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PRESENTATION

Operator

Good day, and welcome to the Crown Castle Q1 2019 Earnings Call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Mr. Ben Lowe. Please go ahead, sir.

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

Thank you, Cody, and good morning, everyone. Thank you for joining us today as we review our first quarter 2019 results.

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

To aid the discussion, we have posted supplemental materials in the Investors section of our website at crowncastle.com, which we'll 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, April 18, 2019, 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 Investors section of the company's website at crowncastle.com.

So with that, let me turn the call over to Jay.

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

Thanks, Ben, and good morning, everyone. We delivered another great quarter of financial results, reflecting the significant demand for our shared infrastructure assets and the terrific execution by our team. Given the positive momentum we continue to see in our towers and fiber results, we are investing in our business to generate future growth while delivering dividend per share growth of 7% to 8% per year. With our strategy and unmatched portfolio of more than 40,000 towers and approximately 70,000 route miles of fiber concentrated in the top U.S. markets where we see the greatest potential demand growth, we believe we are uniquely positioned to translate growth in data demand into growth in cash flows and dividends per share. As the volume of data delivered by both wireless and wired networks continues to grow, our customers are increasing the capacity of their networks by leasing additional access to our tower and fiber infrastructure assets, which in turn generates growth in our cash flows.

As you can see in our 2019 outlook, this positive backdrop is resulting in higher levels of new leasing activity across all of our assets.

On the tower side of the business, our customers are improving and densifying their networks by adding more equipment to existing leases and adding to new leases on our towers. The higher levels of tower leasing we experienced in the back half of 2018 has continued into this year, affirming our expectation for an increase in tower leasing this year as compared to 2018.

With regards to fiber and further highlighting the strong demand for our infrastructure, we expect to nearly double the number of small cells we deploy in 2019 after installing a record number of small cells last year. Our strategy has positioned us to take advantage of the increasing activity by our wireless customers as they respond to the continued growth in data. To this end, we are excited about the significant investments we are making to build new fiber assets as we pursue this expanding small-cell opportunity. By focusing our investment in high-capacity fiber across the top markets where we see the greatest potential demand for small cells, we believe we are extending the potential long-term growth in cash flows and dividends per share. Our fiber strategy utilizes the same playbook we used with towers by sharing the asset across multiple customers. With our leading capabilities in fiber solutions, we have the ability to increase the yields on our fiber investments by growing cash flows from both small cells and fiber solution customers that require access to the same high-capacity, dense fiber asset in the top markets of the U.S. By sharing a common asset across a larger customer base, we are able to provide each of our customers with cost-effective access to the critical infrastructure they need while generating significant value for our shareholders over time as we lease our assets and generate cash flows.

Consistent with our expectations, we continue to see very attractive returns on small-cell investments with initial yields of 6% to 7% for the first tenant. And similar to towers, we are seeing demand for multiple tenants on the same asset, in this case fiber, resulting in high incremental margins that increase the returns above our cost of capital on the second tenant with additional upside as we add more tenants over time. To date, we have invested approximately $13 billion of capital to establish fiber footprints in prime locations across the top U.S. markets where we see the greatest long-term demand. These investments are already yielding 8% and have significant available capacity to further increase the return as we add new small cell and fiber solutions customers.

While those returns are great and justify the investment, I get even more excited when I consider how early we are in the digital transformation of the U.S. economy and in the critical role our infrastructure will play. The current demand environment is largely tied to our customers investing heavily in their 4G networks to keep pace with the 30% to 40% annual data demand growth from existing technologies while the investment in 5G is just getting started. Recent commentary from the White House and FCC that they are committed to ensuring the U.S. wins the race to be the world's leader in providing 5G underscores our belief that the U.S. is the best market in the world for infrastructure ownership. We believe 5G has the potential to significantly increase the demand on communications networks by moving beyond simply connecting millions of people to potentially connecting billions of devices in the future.

The size of the opportunity will likely attract significantly more investment in networks over time from both existing operators as well as potential new entrants that will require access to network infrastructure at scale. While we continue to underwrite our investments to attract -- to generate attractive shareholder returns based on existing applications and technologies, we believe the network infrastructure needed to support 5G will dramatically increase the demand for our tower and fiber assets over time.

It is truly an exciting time in our industry. And in many ways, it reminds me of several other points in time over the past 2 decades as we are currently benefiting from the significant ongoing investment in today's networks while also looking forward with great anticipation of what lies ahead. How exactly the investment in 5G ultimately transforms the way we live and work is yet to be determined. But if past is prologue, I suspect most are underestimating the magnitude of the change and the corresponding opportunity for us. With our unmatched asset base and expertise, I believe Crown Castle is in a great position to play an important role in the next chapter of this industry.

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

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

Thanks, Jay, and good morning, everyone. As Jay discussed, we delivered another quarter of solid growth, and we remain excited about the positive long-term industry fundamentals that are creating significant demand for our unique portfolio of communications infrastructure.

Turning to Slide 4 of the presentation. You can see we had a great quarter with site rental revenues increasing 6%, adjusted EBITDA increasing 8% and AFFO increasing 9% when compared to the same period a year ago.

Turning to Page 5, we are maintaining our full year outlook for site rental revenues, adjusted EBITDA and AFFO. At the midpoint, the expected organic contribution to site rental revenues from 2018 to 2019 represents approximately 6% growth year-over-year compared to 5.6% for full year 2018. The higher expected growth this year is driven by higher levels of new leasing activity for both towers and small cells with consistent year-over-year contribution to growth from fiber solutions. It's worth highlighting that historically speaking, the second quarter represents the low watermark with respect to quarterly AFFO during the year. This is primarily caused by certain seasonal expense items that tend to be higher in the second quarter relative to the first quarter, including cash taxes and repair and maintenance expenses, which impacts both sustaining capital expenditures and operating expenses.

From a balance sheet perspective, we continue to improve our financial flexibility. In February, we issued $1 billion of unsecured notes with 10- and 30-year maturities, utilizing the net proceeds to repay outstanding revolver borrowings. By taking advantage of favorable market conditions, we were able to proactively lock in attractive long-term interest rates and extend the weighted average maturity of our outstanding debt to approximately 6.5 years.

Additionally, following the close of the quarter, we established a $1 billion commercial paper program that we intend to use as a short-term funding source. This program provides a potentially lower cost option relative to our revolver while increasing our flexibility by tapping into another pool of capital. As we have previously stated, we intend to finance the business with approximately 5 turns of leverage longer term, consistent with our commitment to maintaining our investment-grade credit profile.

So in closing, our first quarter results were in line with our expectations, and we believe we remain well positioned to generate approximately 7% growth in AFFO per share in 2019.

Looking further out, we are excited about the current investments we are making in new assets that we believe will extend the long-term opportunity to generate compelling returns for our shareholders with a combination of dividends and growth.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

We'll take our first question from Simon Flannery with Morgan Stanley.

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

Turning to the small cells, you talked about the increased pacing in the small-cell build this year. Perhaps you could just get into a little bit more detail about where you are on that trajectory in the 10,000 to 15,000 range. What specifically is happening to help you achieve that? And any more color you could provide on how the lease-up of the initial build is going?

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

Simon, on your first question, we're on pace as we talked about to be able to put the number of small cells on air this year of about double what we did in 2018. That activity is ramping through the course of 2019, such that by the end of 2019, we think we'll put about double the number that we had in '18 on air. It's going as expected. We had -- obviously, this represents -- given the time line to build these of 18 to 24 months, this is the culmination of work that's been ongoing for some period of time, so we've already built the organization to be able to handle that level of activity, and a lot of the activity required in order to get that many small cells on air has taken place in past periods. So we feel pretty good about where we are.

On the data points around what we're seeing with lease-up, consistent with what we've been talking about over the last couple of years, we're continuing to see proof points in a number of different markets where we have acquired fiber from whether it's FiberNet or Lightower or other acquisitions that we've done over time, we've seen that fiber begin to lease-up for small cells. And then the assets that we have built, specifically for small cells, we've continued to see lease-up on those assets that's in line with our expectation of being able to exceed our cost of capital with that second tenant and then continued upside as we share the asset across customers into the future.

As we've talked about and I think this is reflective of our results, given the opportunities that we see in small cells to invest further capital, a significant portion of the activity that's ongoing for small cells is the continuation of building new assets or immature assets. We're putting those on air at somewhere in the neighborhood of about a 6% to 7% initial yield on invested capital. And given the opportunities and the data points that we've seen that these assets are going to lease up over time when we build them in the best markets, we're continuing to expand and grow the pie.

So whether it's margin expansion or return on capital, we're basically constantly diluting the legacy mature portfolio -- maturing portfolio with new assets that come in, in that 6% to 7% initial yield and lower margins than assets that have been on air for quite a period of time. And given the scale with which we're doing the new activity and expanding our footprint, that has a far more significant impact to our financial results, frankly, than the lease-up does.

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

And how do you think about expanding -- you talked about best markets, but going beyond your existing markets to newer markets, is there any opportunity there?

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

Well, the vast majority of the activity would be focused on the top 30 markets currently in the U.S. That's the focus of the wireless operator. So the vast majority of our capital is we're supporting them and building for them. It's really focused on those top 30 markets. Based on both their public comments and some activity that we've seen, we think this is going to go well beyond the top 30 markets and be impactful to at least the top 100 markets. And if the returns stay where -- based on what we have seen in the top 30 markets, we're happy to continue to follow them in the markets beyond the top 30.

But at this point, the vast majority of our capital investment would be focused in the top 30 markets, and that would go for both the nodes that we have on air as well as nodes that we have won and are under contract and we're in the process of beginning to build that will come on air over the next couple of years.

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

And just to follow up a little bit on that. Jay said if the returns are there, we're going to continue to invest in the other markets as we continue to push out small cells and our customers do. But as we've said for a while now, we don't see a huge opportunity for acquisitions to help us down that path. We think most of that will be organic type of build in those markets. We may see some tuck-in acquisitions, but the majority of what we see is the new build will be through spending our own capital and building out new assets.

Operator

And I'll take our next question from David Barden, Bank of America.

Joshua Matthew Frantz ***BofA Merrill Lynch, Research Division - Associate***

It's Josh in for Dave. Just a few, if I could. Can you break down the growth in the quarter within fiber solutions and the small cell part of the fiber segment and maybe any drivers there and then the growth you're expecting within those pieces for the year? And then is there any seasonality within small cells when you can actually put nodes up winter over summer, something like that, that we should be aware of?

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

So taking that first question -- Josh, thanks. The breakdown of revenue in the quarter is similar to what it has been historically between fiber and small cells at about 75% fiber and 25% small cells.

Importantly, though, as we look out over the course of 2019, consistent with keeping our guidance very similar, where we are is -- where we were before is that the growth in small cells we anticipate to be between $70 million to $80 million in new leasing activity. And on the fiber side, it'll be between $160 million and $170 million, which is consistent with what we said previously. So we see the growth rates be very similar to what we have been expecting.

With respect to seasonality, there's nothing that's really seasonable -- seasonal about deploying small cells. It really comes down to when we can get everything through the municipality's permitted zones and then constructed. And that, as Jay pointed out earlier, takes 18 to 24 months on average. But that can range beyond 18 on the low end and beyond 24 on the high end, so it really just depends on when all of that gets done when small-cell nodes get put on air.

Joshua Matthew Frantz ***BofA Merrill Lynch, Research Division - Associate***

And is there any drivers in the fiber solutions side that you could call out in terms of growth in the quarter specifically?

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

No. I think as Dan mentioned, as we look at the calendar year 2019, we have the same expectation for how the year will play out as we did previously. And I wouldn't point to anything seasonal in that business.

Operator

We'll now move on to Brett Feldman with Goldman Sachs.

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

As we look at full year guidance, you obviously implying that there'll be acceleration. You had 5.7% organic contributions to growth this quarter, and I believe the midpoint on average for the year is at 6%. I'm just curious as we think about what drives the acceleration, I would guess it was probably ramp in small cells. But if there's more nuance, color you can provide on that, that would be very helpful.

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

Well, I think we've got acceleration happening across the business, Brett. If you look at our numbers, as Dan just mentioned, year-over-year, we're expecting about $15 million more of new leasing activity on towers as compared to 2018. And on the small cell side, there's about $20 million more, so that's impacting the fiber segment. Year-over-year, the growth numbers on fiber solutions are masked a bit by the acquisition activity, but there's meaningful more revenue from fiber solutions in calendar year '19 compared to '18.

But I wouldn't point to necessarily another acceleration beyond what we've talked about here. As we look at the full year, it's up meaningfully from 2018 towards the elevated end of what we saw at the end of 2018, in fourth quarter results, and we're seeing that kind of activity continue into 2019. We do think -- as I made the point in my comments, we don't think this is a short-term change in the activity given what's happening in the landscape and the focus of the carriers of continuing to deploy for 4G given the growth they're seeing in data networks. We think we're in a period of time where we're going to see some sustained, maybe elevated levels of tower leasing activity and drive towards small cells.

And then the long-term aspects of that, we think, is at least extending the runway of growth in the business as the next leg of technologies and opportunities are on the horizon.

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

Got it. If I could just follow up on something that you were talking about earlier. I think you had said that the small-cell deployments you had targeted for this year was in scope of what you were logistically capable of doing. And I'm curious, do you think you're sort of at a run rate in terms of level of small-cell deployments just because that means you're finally getting some operating leverage in business if you're not scaling up your G&A anymore?

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

Yes. I think if the level of activity were to stay similar to what we're going to undertake in 2019, then yes, we've scaled the organization to be able to do that, and we'll see the benefit of operating leverage there. As I would think about operating leverage, the vast majority of margin expansion in our business -- you can look at the tower model and see the same dynamic. The vast majority of the expansion of margin happens as we have a stable asset base and then we add tenants to that stable asset base over time, and then you see a really steady growth in margins.

In the case of small cells, given the amount of activity that's really related to expanding the portfolio, even though there are components of the portfolio from years ago that we had built, that's relatively small compared to the amount of new activity that's coming on where we're building new markets. And therefore, the margin expansion or the leveraging of the cost structure, in essence the asset base, you don't see that reflected in the margins as quickly as what you do or as directly as what you do on the tower side. We're seeing it in pockets as we look for data points to test our assumptions, to see whether or not the business is developing as we would expect. But I think we're going to continue to see margins -- it won't expand as quickly on the fiber side as we continue to put -- as I've discussed earlier in the call, continue to put immature assets into the mix. Those new assets have lots of growth potential. But initially, they basically dilute the margins down.

Operator

We'll now move on to our next question from Jon Atkin with RBC.

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

So real quick on MLAs, I wondered if you could maybe just sort of review for us of your MLAs that kind of encompass macro towers, how many are holistic arrangements where your revenue growth is mostly fixed irrespective of tenant activity level versus framework agreements where your revenue growth kind of flexes in relation to leasing activity? And then maybe in addition on the MLA topic, how many include small cells as a component of that?

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

Yes. Jon, on the first part of your question, we -- as you know, we are very hesitant to talk about the kinds of contracts that we sign with customers and who those customers are. So I'm going to kind of -- I'll beg off of your question, I think, in terms of the specificity with which you're asking it. I think as you look at our leasing activity, though, more broadly, the mix of activity that's driving new tower leasing on the tower leasing side is about 50% is new installs on existing assets and then about 50% is amendment activity. So in terms of revenue -- incremental revenue growth that we're experiencing across the portfolio, that's the drivers.

From a pricing standpoint, as we agree with customers around what the activity is going to look like on how we price that, the majority of the activity that we see on the tower side, both for new installs as well as amendments, we've agreed with our customers around what the price component looks like. So they'll come back and tell us how many antennas or lines or other things or space they need at the base of the tower, and we would have agreed a fee schedule with them that would cover basically all of the assets. But each of the customers, depending on the spectrum bands that they're using, the markets that they're using, there would be varying levels of commitment on the tower side as to how much activity they've committed to related to that, but the pricing has been mostly fixed.

On the small cell side, we really have not done that in any way with the wireless operators. Those contracts, as we've talked about on past calls, it's highly dependent upon the cost structure of the asset by market. So while in towers, there's a national -- there's, in essence, a national pricing schedule that we can agree with the carriers, we've got to get very granular on the small cell side to understand the mix of aerial versus buried fiber, the regulatory fees or processes in a given market. And that can change pretty dramatically what the pricing schedule is with the carrier depending on the market and where in the market their desire is for small cells. So there's not a way to do that easily on a national basis, so we basically need to go market-by-market and agreed pricing at that level.

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

Can you -- just as a corollary and you can maybe answer it later in the call if you don't have it handy, but a year ago, what was that mix that you indicated for this most recent quarter between new installs and amendments? And then kind of further down on the small cell question, can you maybe give a sense to the pipeline and how concentrated it is by customer? Is it like 30-30, 20-20 or 40-30, 20-10? Or how would you kind of characterize the diversity of the demand?

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

Yes. On your question about a year ago, maybe Dan or somebody can grab that number, but I believe it was about 60% amendments, 40% new installs. We were between 60% and 65% amendments over the last -- really longer than a year ago, we could go back probably 24 to 36 months, and it was pretty steady where about 2/3 of the activity was being driven by amendments and 1/3 by new installs. So we've seen a little bit of an increase in new -- first-time installs relative to amendments in more recent periods.

With regards to the pipeline, we're continuing to see activity across all 4 of the wireless operators, so there's a good mix of small-cell activity from all of the operators. And it varies by market as to what their focus is, but we've got significant activities underway from each of the big 4.

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

And Jon, as we have disclosed historically, we're about 65,000 small cells on air and under development, and that was true at the end of last quarter. It's true again at the end of this quarter. It's just moved a little bit from -- what we said last quarter was about 50-50 between on air and under development. Now we're about 35,000 on air and 30,000 under development or in the pipeline. As we put more nodes on air and didn't have substantial bookings in this quarter, but that was not unexpected just given the pace of bookings that we had through last year, and sometimes they are lumpy. So it doesn't speak to any change in activity levels or what our expectations are going forward. It's just a shift right now between on air and under development.

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

And the last one for me. I think you alluded to it in the question Josh asked. But e-rates and kind of seasonality sounds like you didn't really see much, but I wondered if you can sort of confirm that. And then what's the competitive dynamics for e-rate? Is it basically highly competitive or less so and very much dependent on your routes?

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

Yes. I would say the same thing as I did to Josh about the seasonality. There's some seasonality as those contracts come up and schools look at what their fiber needs are going to be for the next school year. Depending on the timing at which they do that, there can be some seasonality in that. Given the size of our business though, that's really a very small component. So while some elements may have a little bit of seasonality to it, I think at the overall, it just does not impact the financial statements.

Similar -- on your competitive question, similar to what we've seen in all of the infrastructure businesses, having assets in the right location is most of the time what drives the answer to how competitive a space is. And the same thing is true in fiber. So generally speaking, there are a limited number of providers who can provide high-capacity, dense urban fiber. And depending on where our routes are and where our fiber is, we're going to have a high likelihood of winning some of that business. To the extent that we don't, then it may be a part of the market where we're not competitive and may choose not even to bid because the economics just won't reflect an appropriate return.

Operator

We'll now take our next question from Nick Del Deo with MoffettNathanson.

Nicholas Ralph Del Deo ***MoffettNathanson LLC - Analyst***

To put a finer point on an earlier question, if we assume a reasonable growth rate and revenue share for small cells, it looks like fiber solutions revenue is flat or down sequentially this quarter, and that's after it looked like it had been flatter down sequentially 2 quarters ago. Is that correct? And is there anything we should be aware of here? And I guess more generally, can you describe your degree of confidence in the longer-term mid-single-digit growth outlook you've laid out for fiber solutions, not for 2019 which you reaffirmed, but the outlook beyond that?

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

Yes. Nick, the growth rate of fiber solutions in the first quarter was lower than what our fiber set long-term growth rate is. But we still think that -- as we mentioned and as Jay mentioned about 2019, we still think we'll get to that 5% or mid-single-digit growth rate and still have confidence that beyond that, we'll be able to make that happen. There was nothing specific that happened in the quarter. It's not something that gives us a lot of concern at all because it's just -- it's timing of when bookings happen when things go on air. It's not something that changed obviously the outlook for 2019.

Nicholas Ralph Del Deo ***MoffettNathanson LLC - Analyst***

Okay. Got it. And then Sprint has talked about having deployed almost 20,000 small cells on Altice's HFC plans. Now there are obviously puts and takes associated with using coax rather than fiber. It's probably pretty cheap to put up. If we eventually see the other cable operators strike analogous arrangements with other carriers, do you see this being relevant for your small cell business?

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

I think I would -- just stepping back, Nick, broadly. When we look at the amount of spectrum that's laying silo in the hands of operators and the spectrum that is likely to come to market over the next coming decade based on what the FCC has talked about, there's going to need to be a significant amount of deployment activities. And I suspect that both the wireless operators as well as cable companies, there may be other entrants into the market that want to have network elements beyond just who we would think of today as owning networks. And they are going to look across the board at opportunities to use infrastructure and are going to need to use a number of different types of facilities in order to deploy that spectrum.

So when I see things like what you're mentioning, I think that will be one of the elements that are used in order to fill the need for spectrum deployment. But I believe the pie is going to be so large that it's not going to be detrimental to our growth rates or expected growth rates that those kind of things are going to happen. I think it's somewhat analogous to -- so I remember back years ago when we were kind of moving from 2G to 2.5G, 3G and people were really concerned about what WiFi was going to do to our business and there were a lot of fears that WiFi was going to completely offload the need for the deployment of spectrum on towers. And the growth has more than overcome that, so the growth and the demand on the networks. And at the same time, our customers are going to look for the lowest-cost provision to deliver network resources to the consumer to meet the need. So I think what you've highlighted is one of the ways that they will look for a way to supplement their network deployments. But I think it's just one component of it, and I don't believe that will be impactful to our long-term growth rates.

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

Yes. And just piggybacking on that a little bit. As they look at -- as our customers look to deploy network as inexpensively and efficiently as possible, that's where we come in because we're able to share the asset among all of the customers and share those economics that, that is exactly the value that we bring is to be able to deploy all of that [fellow] spectrum in the most efficient way possible, which is why we're so excited about the future is that we think we have the right assets in the right places to allow our customers to meet their increasing demand over time with the least expense and most efficient manner.

Operator

We'll now take our next question from Ric Prentiss with Raymond James.

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

I want to follow up on a couple of questions, your answer back on Jonathan's question about the nodes. Jay, I think you mentioned that you want to -- you're thinking that you could do 2x what you did in '18 as far as nodes on air. Can you remind us how much you did in '18 just so we kind of have a framework?

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

We did about 7,500 in 2018, so we expect to be in the ballpark of about 15,000 in 2019.

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

That's great. And Dan, you mentioned seasonality, I appreciate that. 2Q usually is the low quarter because of cash taxes and the ability to do maintenance. Some other seasonal ones we had a question on, your services business in first quarter was really strong as far as gross margins, but the guidance as far as what services would contribute in 2019 didn't change. How should we think about -- is it that it's going to fall off in the second part of the year? Or is there something contractual or are you just being conservative? How should we think about the services business?

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

First, I just want to remind you that when we talked about fourth quarter services business, we said there was about $5 million that pushed off due to timing. So you can see that, that could have hit in the first quarter. So I don't think that we -- in our guidance going forward, we do not anticipate a slowdown necessarily. What we anticipate is a continuation of the type of activity that we see and have seen, as Jay mentioned, on the tower side. So we think it's going to be continuing activity. We're excited about it, and it really is timing is what you're seeing more than anything.

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

Okay. That makes sense. And then also there was a little spike-up in corporate SG&A in the first quarter. Is that a good run rate? Or what was going on there? Is there anything out of -- kind of unusual out of period there?

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

Yes. There were a few things that -- we're not going to call out a tick-and-tie that probably pushed it up a little bit. But the reason that we were able to maintain our guidance over the course of 2019 is we anticipate to be where we thought we were going to be last quarter, so everything we think is in line with what we had anticipated before, so nothing really substantial one way or the other.

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

Okay. And last one for me. When you think about keeping your balance sheet balanced and funding the capital program that you mentioned that you guys are excited to keep rolling out fiber with build versus buying acquisitions. How do you think about debt raising versus equity raising as far as funding the capital program? I think you said this year, it's going to be debt. But how do you think about that given where interest rates might be headed or where your stock price is at?

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

Yes. So what we look at is -- we are committed to maintaining our investment-grade rating, which we think takes about 5x leverage. So what we're trying to do is maintain that 5x debt-to-EBITDA target or close to it as we can, and which means that if we can grow our EBITDA and have sufficient leverage capacity associated with that, that can cover our capital program, then that's what we're going to do. If we then have a capital program that is in excess of our cash flows and our EBITDA leverage growth or leverage capacity growth, then we'll go out and sell equity. For 2019, what we anticipate is that the EBITDA growth will lead to leverage capacity that will allow us to fund our capital program with debt, and that doesn't change just because our stock price is somewhere or is not.

And when we look forward though, as we see more capital commitments come, we'll have to do that calculus again and determine whether the EBITDA growth will allow us to spend the money and utilize debt to spend for that capital or whether it will require some equity. But generally speaking, we're trying to minimize the amount of equity we issue, so keeping that 5x debt leverage is where we're headed. And to the extent that we get to the point where we want to sell equity or need to sell equity to maintain that 5x leverage, then we'll try to do it at the highest price possible and limit the number of shares we put up.

Operator

We will now take our next question from Colby Synesael with Cowen and Company.

Colby Alexander Synesael ***Cowen and Company, LLC, Research Division - MD and Senior Research Analyst***

Two questions, if I may. One is just a housekeeping item on CapEx. I think last quarter, you guys had indicated you expect to spend roughly $2 billion and just some of the commentary on this call seems to focus on continuing to push forward with investment, and I'm curious if that's still the expectation. And then I guess to that point as it relates to capital raising and debt and equity and all that good stuff, when I look at your debt financing that I think that you'll need for this year assuming a target of maintaining that 5 turns of leverage, even when I do that, I look at your interest expense and it seems like your guidance for the year seems low. I mean even if you take the first quarter at $168 million, that's $672 million annualized versus your guidance of $687 million to $732 million. What would drive the interest expense up to the levels that you're still assuming in your guidance?

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

On the first question around CapEx, we're not changing our outlook for 2019, so we still think that we'll be investing about $2 billion of capital in the calendar year. My comments around our desire to continue to invest are more forward looking than just 2019 and are reflective of the environment that we're seeing and the actions that our carriers are taking against the shared infrastructure that we've built both on the fiber and tower side. And we are continuing to pursue and look for opportunities on that front. And as we've mentioned, because the build schedule is so long, 18 to 24 months in most cases, to the extent that there was a change in the trajectory of capital needs, you'll see that show up in our commentary around what the pipeline is and how many nodes are to come. If that were to change meaningfully, then I think what you were trying to determine, Colby, around the trajectory and is there growth there, then we would let you know as early as we could around here's where we think the trajectory on capital spending is going to go. But for 2019, we don't need to make any changes. We think it's going to be about $2 billion in the calendar year.

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

Yes. And Colby, on the interest expense, I'm going to try to answer your question, but I'm not sure I got it completely, so jump back on and ask if I miss it. But there are a lot of assumptions that go into that interest expense forecast, including timing of debt raises, what we use on revolver, how we term it out, what the interest rate is going to be. So all of that is baked into our best guess of what interest expense will look like, and that is what is reflected in our guidance. And what I couldn't tell is whether you're asking why it was too high or too low, so...

Colby Alexander Synesael ***Cowen and Company, LLC, Research Division - MD and Senior Research Analyst***

If I look at the $168 million that you just did in the quarter and simply annualize that, you get to $672 million in the range for your interest expense guidance, which obviously impacts your AFFO. It's $687 million to $732 million. And even if I assume you raised debt with the assumption you maintain something around 5 turns of leverage, it still seems difficult to get to that $687 million to $732 million range.

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

Yes. Okay. So I understand your question. What I would say again is just it has a lot of assumptions that go into that, and that's why we give a range. We think that range is appropriate for what we anticipate our funding sources will be to pay for the capital expenditures we have in 2019.

Operator

We'll now take our next question from Matthew Niknam with Deutsche Bank.

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

On the small cell business, so I'm just curious, is the FCC small-cell order that came out late last year, is that helping you streamline the timing for deployment at least on the margin from the traditional 18 to 24 months you talked about in the past? And if not today, when do you anticipate this 18- to 24-month window shrinking over time? And then just secondly, on leasing activity, any meaningful contribution on the site leasing front you'd call out from nontraditional customers, so sort of beyond the Big 4 wireless carriers in the quarter?

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

Matthew, on your first question around the benefit of the FCC order, it has been beneficial primarily because it has given more certainty around cost and timing of navigating the local municipalities. So it has been helpful on that front, particularly in markets and locations where there was an absolute blocker that had been put up by local municipalities. The FCC order has been very helpful in starting to move some of those locations off of an absolute prohibition of getting it done. So it's been helpful on that front. As I've mentioned, though, in past calls on this topic, I would not anticipate that the timeline of building nodes would shorten considerably from what we've seen 18 to 24 months of timeline to build small cells. Even with the FCC order, there's still a significant amount of coordination that has to happen with local municipalities as we work to deploy small cells in the public right of way. And I don't see anything on the horizon that's likely to shorten that deployment schedule by a meaningful amount as I look at the nationwide average of 18 to 24 months. So I would not assume that, that happens.

From a pragmatic standpoint, the amount of activity that we're seeing in small cells as we talked about the doubling of the number of nodes that we're going to put on air, that puts tremendous pressure at the regulatory level of local municipalities to process applications and also on the utility side. So in some cases, we've seen -- while the FCC order has been very helpful, there's another long pole in the tent in terms of just sheer volume and the amount of volume that we're now trying to push through at the municipality level for application approvals and through utilities bringing power to these locations in order to get small cells on air. So the amount of activity that we have seen and have staffed up for is not -- there's not necessarily the same correlation at the local municipality and utility level to process applications. So that's certainly a challenge of the overall system. On the leasing front, you want to...

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

Yes. So the contribution of nontraditional customers, I think what we've said and we try not to talk specifically about customers is that we are seeing some demand coming from pockets other than the Big 4 carriers that is driving some of our demand right now, and it's something that we think will continue and we're excited about.

Operator

We'll now take our next question from Robert Gutman with Guggenheim Securities.

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

You said there was limited new small-cell bookings in the quarter, but I don't know if you provided the breakout of the -- I think it was $87 million of new leasing between the 3 respective segments. And I was wondering out of the small-cell backlog, not sure if you've provided sort of the breakout of what proportion are second tenant builds versus initial builds.

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

Yes. So what I was speaking to is our -- as I said before, the total number of small-cell nodes on air and under development remained about 65,000. It's just the shift happened from about a 50-50 split between the 2 into more being on air, about 35,000 on air and 30,000 under development. And that we -- what that means basically is that it wasn't a huge number of bookings in the quarter. As we look out and Jay said, there's a lot of anticipation of continuation of bookings because the pace of activity has not changed very much. And so we're excited about what the future looks like.

And part of that is because, to your second question, around what is new anchor builds versus co-location, it remained about the same, about 80% anchor build and 20% co-location or somewhere in that general vicinity because we're continuing to build out both within the markets that we have and then expanding within those markets into new geographic regions of those markets. So what we're excited about with that is all that does is provide new assets that we believe over time will be the driver of what Jay was talking about earlier of incremental margin once the asset does stabilize. So we are happy with that proportion of anchor build remaining in that 70%, 80% range. It really hasn't changed for a while now.

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

Robert, just to pick up on Dan's point, which is, I think, really helpful context to some of the things I was making comments around earlier around the continued building out of new markets in areas of the market. If you take roughly, and I'm not trying to pin the number down exactly, but if you take about 20% of the activity that we'll see in calendar year 2019 on small cells going on air, that means in the neighborhood of about 3,000 co-locations are going to happen in calendar year 2019.

If we go backwards 3 or 4 years, you're talking about well over half of the total nodes that we put on air in those years are now in the form of co-locations. So we're seeing the legacy assets that we have continue to grow the amount of co-locations that are going across them. But as we talk about scaling and continuing to, as we are in calendar year 2019 or expect to in 2019, doubling the amount of activity, that 20% of co-locations, the percentages will lie to you because the numbers are growing so large in terms of the amount of investment that we're making. But the number of proof points that we have that the co-location model is working is increasing significantly, far more than just talking about the percentages of breakout between co-location and new leasing would suggest.

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

Great. And any color on fiber versus micro tower in the new leasing number for the quarter?

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

Yes. We're not going to break that out quarter-by-quarter. Just the color is that for 2019, it remains the same at that 70 to 80 on small cell and 160 to 170 on fiber solutions.

Operator

We'll now move on to our next question from Walter Piecyk with BTIG.

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

If you have a customer on a small cell that has LTE and then they add a 5G PAL, is that an amendment or a new lease-up? And if it's an amendment, what's typically the percentage add from what they were paying for the original 4G small cell?

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

Walter, probably the best way to describe it, and this is generality because there could be cases where this answer would not be the case, so I don't mean it to be blanket 100%. But generally speaking, that would look like a brand-new tenant on the small cell system. The types of equipment that we expect to see in 5G would result in them using up another entire slot on the -- in the cabinet, and so it's likely that it would look much more like a full tenant than it would look like an amendment.

And so economically, when we talk about adding the second tenant, exceeding -- basically getting into a place where we're exceeding our cost of capital, that's the way the economics would follow, generally speaking.

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

And also...

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

So the deployment that I saw, it was basically taking a slot on a lamppost. So for sure, they were taking a slot where another carrier would have been, right? So there has to be a new lease.

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

Exactly right.

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

And it also is taking another pair of fiber. So with a lot of the capital being in the fiber, it really is based on the fact that we're utilizing that shared asset again, and that's what's driving the economics.

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

Got it. And then when we think long term in terms of trying to size the market and the number of small cells, obviously, extremely early stage at 15,000 a year. And Jay, you and I have talked in the past about whatever, a much larger number on an annual basis. What do you think we should think about in terms of a 30-foot elevation, whether it's LTE or 5G, in terms of feet or meters of coverage when we're trying to size the number of small cells that will exist in a market?

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

I think it's hard to answer that question because of the way these things, I think, will likely get deployed by municipality. How much space do they take up will be driven by a lot of local market dynamics around how many feet can you put on a different pole, how tall are their poles, what area inside of the market are they...

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

Sorry to interrupt, Jay, I meant feet of coverage, not feet on the lamppost, feet of the coverage of what the small cell reaches.

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

Probably -- I think what we're seeing today would look something like a city block in most cases is the coverage that you're getting out of it. In dense urban areas, you're really covering the streets in between buildings and maybe some in building coverage. As you get to more of the suburban deployments, you might cover a little bit more than a few hundred yards but not much more than that. That's about the limitation of what you're going to use small cells to cover.

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

Right. So a city block, I think typically, unless you're talking about the big avenues in New York, are about 350 feet? Does that sound about right?

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

It's about right -- I was just going to say it might be a little longer than that in some suburbia. But generally speaking, that's a pretty good measure.

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

Got it. And just one last quick question. In the last 6 months, have you gotten any inquiries from infrastructure investment funds for a possible acquisition of the company?

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

I'm not going to comment specifically on any potential deals out there. I think if you look at our investor mix, you've seen a couple of things over the last several years. One is we've seen more real estate investors come towards the space. I think as time has passed and we've been able to tell the story across the industry with our other 2 public peers, I think that has helped and has attracted some real estate money.

And then infrastructure funds around the world, as they've looked at various businesses, again, the other 2 public peers being able to tell the story of the nature of our business has attracted more capital. So I think as a proportion of overall capital in our firm, it's grown in terms of infrastructure investors and real estate investors.

Operator

We'll now move on to our next question from Batya Levi with UBS.

Batya Levi ***UBS Investment Bank, Research Division - Executive Director and Research Analyst***

First, can you provide an update on enterprise churns, what you're seeing there? And I believe you mentioned that you would lean towards building fiber versus buying asset. Can you provide more color on that? Is that a change in valuations or type of asset that you see available?

And on the macro side, can you remind us how much churn do you expect from the acquired networks this year? And does that all come off next year?

And one final one, tenants per tower ticked down slightly, 2.1. Is it just rounding? Anything to call out there?

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

Yes. Thanks, Batya. Again, if I missed one, just come back and ask. But on fiber solutions churn, we still anticipate it to be in the high single digits and believe that's generally where it was for the quarter.

Building versus buying fiber, that's really not anything to do with valuation. It has to do with when we look out and look at the universe of potential acquisitions, the ability to meet the criteria that we utilize for purchasing fiber has diminished over time because we've bought a lot of those assets that we were really interested in. So what we're looking for is high-capacity fiber that has a lot of density in market, in the top 25 or 30 markets in the U.S. And there are just not that many -- there are not that many targets out there that we would be interested in that meet all of those criteria. So it has very little to do with valuation and much more to do with strategic fit with our goal of putting small cells on fiber in the top markets in the U.S.

From a macro standpoint on the churn from acquisitions, we had about -- our churn is in the 1% to 2% range. It's about 2% this year. About half of that is from the acquired network churn. And we believe that most of that will be done through the course of 2020. It's just that because it happens through '19, there will be some rollover effect of that acquired network churn into 2020.

And then the tenant per tower going from 2.2 to 2.1, it really is rounding. But it also just to remind you, it doesn't take into account amendments, so it is not a real great measure of the activity we see on our towers. As we've been talking, the activity we're seeing is increasing as our customers are spending to keep up with the data demand. And that is driving significant new leasing, which is a better measure of what that -- of what the activity levels are on our tower business.

Operator

We'll now take our next question from Tim Horan with Oppenheimer.

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

I guess there's some concern out there that the small cell radiuses are not going to be big enough to kind of support the cost for the small cell or that we're not going to be able to kind of generate incremental revenue from 5G or whatever deploying. Obviously, you're making a pretty big bet here. Any thoughts on that?

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

I think that the challenge that the carriers are trying to solve is the amount of data traffic that's going across their networks. Towers are the most cost-effective way for them to deploy infrastructure and to broadcast spectrum. But those towers -- a tower will lose its effectiveness in terms of geographic coverage and capacity at certain areas inside of the coverage area if that tower get tapped out by high usage. So they use small cells to basically underlay underneath the geographic coverage of towers to offload some of the data traffic demand in order to return the tower to its full effectiveness.

So to isolate the economics on a single small cell really misses the broader point. The best analogy in terms of the design of the RF is to think about the towers as overhead lighting inside of a building and small cells are putting lamps where you're focusing light in a particular area, and the combination of that obviously balances the light inside of a room. The same thing is true on the RF side in terms of balancing the spectrum inside of a general geographic coverage area.

And so the radius, frankly, is not as important as is the small cell capable of offloading some of the traffic from the macro site in order to return it to its maximum effectiveness. And they deploy small cells in order to most cost effectively use their macro sites.

Operator

We will take the final question from Spencer Kurn with New Street Research.

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

So I've got a question on small cells. Last week, Verizon struck a deal with the city of San Diego to utilize their municipal infrastructure to deploy small cells and fiber throughout the city. When I look at your fiber map, it looks like you have a lot of fiber in San Diego. So it seems like Verizon is kind of circumventing you in one of your key markets. Is this a concern for you? Or how do you sort of frame this type of activity in the context of achieving your target returns with your fiber investments?

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

Yes. You bet, Spencer. Broadly, the amount of activity that's going to be needed based on what we think data growth is going to happen and then as we move towards 5G is there's going to be -- need to be a significant number of small cells that are deployed in order to meet the demand. We certainly don't expect that we're going to be the sole provider of all small cells in the U.S. And so at the moment, we think we're somewhere in the neighborhood of about 50% of all the small cells being deployed. Crown Castle is about 50% of that overall activity. But we don't have any expectation that we're going to continue to main that kind of market share given the likely growth in the overall market and demand for it.

At the moment, self-performed by the carriers would make up the majority of that other 50% that we were not doing, and we would expect that the carriers will continue to do that. I think you'll see over time that firms will go in and do deals with cities and municipalities in order to make deployments easier or faster.

That's certainly not the first or only deal that has been done on that front. There are a number of transactions like that, that we have done with municipalities where we've gone in and worked with them in order to gain access to the infrastructure and the public right of way. And I think it's just good business to do it that way. We're working collaboratively with the local municipalities in order to deploy small cells.

So when I see those kind of things, I think it's indicative of the overall broader market and the need for the deployment of infrastructure, but it frankly doesn't concern me in terms of impacting what we think our returns are or our growth rates. I think it's much more indicative of what the overall market growth and opportunity is.

Well, thanks, everyone, for joining us on the call this morning. Appreciate the questions, and look forward to talking to you next quarter.

Operator

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