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Q3 2018 Crown Castle International Corp Earnings Call

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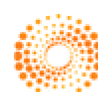

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PRESENTATION

Operator

Good day, and welcome to the Crown Castle Q3 2018 Earnings Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Mr. Ben Lowe. Sir, you may begin.

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

Thank you, Jonathan, and good morning, everyone. Thanks for joining us today as we review our third quarter 2018 results. 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 section of the company's SEC filings.

Our statements are made as of today, October 18, 2018, and we assume no obligations to update any forward-looking statements.

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

So with that, I'll turn it over to Jay.

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

Thanks, Ben, and good morning, everyone. Thanks for joining us on the call this morning. Over the last 2 decades, we have established an unmatched portfolio of more than 40,000 towers and 65,000 route miles of high-capacity fiber in the top U.S. markets where we see the greatest long-term growth. We continue to believe the U.S. represents the best market in the world to own shared communications infrastructure. And we believe our ability to offer a combination of towers, small cells and fiber solutions to our customers provides a valuable differentiation in the market.

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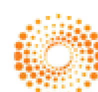

On this call, I wanted to highlight 2 important themes. First, our strategy to invest in towers, and small cells and fiber has positioned us to capture accelerating leasing activity, which is driving dividend growth. And secondly, we continue to see tremendous opportunities to invest in new assets that we believe will generate future growth.

On the first point, executing on our strategy is leading to consistent dividend growth, as we increased our annualized common stock dividend by 7% to $4.50 per share, in line with what we believe our AFFO per share growth will be in 2019. The growth in 2019 is based in part on our pipeline of contracted new business, which has increased in each quarter this year and is driving the accelerating new leasing growth we expect to see in 2019.

As shown in our outlook, we expect these positive trends to continue as we expect towers to contribute approximately $125 million to new leasing growth in 2019, which is up nearly 15% from the $110 million we expect to see in 2018. Likewise, we expect small cells to generate new leasing activity of approximately $75 million in 2019, which is more than 35% higher than the $55 million we expect in 2018.

In addition to the expected acceleration in new leasing activity, our pipeline of contracted small cell nodes to be constructed over the next 18 to 24 months continues to grow and currently stands at an all-time high of approximately 35,000, which is up 40% from this time last year. This increased activity is a result of all 4 of our large customers investing in their networks through towers and small cells to both keep pace with the current 4G demand environment and position their networks for 5G.

Carriers in the U.S. are expected to lead the way and be among the first operators in the world to deploy commercial 5G services, with all 4 of the national carriers working to roll out 5G services currently. Underscoring how attractive the U.S. market is for communications infrastructure ownership, Ericsson estimates that 5G will account for nearly 50% of mobile subscriptions in North America by 2023 compared to just 20% globally.

According to industry estimates, mobile data traffic in North America will increase by 40% per year between now and 2023, resulting in a staggering eightfold increase in the volume of data riding across mobile networks. This growth in data will require substantial densification of wireless networks. And we believe Crown Castle is in a great position at the center of these megatrends as our portfolio of well-located towers and dense high-capacity metro fiber assets remain the most cost-effective option for our customers' deployment needs.

In the near term, since 2014 and inclusive of the dividend increase we announced yesterday, we have grown our dividend by a compounded annual growth rate of approximately 8%, fueled by these underlying industry trends and the resulting revenue growth.

Turning to the second theme. We're excited about the significant investments we are making to build new assets that we expect will drive long-term growth in cash flows and dividends per share.

We believe we are in the very early innings of a huge opportunity with high-capacity dense metro fiber, which has become critical for wireless and wired networks. Over the last several years, we have built and acquired an unmatched portfolio of more than 65,000 route miles of high-capacity fiber in the top markets where we see the greatest long-term demand from multiple customers. Consistent with our expectations, we continue to see very attractive initial returns on our fiber investment, with initial yields of 6% to 7% for the first tenant. Over the long term and similar to towers, we expect the returns on these investments to increase as we add more customers to our fiber assets, which will drive future dividend growth.

We are using the same playbook we used with towers by sharing the asset across multiple tenants to generate attractive returns, and it's playing out better than we expected. Looking back 5 years ago, we had an aspirational goal to be able to deploy about 10,000 nodes per year. At the time, we were adding 1,000 nodes per year, so this was seen as a significant increase in capability. Looking ahead to 2019, we expect to deploy between 10,000 and 15,000 nodes, exceeding our aspirational goal. Our team has done a terrific job building capability and expertise that can deliver for our customers at significant scale.

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Further proving out the model, we are seeing demand from multiple tenants on the same fiber assets, with a meaningful portion of the nodes we expect to deploy in 2019 co-locating on existing small cell networks. By co-locating additional tenants on existing fiber networks, we are able to generate high incremental margins that we expect will grow the yields into the mid- to high teens over time.

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 solutions customers that need access to the same high-capacity dense metro fiber assets. While the current utilization of our fiber portfolio is similar to that of a single tenant tower, our current 8% yield is more than double of what we saw when our towers had only 1 tenant. All of this increases our conviction to continue investing in new fiber assets that we believe will expand our long-term opportunity.

So in closing, our strategy to invest in towers, small cells and fiber has positioned us to capture this accelerating leasing activity, which is, in turn, driving dividend growth. And we continue to see tremendous opportunities to invest in new assets that will further this strategy over the long term. With our unmatched portfolio of assets and operating capability, I believe Crown Castle is best positioned to capture these immense long-term opportunities while consistently returning capital to shareholders through a high-quality dividend that we expect to grow 7% to 8% annually.

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 mentioned, we had another great quarter of results in the third quarter that sets up to finish 2018 on a strong note and provides a solid foundation for 2019.

As you can see in the initial 2019 outlook we provided, we expect to grow AFFO per share by 7%, which led us to increase our dividend by the same amount. The third quarter results in 2019 outlook reflect the strength of our business model and our ability to leverage our leadership position in the U.S. across towers, small cells and fiber solutions to generate continued growth.

Starting with Slide 4 of the presentation on our website. In the third quarter, we exceeded the high end of guidance for site rental revenues and AFFO, while adjusted EBITDA exceeded the midpoint of the range. When compared to our prior third quarter outlook, site rental revenues and adjusted EBITDA benefited from approximately $3 million of additional straight-lined revenues, which were primarily a result of term extensions associated with leasing activity as well as some additional contributions from our Lightower acquisition. These benefits were partially offset by approximately $2 million of higher straight-lined expenses.

Further, while AFFO did not benefit from the straight-lined revenues, it did benefit from approximately $3 million of lower sustaining capital expenditures, which are now expected to occur during the fourth quarter.

Adjusting for the impact of these items, third quarter site rental revenues, adjusted EBITDA and AFFO each exceeded the midpoint of our prior outlook.

Beginning in 2019, and consistent with our intention to align our public communications with the long-term approach we take internally in managing the business, we will no longer provide guidance for quarterly results.

Turning to the balance sheet. We finished the quarter at 5 -- at a 5.1x debt-to-EBITDA ratio and intend to finance the business with 5 turns of leverage longer term as we remain committed to maintaining our investment-grade credit profile. To that point, we are excited that earlier this week, Fitch upgraded our senior unsecured credit rating to BBB flat, which we believe is a reflection of the stability and attractiveness of our business model.

With the increase in interest rates we have seen over the recent past, we are pleased with the structure of our balance sheet and with the weighted average duration of our debt of greater than 6 years and only 20% floating rate debt.

Now moving to Slide 5. At the midpoints, we increased our full year 2018 outlook for site rental revenues and adjusted EBITDA while

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leaving the outlook for AFFO unchanged. The increase to site rental revenues reflects the outperformance from the third quarter that resulted from a combination of better-than-expected performance from our Lightower acquisition and the additional straight-lined revenues I mentioned earlier. Meanwhile, the increase to adjusted EBITDA reflects the higher-than-expected site rental revenue, offset by some additional expenses, while AFFO remains unchanged as the higher straight-lined revenue does not contribute to AFFO.

Staying on Slide 5. Our full year 2019 outlook highlights include 7% expected growth in AFFO per share from $5.49 in 2018 to $5.85 in 2019 at the midpoints of the outlook and a 7% increase to our annualized dividends per share from $4.20 to $4.50. This dividend increase is supported by the expected acceleration in leasing activity in 2019 and demonstrates our ability to deliver on our growth targets while investing in new assets that will drive future growth.

Over the long term, we expect the returns on our small cell and fiber investments will increase as we lease the assets to additional customers, which we would expect will significantly add to future dividends per share.

Moving now to Slide 6. At the midpoints, we expect approximately $220 million of growth in site rental revenues from 2018 to 2019, consisting of $280 million of organic contribution to site rental revenues, offset by a change in straight-lined revenues of approximately $60 million.

Organic growth in 2019 is driven by new leasing activity of $365 million at the midpoint, up from $205 million at the midpoint in 2018, representing an acceleration in activity levels.

As Jay mentioned earlier, at the midpoints of outlook, new leasing activity in 2019 is expected to be $125 million for towers, up from $110 million in 2018; $75 million for small cells, up from $55 million in 2018; and $165 million for fiber solutions, up from $45 million in 2018.

In addition to new leasing activity, we expect annual contracted tenant escalations to contribute approximately $90 million in growth at the midpoint in 2019.

Growth from new leasing activity and tenant escalations is offset by approximately $175 million of expected nonrenewals, resulting in organic growth of $280 million at the midpoint. Expected nonrenewals in 2019 consist of nonrenewals on our tower business at the high end of our historical 1% to 2% range, over half of which is related to wireless carrier consolidations that occurred earlier this decade. It also includes less than 1% nonrenewals on our small cell business and high single-digit nonrenewals on our fiber solutions business.

The approximately $280 million of organic contribution to site rental revenues represents approximately 6% growth year-over-year that consists of approximately 5% growth from towers, approximately 20% growth from small cells and approximately 5% growth from fiber solutions.

Turning to Slide 7. I'd like to walk through the expected AFFO growth from 2018 to 2019 of approximately $160 million at the midpoint of outlook. Starting on the left, organic contribution to site rental revenue growth of $280 million at the midpoint is partially offset by an approximately $80 million increase in cash expenses. This increase in expenses is a combination of the typical cost escalations in our business and the direct expenses associated with accelerating new leasing activity.

Moving to the right. We expect the contribution from network services to increase by approximately $25 million from 2018 levels, consistent with the higher expected leasing activity in the towers business.

And finally, we expect AFFO to be negatively affected by approximately $70 million of other items, in this case, increased financing costs. The approximately $70 million increase in financing costs from 2018 to 2019 is inclusive of approximately $25 million related to higher expected average floating interest rates in 2019 when compared to average interest rates in 2018 as well as $45 million related to the funding of our discretionary capital expenditures.

Similar to 2018, we expect our overall capital expenditures in 2019 to be around $2 billion or around $1.5 billion net of capital contributions from our customers.

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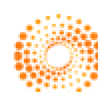

Summarizing our results. We expect to deliver 7% growth in AFFO per share in 2019, driven by accelerating leasing activity, offset by the higher financing costs I just mentioned.

In closing, our unmatched portfolio of shared communications infrastructure assets uniquely positions us to return capital to our shareholders in the form of a high-quality dividend and to meet our goal of growing that dividend by 7% to 8% annually while allowing us to make investments in new assets, we believe, will extend our long-term growth opportunity.

With that, Jonathan, 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***

Just on the quarterly guidance. Can you give us any color about the 2019? Is there any pacing, first half versus second half? Or anything that's unusual through the year? And then you were talking about the long-term drivers. The FCC has been moving. They've got a lot of spectrum out in the marketplace. Can you just give us a little bit of color on the CBRS and the C-Band? Do you think that's more for the small cell portfolio or for the macro-tower portfolio? Or do you think you'll see leasing on both of those over the next few years?

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

Simon, I'll take the first one and hand it over to Jay for the second one. Really, pacing, there's nothing really to point out other than I would say that some of that small cell pacing, the 10,000 to 15,000 nodes we're talking about, is a little back-end loaded. But there's nothing that would be any different than the general pacing we typically see through the business and what we've seen through 2018 in terms of when we expect to turn on revenue either on the tower side, small cell side or services.

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

Thanks for the question, Simon. I would tell you, if you look back over the last couple of decades of when the days have been the best for the infrastructure business around now towers and fiber and the deployment of small cells, any time there's new spectrum coming to market and you have a commitment from the owners or the operators that hold that spectrum, you see increased leasing activity. So as the SEC is looking at how do we compete globally with regards to the 5G, I think it's a combination of network densification and the deployment of additional spectrum. Some of that spectrum is lying fallow currently in the hands of operators that haven't deployed it, and then some of it is spectrum that the FCC is looking at, trying to figure out a way to get it deployed and into the hands of operators. I think both of those are supportive of kind of our long-term expectation of growth and point to a longer runway of growth.

Specifically on CBRS and C-Band, I think we will see activity on both macro sites and small cells. But I would tend to believe we'll probably see a bigger impact around small cells than we will at macro sites. But I think it will contribute to long-term activity on both assets.

Operator

(Operator Instructions) We'll take our next question from Matthew Niknam from Deutsche Bank.

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

Just one on the rising rates. How does the environment change the way you think about discretionary investments in fiber? I think you've talked about investing more, particularly organically. So I'm just wondering how you sort of -- how the view evolves in a rising rate environment? And then I guess more broadly, do you think the business can continue to grow at sort of this longer-term 7% to 8% range, given the move in rates?

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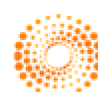

Daniel K. Schlanger ***Crown Castle International Corp. (REIT) - CFO, Senior VP & Treasurer***

Yes, Matt, thanks for the question. The amount of increase in rates we've seen recently doesn't impact the way we think about discretionary investments at all, just because the returns we see on those investments so far exceed our cost to capital even with those increasing rates that it's not going to have any impact on the long-term benefit that we think those investments will generate for us and our shareholders over time. And as Jay pointed out in his discussion, we're really excited about all the trends we see, the acceleration in the small cell business, the continued performance in our fiber business. So we think that those investments continue to look really good even in this rate environment. And would be -- it would take a pretty substantial increase from here that would change any of that thought from us. So it's not anything that we would really anticipate to happen. That doesn't mean that it wouldn't impact any single period like it did in 2019 for us. But the long-term investment profile, we feel really good about and excited about. And as far as can the business continue to accelerate. I think the answer is yes. As we pointed out, small cell business is around 20% growth year-over-year. That's in line with what we grew-- what we expect to grow in 2018. The fiber solutions business is around 5% growth. We think that's -- we've talked about mid-single-digit growth for a while now. We think that, that will continue. So we think that the position of our assets, the high-capacity dense metro assets we've put together, really gives us a great way to attack multiple markets with the same asset, and we think it'll continue to generate growth for us in the long term.

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

If I could just follow up. You also mentioned a meaningful portion of the nodes that are coming online in 2019 are going to be co-locating. Can you maybe give us a little bit of a ballpark estimate in terms of how that compares to the 70-30 set you've given us in the past?

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

It's really not a lot different. It's just that the total amount is a lot higher. Because we have such a larger pipeline, we're still around 70-30, it's just the total amount of co-location has gone up, which has been very encouraging to us because it means that as we put new assets in place to build small cells, we're then coming back and getting co-location on those new assets. But we're still investing a lot in building out markets, which we anticipate we'll do for a while now, just given how early we are in this investment cycle.

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

Matthew, I think one other way to frame it is, if you were to go back 2 or 3 years and look at the number of co-locations that we're doing now, it would exceed the total number of nodes we were deploying 3, 4 years ago. So we've seen significant growth in that co-location, which is to both Dan and I's comments, We've seen not only terrific returns but we've also seen the model prove out, which has given us more conviction around continuing to invest in the assets and grow the opportunity as we follow the wireless carriers and their deployment of 5G across markets.

Operator

We'll take our next question from David Barden with Bank of America.

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

I guess just a couple on the kind of inputs to the AFFO guide. I think the $25 million related to the variable cost funding, Dan, implies about a 75% -- sorry, 75 basis point rate hike into 2019. I just wanted to verify that. It sounds pretty consistent with kind of consensus expectations for rising rates. And then the second one was related to the $45 million funding costs related to discretionary CapEx. I guess the question there is kind of what is the expectation there? Is that $1.5 billion being raised in the middle of the year? Is that $1 billion being raised at the beginning of the year? Some color on that would help us kind of understand the shape of that.

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

Sure. Thanks for the question, David. On the first question, what we've baked into our 2019 guidance is forward curve as of when we put it together, which is very recently. So it's in the ballpark of what you're talking about, but it's just the forward curve of future interest rates through 2019, which we think will add about $25 million to our interest expense year-on-year. On the $45 million funding, there are a lot of assumptions that we put into that. But as I mentioned in the prepared remarks, we have about $1.5 billion of net capital to spend, which, when added to our dividend, is higher -- is more capital going out than we would have in AFFO. We're going to have to fund that externally, as you know. The mix of that funding and how we're going to do that funding and when is really based on when the nodes

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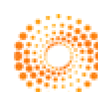

come on air over the course of 2019. And then to the extent that we generate additional EBITDA to generate additional debt capacity, we'll use that. And anything else, we would issue equity for to keep our debt-to-EBITDA in the 5x range. And all of those assumptions and when and how are baked in. And we have ranges around it because those are assumptions, and we're going to have to see how it all plays out.

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

So Dan, the guide implies a stable share count. So is it safe to assume that the base case expectation then is that $45 million is related primarily to debt financing over the course of the year?

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

Yes. David, I think, again, what I would say is that what we're looking at is a funding philosophy over time that keeps us around 5x debt-to-EBITDA. To the extent that we can't fund all of our discretionary capital with additional debt capacity on our EBITDA, we may have to do some equity at some point and want to do some equity at some point to keep our investment-grade rating. And how all that comes together and the timing of all that is something that we're going to have to be very diligent about and looking into how we fund our capital expenditures in 2019. And we have a lot of assumptions that go into that, the financing of how we're going to make it happen. And we'll let you know. Or actually, we'll just -- we'll fund it in a way that will maintain where we're going.

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

I think maybe the other way to -- David, and maybe this is kind of where you're driving towards, as Dan said, as we factor in those various scenarios around how we need to finance the business to maintain our investment-grade credit rating, we factor that into the $45 million. So our intention would be to deliver on the AFFO per share, which you can calculate, and the dividend growth. We expect to be able to deliver on that, given the funding that we're -- we expect in front of us in 2019 of funding about -- on a net basis, about $1.5 billion. So we're factoring in the various financing scenarios and giving that guide.

Operator

We'll take our next question from Jonathan Atkin from RBC Capital Markets.

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

So 2 questions. One, on the escalator guide for next year, it's a little off from 2018 levels, and I wondered what's driving that. Is that product mix or anything around term extensions or MLAs? And then secondly, in the fiber segment, I'm just kind of interested, now that we're a couple of quarters in, what has surprised you on the upside versus the downside in terms of the business mix? Whether it's e-rates or cell site backhaul or enterprise or what not? If you can maybe drill down a little bit into that, would appreciate it.

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

Thanks, John. I'll take the first one and then I'll hand it over to Jay for the second one. On the escalator, it's up nominally, and it's not different than anything we would've expected. The tower business is still just below 3% on an escalator basis, small cell is around 1.5% and fiber solutions has no escalator. So any change from a percentage basis is on the business mix that's going into that escalator.

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

On your second question, Jonathan, as we look at the business, particularly Lightower, the largest portion of that, what I would tell you is we're now almost a year in since that acquisition. And the business has performed in line with what our expectations are. As you've seen over the course of this year, we've delivered right in line with what -- where we expected the business to perform. And on the integration front, the -- all of the integration activities have been on track. So we think we'll come out of this year with the asset largely integrated and financial performance that's in line with the outlook that we provided when we originally bought the asset. So I wouldn't necessarily point to anything as big surprises. We've made -- we said multiple times that what has surprised us to the plus side is the level of co-location that we've been able to achieve on fiber. We certainly believed that to be the case when we made the investments into the business, but co-location has occurred at a higher rate and faster than what we initially anticipated. When we've underwritten these investments, we've taken an approach that's very similar to what we've done with towers where we assumed that we add 1 tenant over a 10-year period of time or about 0.1 per year. And what we've actually seen is co-location on fiber, from small cells in particular, that's about twice that rate. So the total return on fiber is driven in part by our fiber solutions customers, which you referenced, schools and

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e-rate and other things, and the leasing of dark fiber assets to enterprise customers, hospitals, et cetera and the deployment of small cells. And the deployment of small cells has driven that co-location and returns at rates that are higher than what we originally underwrote. And the fiber solutions business as a standalone mix of customers, that's performed in line with our expectations in this first year of significant ownership.

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

And then if I could just briefly follow-up in terms of the small cell activity expected next year and then the macro site leasing activity expected next year. Is the customer set and the demand set broadening across a larger number of the Big 4 carriers? Or is it kind of the same customer concentration but just more activity overall by those same principal customers?

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

We're seeing activity from all 4 of the operators on small cells. The broadening, as we talked about, both the increase in the number of nodes that we're turning on air year-over-year but also the number of new contracted nodes that we're seeing in the business, that's a -- in part a function, which we saw over the course of early 2018, and some of that was a broadening of the customer base, and all of them beginning to deploy small cells. But I think more recently, if you took this quarter and what we're -- we expect to see into 2019 as the activity accelerates is really a broadening of the number of markets in which those nodes are deployed. Historically, the vast majority of the activity has been focused in the top 10 markets. And I think a couple of quarters ago, I mentioned that we had expanded that out to really NFL cities. And we're continuing to see a deepening of the need for small cells in those NFL cities and then seeing the carriers in some places start to move out even beyond the NFL cities. But at the moment, the vast majority of the activity would be concentrated in the top 30 markets in the U.S. roughly, which is an expansion from what was a couple of years ago where it was almost exclusively related to the top 10 markets, and that's driving the increased level of activity.

Operator

We'll take our next question from Colby Synesael from Cowen and Company.

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

I guess first off just going back to the fiber business. I was flipping through the Lightower presentation at the time that deal was announced. And in there, I think there was a comment that you guys were anticipating 7% growth. In tonight's comments -- today's comments, excuse me, you're expecting 5% next year. Is that an apples-to-apples comparison? And if so, does that imply, obviously, then a slowdown in growth? And if so, why? Or am I just misinterpreting how to think about that? And then secondly, as it relates to the 10,000 to 15,000 small cells that you anticipate deploying in 2019, as we go out further, do you think that, that's a decent number to kind of have in our heads? And I say that because just in terms of the employees that are needed and what's required on your end, can you even go further -- faster than that level? And also from a carrier perspective, do you get any sense that they're going to have the ability to grow faster than that even if they wanted to?

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

Colby, thanks for the question. So on the first one, Jay mentioned this earlier, but one of the things that I've been impressed by in the first year that we've owned Lightower is we gave guidance last year at this time before we owned Lightower, and we're coming in and we're hitting that guidance. And it's something that during the course of an integration like we're going through, which has been a complicated integration, as we've talked about before, of merging Lightower into Crown Castle and merging a bunch of other fiber companies into Lightower at the same time, the ability to hit those numbers that we put out before we actually owned the business is really impressive and something that I think has been a testament to the people working in the business but also just the business model itself. So as we look at the growth that we see going forward, we've talked about the mid-single-digit growth for a while. And we think that, that's something that will continue, and we're generally in line with what the expectations were and what we expected when we bought the asset and how we expected the asset to perform going forward. And as we incorporate all of those other fiber assets or fiber businesses that we bought historically into it, we hope we can expand markets and push that on and make it higher, but we think that mid-single digit is the right expectation to have in mind.

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

Colby, on your second question, I think there is 2 things that are probably important to answer with regards to your question. First, specifically, around our current operating capability, we can handle the 10,000 to 15,000 nodes that we're talking about in 2019 without the need to really significantly change or materially change our cost structure. As you can see from the outlook that we're providing, we're assuming sort of normal cost escalations in the business and not staffing up. These were capabilities -- given that it takes 18 to 24 months, in those cases, to build these nodes, these are capabilities have been in place for a while, and while they turn on in 2019, the work associated with those nodes began well before calendar year 2019 to get the work done. So I think from a capability standpoint, at the moment, we're staffed appropriately for the level of activity that we're seeing. If we -- if I think more broadly about the opportunity around small cells, I don't think 10,000 to 15,000 nodes a year is going to get anywhere close to accomplishing what the carriers have publicly talked about their need for small cells and the densification that's going to be required for 5G. And I believe based on our operating capability, our expertise, the assets that we have and how we develop relationships with both municipalities and our customers, I believe we're going to be the provider of choice as the opportunity scales. So as I think longer-term outside of kind of the periods in which we're giving guidance, and the comments that Dan and I were making around our interest and desire to continue to invest, that commentary is based on our belief that the opportunity is scaling and getting larger, and we intend and would expect to participate in that, and we want to win and be -- and continue to be the provider of choice to the wireless operators. So we'll continue to follow them, and to the extent that this longer-term view, if I'm right, about the opportunity continuing to increase and the deployment that's needed, then we may, at some point, need to add additional resources in order to handle that. But that will come with the appropriate cash flows and returns if that does materialize. So short term, I think we're in pretty good shape in terms of the way we're organized and have staffed, and longer-term, we're certainly competing to try to make that opportunity even larger. And if that does, then we'll adjust to ensure that we have the capabilities to deliver for customers. Dan?

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

So one of the things, Colby you mentioned, was the capabilities of our customers to accelerate. I think one of the benefits of our business model of being a shared infrastructure provider is if they want to go faster, we'll figure out a way to go faster and that benefits all of our customers. So if they somehow figure out that more small cells are needed in 2019 and -- or 2020 or 2024 than 10,000 to 15,000 nodes, we'll make that happen because we've shown the ability to scale our business. And that helps them because they don't have to pay for the upfront cost, that's really on us. And they get to share those economics, and it's the best way to deploy small cells is to share them amongst multiple customers because then the cost gets shared. So we think that our business model is in line with trying to accelerate that as Jay was talking about, and we become the best option for making that happen.

Operator

We'll 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***

Had a couple questions on the discretionary CapEx items. You mentioned, I think, $2 billion gross, $1.5 billion net. What was that in 2018 as far as where you think you're going to end up?

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

It's about the same, Ric. It's in the same ballpark.

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

Okay. And as we think about that $2 billion for 2019, can you help us peel that back as far as how much you think might be towers versus small cell versus fiber?

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

Yes, it's about $400 million or so in tower and the rest is fiber. As you know, the fiber is a shared asset, so we don't really break it down between fiber and small cells. It's the fiber segment in total is the remainder of it.

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

Okay. And that does not include the maintenance capital, right? This is all just discretionary?

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

Yes, but we're giving ranges here. So the maintenance capital is relatively small to begin with. So these are all ballpark figures, so this is all in the range.

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

Sure, cool. And then when you think about $500 million range being contributed back by the carrier, how should we think about how much of that is coming back from tower versus small cell fiber?

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

It's probably a similar breakdown between how much the total capital is. Proportionate.

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

Okay. And then kind of all -- it's all related questions together. The change in the amortization of prepaid rent, is it still looking like something in the mid-$30 million to $40 million in '18? And then should we think that number goes up in '19 then given the additional capital contributions?

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

It's about the same because we're talking about the growth in prepaid rent. It's going to be in that $40 million range, $35 million to $40 million range in '18 and in '19. And because the capital is the same in both years and the contributed capital is the same in both years, it's about the same amount of growth.

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

Okay. And last one for me. We get a lot of questions on Sprint, T-Mobile. Obviously, it's a hot topic out there. I think in your supplement, you mentioned Sprint was 14% of your total lease revenues, or rental revenues, with 7 years left. Can you break out how much Sprint is on your macro towers? Because a lot of people are thinking that might be where the more exposure to potential churn might be.

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

Yes, it's in that ballpark, Ric. There's no real difference between that. So it's around -- it's in that 14% range for the Sprint contribution to our macro business, yes.

Operator

We'll take our next question from Amir Rozwadowsk with Barclays.

Amir Rozwadowski ***Barclays Bank PLC, Research Division - Director, Head of the U.S. Telecom Service and Comm Infra Research & Senior Research Analyst***

One of the questions in terms of the pace of small cell deployments. I mean, we've seen some of the new regulations come out by the FCC to sort of try and reduce some of the timing on terms of deployment. How do you see that sort of impacting the opportunity for you folks going forward here? Could we see a further step up by operators to deploy at a quicker rate? And then sort of as follow-up question, I mean, clearly, you folks have made a lot of investments over the last couple years in building out the necessary fiber and putting the assets in place to capitalize on this opportunity. As we start to think about this opportunity going forward, I mean, clearly, co-location is going at a faster rate than you folks had anticipated. Do you believe that this provides you with a very differentiated competitive opportunity or should I say a very sustainable differentiation in capitalizing a greater share of the small cell deployment as network evolve to embrace that type of technology?

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

Sure. On your first question, I believe the deployment of both fiber and small cells is forever going to be a very localized business. So what the FCC did last month is helpful to the industry, to the wireless carriers and to ourselves by making clear what the underlying fees are associated with deploying in the public right-of-way, and then setting forth some time lines, which municipalities are expected to respond to request in order to do that. So what it does is it gives a clear line of sight both in terms of cost and timing. But it in no way negates the necessity and the importance of us continuing to work with those municipalities as we manage and deploy the infrastructure in ways that are sensitive to the aesthetics and the needs of the local community. So I wouldn't look at that and assume that we're going to see a material change in our 18- to 24-month deployment cycle. In fact, we don't believe that will result. But we do believe that it is helpful in some problematic municipalities where they've been absolute, basically, blockers to the deployment of the technology and the deployment of fiber and small cells in the public right-of-way. So in some places we may actually see a little bit of benefit, but I think on the whole what you should expect is our deployment cycle will continue to be in that 18- to 24-month range. And the FCC order is helpful as the scale of the deployment, as I was mentioning earlier, moves well past just the top 10 markets and moves across a larger portion of the U.S. as it gives us greater visibility on what the economics are going to look like and the timing of approvals, et cetera, at the local level. On your second question, this is very similar, our view in the deployment of fiber to what we saw with towers, which is the low-cost provider ultimately wins this -- wins the day. And we've invested in an asset that can be shared across multiple customers, thereby lowering the cost of those customers and whether the customer is a university, a school district or a wireless carrier who's looking to deploy small cells, that shared fiber asset means that we're able to deliver to them a very low-cost provision of that fiber. And in markets where we have and own the fiber, we do believe over the long term that low cost will win, and it will attract additional customers as they look for the lowest-cost alternative in the deployment of their network. As we look at opportunities outside of the markets that we're in, we may see an opportunity for us to continue to invest capital and expand the portfolio of assets that we have, or it may be that the returns are such that we choose to just own the assets that we built in the top markets that we've done thus far, and we see the model transition more towards a co-location model. So it just depends on how the market develops and where the returns are, whether we continue to expand the footprint or utilize the assets that we've acquired to date. But as I mentioned in my comments, what has been clear in the early days of this is that having the asset in place drives what we fundamentally believed was the business model when we got into this business that it's a shared asset just like towers, and our goal is to put as many tenants on that shared asset as we possibly can, and the benefit to customer is the low-cost provision and the benefit to us is it increases financial returns, and that's the way we're seeing the business play out and pretty excited about where we're positioned relative to the deployment schedules that are ongoing around 5G.

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

And as you pointed out Amir, just to add a little bit to that. We do believe we have sustainable advantages, especially in the markets where we have built fiber and have a pretty broad expanse of that fiber within a market. It's hard to come in and overbuild and try to compete on price and try to compete on network quality and try to compete on all of the capabilities that Jay talked about. So as this market would expand, if it expands and we believe it will, I think we hope to maintain that competitive advantage and press on it as we invest in future markets as Jay has talked about, but especially in the markets we're already in. We think that we are in a really good spot.

Operator

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

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

First, if we go back to your Q1 2017 earnings call, you guys noted that you had about 25,000 small cell nodes on air at that time. And you said that your backlog meant the number of nodes on air would approximately double after 18, 24 months. So we don't know the exact cadence of those installations or how the pricing for those nodes compare to the installed base. But it still seems like it would have been sufficient to drive an increase in small cell revenue in '19 in excess of what you guided to. So can you talk a bit about what might bridge that gap or alternatively, if there's something wrong with the notion that if your on-air node count doubles your small cell revenue should, roughly speaking also double?

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

Yes, Nick, thanks for the question. So a couple of things I would point to. Broadly, if you think about what has happened over the last couple of years and you look at revenue growth, if you look at our revenue growth in 2017, and then look at the revenue growth that we're

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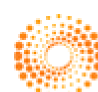

expecting in 2019 from small cells, it is basically a double from -- in terms of revenue growth over that period of time. So that comes -- that's one way of thinking about it. Second thing I would point out to you is, as we talk about the average of deployment cycles of 18 to 24 months, depending on where that falls, that can have a little bit of an impact of the pacing of that. And you'd have to look at both the pacing in 2017 and when nodes came on air and then also the pacing in 2019, and those 2 things could -- if you were trying to put a really fine point on a couple of million dollars to figure out where that falls one way or the other, the timing in both periods could affect the way that those numbers fall out. As I've talked about on this call this morning, from a return standpoint, we haven't seen the returns change at all over that several-year period of time. So we haven't seen any real change in pricing as a result of that, so it's not a pricing difference. I think you're probably just looking at a bit of timing differences and when this activity falls. And obviously, if some portion of the nodes that we're talking about in 2019 fall towards the second half of the year, then the financial impact in calendar year 2019 is relatively small. Then the last thing I would mention to you is, I think probably the best indication of how we're performing on this front is the statement of customers and how we're doing on winning additional nodes. And as I made the point in my comments, I mean, our pipeline's up about 40% year-over-year from this time last year. So we're delivering on the customer commitments that we've made, and that's resulting in those customers giving us increasing levels of activity because we're the best provider in the market, and they believe us to be able to deliver on the goal. So I think if you look at revenue growth, if you look at returns, which have stayed the same and then you look at kind of activity and what we're seeing as additional business from the customers, I think all of those signs point out to the fact that the business is performing in line with what we expected. And '19, at this point, looks like it's shaping up to be a pretty good year in terms of the deployment of additional nodes.

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

Okay, that's helpful. And maybe one more on the fiber segment this quarter. It looks like fiber segment revenue grew about 1% sequentially or something less than 1% if we back out the amortization prepaid rent. If we assume that small cells are again about 1/4 of that business and they're growing at a rate in the teens, that would imply fiber solutions revenue is flat or down sequentially. Yes, I know there can be credits and settlements and stuff like that, that can swing things around. But is there anything going on there that we should be cognizant about?

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

Yes, Nick, there's nothing really to be going on there. And I think that, that's borne out in our 2019 guidance. We really look at the trajectory of the growth of this business as being pretty consistent in that mid-single-digit range. And any quarter-over-quarter move like you're talking about, it may not go exactly stairstep, but we think generally speaking, it's going to go up in that 5% range year-over-year, and there shouldn't be huge differentials in quarter-to-quarter moves, but if there are, there's nothing that would -- we think we would want to call out or put your attention to or else we would actually do that in a way that would make it pretty clear. But there's nothing that's happened in the third quarter that would rise to that level.

Operator

We will take our next question from Phil Cusick JPMorgan.

Yong Choe ***JP Morgan Chase & Co, Research Division - VP in Equity Research***

This is Richard for Phil. Given your commentary about the backlog and the amount of small cells that might be needing to come online, it seems like we might be ramping from the 10,000 to 15,000 to something higher. Should we expect CapEx and OpEx to come up longer-term as you said the returns are very good, so it's worth it? But how should we think about that opportunity and the impact on Capex and OpEx?

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

Thanks for the question, Richard. On the OpEx side, as we put these nodes on air, the margins are in the neighborhood of about 60%, roughly. So there's going to be operating expense that we see track with those -- with the deployment of nodes, specifically as Dan mentioned earlier. About 70% of what we're putting on air are new systems and about 30% are co-location. So I think on the blended basis, somewhere in the neighborhood of about 60% is probably the right guidance in terms of the impact of OpEx or direct OpEx. From a Capex standpoint, we talked about what we're turning on air in '19 and the capital spending that we think there will be in 2019. That's -- if you're trying to go out further than that, I think you have to start to make a scaled decision, and I'll leave that to you in terms of how much you want to scale the business beyond the level that we're seeing currently. For a like level of activity, I would assume a like

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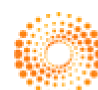

amount of capital. That would be the guidance that I would give you. And if you want to scale it up or down from there, I think you can scale the capital relative to that, and I think that will be a pretty good answer. And then maybe the last component to round out on the OpEx side, around the staffing levels that we have in place for the deployment of small cells, we believe, we're appropriately sized at the moment for delivering on those 10,000 to 15,000 per year. And then if we see a scale increase from there, or I guess a decrease, then we'll adjust the cost structure appropriately. But without having a specific number to talk to, it's difficult to give you that. I think what I would say is, if the returns stay as they are, then we're happy to put additional investment around our ability to deploy nodes. And we think those would be attractive returns, and if they are not, then we would pass on the opportunity, or pass on the investment opportunity. But if everything holds as it is now, and we're certainly hopeful we're going to continue to see the business, we'll be happy to make investments around the capabilities to continue to deploy them at scale if the market has the opportunity there.

Yong Choe ***JP Morgan Chase & Co, Research Division - VP in Equity Research***

I guess my question was more -- it seemed like you're implying that there's a bigger opportunity and you're seeing a bigger backlog. Am I taking that the wrong way?

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

No, no. We're definitely seeing a bigger opportunity. I think I'm just trying to limit my comments to 2000 -- calendar year 2019 rather than go out beyond 2019. So we're certainly pointing to the fact that there is lots of early seeds that would suggest that the business is going to continue to scale and grow, and as we get into calendar year 2019 and start to think about giving guide for 2020, then we'll be happy to update you on what the cost structure looks like.

Yong Choe ***JP Morgan Chase & Co, Research Division - VP in Equity Research***

Got it. And then finally, can you talk about -- give us a little more color on churn? There's a lot going on there. Kind of what are you seeing in terms of churn with towers, small cells and fiber? If we can just kind of go through that, I think that would be helpful.

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

Sure, Richard. As I mentioned in my prepared remarks, the tower churn is on the high end of our 1% to 2% range, so call it around 2% in towers. More than half of that is from some remaining acquired network churn. Just to give us some background on that. I know you remember that we had in our supplement historically provided some acquired network churn over time. That was because we thought that, that acquired network churn was going to push our overall tower churn above the 1% to 2% historical range, so we wanted to give additional color on that. But now that we're back in that range, we've taken that disclosure out because we think this 1% to 2% is indicative of what the future is going to look like including for 2019. But if you look at the last disclosure we had, beyond 2020 was somewhere between $35 million and $60 million. So we're just -- we're seeing the churn that we expected from those acquired networks over this year, and that's what pushed us up to the higher end of the range, but we're still within our historical 1% to 2%. On the small cell side, we're really not seeing a whole bunch of churn to speak of it at all, so less than 1% is what we said, but it's a pretty small number. I think that's both indicative of the early stage we're in, but also of the stickiness of the business overall that once the small cells are installed, it's very difficult to get off of those small cells because they're providing service to customers. On the fiber side, we're in the high single-digits range. And so when you add all of those things up, you get into that number that's around that $175 million overall churn that we put in our outlook.

Operator

We'll take our next question from Brett Feldman with Goldman Sachs.

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

Actually, I wanted to go back, and actually have some follow-ups from Dave's question earlier in the call when he was talking about your funding plan for the year. And I think this is the way I interpreted Dan's answer, but let me know if I'm wrong. It sounds like you determined over the course of the year, it was appropriate to issue equity financing, then obviously your share count would be higher than it is now. But I also -- I think I heard that it's possible your interest expense may end up being lower because you wouldn't necessarily have to issue as much debt as maybe is embedded in the interest expense assumptions in your guidance. Is that a fair interpretation of those comments?

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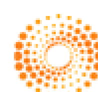

Daniel K. Schlanger ***Crown Castle International Corp. (REIT) - CFO, Senior VP & Treasurer***

Yes.

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

It is, Brett. It is, Brett, yes.

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

Okay, good. Then I'll ask a business question then. There has been a lot of focus on sort of what's been driving tower-leasing activity in the U.S. this year, and there seems to be an embedded assumption that the year has been sort of ramping in part because projects have been ramping, whether it's FirstNet or things other carries are doing. And so as you were trying to think about what was an appropriate outlook for your tower business for 2019, and we know that you think you are going to have more new leasing activity than you saw this year, are you sort of saying that you're comfortable that the exit rate of 2018, which is a higher exit rate than you started the year at, is sustainable? Or is there something else more nuanced in terms of how you got there? And then just an extension of that, how sensitive is that outlook to whether or not Sprint and T-Mobile actually are starting to combine their businesses in the second half of 2019?

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

Brett, I think, we -- when we look at this item, and I would say this about tower leasing or small cells or fiber solutions, when we give the outlook, we, obviously, don't have perfect visibility for what's going to happen over the next 12 months. So we base the outlook on both the activity that we're seeing currently and then the conversations that we're having with our customers and what those conversations lead to in terms of our expectations of financial results for the ongoing year. So for 2019, that's -- I think the answer to your question around tower leasing is it's a combination of both of those things. So we have seen an accelerating leasing environment over the course of 2018. Then there are a number of events, whether you want to talk about FirstNet, the deployment of 5G, general upgrades in the network and densification efforts that are ongoing, all of those things are factoring in to our expectation for 2019. And it is an elevated level of activity that we would expect to continue throughout the course of all of 2019. For our assumptions, as we thought about that leasing activity with regards specifically to T-Mobile and Sprint that you asked about, we have assumed that they will continue business as usual in those assumptions. And I think based on the comments that T-Mobile has made publicly with regards to the acquisition of Sprint, it's very clearly designed and their intention is to make significant investments around the deployment of 5G at levels that would exceed those of both what T-Mobile and Sprint have done independently on a combined basis. And so we would look at that and say, we'll assume that model continues to play itself out and that reflects our level of activity for 2019. Obviously, it depends to some degree, the second part of your question there, on the timing of that combination and what the impact is either to the positive or to the negative depending on when the combination happens. But at the moment, they're independent companies, and we're seeing them operate as such. And so we've based our outlook based on the activities that we're currently seeing from them.

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

And I would imagine that if you are in the middle of the year and they started to execute leases, which probably wouldn't even be put in place till later in the year, at that point, you are kind of locked in to the remainder of the year anyway, even if they decided to modify what they're doing in say 2020 or longer, is that fair?

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

Yes, that's the nature of the business. It's 6 months into the calendar year 2019, at that point, the vast majority of everything that will be turned on air the carriers have committed to, and then if you think about small cells and what happens on the small cell side, that activity was -- will have been committed to a couple of years ago. So we have some visibility around when that will turn on. So events that happen as we get towards the -- certainly as we get towards the middle, second half of the year, have very little to no impact to the financial results in that calendar year.

Operator

We'll take our next question from Michael Rollins from Citi.

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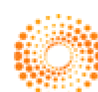

Michael Rollins ***Citigroup Inc, Research Division - MD and U.S. Telecoms Analyst***

Just a few follow-ups, if I could. First, on the description that -- some of that churn, the towers are getting pulled in, does that also create an accelerated amount of payments for the customers that exit a lease early? And if so, is that in the guidance? And then if I could also maybe follow up on the fiber business. Can you talk a little bit more about what goes in new leasing activity and churn? So for example, like price increases, price decreases, service upgrades or downgrades. How do you treat that within the revenue bridge? And is fiber churn that you're expecting for 2019, is that a normal year of churn? Or are there some helps or hurts that we should just be thinking through?

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

Yes, I'll take the first one, Mike. Thanks for the questions. The -- I wasn't trying to say that our churn was being pulled in. What I was saying is there is acquired network churn that is in line with what our expectations have been. And so they're not accelerated payments that we would have in our guidance to have that. It's just churn that we expected, and it's coming in as we expected. On the fiber side...

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

Yes, I'll take -- on the fiber side, on the churn, this is probably a bit of a difference between the way we typically, historically, talked about what happens in the tower business and some of what happens in the fiber business. And we've chosen to just sort of conform to the industry norm. So I'll give you an example. In the tower business, if a customer comes out and wants to add an amendment and put additional antennas on an existing array, historically, as a tower industry, we'd call that an amendment and taking that additional revenue in the form of an amendment. In the fiber business, they actually count the legacy lease as churn, and then put in a new lease that's both the legacy dollar amount and then the new amended rate. And so it, in some ways, causes churn to look elevated beyond what we would think about in the tower business as churn. In the tower business, the churn means that the customer went away and there was no replacement of the revenue. In the fiber business, you have competent of what I just described as an amendment where the carrier -- where the customer very well may end up paying more for the service as they take on additional capacity in the fiber network. And in some cases you have occasions where a large enterprise will move office buildings and go to a new location, and you have an asset there and potentially a new tenant that moves into the building and you re-lease that same fiber network and -- at a cost of virtually little to no additional capital investment. Again that's counted as churn even if the entire revenue stream is replaced by the tenant taking over that location. So in some respects, I think, you could look at the 9% number and say it's a higher percentage than is actually functionally happen in the business as we experience churn. But we've just sort of taken the course of let's continue to report the number in a way that's consistent way. Others have thought about the fiber business and consistent with the way Lightower thought about the business given that they had public debt, and then been in a number of meetings and explained the business. But all of that I would say, while maybe helpful for your own thinking about what the impact is to the business, at the end of the day, the right way to think about the business is what's the net revenue growth, which is why we talk about, and Dan talked about the kind of specific net growth in the fiber business around 5% net growth. We think that's a good assumption, and we believe we can continue to operate the business in the mid-single digits of growth at the revenue line there, and obviously, that bolsters our total returns on fiber.

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

That's very helpful.

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

And then maybe you -- oh, sorry, please.

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

Would you describe -- you also mentioned...

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

Sorry Mike, I just want to make sure I answered all of your questions. I think you also mentioned, is there anything that's abnormal in the year around churn. Nothing that we would point to. We think 2019, at least at this point, we expect that to be a normal year. So our expectation of high-single digits of churn in that business, there's nothing in there that I would point to as abnormal either pluses or minuses.

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Operator

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

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

So prepaid rent on the fiber side has been volatile this year. Is this reflecting small cell CapEx reimbursements, and then should we infer that there were fewer deployments in the third quarter versus the second quarter? And then a little more broadly, can you say what you expect the total small cell deployments over the course of this year could be versus that lower term 10,000 to 15,000 target?

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

So thanks, Robert. On the prepaid rent, the answer to your question is, yes. Most of that increase in prepaid rent amortization is related to capital contributions we get for the deployment of additional small cells. It happens as that capital is being spent and then being reimbursed. It is not directly in line with the number of nodes put on air in that same period. So you cannot look at it quarter-over-quarter and make an assumption or draw a conclusion around what the level of activity is in that quarter because those things are not always aligned. We spend and get capital in ways that are much more aligned with milestones and payments, and it has -- it's very difficult to try to equate that directly to how many nodes go on air in a quarter. I think, year-on-year, you can make a better view of that, but even that starts getting a little skewed depending on when they come on air and when we've gotten paid for them. But generally speaking, the prepaid rent amortization has to do with those capital contributions because those are, generally speaking, again, similar in '19 than they are in '18, the growth in prepaid rent is going to be about the same in '19 as it is in 2018.

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

On your second question around node, this year, we'll probably put somewhere in the neighborhood of 6,000 to 8,000 on air roughly. Next year will be in that 10,000 to 15,000 range.

Operator

We'll take our next question from Spencer Kurn from New Street Research.

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

So we're seeing carriers strike deals with a number of municipalities to leverage the city's infrastructure for small cell deployments. And I'm just curious, do these agreements impact the way that you compete or the way you look at the overall opportunity in these types of markets relative to markets where carriers haven't made these types of deals?

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

Thanks, Spencer. We -- not only have the carriers done that, but we have done that in instances where we'll work with municipalities and strike a deal with the local municipality in order to be able to deploy small cells. So the deals are helpful because similar to the order from the FCC, they give line of sight in terms of what's required and the time lines that are required and what the economics are. And so it's not -- I don't think it's anything unusual nor would I point to it as that changing to the business model or the timing. It's just normal course dealing that we would find in the market. And I don't believe anything that the FCC has done will really change that. As I made my comments earlier, what the FCC has done is really given better line of sight around the economics and timing. And so to the extent that as we work with municipalities and figure out what the right local solution is, it certainly gives some guidelines and guard rails to what that conversation should look like and what the outcome will ultimately be. So I think you're probably less likely to see things that kind of hit the paper per se given the guidelines and guardrails that the FCC has put in place. But I wouldn't be completely surprised if you don't continue to see the municipalities strike deals with carriers or with ourselves in order to do things that are market specific.

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

Yes. Actually -- so my question wasn't so much about the ability to strike deals with municipalities, but it was about sort of how you compete in cities or if your returns are different in cities where a carrier like Verizon has struck a deal with a municipality to use their infrastructure versus another market where they haven't. And I'm just curious if the way you look at the returns you can generate are any different? Or if it's sort of just normal course of business and doesn't really matter?

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

For the most part, the infrastructure is deployed in the public right-of-way. So if your question is going to their discriminatory pricing among providers inside of that public right-of-way, I would tell you that, one, it's not permissible by law to have discriminatory pricing. So the deals that you see struck either by ourselves or by the carriers are for the benefit of anyone who would operate inside of the -- that public right-of-way for a similar deployment of infrastructure. So I think again, back to my comments, I think that's a relatively normal activity that you're going to see providers who are trying to deploy infrastructure go through that process with local municipalities. And I don't think it has really any implications to the positive or to the negative to our business.

Operator

This is the last question. We turn it over to Amy Yong from Macquarie.

Amy Yong ***Macquarie Research - Analyst***

I was wondering if you could comment on your recent expanded deal with T-Mobile. Obviously, they've been clearing 600, they've chosen you as their preferred partner in their small cell deployment. Wondering if you could share any components of the deal, respectful of obviously any kind of customer confidentiality, but components of the deal you're willing to share? And also if it contemplated at all T-Mobile and Sprint?

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

Amy, I hate to do this to you on your last question of the day. But we don't like to comment specifically on individual customer relationships. Obviously, they were kind enough to give us credit for the role that we're playing in the deployment of their network. And we've done a significant amount of business with T-Mobile and are doing a significant amount as they referenced in their press release of the need for 5G and the important role that Crown Castle has played for them both in what we've done so far and what we're going to do. And I would just tell you, it really goes across the board, across multiple carriers. We're focused on delivering for those customers based on their needs around 5G and they're going to need a lot of small cell nodes, and they're going to have to spend a significant amount of capital to densify their network in order to deliver on their 5G commitments. And our assets sit in the sweet spot for that. So we're working with all of the carriers. And certainly, we have conversations around how we think the world will develop and what their needs will be, and then our aim is to be able to deliver a solution that works for them. It's the low-cost provision and then also delivers for shareholders the returns that we need to deliver in order to drive an increasing dividend of 7% to 8% per year over the long term.

Well, thanks everyone for joining us this morning on the call, and we will -- we'll talk to you next quarter. Thanks so much.

Operator

Thank you. Ladies and gentlemen, this concludes today's teleconference. You may now disconnect.

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