be the most competitive company out there that can deploy capital assets on behalf of these carriers, and make it very efficient for them. So, that is something we're spending a lot of time on as an executive team, and very comfortable with what we see in front of us.

Jay Brown - *Crown Castle International Corporation - CFO*

Dave, on your second question, last year, the 2015 increase in guidance over the course of the year, about half of that was driven from an increase in leasing activity and about half of it was driven from lower non-renewals than what we had expected going into the year. As we looked at our guidance for 2016, we held that elevated level of leasing activity throughout the full year, full calendar year 2016, such that leasing activity we think this year will match that of 2015.

As for potential upside there, I'd point to the fact that typically in the Business we have about 6 to 8 months of visibility from the time we have an application come in from a carrier to the time it's actually revenue-producing. So, we have a real good idea as to where new tenant leasing is going to be for at least the first half of the year and maybe a bit into the third quarter. So, to the extent that there was additional leasing activity over the course of the year, that's honestly more likely to impact our run rates going into 2017 than it is to be that meaningful to the results in 2016.

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David Barden - *BofA Merrill Lynch - Analyst*

Got it. All right. Thank you very much, guys.

Operator

Ric Prentiss, Raymond James.

Ric Prentiss - *Raymond James - Analyst*

Thanks. Good morning, guys. Congrats to Jay and Ben. It's been a great ride. Long time together in the tower space for us. And looking back at my notes, I think Crown is up 4 times since 17 years ago, so congrats to both of you guys.

First question I've got is: If a carrier does decide not to renew their lease, what triggers there, and do they have to remove the equipment and how much could that cost?

Ben Moreland - *Crown Castle International Corporation - CEO*

Depends on the contract, Ric. Typically, our contracts require them to remove the equipment and restore the site. And we've gone through that many times with these non-renewals that Jay has talked about and we've experienced with the iDEN Nextel churn.

What we have often done though is essentially negotiate a final payment, if you will, what's commonly referred to in the industry as a pay-and-walk fee. That can be anywhere from $30,000 to $50,000 per site, depending on what's up there and the negotiations, but that is generally what occurs. More often than not, we will negotiate a final payment. That is typically the market convention.

Ric Prentiss - *Raymond James - Analyst*

Makes sense. Also, this quarter we saw a pop up in the SG&A line. Can you talk a little bit about what is occurring there, and can we think of that maybe as a revenue driver longer term?

Jay Brown - *Crown Castle International Corporation - CFO*

The SG&A pop up -- a bit of that would be related to having Sunesys for all three months of the quarter, Ric. And then the other part of it would be -- as the Business outperformed our bonus level across the employee base for the full-year 2015 would have been above our targeted level, as we raised outlook throughout the course of the year, and delivered and even exceeded it in the fourth quarter.

I think as you look at calendar year 2016, we think the run rate is basically unchanged from full-year 2015. As we talked about on previous calls, we think that there is virtually no cost increase at the GAAP line on the tower side or on the SG&A side for calendar year 2016.

That would be based on the current level of activity that we see in small cells, et cetera. We'll obviously have some operating costs in small cells as we've deployed brand new systems. But for the most part on the tower side, we think costs are flat; and on the SG&A side, we think those costs are flat in 2016 to 2015.

Ric Prentiss - *Raymond James - Analyst*

That makes sense. And then on Sunesys, you have talked in the past about some extension maybe that could be done off of those existing fiber that Sunesys brought in. Update us a little bit about what you are seeing in that extension mode?

Ben Moreland - *Crown Castle International Corporation - CEO*

Sure. The rationale behind the 10,000 miles of fiber we acquired, Metro Fiber in great markets with Sunesys, was that it would give us a great head start on small cell deployments. And that's exactly what it is; but it's a head start, it's not a perfect footprint. As you reference, we're constantly working to improve that network, just as we do with existing Crown fiber where we get a new engagement and maybe, as I've described before, there is always overlap.

When you think of a tower co-location, which is 100% co-location on an existing site, a co-location or an additional deployment on a Sunesys piece of Crown fiber is always a hybrid. So, there's always a percentage of overlap and a percentage of new, typically. But in examples, maybe otherwise like Manhattan where there was pretty full overlap.

So, that is working well. It drives our increasing accretive yields on the asset. As I mentioned in my remarks, we are up to about 8% on the embedded capital, life to date. As we're building either additional laterals or accommodating co-locations, it's essentially driving up that yield over time.

Now, we're going to have better metrics for you in the coming quarters, because I know this has a lot of moving parts to it. And we're going to come out with that for everyone to help their modeling later in the year.

What we focus on as a management team is ultimately the yield on the invested capital. That cuts through all of the metrics, whether it's tenants per node or nodes per mile or revenue per mile. We're going to help everybody with that later in the year, so that we can all be clear.

That is why we are giving you these run rate yields. It's validating for ourselves as well that we're continuing to see accretive investments in that space.

Ric Prentiss - *Raymond James - Analyst*

Great, thanks, guys.

Operator

Brett Feldman, Goldman Sachs.

Brett Feldman - *Goldman Sachs - Analyst*

Thanks, and also congrats to you guys -- really exciting news.

As we think about where you're deploying capital, you listed a couple of potential areas of discretionary investment. And I might have missed it, but I don't think you actually included towers on the list. So, I'm curious whether you feel like the portfolio of towers that you have today is essentially the portfolio you will be operating and generating returns off of, for the foreseeable future?

And then, just as an extension, you talked about the importance of small cells, and how you've invested in that. And as you see your carriers kind of evolve, how they're thinking about deploying denser networks, do you feel like the outdoor business that you have in the top 25 markets today is really what you need? Or do you see opportunities to create partnerships or make investments in other areas to further accelerate your positioning in that market? Thanks.

Ben Moreland - *Crown Castle International Corporation - CEO*

Sure, Brett.

First of all, I didn't mean to slight towers at all. We bought 17,000 sites in the last three years that are looking for more tenants. Those towers we acquired from AT&T and T-Mobile, most recently, are very attractive co-location candidates, and probably -- not probably -- absolutely represent the biggest value-creation opportunity we have in the Company. That is to co-locate on an existing tower, and we're quite happy with that going forward.

The fact is that the carriers have essentially sold the vast majority of their sites. There are some small portfolios out there, and it has been somewhat aggregated by the three large tower companies.

So, I do not see anything large on the horizon out there. It is certainly not a requirement for us to create significant value. As I just mentioned, the organic growth is what drives value around here.

I would also highlight -- go back to 2001 and 1999, when essentially the carriers sold all of their sites initially, and then we went through a whole nother wave of that some 15 years later. So, we do think there will be a need for more tower sites over time, as cell sites continue to shrink, and density requirements continue to increase. There is nothing significant out there today, and we are certainly advancing our leadership position on this newer architecture around small cells, as we've talked about.

On the outdoor business for small cells, while we are about 90% focused in the top 25 markets, we're constantly looking at opportunities outside the 25 markets. And so, your question, I think, goes to how big could this be? The answer is -- we do not really know, but it looks like it could be a whole nother tower business.

It's hard. It's expensive. It takes a long time to build these systems. But at the same time, we are focused on what we think our franchise locations and something of a land grab that reminds us a lot of the early days of the tower business.

We're focusing our efforts in these top 25 markets. But I do not think it's going to be limited to that. In fact, I know it is not, because we are looking at opportunities occasionally outside of those markets, and it looks like it has a long, long runway.

Brett Feldman - *Goldman Sachs - Analyst*

And that's primarily outdoor opportunities. It just seems like there is a lot of different types of small cell solutions. There's indoor solutions and rooftops. I'm just wondering whether those areas are peaking your interest as well?

Ben Moreland - *Crown Castle International Corporation - CEO*

Well, we have an indoor business, and we do quite well with it, where we choose to play. We've done a lot of sports arenas and things like that.

I think, over time, you're going to see multi-tenant office buildings. But there are alternative solutions available to landlords and tenants when you get into a multi-tenant facility that don't necessarily lend themselves to a neutral host owner like ourselves. A tenant in an office building can set up their own system, or an office building can own their own system. There is a lot of different variations.

And then, there is a limitation in the marketplace still, as to what the carriers will ultimately elect to pay for, in terms of rent. As we have said forever, and we all know this, there is more need in the market for a densification in network than there are hours in the day or capital that the carriers can invest. So, there is a rational prioritization going on.

I think you are certainly seeing this extend to healthcare facilities now, and so we are certainly looking at the indoor business. We are there when we find it attractive, but I don't think it is as large as the outdoor business.

Brett Feldman - *Goldman Sachs - Analyst*

Great, thanks for that color.

Operator

Michael Rollins, Citi.

Michael Rollins - *Citi - Analyst*

Good morning, and thanks to ask the questions -- two, if I could? The first observation is that you added more nodes onto a relatively flat amount of fiber miles. Is that a trend that should continue, and how does that affect your return on capital opportunity from that business over time?

And then secondly, I'm curious what you are seeing on the propagation side for small cells, and how would you compare the radius of a small cell in your experience versus the macro, and are there changes in technology that is going to affect that relationship over time? Thanks.

Jay Brown - *Crown Castle International Corporation - CFO*

On your first question, Mike, you are pointing out a good observation there. You're right, miles of fiber were relatively flat, and we added nodes against that fiber miles, which is exactly co-location. I mean, that's the business that we are in, and why we're interested and like the tower business, and why we like the small cell business. You have an asset investment, against which you add additional recurring revenue, and that drives the long-term yield on that invested capital, and that is the model we're seeing play out.

As Ben and I referenced in our comments, we've seen really attractive lease-up activity on the fiber that we own today, and that's driving additional nodes against a set number of miles of fiber. We're going to continue to see that, as well as continuing to make investment as we build new systems, and that is the driver of our activity at the moment.

On the second question, the propagation characteristics of the small cell -- there is no simple answer to that question or one-size-fits-all answer to that question. It's designed based on what the carriers desire. And so, you can go into a given area and find a small cell every 100, [200] yards where they are trying to really increase the density of their network. At other places, you will see them spaced a little further than that.

There is no easy answer to say that the propagation of a small cell -- it has to do with what spectrum they deploy across that small cell, how much power they use. So, it can vary. I would say in a typical urban environment, you're going to cover about a block to two blocks of area when you deploy -- when the carriers deploy small cells. So, we'll see them put up nodes about every other block would be a relatively normal deployment in a dense urban area.

If you look across the entire portfolio on an outdoor basis, we are typically, when we're building a new system for someone, we'll be somewhere between 2 and 2.5 nodes per mile of fiber on the initial deployment. That gives you some idea of what we see. Obviously, there can be some pretty wide swings depending on whether or not we're doing a central business district or doing something a little bit outside of the most densely populated areas of the city.

Michael Rollins - *Citi - Analyst*

Thanks very much.

Operator

Philip Cusick, JPMorgan.

Richard Choe - *JPMorgan - Analyst*

Hi. This is Richard Choe for Phil. I just wanted to follow up a little bit more on small cells. We wanted to get a sense of what competition is like in small cells. How many RFPs are competitive, and how its pricing held up.

Ben Moreland - *Crown Castle International Corporation - CEO*

Yes, hey, Richard, it's Ben.

It's very competitive, and we are the leader in the space, and we believe we have more capability for what we term turn-key deployments, which is all-in building systems locating the antennas on fiber that we build. But at the same time, there are other very capable competitors out there, and we see competition in the marketplace. It goes back to my original comments about cost of capital matters in this business. That's something we focus on.

I'm not going to really get into specifics around the market. A lot of these systems are conducted through an RFP process initially. At the same time, what matters most to carriers, obviously, is the ability of the award winner to execute.

We have seen opportunities come back to us on occasion, where the awardee may have had some challenges in the market. What matters most to carriers, if they have a need for small cells, is execution and meeting your milestones, getting on the air so that they can accomplish the capacity enhancements that they are trying to do on their network. So, I think that is probably all I will say on that. It is a highly competitive market these days.

Richard Choe - *JPMorgan - Analyst*

Great. A quick follow-up: In terms of your guidance, should we think of the small cell business just ramping through the year, or is this going to be more back-end loaded as the builds kind of pile up, so to speak.

Jay Brown - *Crown Castle International Corporation - CFO*

On both the towers and small cell side, the year is a bit back-end loaded. It is about 40% of the activity in the first half of the year and about 60% in the second half of the year.

Richard Choe - *JPMorgan - Analyst*

Great, thank you.

Jay Brown - *Crown Castle International Corporation - CFO*

You bet.

Operator

Jonathan Atkin, RBC Capital Markets.

Jonathan Atkin - *RBC Capital Markets - Analyst*

Yes, so, I have a question about the push-out of the non-renewals, and wondering which projects that refers to. Is it YMAX or iDEN or one of the two CDMA decommissionings that has been happening?

Then, just generally in your macro tower business, wondering what new developments you're seeing in your pipeline as it pertains to things like EWS 3 overlays or macro site densification? And then, I'll have a quick follow-up on small cells. Thanks.

Jay Brown - *Crown Castle International Corporation - CFO*

Yes, on the first question, the push-out around churn, we hesitate to comment specifically on what carriers are doing, and so I think I will pass on that. It comes from several sources, Jon. It's not one single source.

We updated, as you probably have seen in the supplement, our expectation for churn for the next several years. That is in aggregate.

I would not say we're seeing anything at this point that I would point out as changing our overall view of those non-renewals. I think we've been pretty specific in the past about the amount of consolidation churn or non-renewals, and what was driving that. Our underlying assumptions are basically intact for that, today.

The second question on the tower side, we are seeing carriers do all kinds of things on the macro side. There's densification activities. There's amendments. There's adding new technologies. There's deploying additional spectrum that we have seen. And the mix of both amendments and new cell and brand new cell sites in 2016 is pretty similar to what we saw in 2015. So, we're not seeing any trends here that I would point to as changes from what we saw in 2015.

Ben Moreland - *Crown Castle International Corporation - CEO*

Just to add to that real quick -- Jon, just real quick to add to that, as we've pursued the small cell business, and we've talked about it on this call and remain very enthusiastic about the opportunity. Again, the first thing a carrier does to add densification is macro tower sites. And everywhere we are building small cells, there are macro tower coverages already there.

If you were stand on the street corner where we have a deployment, you would already have a macro site covering, keyword covering, that geography. So, we are building small cell networks, essentially an underlay approach, to add capacity to these networks. Certainly, the macro tower site is what happens first, and that is continuing to be what we see on the tower side.

Jonathan Atkin - *RBC Capital Markets - Analyst*

And then, I guess, segueing into small cells, is there a different mix of demand you're seeing in terms of which carriers are coming onto your infrastructure?

And related to that, and related to what Mike was asking as well is, of the nodes that you expect to add this year, how much would be along existing fiber [that have] been activated with your infrastructure? Second or third tenancies, if you will, along the same route versus new laterals that have not been activated with your [DAS] infrastructure?

Jay Brown - *Crown Castle International Corporation - CFO*

On the first question, when we go into any given year, there is an expectation we have around ranges for each of the carriers. I would not point to anything in calendar year 2016 that looks that much different than what we saw in 2015.

We're seeing activity on both the macro side, as well as small cells, from all four of the operators. We saw that throughout 2015, and we would expect the same thing in 2016.

On the mix of leasing in small cells, it's about a 75% mix of where we're deploying brand-new systems in places that we did not previously have small cell systems, and about 25% of the leasing activity would be coming from co-locations on existing systems.

Jonathan Atkin - *RBC Capital Markets - Analyst*

And then, finally, on the CFO search, any particular criteria that you are looking for, in terms of the background of the individual you're looking to hire?

Ben Moreland - *Crown Castle International Corporation - CEO*

Based on some initial conversations, I think we can attract extremely seasoned and qualified candidates. So, we are very optimistic there of, this spring, having a great new addition to the team, and more to come on that.

Jonathan Atkin - *RBC Capital Markets - Analyst*

Thanks, good luck.

Jay Brown - *Crown Castle International Corporation - CFO*

Thanks, Jon.

Operator

Amir Rozwadowski, Barclays.

Amir Rozwadowski - *Barclays Capital - Analyst*

Thank you very much. Good morning. I certainly want to echo the comments, Jay and Ben. Wish you the best of luck as you look to make, what I suspect we all hope will be an exciting transition for you and your family.

In terms of questions, I have two, if I may. On the first, you mentioned some of the upcoming spectrum that seems to be coming to market. Obviously, there have been select carriers who have talked about the opportunity set, in terms of providing additional bandwidth with the deployment of fallow spectrum. But there have also been discussions about how networks are dense enough and have additional capacity.

And I'm trying to triangulate, in terms of the opportunity set for you folks. Do you see those types of carriers looking to densify their networks? How should we think about the potential amendment opportunities going forward with things like AWS-3, in terms of providing support for that longer-term runway?

Ben Moreland - *Crown Castle International Corporation - CEO*

Sure. I think what you are referring to, Amir, is the inherent trade-off, that is, between spectrum and densification, i.e, to the extent you have more spectrum, you can do more with your existing sites and would then delay the need to densify in a particular area if you otherwise didn't have the spectrum. That is true, and yet what we see is all of the above.

As the carriers come in and launch new spectrum to get maximum efficiency out of that very expensive spectrum, they are typically adding more equipment to the existing sites. That just makes sense. The cost of that incremental amendment on a tower is nothing compared to getting the maximum value out of that spectrum in that particular geography. That is what is driving a lot of our amendment activity across all of the carriers, and has for years. I don't see that changing.

In addition to that, you're not going to cover the capacity requirements simply by adding spectrum to existing sites. It is just mathematically impossible. You can't get the capacity requirements that are required.

What happens is, in addition to adding that spectrum on the existing sites, you're then seeing small cells added in an underlay approach, which gives them multiples of that spectrum capacity, because they're then reusing that spectrum in that geography and unloading -- effectively unloading the capacity challenge on the macro site.

You're going to see both. It's exactly what's driving our Business today. The carriers are obviously being very rational about how do they prioritize their spend, and they're looking at spectrum auctions and having to pay for the spectrum upfront, and then, how do they maximize that capacity over time? And then, various carriers are in various stages of that today, whether that's cell site densification or macro site amendments, but all of that drives our Business, and it's something that we think is going to continue for a long, long time.

Amir Rozwadowski - *Barclays Capital - Analyst*

Thank you very much.

Dovetailing onto small cells, it seems as though the growth has been a bit higher than expected. But of course, it also seems like we are still at the very early stages of adoption, particularly when we think about a neutral hosting business model.

There has been some chatter in the marketplace with folks discussing opportunities to densify their networks going at it alone, in terms of utilizing certain technologies or potentially possible rights of access or microwave backhaul or however you want to look at the combination of different opportunities. How do you compare and contrast the opportunity set that you folks have utilizing assets such as Sunesys or some of this land grab that you had mentioned versus carriers looking to potentially densify their network by small cells on their own strategy?

Ben Moreland - *Crown Castle International Corporation - CEO*

I think you're going to see all of the above. It is not new. If you think about it, wireless carriers essentially rebuilt the tower portfolio on their own balance sheet since we, as an industry, acquired them in the early 2000s, and then elected to monetize it over time in the last three years.

I think carriers will, from time to time, experiment with lots of different methods to add capacity to their network. That's not new. It goes back to the earlier comments, and there's a lot of different technology variations. I think it's generally accepted that fiber connectivity, for small cells and towers, ultimately through dark fiber connectivity, provides the most flexibility and the most capacity for a given location. I think you are going to see, over time, that fiber, whether you're talking about fiber to the cell or fiber to the small cell, is a necessary element long term to accomplish what they need.

It goes back to the earlier comments on this call around cost of capital and the sharing model. Certainly, it's possible for carriers to work and build their own systems, and certainly free to do that and operate under the same constraints that we do around permitting and zoning and rights-of-way and things like that. To the extent they can avail themselves of a lower cost of capital, allow themselves to put their capital back to work in their primary business, and we pass along some of that shared economics to them in that construct, that is going to make a lot of sense, as it has for the last 20 years, and that is what we are pursuing.

Amir Rozwadowski - *Barclays Capital - Analyst*

Excellent, thank you very much for thinking about the color.

Operator

Simon Flannery, Morgan Stanley.

Simon Flannery - *Morgan Stanley - Analyst*

Great, thanks very much. Ben and Jay, congrats, and good luck on your next moves.

Ben, I wonder if you could just talk a little bit about your new role. I guess you're going to have a real focus on strategy. How do you see spending your time? And what are the real areas that you think you're going to be able to dive deeper into with your new responsibilities?

And then following up from the last question, Verizon has talked a lot about 5G with trials coming up in the next month or two. Microwave frequencies are going to be deployed there. Have you had much conversations with companies, and with the equipment companies, about the opportunities there, and what that might mean over, say, the next 5 or10 years? We saw fixed wireless launch yesterday, so it does look like there's other technologies which are really starting to appear on the horizon here. If you could talk to that, that would be great.

Ben Moreland - *Crown Castle International Corporation - CEO*

First of all, on the role, Simon, we are filling out the list, but it keeps getting more items on it. I think, initially, I am going to certainly continue to spend time on industry matters, whether that's through PCIA or NAREIT. I am on the Board of both organizations, and we are making some good progress there in the interest of our Company, as well as the broader industry, and I expect to continue in that capacity.

Also, I would expect to continue to work with the executive team on matters of strategy, capital allocations, some of the discussions we have had on this call, but would anticipate that given the longevity and tenure of this team, this executive team, and Jay in particular, having worked together for 17 years, and can finish each other's sentences, I do not think we are going to have a difference of opinion very often on strategy. So, it's really going to be a bridge to the Board and to industry matters that I think are increasingly important for us as we look to continue to have the ability to deploy wireless infrastructure in a very efficient way across the country. For those on this call, that is not getting any easier, so it's something that I'm pretty focused on.

Simon Flannery - *Morgan Stanley - Analyst*

Any movement from NAREIT on index inclusion?

Ben Moreland - *Crown Castle International Corporation - CEO*

Nothing definitive yet. We will wait until August when we have our new GICS code and see how that goes.

Simon Flannery - *Morgan Stanley - Analyst*

Thank you.

Jay Brown - *Crown Castle International Corporation - CFO*

Simon, on your second question, I think you can roll back the clock and see that, as the carriers have migrated technologies, those have almost always been aimed at improving the consumer experience which, is generally code for faster and faster access to data networks. Those have always resulted in additional need for network density.

I think, regardless of -- you rattled off a few opportunities there that are on the horizon. We're seeing the carriers behave and think about the network planning whether we're talking to them about macro sites or small cells in a very similar way that it's going to result in additional network density being required. We think that is great for our opportunity -- our opportunity, as we deploy capital, and see additional yield on the capital that we've already deployed.

Simon Flannery - *Morgan Stanley - Analyst*

Great, thank you.

Operator

Colby Synesael, Cowen and Company.

Colby Synesael - *Cowen and Company - Analyst*

Great, thank you for fitting me in, and to both of you, congrats with your new opportunities.

First off, I wanted to just level set expectations around Sunesys. So, can you just remind us how fast Sunesys grew in 2015?

And then, what the implied growth rate is off of the $105 million which you've guided for, for 2016. I appreciate that Sunesys contributed $42 million to you in 2015, but I'm just trying to get the year-over-year comparisons.

And then, just talking more about small cell, you've mentioned your focus on 25 markets, and obviously looking beyond that. In those 25 markets, roughly how many of those is it where you are comfortable with the amount of fiber that you have?

And really what I am getting at is, what's the likelihood of you going and doing another Sunesys-like acquisition in 2016? How important is that to you when you think of strategy in areas you are focusing on for 2016?

If that acquisition you were to do was to come with a larger percentage of enterprise or wholesale or, said differently, not small cell-like business, in terms of how they are using that fiber, is that a business you are increasingly getting more comfortable getting into as we go forward, so that you are no longer just a small cell fiber provider, but really something much more broader than that? Thanks.

Jay Brown - *Crown Castle International Corporation - CFO*

Sure. Thanks for the questions, Colby.

On the first question, when we did the Sunesys acquisition, I know initially when we announced it we were not sure exactly what the timing of the closing was going to be. The revenue growth year over year is a couple of million dollars, so the guidance we gave you was what we were expecting in 2016.

And really, your two questions are fairly closely tied together. When we looked at fiber in these markets and the opportunities that we're seeing more broadly than just Sunesys, and whether that is expanding our portfolio on a top 25 market, or as Ben referenced earlier, if we are looking

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outside of the top 25 markets, our aim is to own fiber that is supportive of the wireless carriers. That is our core business, and that is what we are focused on.

When we look at opportunities for fiber, that is what we have in mind is, what can we do with that fiber, ultimately to drive yield on the capital invested? And we think that yield is going to be primarily driven through investment by the wireless carriers, and that's adding nodes to those, or, in some cases, doing fiber to the cell.

There may be some acquisitions in the future, although, frankly, as we talked about when we did the Sunesys acquisition, we think that asset is really unique. It was dark fiber in major metro markets in the US. While we have found a few tuck-in acquisitions, like the one we did a few years ago in the Baltimore/Washington area; those are relatively rare.

We are not thinking about this as getting into per se the fiber business or expanding into the fiber business. Over time, we may find opportunities to add additional yield through recurring revenue sources across the fiber that we own, because of the location of the fiber; it's in urban areas where there's a lot of density of population.

We may find opportunities to add additional revenue and drive return. But our focus, both on the investment side as well as where we are focusing our sales efforts, is around supporting our wireless carrier customers. That is what we really want to do and what we want to be. That is where you are going to see us invest capital, and focus our time and effort, both in the near term and what we believe currently will be the long-term strategy of the Firm.

Colby Synesael - *Cowen and Company - Analyst*

Just to clarify, when you said Sunesys expectations, you grew a couple of million. Are you saying that the $105 million guidance for 2016 is effectively a couple of million higher than what Sunesys did as a whole in 2015?

Jay Brown - *Crown Castle International Corporation - CFO*

That's correct. Obviously, we did not own Sunesys for the entire 2015 period, but that is what it grew year over year.

Colby Synesael - *Cowen and Company - Analyst*

Great, thank you.

Jay Brown - *Crown Castle International Corporation - CFO*

I appreciate everybody's time on the call this morning. Thanks for the questions. I know there was a long list here, and there were several folks who we probably did not get to. We're around today, so feel free to pick up the phone and call us, or you can reach out to Son Nguyen, and we're happy to get to your questions. Look forward to talking to you next quarter.

Operator

That does conclude today's call. Thank you for your participation.
