THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

CCI - Q2 2017 Crown Castle International Corp Earnings Call and LTS Group Holdings LLC Acquisition Call

EVENT DATE/TIME: JULY 19, 2017 / 11:30AM GMT

OVERVIEW:

CCI reported 2Q17 results. CCI agreed to acquire Lightower for $7.1b in cash, representing EBITDA multiple of approx. 13.5 times.

THOMSON REUTERS

CORPORATE PARTICIPANTS

Daniel K. Schlanger *Crown Castle International Corp. - CFO and SVP*

Jay A. Brown *Crown Castle International Corp. - CEO, President and Director*

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

CONFERENCE CALL PARTICIPANTS

Amir Rozwadowski *Barclays PLC, Research Division - Director and Senior Research Analyst*

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

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

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

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

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

Matthew Scott Heinz *Stifel, Nicolaus & Company, Incorporated, Research Division - VP and Senior Research Analyst*

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

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

PRESENTATION

Operator

Good day, and welcome to the Crown Castle International Second Quarter 2017 Earnings Call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Mr. Son Nguyen. Please go ahead.

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

Thank you, Mia, and good morning, everyone. Thank you for joining us today as we discuss our second quarter 2017 results and our announced acquisition of Lightower.

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. Jay is going to begin with a discussion of the Lightower acquisition, and Dan will follow with a review of our second quarter 2017 results. To aid the discussion, we have posted supplemental materials in the Investor section of our website at crowncastle.com, which we will refer to throughout the call this morning.

This conference call will contain forward-looking statements, which are subject to certain risks, uncertainties and assumptions, and actual results may vary materially from those expected. Information about potential factors which could affect our results is available in the press release and the Risk Factors section of the company's SEC filings. Our statements are made as of today, July 19, 2017, and we assume no obligation to update any forward-looking statements.

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

With that, I'll turn the call over to Jay.

Jay A. Brown - *Crown Castle International Corp. - CEO, President and Director*

Thanks, Son, and thank you, everyone, for accommodating our change in schedule and joining us on the call early this morning as we discuss the Lightower acquisition and our second quarter results.

As you saw from our press release yesterday afternoon, we have reached an agreement to acquire Lightower, which owns or has rights to approximately 32,000 miles of fiber in top metro markets in the Northeast, including Boston, New York and Philadelphia. Through a series of transactions in recent years and organic investments along the way, we have strategically positioned Crown Castle as the leading shared wireless infrastructure provider in the U.S. across towers, small cells and fiber.

Turning to Slide 4. We believe this portfolio of mission-critical infrastructure will play an important role in helping our customers capitalize on the exponential growth in demand for data and connectivity. As has been our view over the past several years, we see the ownership of deep, dense fiber in top metro markets as a competitive advantage in facilitating small cell deployments in a cost-effective and timely manner.

With the addition of Lightower's premier metro fiber footprint located in several of the most densely populated markets, we are significantly extending our reach by adding a highly complementary footprint that doubles the miles we will have available for small cell deployment.

Further, the acquisition of Lightower aligns with our longstanding focus on allocating capital to increase shareholder value through growing the dividend. Towards this end, we expect the acquisition to be immediately accretive to our AFFO per share, and as a result, we expect to increase our annual dividend rate by approximately $0.15 to $0.20 per share after closing, subject to our board's approval.

Additionally, we expect that the Lightower acquisition will enhance our long-term growth rate, allowing us to increase our annual dividend growth target by 100 basis points to 7% to 8%. The expected near- and long-term accretion is a reflection of the small cell opportunities we see in front of us as well as the high-quality business and assets we are acquiring in Lightower.

Turning to Slide 5. We have assembled an unparalleled portfolio of shared wireless infrastructure assets that we believe are well positioned to help our customers meet the growing demand for data. Additionally, we have developed industry-leading capabilities to meet the growing small cell demand. Drawing on our experience with towers, we are capitalizing on our first mover advantage to assemble a portfolio where we believe there will be long-term franchise value that will drive significant returns over time through future leasing. We believe the combination of our assets with those of Lightower will represent one of the most extensive and unique footprints of deep dense metro fiber assets assembled today, and this is one of the key drivers of our acquisition.

Pro forma for the Lightower acquisition, we will own or have rights to approximately 60,000 route miles of fiber, making us one of the largest owners of metro fiber in the U.S. Further, with our combined footprint, we will own or have rights to fiber in all of the top 10 and 23 of the top 25 metro markets. By creating scale in these top markets, we are positioning Crown Castle to meet the needs of our customers looking to us as an infrastructure provider of choice as consumers and businesses in every industry evolve and adapt to a world where mobile is the platform of choice.

This ongoing transition to mobile is evident everywhere. Importantly, Crown Castle is positioned to benefit from this long-term trend as our leading portfolio of towers, small cells and fiber will provide the critical infrastructure needed to enable this shift.

As you can see on the maps on slides 6 and 7, the addition of Lightower will expand our fiber presence with complementary dense metro fiber assets throughout the Northeast. The limited overlap between Lightower's fiber footprint and our existing footprint will give us a large incremental opportunity to deploy small cells in these important markets.

As I mentioned earlier, on Slide 8, is the trend in mobile data demand, which is expected to quadruple by 2021. We expect our portfolio of towers, small cells and fiber to play an essential role in supporting the network densification that will be needed to meet this demand.

As you can see on the slide, our wireless customers are increasingly turning to small cells to augment and further densify their macro network and deploy spectrum closer to their customers to enhance and improve their network quality and capacity.

Consistent with what our customers are saying, we are seeing small cell demand accelerate as evidenced by our first quarter announcement of our record 25,000 contracted small cell node pipeline, and we believe the long-term opportunity could match towers in size and return. Our conviction around the size and attractiveness of the small cell opportunity has grown over time based on the trajectory of activity from our wireless carriers and the returns we have generated to-date.

To help give you some additional perspective on why we are so enthusiastic about the opportunity, I wanted to take just a minute and walk you through the returns we have generated to-date across our top 3 small cell markets: New York City, Los Angeles and Philadelphia.

Across these 3 markets, we are generating a recurring yield of approximately 11% on the approximately $1.3 billion of total net invested capital to-date. The $1.3 billion includes an allocation of the purchase price from our prior acquisitions of NextG and Sunesys and represents approximately 30% of our total net invested capital in small cells, excluding the Wilcon acquisition that we closed just a few weeks ago.

The incremental growth we have generated to bring these deals up to these levels has been a result of deploying small cells on the fiber we built or acquired in these markets. Given that small cells are in the early stages of adoption, we find the double-digit recurring yields in these markets to be very compelling, and we continue to see significant opportunities to lease these fiber assets up further to also improve our returns over time.

What really excites us is that we believe this success will be replicated across our footprint of now 60,000 miles of metro fiber. To-date, we believe our customers' investments in small cells have been driven by meeting 4G use case demand, and we have underwritten our investments, including Lightower, with this view in mind.

As seen on Slide 8, our carrier customers are also making these investments in small cells today with an eye to the future as they prepare their networks for 5G. As 5G takes shape over the coming years, we believe we will see increasing demand for small cells that will drive additional returns on our investment as further densification occurs.

Turning to Slide 9. In addition to furthering our small cell strategy, Lightower also brings with it high-quality, long-term cash flows and an experienced operating team with a scalable platform that can enhance and supplement our small cell investment. Lightower generates attractive returns on invested capital by providing differentiated fiber solutions that serve high-bandwidth, multilocation customers.

As you can see on the slide, Lightower has delivered consistent revenue growth with attractive margins. As a result of its differentiated service offering and operating discipline, Lightower's portfolio of customer contracts has a weighted average remaining current term of approximately 4 years, including approximately $2.7 billion of remaining contracted revenues from a high-quality mix of customers consisting of large enterprises, government agencies, health-care providers, educational institutions and carriers.

While this approach -- with this approach, Lightower has been able to attract a diverse customer base while maintaining an almost equal split of revenues between carrier and enterprise customers. Importantly, this approach has also resulted in the vast majority of Lightower's assets and revenues qualifying for REIT status. We believe the fiber solutions revenues generated by Lightower will allow us to enhance our competitive position in small cells by increasing the opportunities we serve with the underlying fiber assets, thereby improving the already attractive shared economic model we see in our small cell business, both on the fiber we are acquiring and on our existing base of fiber.

Moving on to the transaction details on Slide 10. We have agreed to acquire Lightower for $7.1 billion in cash, representing an EBITDA multiple of approximately 13.5x. We expect the transaction to close by the end of this year and be immediately accretive to AFFO per share at close.

In our first full year of ownership, we expect Lightower will contribute $850 million to $870 million in site rental revenues and $510 million to $530 million in adjusted EBITDA. We expect to finance the transaction with a combination of equity and debt that is consistent with our policy of maintaining investment-grade credit metrics.

With the cash flows generated by Lightower and taking into account our anticipated financing, we anticipate increasing our annual common stock dividend rate, subject to approval by our board, by approximately $0.15 to $0.20 per share at close. Additionally, we expect that the Lightower acquisition will enhance our long-term growth rate, allowing us to increase our annual dividend growth target of 6% to 7% to 7% to 8%.

In short, this is a great acquisition that we think will generate significant value for our shareholders and position us to better serve our customers by expanding our portfolio in some of the best markets in the U.S.

And with that, I'll turn the call over to Dan to go through our second quarter results.

Daniel K. Schlanger - *Crown Castle International Corp. - CFO and SVP*

Thanks, Jay, and good morning, everyone. Thanks again for accommodating our schedule change and joining us on the call early in the morning. I can imagine everyone is focused on our acquisition announcement. We also announced earnings this morning, and our results were very good.

We delivered another quarter of positive financial results as our fundamentals for our business remain strong and our team continues to execute at a high level for our customers. Results for the quarter met or exceeded the midpoint of our prior guidance for site rental revenues, adjusted EBITDA and AFFO.

We are pleased with our strong operating results during the first half of the year and the continued healthy leasing activity we are seeing across our infrastructure assets, which we expect to continue through the second half of the year. As a result, we are increasing our full year 2017 outlook at the midpoint for site rental revenues, adjusted EBITDA and AFFO to reflect that backdrop and incorporate the contribution from the Wilcon acquisition that closed in late June.

Turning to second quarter 2017 results. As shown on Slide 12, site rental revenues grew approximately 8% or $66 million (sic) [$64 million] as compared to the same period in 2016, inclusive of approximately 5% growth derived from organic contribution to site rental revenues. The 5% or $42 million of growth from organic contribution of site rental revenues consists of approximately 8% growth from new leasing activity and contracted tenant escalations, net of approximately 3% from tenant nonrenewals.

Moving on to investment activities for the quarter. We closed on our $600 million acquisition of Wilcon and invested an additional $301 million in capital expenditures, including $261 million of revenue-generating capital expenditures across towers and small cells that we believe will generate compelling returns and deliver long-term growth in dividends per share.

Consistent with our focus on maintaining an investment-grade balance sheet, we financed the Wilcon acquisition with $442 million in net proceeds from equity issued during the quarter, and the balance was funded with a portion of the proceeds from our inaugural 30-year unsecured bond offering in May.

We believe the attractive pricing on this long-term capital of 4.75% reflects the market's recognition of our high-quality cash flows, the long-term nature of our assets and the attractive prospects for our business. Our focus on maintaining a strong balance sheet has positioned us well to invest in our business while providing the flexibility to pursue attractive acquisitions like Lightower.

Turning to other financing activities. We once again returned significant capital to our shareholders during the second quarter with our quarterly common stock dividend totaling $348 million or $0.95 per share, representing growth of 7% on a per-share basis as compared to the same period a year ago. We continue to believe that providing a portion of shareholder returns in the form of a growing dividend stream aligns well with our business, which is characterized by high-quality, long-term recurring cash flows.

Turning now to Slide 13. We are increasing our full year 2017 outlook at the midpoint for site rental revenues, adjusted EBITDA and AFFO by $29 million, $15 million and $6 million, respectively.

As you can see on Slide 14, we have increased our outlook primarily to reflect the contribution of the recently closed acquisition of Wilcon. Wilcon is expected to contribute approximately $26 million to site rental revenues, $7 million to site rental cost of operations and approximately $5 million to general and administrative expenses. This contribution is expected to be partially offset by higher financing costs associated with the prefunding of Wilcon acquisition for 2 months and an increase of approximately $5 million in interest expense in the normal course of business driven by higher LIBOR rates.

Overall, we are encouraged by the increased pace of leasing we are experiencing on our towers this year. Although given where we are in the year, we do not anticipate the increased activity will meaningfully impact our 2017 results. As we look out further, we remain optimistic about the long runway of growth that remains in front of us as our carrier customers continue to densify their macro networks and deploy additional spectrum, including FirstNet and other spectrum from recent auctions, in order to meet the demand for mobile data and connectivity.

To wrap up, we look forward to building on the strong results through the first half of the year as Crown Castle remains well positioned to capitalize on the long-term growth trends and data consumption with our leading portfolio of critical wireless infrastructure assets.

With that, operator, I would like to open the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we'll go first to David Barden with Bank of America.

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

Congrats on the deal and the quarter. I guess a few questions, maybe focused on the Lightower deal. First, Jay, I think that there's a lot of questions about kind of -- the lingering questions about the differences between the small cell fiber business and some of the enterprise components that you're acquiring relative to the tower business. So on that, could you talk a little bit about Lightower's historical CapEx intensity, its churn in that business and some of the kind of the growth characteristics that they've been seeing? And related to the growth, could you talk a little bit about what kind of backlog they might have in terms of the small cell inventory or what kind of the conversations you had with carriers that give you the conviction that there's that incremental growth opportunity that'll inform the dividend outlook? And I guess my last question, if I could, was just on your conversation about the top 3 markets and the 11% return that you're getting there. Of that 11% return, what percentage of that return is related to the [everprise] side in the services business versus what is right now the real small cell part of the return that you're generating?

Jay A. Brown - *Crown Castle International Corp. - CEO, President and Director*

Thanks for the question. So high level, let me start with this. As we look at the assets that Lightower ran, and this is really consistent with all of the acquisitions that you've seen us do so far, whether it's FiberNet or Wilcon or Sunesys, we have looked at very specific characteristics around those assets, on dense fiber, dark fiber in metro markets where we believe there's a lot of opportunities for small cells to be deployed across that fiber. And the key aspect of it, which is reflected in the comments that we're making around the vast majority of the revenues, qualify as good REIT income, and we believe somewhere in the neighborhood of 80% to 85% of the assets in the revenue are good REIT income. The assets are, in essence, passive for us. So we are purely an infrastructure provider providing a pipe and, therefore, it's good real estate income. That passive nature as an infrastructure provider of -- in essence, owning the tollway, if you will, or the railroad for the deployment of wireless networks, these assets that we're acquiring in Lightower have those same characteristics, and it's why they're so attractive to us. We find that, over time, as we've looked at assets, the revenues tend to be stickier. They tend to be longer dated. And they tend to be very attractive for the deployment of small cells. With regards to your question around CapEx intensity and churn, et cetera, on the CapEx intensity side, generally, the payback for the deployment of capital, once you start to develop a market, the payback is in the neighborhood of 2 to 3 years on the capital that's been deployed. Historically, the business has seen churn in the neighborhood of about 9%, a big -- and the payback on the capital, obviously, drives the continued investment. So as you think about the impact of churn and the allocation of capital towards those 2 things, while we would certainly underwrite it and Lightower has done a good job over time of putting that into the model and thinking about the deployment of capital against the overall characteristics, the stickiness of it and then the provision of future services using that same fiber. From a backlog standpoint of small cells, they had about 2,000 small cells in the pipeline. It has not been a core portion of their business, although they have provided small cells in the past. Most of the carrier revenues that I spoke to, a big portion of that would be related to fiber to the cell. As we've talked about the architecture of the networks, historically, we believe that fiber to the cell becomes very important as hub sites are developed and small cells are developed in conjunction with the existing macro network. So again, another good indication of what we think is going to be upside from small cells. And then lastly, your question around the 3 markets that I spoke to, which are the 3 largest markets that we've deployed small cells in thus far: Philadelphia, New York and L.A. The 11% return that we have on a recurring yield basis against the net capital invested, consider that a big chunk of that capital was in -- put in with the NextG acquisition that we acquired in the neighborhood of about a 2% to 3% yield on invested capital, and then the Sunesys acquisition would have been somewhere in the neighborhood of about a 6% to 7% yield on invested capital. So virtually all of the NextG initial yields would have been small cells along with virtually all of the growth to bring that capital up to an average of 11%, in Sunesys' case, it would have started at about 6% to 7%, and virtually all of the change since then would've been small cells. And then the capital that we put in on an organic basis would've been all done on small cells. So the vast majority of the growth and then the blend would've been coming from small cells. My best guess, although, I don't have the numbers sitting right here in front of me, would be in excess of 2/3 of that return, total revenues would have been coming from small cells.

Operator

And we'll go next to Matthew Niknam with Deutsche Bank.

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

Again, congrats on the deal. Just 2, if I could. First, on the Lightower acquisition, just trying to figure out how the deal may or may not help you. As you had sort of laid out in the past, a 25,000 small cell build pipeline, expected capital outlay of about $1.2 billion in upcoming quarters. So trying to figure out how the deal may help you towards that goal. And then secondly, on the macro site business, just trying to figure out as we're now halfway through the year, what's been, I guess, better or maybe slower than expected in terms of carrier pacing of activity and just trying to figure out whether some of the better performance year-to-date in the services business may be a precursor to maybe a little bit more of a lift in that business on the macro site side in 2018.

Jay A. Brown - *Crown Castle International Corp. - CEO, President and Director*

Matt, on your first question, there will be some benefit from the acquisition that we did in terms of reducing the amount of capital that we would spend on the notes that we referenced last quarter that were the recently contracted notes during the first quarter of 2017. But I would encourage you more to think about this as increasing the size of the pie. As we look at the data and the systems that we have built, we have found the returns to be incredibly compelling. And as we think about the way for us to create shareholder value over time, there have been 3 tenets of our story that we have consistently come back to. One is to add additional revenue to the assets that we already own, two has been to lower our overall cost of capital and three has been to allocate capital to things that we think will grow our dividend over time. And as we have learned and studied and watched the investments that we have made, we have seen the investments we have made around fiber and small cells to deliver very compelling returns, and we're in the very early innings of carriers adopting and using small cells. So as we look for opportunities to continue to deploy capital around this, our intention is to grow the size of the pie because we find the returns to be so compelling. So while we will, I guess, at some level get the benefit of reducing the capital costs in these Northeast markets from the nodes that we already have, which would have -- some portion of those would have been embedded in that $1.2 billion, the reality is we're talking about expanding the pie and looking to put more capital to work because the returns are so compelling. And over time, we believe that will provide additional value to the shareholders in the form of increasing our -- [both] our dividend and our dividend growth rate.

Daniel K. Schlanger - *Crown Castle International Corp. - CFO and SVP*

Yes. And Matt, it's Dan. I'll take the second question. I wouldn't necessarily say that the outperformance in services would be that -- what would show that the activity levels are growing, but I would agree -- and like we said before, the leasing activity in that could be we are seeing on our tower business is better in 2017 than it was in 2016. And what we think that will lead to is just given the timing of everything, it won't really impact 2017, as I said in my remarks, but I do think that the deployment of that spectrum that we see is the increased leasing activity now plus the deployment of other spectrum, including FirstNet, that will come, should lead to increasing activity and increasing leasing revenues in 2018.

Operator

And we'll go next to Simon Flannery with Morgan Stanley.

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

I think in the past, when you talked about other small cell fiber acquisitions, you talked about not wanting to necessarily be -- play big in the enterprise fiber side of things. Obviously, this deal is on a different scale. So you just talk about how you got comfortable with that? And perhaps just how organizational you're managing it? I think you did suggest that maybe some of the skills and the talent that you have at Lightower could help drive some enterprise business in some of your existing fiber assets. And then there's been a lot in the press around zoning and infrastructure and trying to really help other carriers and you deploy small cells more efficiently. So what's your latest thoughts on that regulatory landscape and how your success is naturally working through this backlog city by city?

Jay A. Brown - *Crown Castle International Corp. - CEO, President and Director*

Sure. Thanks for the questions. On the enterprise business, as I spoke to, I think what we have seen in the other acquisitions that we've done is focus on using fiber as a -- what we often like to refer to as a dumb pipe, where really all that is being provisioned is a pipe between 2 or multilocations for customers. These are typically done for large enterprises, hospitals, financial institutions, some educational institutions. We find that business to be as passive as we are in the tower business. So sometimes, it's referred to as virtual dark fiber or dim-lit fiber. That, in our view, is not a service business. And obviously, as I spoke to earlier around what qualifies for good REIT income, it's really just the provision of a real estate to real estate asset. The smaller acquisitions that we've done over time in other parts of the country have gotten us comfortable with portions of that enterprise business. So as we underwrote the Lightower acquisition, we're obviously assuming that we're going to continue to be in that business, continue to operate the business and grow the business over time. We find there to be very attractive returns on invested capital and believe we can continue to grow the business. As we thought about the underwriting and whether or not it justified the investment that we're making, this really goes to the heart of the shared economic model. So we're buying the asset in the neighborhood of about a 6% to 7% return on invested capital and able to provision it to the wireless carriers for the deployment of small cells, and it's a means by which we can do the same thing that we've done for a very long period of time with towers, and that has provided the lowest-cost alternatives to the carriers as they deploy their wireless network. Our goal is to use our cost of capital and to invest the capital in a way that provisions these service -- these assets in a way that minimizes the overall cost as the carriers deploy their network. And I believe that's why we have been so successful in attracting small cells on the fiber that we already own because it is the lowest-cost alternative. If you go back and think about how the tower model has developed over time, in the early days of towers, we acquired towers in the top -- as I spoke to about -- around fiber, we acquired towers in the top-10, top-25 markets at an initial yield of about 3% back in 1999 and 2000 and over time have leased those assets up as densification has occurred in the wireless networks. In this case, there is an existing source of revenues and cash flow on this fiber that we believe will continue to be there over a long period of time. And on top of that, we believe we will add additional revenues from the wireless carriers to really maximize the ultimate return on the asset. So the way that we've thought about it and continue to approach it has been through our wireless view. And then as we've gotten smarter about what's the quality of the cash flows there, it's enabled us to be able to invest in assets like Lightower because of what we think it will ultimately mean from a return standpoint. On your second question around small cell regulatory efforts, we have a number of efforts going on at the federal, state and the local level. Like towers, I would tell you, it will forever be hard, we believe, to deploy small cells and fiber. And what we're trying to ensure is that it's a fair deployment and that both we and our carrier customers are treated equal to those -- to others who access the right of way. That regulation has been progressing well, and it's helped us in some markets. But as we look at it, we certainly don't expect that it's ever going to be easy. And I think the story that folks have read about in the press, in the municipalities and at the state level, there's going to continue to be challenges as we balance the desire of people and communities to limit the amount of infrastructure in their communities and the need for the carriers to deploy the infrastructure in order for us as consumers to achieve the kind of services that we really want to use. So it's a balancing act, and we're continuing to work hard at it. I will tell you, the benefit of scale is significant in this front. Historically, on the tower side, most of the conversations that happened as we would construct or build a tower add an additional tenant to a tower. That was largely a conversation that happened at a homeowners association in most cases. This is a conversation that happens at a citywide basis that reaches town councils and mayors' offices, et cetera. And so the amount of scale and effort we have to do in order to deploy small cells is a much more robust effort in order to do it. And I believe that scale is helpful to us as we approach and deliver for the carriers because the capabilities to do so are very different than what has historically happened in the tower side where one individual could basically go out and develop a tower in a good location. The regulations and the challenges of deploying small cells really speak to the value of being able to provide it in scale. I think that's reflected in our ability to attract the number of small cell orders that we have so far in calendar year '17.

Operator

And we'll go next to Amir Rozwadowski with Barclays.

Amir Rozwadowski - *Barclays PLC, Research Division - Director and Senior Research Analyst*

A couple of questions, if I may. In thinking about the longer-term business mix, I think in the past, you had suggested that, potentially, we could get to a 50-50 split between the small cell business and the macro side. Is that sort of a target that you're gearing the business towards? And given that scope, I mean, what is the appetite for additional fiber deals?

Jay A. Brown - *Crown Castle International Corp. - CEO, President and Director*

Amir, I do believe that, ultimately, our small cell business could be as big as towers. That is driven primarily, though, by my view that the carriers are going to invest over a long period of time around their macro sites to densify their network. So I think we'll have 2 businesses growing, both the component of towers, which, as Dan spoke to, we've continued to see terrific demand for and increased demand in calendar year '17 over what we saw in '15 and '16. So I think you'll see the carriers continue to invest in towers and then also make significant investments around small cells. Our appetite for additional investment in fiber, I think I'd say a couple of things on that front: one is, this is a large acquisition that's going to take us some time to digest. So we were out looking for the absolute best asset that we could. This is -- doubles our fiber footprint. It more than doubles the investment that we have placed to-date in fiber, and it's going to take us a little bit of time to digest the acquisition in terms of both integration and getting it up and running as we put small cells against it. So we may need a little bit of time as we digest. Broadly, though, the returns that we're seeing in this business, as I spoke to in one of my prior comments, is the investments that we're making today, we're making them not because we're trying to grow scale in the business but because we think it provides value and return to our shareholders over time. And we believe our dividend 5 years, 10 years from now will be higher as a result of the acquisition that we're making today with Lightower than if we hadn't done it. And to the extent in the future we see opportunities that meet that test around the strategy that we've articulated, we'll absolutely be open to those. But they will come down to a test against whether or not we believe ultimately we'll be able to return that cash to shareholders at a higher rate than we otherwise would have.

Daniel K. Schlanger - *Crown Castle International Corp. - CFO and SVP*

And Amir, I'll just jump in there. I think we've been consistent as we talk about the fiber asset acquisitions that we've done, that what we're looking for is, as Jay pointed out earlier, deep, dense metro fiber that has opportunities for lots of small cells. And Lightower fits that bill very well, but if you look at the things that, that leaves out, we're not really interested in long-haul fiber. We're not interested in fiber that doesn't have a lot of capacity. We're not interested in fiber outside of metro markets because what we have is the idea that we want to deploy small cells. And Lightower came, like Jay had mentioned, with that opportunity. And we would stick to that even after this digestion period, so we may take a little while here, but we -- I don't think we're going to depart from that desire going forward.

Amir Rozwadowski - *Barclays PLC, Research Division - Director and Senior Research Analyst*

And then just one follow-up, if I may. There's been a lot of discussions about carriers' strategy in densifying their networks. If we think about this, clearly, you folks are seeing pretty healthy appetite in terms of overall demand and colocation activities. We're also hearing about SILEC carriers choosing to build their own activity level or their own [fiber] here. Could you quantify sort of how you see the opportunity set through those 2 types of strategies?

Jay A. Brown - *Crown Castle International Corp. - CEO, President and Director*

Sure. Amir, I think you're going to continue to see both. The carriers are going to self-perform some portion of their small cells. You'll have -- we believe we'll see other infrastructure providers outperform small cells for the carriers. We're certainly not underwriting this asset or any of the investments that we made, assuming that we're going to capture 100% of all future small cells that are deployed. So I think you'll see the carriers make comments around self-performing. I think those comments really are supportive of what is the opportunity around small cells and the necessity and essential nature of fiber to the deployment of wireless networks. But we also believe that the shared economic model is the lowest cost available to the wireless carriers. And we believe we have done as well as we have done with small cells in the early innings of the deployment of small cells because it is the lowest-cost provider. So the shared economic model in the same way that it's the lowest-cost provisioning of infrastructure from a tower standpoint, we believe the same thing is true from fiber and small cell. So we believe that over time, we'll see a significant portion of the deployment of small cells on shared infrastructure in places where we think it will be shared and maybe other places where the carriers decide to self-perform because maybe there isn't a shared opportunity.

Operator

And we'll move next to Phil Cusick with JPMorgan.

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

Can you first talk about what percent of those 25,000 contracted sites are in markets where Lightower helps you? So is this sort of a build versus buy decision on those markets?

Jay A. Brown - *Crown Castle International Corp. - CEO, President and Director*

Yes. So a couple things there. There is -- in some of those notes that we had under contract, we will be helped to some degree. But as I mentioned earlier, this was about the pie just got a lot larger this morning. And so you probably won't be able to find the CapEx savings or a reduction in capital somewhere. It will help on some incremental basis, but really, what's happening is we've availed ourselves of the opportunity of capturing even more small cells and the growth from revenue and cash flows associated with this fiber plan.

Daniel K. Schlanger - *Crown Castle International Corp. - CFO and SVP*

And we are hearing from the carrier -- just to jump in, Phil, sorry. We are hearing from the carrier customers that these markets are markets that are important for their small cell deployment. So it's not only what we already have in the pipeline, but as Jay said, how do we increase the size of the pie, and this really helps with that portion of it.

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

Okay. And then second, can you talk about any sort of update on what you're hearing on FirstNet and the process there?

Jay A. Brown - *Crown Castle International Corp. - CEO, President and Director*

You bet. So FirstNet, I believe at this point, 5 states have opted into FirstNet. FirstNet had a -- has a requirement to submit a plan to each of the states by September 30 of this year. States then have the option to opt in or opt out by December 31 at the end of this year, calendar year 2017. And as I mentioned, I don't know if anybody announced this morning, we've been a little focused on our Lightower acquisition and earnings, but I believe that as of yesterday, there were 5 states that had opted in. If states choose to opt out, they have about 6 months to decide what their plan would be. So that's the basic lay of the land. From a geographic coverage standpoint, they have 12 -- FirstNet has 12 months to demonstrate 20%

geographic coverage, then they have to be at about 60% by 24 months and 80% by 36 months out. And then by month 40 -- 48, I think they have to cover nearly 100% of the geography. So the opportunity here from a tower standpoint, we think, is really significant as we go into calendar year 2018 and beyond. And whether the states are opting in or opting out, we think there'll be a meaningful amount of deployment for first responders.

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

I recognize you can't tell us anything about any MLA that might be coming, but can you tell us if AT&T didn't sign an MLA for those opt-in states and wanted to get moving now, is it fairly defined what the pricing would be for them to add a separate spectrum like FirstNet? Or is that a complicated discussion?

Jay A. Brown - *Crown Castle International Corp. - CEO, President and Director*

I don't want to get into any particular customer relationships or how we price. What I would tell you is if -- whether a state was an opt-in or an opt-out state, those state -- the deployment of that spectrum would require either an amendment or a new lease, depending on the nature of it, on our sites. And we would expect in the first phase of the deployment of this, this will happen largely around macro sites. And depending on what ultimately the state decides to do, that could be a new lease on a site or an amendment to an existing site. But we do believe that in all cases, there will be additional revenue as a result of the deployment of the spectrum to provide the network for first responders.

Operator

We'll go next to 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. First, on Lightower. When we've seen other fiber-like deals like this done, there's typically been a notable amount of cost synergies that have come out of these deals, at least in our experience, somewhere in the neighborhood of 10% to 20% of the OpEx of the target company. And when I look at your disclosures, you guys haven't really talked about any cost synergies. And I'm wondering if there are any embedded in the 2018 EBITDA assumption and what that could potentially look like 1 or 2 years out from now, meaning, could we see a notable step-up in Lightower-related EBITDA in 2019 as you kind of get through those? The second question is on the small cells. You've talked now for the last few months about this 25,000 node backlog. And it doesn't seem like there was any incremental signings, at least notable or material amount of signings in the second quarter. I'm wondering if that's true. And if it is, do you think that we've signed some of the bigger deals that are out there and now we're going to go through some form of lull, maybe takes us through the rest of 2017 before we could potentially see another step-up in meaningful signings and increase in that backlog?

Jay A. Brown - *Crown Castle International Corp. - CEO, President and Director*

Yes. On the first question, we did not assume any cost synergies in the acquisition or in our underwrite model. We're not going to cut our way to growth. So our intention is to continue to grow the business, and we're not assuming there aren't going to be any cost synergies there. We may, around the edges, find some savings, but that was not how we underwrote the asset.

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

Does that mean that you don't think that there's going to be any? Or you're just not assuming them in your own underwriting targets?

Jay A. Brown - *Crown Castle International Corp. - CEO, President and Director*

I think, Colby, as we thought about the asset, again, we thought about the growth of the asset and the quality of the platform there and the folks who are running that asset. And so our intention is to continue to grow and expand the opportunity. We may find there are some back-office synergies maybe around cost of licenses or other things, but that certainly was not the intention. And we'll be smart operators of the business over time. And I think you can look at our tower business and see a business in terms of the number of assets where it's a stable number of assets, and we've been very disciplined around the cost structure there. So to the extent that there are opportunities, we'll avail ourselves of those as any good manager would. But it was not our intention nor in our underwrite model around cost synergies, so I wouldn't expect that we'll see steps from -- as a result of reduction of cost. On your second question, the reference we're making for the 25,000 is a reference back to what we reconciled everybody through in great detail around our pipeline at the end of the first quarter. Our pipeline actually grew during the second quarter. Given the amount of content and discussions we're having this morning, we didn't go into great detail around the way the pipeline grew, what happened to it. But the number of sites that we turned operational against the number of bookings actually increased the size of that pipeline, so I wouldn't expect that you will see a lull in the new bookings and new contracted nodes as we put against -- as we built to operate and put on air the nodes that we did. The one thing I would mention, and I think we talked about this pretty extensively in the first quarter, it was not normal growth that we saw towards the end of '16 and into the first quarter of '17. We saw that as a big stair-step in the level of activity, so it's continuing to grow, but I certainly wouldn't want to imply we saw another stair-step like what we saw in the first quarter. But it did grow relative to the number of nodes that we put on air.

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

Do you plan on updating that 50,000 small cell node number that you provided in the press release last night on a quarterly basis? And if so, should we expect that number then to gradually move up in the back half of this year?

Jay A. Brown - *Crown Castle International Corp. - CEO, President and Director*

I think we'll talk directionally about what's in the process and where we think the growth rates are because it's related to where our revenue expectations are. But we like to spend our time talking about what the impact is ultimately to our dividend and what the impact is to the growth rate there. So we're more likely to probably transition that conversation back to our historical approach of talking about revenue growth translated to cash flow growth translated to dividend growth and have a more wholesome conversation where we're balanced around the cost of the capital that we put into these systems and the cash flow return against those and then what that implies for dividend growth. I would imagine directionally, though, we'll continue to talk about activity levels as we have historically and what we're seeing both on the tower side and then also on the small cell side.

Operator

And we'll move next to Brett Feldman with Goldman Sachs.

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

Just a couple of questions. In the past, you've typically targeted about a 75% AFFO payout for setting your dividend. I'm curious whether you expect the board to maintain that policy going forward and, in particular, whether that was the assumption that was standing behind your dividend accretion guidance you provided. And as an extension of that, I'm just curious whether there's any notable difference in the way you derive your AFFO forecasts for Lightower relative to your existing business, particularly around CapEx. And then just the last question, as you talk about maintaining investment-grade profile as you finance the deal, are you still maintaining the same absolute targeted leverage that you've had in the past pro forma for the deal, which has typically been, I think, between 5 and 6 turns?

Jay A. Brown - *Crown Castle International Corp. - CEO, President and Director*

Sure. On the first question, yes, we have historically paid out about 75% of our AFFO in the form of a dividend, and that was our working assumption as we laid out this transaction and calculated the $0.15 to $0.20 of expected increase in the dividend related to Lightower. There are no notable differences in our calculation of AFFO or AFFO per share relative to the way we've handled it historically.

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

And on leverage?

Daniel K. Schlanger - *Crown Castle International Corp. - CFO and SVP*

The leverage point, Brett, yes, like we said in the press release, we want to maintain our investment-grade credit metrics. That's what's driving our thought process around how we're going to finance this deal, and we are committed to doing so.

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

And you're comfortable that your historical targeted leverage is still something that would qualify as investment grade as the business mix changes?

Daniel K. Schlanger - *Crown Castle International Corp. - CFO and SVP*

We're going to be working with the agencies, and we'll work through it, but we're committed to maintaining the investment-grade credit ratings.

Operator

And we'll move next to Matthew Heinz with Stifel.

Matthew Scott Heinz - *Stifel, Nicolaus & Company, Incorporated, Research Division - VP and Senior Research Analyst*

So just first question around the small cell backlog and once again trying to reconcile how we get to the 50,000 pro forma nodes. Does that number include the entire 25,000 backlog that you laid out last quarter? Or is that inclusive of, I don't know, on air? Yes?

Daniel K. Schlanger - *Crown Castle International Corp. - CFO and SVP*

It includes both what is on air and that in full 25,000-node pipeline.

Matthew Scott Heinz - *Stifel, Nicolaus & Company, Incorporated, Research Division - VP and Senior Research Analyst*

Okay. So about 5,000 incremental growth in the pipeline is how we should think about (inaudible) number?

Daniel K. Schlanger - *Crown Castle International Corp. - CFO and SVP*

Well, like Jay mentioned, there's a couple thousand from Lightower. And then there -- it wasn't exactly 20,000 and 25,000, and so everything rounded together to approximately 50,000.

Matthew Scott Heinz - *Stifel, Nicolaus & Company, Incorporated, Research Division - VP and Senior Research Analyst*

Okay. And so you kind of addressed the deal synergies with Colby's question, but I'm wondering if -- to what degree does the Lightower guidance include any incremental lease-up on the assets? Or is that just an assumption around Lightower's sort of organic business?

Jay A. Brown - *Crown Castle International Corp. - CEO, President and Director*

When you look at their business, and we talk about small cells, as we've discussed, typically, there's about an 18- to 24-month cycle from when we receive a small cell order to when we have it on air. So we're not assuming that we're bringing our small cell expertise to those assets in a way that would result in first year of ownership additional revenues from small cells. Obviously, we're going to continue to run that business, and they have a pipeline of revenues that we would continue to turn on air and get the cash flow benefit from. But the real revenue synergies, if you want to call it that, and the upside from small cells and growth over time, that will be outside of the first year of ownership and really minimal impact in the first 12 months. So that's a longer-term benefit that we'll see and speaks to the -- our comments around our expectation we'll be able to increase our long-term growth rate by 100 basis points.

Matthew Scott Heinz - *Stifel, Nicolaus & Company, Incorporated, Research Division - VP and Senior Research Analyst*

Okay. And then secondly, on the tower side, given the acceleration in bookings that you've seen year-to-date, I'm just wondering what the book-to-bill looks like on that activity and how we should think about the cadence of new leasing revenue showing up in first half '18 versus maybe the latter part of the year.

Daniel K. Schlanger - *Crown Castle International Corp. - CFO and SVP*

Yes, Matt, I don't think we're going to get into giving 2018 guidance right now. We'll do that when we announce our third quarter earnings. But like I said before, we're pretty excited about the level of leasing activity and the acceleration we've seen in 2017. We do think that it will hit in '18 and it'll show up in our guidance, but it's not something that we're going to get into now at this point.

Operator

And we'll take our question from Jonathan Atkin with RBC Capital Markets.

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

So looking at the asset over a few slides, Slide 9, I was just wondering if you could provide a little bit more perspective on the business mix of lit services versus dark fiber also in the context of REIT-qualified income.

Daniel K. Schlanger - *Crown Castle International Corp. - CFO and SVP*

Yes. Dark fiber is in the neighborhood of about 1/3 of the overall business mix in Lightower. But as Jay said, when -- the distinction between dark and lit gets a little fuzzy because the lit can run a gamut, and what we're looking at within Lightower is that 80% to 85% of it is really on that infrastructure side and not on the service side. So even though only 1/3 of it's dark, what we look at is really how much of it's that passive "dumb pipe" infrastructure. And that's the 80% to 85% that we think qualifies for our REIT inclusion.

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

Is the contract length notably different between those 2 lines of business, then?

Daniel K. Schlanger - *Crown Castle International Corp. - CFO and SVP*

Well, the average contract length, like we said, is 4 years. So what we see is a very attractive contract profile that we're acquiring, and we think that that's sustainable over time. One of the things that attracted us to this business was, as Jay pointed out, when we've been acquiring fiber assets that included fiber solutions businesses, we had a view of wanting to be in this infrastructure portion of the business, and that's exactly how the Lightower team has thought about it and managed the business over time. So we don't have a huge shift that we would have to make in that. In fact, we can use what they've done and export it to where our fiber sits, and we think that it'll be very complementary that way. So we're just excited that the fit works so well for us.

Jay A. Brown - *Crown Castle International Corp. - CEO, President and Director*

Well, thanks, everyone, for joining us this morning. Obviously, as you've heard from our commentary, we believe that Lightower is a great acquisition that we think's going to generate significant value for our shareholders and positions us really well to serve customers by expanding our portfolio in some of the best markets in America. So I appreciate you joining this morning, and we'll talk to you soon.

Operator

Thank you, sir. And again, that does conclude our call today. Thank you for your participation. You may disconnect at this time.