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PRESENTATION

Operator

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

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

Thank you, Ebony, and good morning, everyone. Thank you for joining us today as we review our first quarter 2017 results. With me on the call this morning are Jay Brown, Crown Castle's Chief Executive Officer; and Dan Schlanger, Crown Castle's Chief Financial Officer. To aid the discussion, we have put the supplemental materials in the Investors section of our website at crowncastle.com, which we will refer to throughout the call this morning.

This conference call will contain forward-looking statements, which are subject to certain risks, uncertainties and assumptions, and actual results may vary materially from those expected. Information about potential factors which could affect our results is available in the press release and the Risk Factors section of the company's SEC filings. Our statements are made as of today, April 25, 2017, and we assume no obligation to update any forward-looking statements.

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

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

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

Thanks, Son, and thank you, everyone, for joining us this morning on the call. As you saw from our earnings release yesterday, we kicked off 2017 with a great first quarter as we exceeded the high end of our guidance across the board and again raised our full year outlook for 2017. Similar to past quarters, this quarter's strong performance is attributable to our continued focus on execution and disciplined capital allocation.

This morning, I'd like to highlight several positive data points supporting our strategy of increasing our long-term dividend per share by leasing our towers and fiber and allocating our capital to assets with expected high returns. With scale and capabilities across both Towers and Small Cells, we believe we are well placed to serve our customers by providing them with access to infrastructure they need to deploy and upgrade their network to meet the growing demand for wireless services.

On the Tower front, over the last several years, we have seen a fairly consistent and healthy leasing environment across our portfolio of 40,000 towers. Exiting the first quarter, we are seeing early signs of increasing activity as the pace of new leases and amendments of existing leases on our towers is above the level at the same time -- at this same time last year. Recent developments like the award of the FirstNet contract and the completion of the 600 megahertz spectrum auction give us confidence that there continues to be an extended runway of growth for Towers as towers remain the first option in network deployment, providing the most cost-efficient way to increase both coverage and capacity.

Turning to Small Cells. We are seeing a significant increase in activity from our carrier customers as they utilize small cells to augment and further densify their macro networks and deploy spectrum closer to their customers. Our Small Cell pipeline currently stands at record levels, with contracts to deliver nearly 25,000 nodes over the next 18 to 24 months, which, when completed, will nearly double our existing small cell nodes on-air. Our contracted pipeline is a testament to our customers' confidence in our ability to assist in the deployment of their wireless networks and speaks volumes about the quality of our metro fiber footprint and our industry-leading real estate, network engineering and node construction capabilities.

To execute on this growing pipeline and to position us for the next leg of growth in Small Cells, we are making additional investments to further scale our organization to be in position to deliver approximately 10,000 small cell nodes per year. In addition to investing in capabilities over the past 2 years, we have made several acquisitions in support of our Small Cell strategy based on our view that there are substantial small cell opportunities in the top metro markets in the U.S. These acquisitions include Sunesys, with its impressive footprint in Philadelphia and Southern California; FiberNet, which includes an extensive network in Miami and Houston; and our recent announcement of our proposed acquisition of Wilcon, which has a similarly extensive footprint in Southern California. What really excites us about Wilcon is that it will give us additional fiber assets in our most active and fastest-growing market for small cells, with Southern California representing nearly 1/4 of our current pipeline.

As you can see on Slide 4, Wilcon's footprint complements our existing assets in L.A. and provides us with opportunities to leverage that footprint in the near term to execute for our customers and save both us and our customers time and money.

Taking a step back, the Wilcon assets represent a microcosm of our larger fiber footprint. Our attractive, dense metro fiber footprint of over 29,000 route miles pro forma for the Wilcon acquisition is located in the top U.S. markets, where we believe there will be sustained and significant small cell demand. This footprint also generally consists of recently built assets, with only a fraction of our current fiber assets currently supporting small cells and even then at node densities that we believe will prove to be low as our customers rely more and more on small cells to expand their networks.

As a result and similar to the early days of Towers, we are seeing significant opportunities to drive meaningful return on our fiber assets as we co-locate additional Small Cell tenants. With what we have seen thus far in our Small Cell business and the opportunities we anticipate coming towards us as evidenced by our pipeline, we believe Small Cells is a business that can rival Towers in terms of both size and returns over time. We are also very encouraged that the unit economics that originally excited us about Small Cells have held as the opportunity has significantly expanded. We are in a unique position where we believe we can deliver sustained growth on our existing assets and, because of the significant wireless carrier network investments needed to support growing demand, still have meaningful opportunities to deploy capital and invest in our business to extend and enhance our growth trajectory. As we make these investments and execute on our strategy, we remain focused on creating value for our shareholders and driving long-term growth in dividends per share.

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

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

Thanks, Jay, and good morning, everyone. As Jay mentioned, we got off to a great start in 2017 with another quarter of results that exceeded the high end of our prior guidance for site rental revenues, site rental gross margin, adjusted EBITDA and AFFO. Driven by the strong results from the first quarter and healthy leasing activity across both Towers and Small Cells, we are increasing our full year 2017 outlook at the midpoint for site rental revenues, adjusted EBITDA and AFFO. I'll get back to our updated guidance a little later in the call.

Turning to first quarter 2017 results. As shown on Slide 5, site rental revenues grew approximately 7% or $58 million as compared to the same period in 2016, inclusive of approximately 4% growth derived from organic contribution to site rental revenues. The $34 million or 4% growth from organic contribution to site rental revenues consists of approximately 8% growth from new leasing activity and contracted tenant escalations, net of approximately 4% from tenant nonrenewals.

Moving on to investment activities for the quarter. We closed on our $1.5 billion acquisition of FiberNet and invested an additional $262 million in capital expenditures, including $225 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.

Also, as Jay mentioned, last week, we announced a definitive agreement to acquire Wilcon for $600 million. We expect the acquisition to close in the third quarter of 2017 and intend to finance the transaction in a manner consistent with maintaining our current investment-grade credit metrics. Additionally, we returned significant capital to our shareholders during the first 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 dividend aligns well with our business, which is characterized by high-quality, long-term recurring cash flows.

Moving on to financing activities during the quarter. We took additional steps to proactively manage the balance sheet by extending our debt maturity profile and increasing our financial flexibility, all while maintaining our weighted average borrowing costs. Specifically, we raised $500 million of additional term loans, with proceeds to be used to repay outstanding borrowings under the revolver, we extended the maturity of our credit facilities by 1 year, with maturities now in 2022, and we accessed the investment-grade bond market, raising $500 million in 10-year notes with a 4% coupon. We also used these proceeds to prepay outstanding borrowings under the revolver.

Following these financing activities, the balance sheet remains in great shape, with no meaningful maturities prior to 2020, a weighted average maturity of approximately 6 years, a 4% average borrowing rate and approximately $2.2 billion of undrawn availability under the revolver. Our focus on maintaining a strong balance sheet positions us well to continue to invest in our business while providing the flexibility to pursue attractive acquisitions.

Turning now to Slide 6. We are increasing our full year 2017 outlook at the midpoint for site rental revenues, adjusted EBITDA and AFFO by $5 million, $14 million and $4 million, respectively. The improved outlook for 2017 reflects an increase in tower leasing activity from $90 million at the midpoint of our prior guidance to $95 million currently, an increase in expected network services gross margin as we are seeing a return to the level of market share we experienced in 2016, and our expectations for continued healthy leasing activity across our portfolio of towers and small cells. This is partially offset by higher anticipated costs associated with investments we are making to capitalize on the increasing Small Cell activity Jay discussed earlier.

Compared to our previous outlook, our updated guidance for full year 2017 reflects increases to expenses of approximately $10 million and to sustaining capital expenditures of approximately $5 million. Given the long cycle time required to bring nodes on-air, the anticipated revenue benefits associated with our record small cell pipeline are expected to come in the second half of 2018 and beyond. Importantly, we believe we will generate yields of approximately 10% on the build-out of this pipeline. This 10% is a blend of approximately 70% anchor builds that expand our footprint and generate yields of 6% to 7% and 30% co-location opportunities that generate yields in the high teens by leveraging our existing fiber infrastructure. We're excited by this increase in our Small Cell business and the yields that we're achieving in the near term, and we believe these investments will position us to generate attractive incremental cash flows and returns in the future.

Continuing on, our current full year outlook does not include the expected contribution from Wilcon of approximately $40 million in gross margin and $10 million in G&A in the first 12 months of ownership nor does it include the impact from the expected financing of the acquisition.

To wrap up, we remain enthusiastic about the opportunity that lies ahead for Crown Castle. We have positioned the company to capitalize on the long-term growth trends and mobile data consumption with our leading portfolio of critical wireless infrastructure assets that includes 40,000 towers and more than 29,000 miles of fiber supporting small cells pro forma for the pending Wilcon acquisition. We believe the combination of our portfolio of assets and our proven expertise in delivering for our carrier customers at scale creates a compelling opportunity for Crown Castle to continue to provide value to our customers while generating long-term total returns for our shareholders from a combination of steady growth and attractive dividends.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we will take our first question from Brett Feldman with Goldman Sachs.

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

In the past, you've given us some good color talking about how the early lease-up you're seeing on Small Cells is actually kind of in line with what you saw in Towers back when Towers was an emerging model. The other side of the equation that investors like to focus on a lot is the costs associated with scaling Small Cells, and obviously, you're folding some additional costs into your outlook right now to support that growth. Is there any story you can tell about how the investment levels you're making in the Small Cell business may be similar or different to what you were doing, I guess, a while ago as you were building up your Tower footprint? I guess we're just trying to think about the pace at which you're going to see more operating leverage emerge in Small Cells and to what extent it may correlate with what we historically saw in the Tower space.

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

Yes, Brett, happy to do that. I think the important point to note here is that the all-in returns of Small Cells are higher than what we originally saw when we were investing in Towers and building towers, and that would be all-inclusive in both the operating costs and capital costs. So that's a component of it. The second component of it is that from a co-location standpoint, we're seeing the lease-up on these assets occur faster than what we originally saw when we built towers back in the early -- in the late 1990s and then early 2000s as we were developing the Tower portfolio. The lease-up is a bit faster, and the total returns are a bit higher. And I think as you heard us speak about, the pipeline that we're looking at, there was a significant stair-step increase in the amount of activity that we saw during the first quarter of this year, which is why we're ramping up on the operating side our abilities to scale for that. So we've talked historically about our level of G&A and staffing was around our ability to deliver somewhere in the neighborhood of 6,000 to 7,000 nodes on an annual basis. And then this stair-step increase that we received over the first quarter means we really need to be developing about 10,000 a year. So we're scaling the business in order to be able to meet the demand that we're seeing.

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

Great. And just a quick follow-up question. I think Dan alluded to this, but it sounds like your anchor tenants are still paying you initial rents that work out to the targeted 6% or 7% yield. Is that correct?

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

That's correct. And then the co-location activity continues to be where we expected. So on a blended basis, as we talked about on the pipeline, the 25,000 nodes that we have contracted, the mix there is about 30% co-location and about 70% anchors. And the returns and yields that we've spoken of in the past, those have held as the business has grown.

Operator

And we will take our next question from Simon Flannery with Morgan Stanley.

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

I think, Jay, you talked about being encouraged by some of the activity you're seeing on the tower leasing so far this year versus '16. Can you just talk about just the overall environment here since we've seen unlimited pervasive throughout the industry and traffic growth accelerating? Have you seen a material change in behavior? Or is that what you're referencing with the Small Cells? And how should we think about getting to MLAs on 600 megahertz on FirstNet? Is that something by next quarter, perhaps, you'll have agreements for deployment on that? And any impact to '17? Or is that really more 2018?

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

Yes. On the first question around tower leasing in the first quarter, as you saw from the numbers, we raised our outlook for tower leasing based on what we saw during the first quarter. Some of that is, frankly, just normal activity, and we really haven't gotten to what we believe we'll receive from FirstNet in 600 megahertz. That's not in our outlook. In all likelihood, based on the timing, I think the impact of that is likely to be a 2018 event rather than a 2017 event. So most of the activity that we're -- or all of the activity that we're referencing in the guide for '17 would just be related to the activity we've seen thus far. Certainly, historically, the plans that are offered to customers by the wireless carriers that drive increased usage for data result in additional capital investments to improve and densify the networks, and we're the beneficiaries of that investment. So the trend line of increased usage and unlimited data plans is a good thing for our business and generally results in additional revenue growth. So maybe we saw a little bit of the early signs of that in the first quarter. And then to your second question, the opportunity there is more longer term. As to how ultimately we'll structure those agreements, in the past, we've taken various approaches to assist the carriers on speed and use. In some cases, as you referenced, we've taken an MLA approach, where they've committed to a certain level of activity upfront. In other cases, we've just done it on a -- as they touch the assets, then we see the step-up in revenue. And we're open to both approaches. Both have proven over time to be valuable ways to contract with the customers. And based on their desire and willingness to go one way or another, we're open to both approaches.

Operator

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

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

I guess first one would be, Dan, I think you've mentioned that the bulk of the revenue opportunity for the backlog of Small Cells, which you said was 25,000, was going to be in the second half of '18. I guess 2 questions around that. One would be, what's the total revenue backlog, if you could put a number around that? And then second, kind of what is the activity that happens between now and 2018 that moves the Small Cell revenue needle if it's not that backlog? And then on the second question, if I could, Jay, could you kind of elaborate a little bit as to the level of firmness that you've reached with your negotiations with AT&T on the FirstNet deployment and how you kind of envision that flowing through the income statement? Is that just going through, say, the Tower revenue line? Or is it a commingling of Small Cell and Tower opportunities or other things? Could you kind of talk about how that negotiation process is coming along?

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

Yes. Thanks, Dave. I'll take the first couple, and I'll toss it over to Jay for the last one. You mentioned just trying to size the opportunity in the Small Cells. We talked about the yields that we think we're going to get of being around 10%. We think the capital that's going to be required is around $1.2 billion or so. And so what we're looking at is, on a run rate basis, when it's all installed and all on-air, which, like we said, is late 2018 to early 2019, is around $120 million, give or take. Those aren't going to be exact, but they'll be ballpark numbers. And what's going to move the needle between now and then is -- as Jay talked about, this was a stair-step move in the first quarter. So we had a backlog before, but we added a bunch in the first quarter. It's the backlog that we had before that we will execute on that will allow us to grow between now and the end of '18. But we won’t see the bulk of this really big stair-step until the end of '18, early '19 given the timing and pace because that's the way that the contracts came in.

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

On your second question, I don't want to get into specific negotiations with any of our customers on a call, but the big picture, maybe it's helpful to talk a little bit about the time line around FirstNet. FirstNet has a responsibility to submit to each of the states by September 30 of this year their plan for build-out, and then the states have the opportunity to opt in or opt out of that plan by the end of this year, so 12/31 of '17. And any of the states that opt out of the FirstNet federal approach have about 6 months to lay out what their plan is for deployment. So I think in terms of timing and when we'll have more clarity, my guess is as we get into the first quarter of '18, we'll probably start to have some clarity as to what states are going to be in the FirstNet approach and which states will opt out and go down the path of doing it by themselves. I think at that point, then we'll start to have some view of where ultimately the revenue opportunity is. Obviously, the time lines from the public disclosures, as required by those license, it's a significantly -- a significant build-out that happens on a relatively close time line. Geographic coverage is somewhere in the neighborhood of about 20% over the first 12 months, and it has to be that 60% geographic coverage after 24 months. So there's a significant build coming, and the form that it takes and what ultimately the impact to us is going to be, I think we've got to just wait and see as, over the next few months here, we start to have some clarity around who's going to ultimately build the system.

Operator

And 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*

A couple of questions, guys. Appreciate the color on the Small Cell backlog. Dan, you mentioned the CapEx might be $1.2 billion. Can you help us understand kind of the time frame that might take to hit the CapEx line? And then a second question, on the $10 million employee cost, you mentioned that that's for installation and production. Any way to capitalize that instead of expensing it? Or what are the -- what is that employee base doing? Is it sales? Is it maintenance? Or is truly building?

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

Yes, thanks, Ric. So the timing of the capital spend will likely follow just a little earlier than the timing of the revenue, but we can't give you an exact number on that. It will roll out over the next, call it, 18 months or so. But as we talked about, there was a pretty big stair-step in the last quarter, so this will be a little bit back-end-loaded from that. In terms of the $10 million, that $10 million is the expectation of what is expensed and not capitalized. So we will capitalize a lot of the labor that will go into the projects. This will be more the management level that we tend not to be able to capitalize in addition to any time that isn't directly related to projects.

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

Okay. And then not anything specific on FirstNet or the broadcast spectrum, but what type of equipment are you hearing being discussed? Because obviously, both are low-band frequencies, might be big antennas. So we're trying to frame it or size it for people who are trying to figure out does it look like this will be co-location, will it be amendment activity. But what's the early thoughts on what might be involved with the low-band FirstNet and broadcast spectrum?

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

Ric, it's still probably too early to know exactly what that's going to look like. I walked through the FirstNet time line. Obviously, the 600 megahertz auction has just been completed, so it's really too early to be that specific. Historically, if you go back and look what has happened over a long period of time through multiple different spectrum auctions and deployments of networks, the first wave of activity tends to be amendments on existing sites. And as additional spectrum bands are deployed by carriers who already have existing infrastructure, we see them such a significant portion of their existing network and overlay that, and that brings about meaningful amendment activity. And then the second phase comes back to densification and adding additional sites. We think we'll see that on both the tower and the small cell side as they increase the density of their network and deploy that spectrum. So it's obviously a positive for us, but the ultimate what's the value per site, we'll have to get a little further down the road to know what the impact there is going to be.

Operator

And we will take our next question from Jonathan Atkin with RBC Capital Markets.

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

So I had a couple of questions. I wondered if you can comment on the growth that you have seen on the legacy T-Mobile assets versus, say, the legacy AT&T assets as well as just the legacy Crown assets. And then my question on fiber relates to Wilcon and looking at kind of the Southern California fiber market and the number of players there. Sunesys is obviously quite a big company that you bought, as is Wilcon. And how does the state regulator look at those sorts of topics around fiber footprint when it comes to approving the deal?

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

Do you want to take the first one?

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

Yes. On the leasing on the T-Mobile assets, I think what we said across all the portfolio of assets, the leasing is generally consistent. And we've seen the leasing to take form in exactly what we would have expected at this point. So it's still adding about 1 tenant every 10 years on all of those portfolios of assets. We don't see a whole -- a lot of differentiation between them. They're all performing as well as we would have expected.

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

On the second question, the time line, as we talked about, for a regulatory approval is -- we think that will happen sometime during the third quarter of this year, so we would expect to close on Wilcon during the third quarter. As you can see from the map that we provided in both the supplemental when we announced the transaction as well as the provided slides this morning, you can see that the portfolios are really complementary. So there's very little to no overlap of the fiber there in L.A. And we believe that the opportunity there for us is significant as we continue to deploy wireless. And I think we've been really specific over a long period of time, as we've looked at these acquisitions, around what makes this fiber attractive to us. There are obviously a number of fiber providers in the L.A. market that have differing business models than our intention and strategy is in that market. And what's interesting to us in both the Sunesys and the Wilcon acquisition is the location of that fiber that we believe ultimately will be valuable for the deployment of wireless networks. As I mentioned in my comments, most of this fiber is relatively recently built and has a relatively low amount of revenue per fiber mile. And the real opportunity here is to use it in ways and provision it in ways that hasn't been done thus far on the deployment of small cells on the wireless network side. And so we're pretty excited about the opportunity. We think the regulatory approach is pretty straightforward and think it gets wrapped up sometime during the third quarter.

Operator

And we will take our next question from Phil Cusick with JPMorgan.

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

It certainly doesn't seem like there's any dearth of opportunity in Small Cell despite some carriers starting to do more of their own work. Is this a significant broadening of the customer base? And what's the RFP pipeline look like? Does it imply a further acceleration from even what's already been signed?

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

Thanks for the question, Phil. There's 2 things that I think are highlights for what we're talking about this morning. One of the highlights is the pure scaling of the opportunity here. As we've talked about, this is a stair-step. It's a double from everything that we've done life-to-date, so the amount and scale of this opportunity is significantly greater than anything we've seen in the past. And I think it supports our view that ultimately, Small Cells have the potential to be as big as Towers are. So I think that's important from a scaling standpoint, and it does -- it is a reflection of the broadening of the activity across multiple carriers. The other important point to make this morning, which I think is then an area where people -- to the extent they've been skeptical about small cells, the skepticism has been around whether or not there are truly co-location opportunities from the deployment of small cells. And as we look at that pipeline today of about 25,000 nodes, as Dan mentioned in his comments, about 30% of those are co-location, which means that in the pipeline today, there's as many co-location opportunities on the existing fiber footprint as we're doing in total on an annual basis currently. So the model is proving out both in terms of co-location and expansion of the returns as well as the scaling of the opportunity. And my view is those are 2 very good signs that we're on the right track from a strategy standpoint. And in terms of does it continue, we believe so. I mean, I continue to believe this business has the opportunity to be the same size as our existing Tower business. Thus far, with almost entirely all of the activity has been focused on the top 10 markets in the U.S., top 10 to top 20 markets in the U.S. that's driving the vast majority of the nodes to date as well as the nodes in the contracted pipeline, then we believe that the opportunity is going to expand well beyond the top 10 markets in the U.S. and so believe there's a lot of opportunity here for growth in both revenues but, more importantly, growth in returns over time as capital is invested in fiber ahead of the deployment of small cell.

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

And then in the meantime -- sorry, just to jump in, so in the meantime, Jay mentioned this earlier and so did I, is that the returns that we're seeing on these assets as we put them out are exactly what we've seen over time. So we haven't seen any deterioration even with a significant expansion of the market, so we're seeing anchor builds at 6% to 7% still. And the overall of this huge pipeline being at 10% just speaks well to the location of our assets and our capabilities and ability to deliver for our customers because we're getting what we thought we would get out of these assets in the near term, and it positions us for lots of growth in the future.

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

And in terms of the RFP pipeline, are there more deals that are in the pipeline? Or is this sort of as much as you're comfortable signing for now?

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

We've historically only talked about what's contracted. So if you look at what are -- if you were to ask the question in terms of what are we chasing, true, we're chasing lots of opportunities, but they're not contracted yet. And happy to give you an update as those become contracted and in our pipeline and we're working on building them. But as big as the total market opportunity is -- or you can speculate on, we're aiming towards being a significant portion of that total market opportunity. And what we're talking about this morning is what of that opportunity we've already contracted and are working on.

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

And the reason that we pointed out the costs that were associated with this pipeline is because we think it will continue or we wouldn't have that in kind of a recurring type of thought process in our guidance. So we believe this type of pipeline will continue.

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

If I can follow up, Verizon talked recently about deploying something like 1,400 strands of fiber per route. What does your current rollout architecture look like?

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

Phil, it depends on where we're deploying it and how many nodes we believe will ultimately be there. So we look at what we believe to be the density of nodes across a given mile of fiber and then size it based on that. We've found, over time, that scaling the fiber, adding additional strands, oftentimes, you look at what's the conduit there, what's the ability to add additional fiber strands over time and then what's the opportunity, and then we size the fiber build based on that.

Operator

And we will take our next question from Nick Del Deo with MoffettNathanson.

And with no response, we will move to our next question. It comes from Amir Rozwadowski with Barclays.

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

I was wondering if we could chat a bit more about sort of your appetite for further fiber -- bolstering your fiber footprint. I mean, clearly, you folks have been focused on selecting the right type of assets in order to capitalize on this rising small cell opportunity. How do you think about sort of your footprint as it stands today and the potential to expand that footprint going forward?

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

Amir, we would think about it in a similar way that we've undertaken all of the acquisitions that we've done so far, and I pointed out 3 of them in my comments, which I think are indicative of our approach, where they're specific markets, they're dense fiber footprints in top metro markets in the U.S., and there were places where we had contracted pipelines and nodes, and we thought it made sense to go out and find fiber to do that, to use for those contracts rather than building the fiber from scratch. There may be opportunities for that in the future, but it's going to come down to what do we have as opportunity sets in front of us. And we continue to be focused on the wireless aspect of the infrastructure, what the opportunity is there from the wireless carriers for small cell nodes. And then to the extent we need to acquire fiber to do that and to meet that demand, then I think that's on the table of potential solutions.

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

Great. And one follow-up, if I may. There's been ongoing speculation or concerns that as small cells continue to permeate the market, that can diminish the macro site opportunity. And obviously, that's not a new concern. Recently, there's been reports or discussions that one of the more aggressive carriers on the small cell front has also expanded its densification initiatives on the macro side. Just wondering, given sort of your positioning and the demand that you're seeing on both ends, can we move past that argument at this point? I mean, are you seeing the demand on both fronts balanced going forward in terms of new spectrum deployment and opportunity sets at both the macro and small cell front?

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

Amir, I guess the great benefit we have given our scale of both Towers and Small Cells is we can truly see how complementary the 2 approaches in infrastructure are. And you can see from our results over the last couple of years, tower leasing has continued at the same level that it had been at. At the same time, there's been investment and an increase in activity around small cells. So they are complementary and work together to densify the carriers' networks, and we're not seeing any signs of that changing.

Operator

And we will take our next question from Colby Synesael with Cowen and Company.

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

Two, if I may. Starting with churn, when I look at the guidance that you -- the guidance update that you provided, you slightly increased your expectations for churn. But then when I look in your supplemental, you slightly took down your expectations for the acquired network churn, so the Leap, MetroPCS and Clearwire. So I guess traditional churn, if you will, is anticipated, call it, maybe $5 million. And I'm just curious what's driving that. There's obviously a lot of discussion in the market, and we've all seen the various letters that the carriers have sent to the tower operators in terms of trying to renegotiate or at least threatening to potentially leave. And I'm just curious if you're seeing any of that. And then second question, by our count, maybe 2/3, maybe 3/4 of your current fiber business is not small cell or maybe not even wireless-related. I'm just curious what's the growth rate for that portion of your business or that portion of your fiber business right now? And what's your current thinking and your comfortability with that business in terms of pursuing those opportunities?

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

Sure. On the first question around churn, we're not seeing -- we don't have a different expectation for churn for calendar year '17 than what we did previously. The timing of that churn occurred a little earlier than our previous expectation, but we haven't made any changes there for what we expect over the course of the full year. On the second question around pricing in the market, we've talked about this for a long period of time. We haven't seen any change in the pricing on towers or on small cells. We talked a lot extensively this morning about the economics around small cells and how they've held since the beginning. So the economic trade there for both towers and small cells has stayed the same. We haven't seen any change in the pricing environment. I talked about this, I think, a lot on the last conference call. When you look at how we propose an economic trade to the wireless operators, the reality is this infrastructure being shared provides them with the lowest-cost alternative, and that has been demonstrated over a number of different business cycles over a long period of time. That is far more cost-effective for them to share the infrastructure than it is to own it themselves. And I think that's what supports the pricing model, is that the lease cost, if you will, on the economic side is very low relative to their cost of capital, and so sharing the infrastructure provides their lowest-cost alternative. And so we haven't seen any change in the pricing environment. On the last...

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

Go ahead, sorry.

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

Did you want to follow up on that?

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

No, I was just going to ask about the growth, but it sounds like you're going to go after that right now.

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

I was. On the wireless and non-wireless side, we underwrote these assets, and they did come with some non-wireless revenues, a portion we've talked about the K-12 business that we have. That business, we think, will continue to grow. Frankly, we didn't underwrite it in our models. Our underwriting models were based on what we thought we could do from a wireless perspective and the opportunity for Small Cells. We do think that the fiber, given where it's located, is going to continue to have the benefit of customers like K-12 in providing broadband Internet access to schools. That revenue tends to be pretty stable and has characteristics that look similar to what we've experienced on the wireless side in terms of length of contract and renewal rates and other things. So that revenue may continue to grow. Frankly, we continue to spend most of our time and effort focused on the wireless side. From an absolute growth rate perspective, it's basically in line with what we're seeing on the wireless side, maybe a little less than that. But the focus from a strategic standpoint is on the wireless side.

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

Is that in your guidance, Jay? Are you guys assuming that in the numbers you provided for guidance?

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

Yes, of course. We have to assume what we believe across the whole business for all of the providers of tenant leasing, so that would be in there.

Operator

We will move next to Matthew Niknam with Deutsche Bank.

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

Just one on Small Cells. Is the increase in pipeline and doubling of nodes you're talking about, is that able to be met with fiber you own today? Do you think it requires more M&A to add to your footprint? I'm just trying to get a better sense of the $1.2 billion in capital you talked about. And then just on the back of that, leverage-wise, given how robust the pipeline is on Small Cells, does that change in any way how you think about leverage targets and comfort levels?

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

On the first question, Matthew, the $1.2 billion of capital costs that we're talking about, that includes what we need to build from a fiber standpoint. So we've not assumed any acquisitions to the extent that we don't have existing fiber footprint. That's assumed in that $1.2 billion, and the returns that Dan talked about was an all-in returns of about 10% yield on that invested capital.

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

In terms of leverage, I think that we're comfortable with our targets and what we said immediately following the Wilcon acquisition and then now that we want to finance that type of acquisition in a way that would maintain our investment-grade credit metrics. And then with respect to just how we think through the investments in the pipeline, we think we can withstand that and hold that with our current investment grade because it is important for us to maintain investment-grade ratings. We think we can do so and still fund that type of acquisition with internally generated cash flows and increased debt capacity.

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

And if I could just follow up. With the pipeline driving a little bit of a pickup in revenue in the second half of 2018, is it fair to expect that maybe your profitability and AFFO per share growth could accelerate as well given that you're embedding the $15 million in OpEx and CapEx today but won't really see the real revenue lift till -- in about, we'll call it, 18 months? I'm just trying to get a sense of how to think about that 6% to 7% target potentially accelerating into '18.

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

Matthew, if all else is equal in terms of our other assumptions like interest rates and other things, we believe that as that Small Cell activity that we've been talking about materializes over the next 18 to 24 months, we would expect our AFFO per share growth rate to exceed our 6% to 7% target. That has been -- the revenue assumption there is obviously a key assumption in our growth rate. Just kind of scaling of that activity would result in us being above our targeted range.

Operator

We'll take our next question from Matthew Heinz with Stifel.

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

You talked about the stair-step move in the Small Cell backlog during 1Q. I guess how instrumental was the Wilcon fiber in your ability to close and, ultimately, deliver on those commitments? And I guess generally, can you just kind of talk about the geographic distribution of the 25k nodes and how heavily concentrated might that be in the Southern California market?

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

Yes. On your first question, we thought it was the fastest way to deploy the nodes that we had under contract, so it is helpful on that front. But I believe we would've delivered for customers if we would've needed to find a different way to do it, but we thought the most cost-effective and highest-returning approach was to approach Wilcon and to ultimately win that asset. So that did factor into our thinking. In terms of where the pipeline is located, about 80% of the 25,000 nodes are in the top 10 markets. And as I mentioned in the comments, about 1/4 of the total nodes would be in the Southern California market.

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

Okay. And maybe then just to combine kind of the question around lit services outside of wireless and also M&A, as you think about acquiring fiber assets, how much of a role does the existing lit revenue play into what assets you choose to ultimately pursue? And is there kind of a threshold that you feel comfortable with in taking on some lit business that may not be kind of your core competency?

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

Yes. I think there are a couple of elements that drive this, and I -- you obviously heard my comments earlier around our approach and how we underwrite the assets with wireless opportunity that we believe is going to come from small cell nodes. As we evaluate it, there are components of it -- and I would not assume that all of it is lit because a big portion of the fiber that we actually lease and receive revenue for is dark fiber contracts. And we see that in K-12 business as well as some of the enterprise solutions that we do. So we have components of both dark and lit. What we're not in the business of doing is providing the higher layer of fiber services. So we think about the business as just being -- to the extent that it's a dumb pipe that we're leasing, that's good revenue to us. And we colloquially around here would call that gravy. So to the extent that we can own fiber and use that fiber as a dumb pipe and lease it to other providers and enhance the returns, whether that be for schools or large enterprises, we think it makes sense to take the additional returns, and so we'll pursue that business. As I mentioned in an answer to a question a few minutes ago, the characteristics of those leases look pretty similar to what we've seen around Towers, high renewal rates, steady cash flows, longer lease terms. So we think that makes sense to take that additional yield on the assets. But as we think about what is interesting to us, the only way that it's really interesting to us as an asset class is to the extent that we think there's going to be significant wireless opportunity.

Operator

And we'll take our next question from Michael Rollins with Citi.

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

Two if I could. I'm not sure if you mentioned this specifically, but the $140 million in the first quarter that you described as Small Cells, can you give us a sense of the composition of what percentage of that is dark versus maybe the percent of lit or SILEC services that you have to take on with some of these acquisitions? And then secondly, how do you view, in terms of the valuation, $1 of fiber revenue versus $1 of tower revenue? And how do you believe your investors are perceiving that value as well?

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

So I'll take the first part of that question. We provide the segment disclosure based on what we think is important. So the $140 million is what we get offset of what we would do in the Small Cell segment, and breaking it down further is not something that we're prepared to do at this point. I can point to you that we have announced what the revenue and gross margin have been associated with the acquisitions we've done that have some of the non-wireless revenue on it. And you can go back and look at what that was. And it's not tremendously different. As Jay has pointed out, it isn't growing significantly enough different to have a huge impact on the overall Small Cell segment.

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

Now on your second question, Mike, around the value, obviously, we'll leave it to investors to figure out what they believe the value is. But in my view, as we look at the business, we believe $1 of revenue from Small Cells is as valuable as $1 of revenue from the Tower business. It has all the same characteristics, long-term committed contract, annual escalations, the same components of we don't have the incremental cost as we add additional tenants, high returns ultimately as the asset is leased up. And then in terms of the characteristics around the physical assets themselves, we find the dynamics to be very similar to that of Towers. It's obviously still early days, and the Tower business has been a phenomenal business for a long period of time. So over time, we need to prove out that Small Cells has the same characteristics and sustains itself in the same way that Towers has for the last couple of decades. But in the early days, all of the signs and data points that we see in the business, now operating the business at really significant scale, you'd be hard-pressed to find a data point that wouldn't suggest that this business is headed towards a very similar outcome to that of Towers.

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

And then I'd just ask one more follow-up on that. When you look at the totality of your revenue bridge for each of the last, call it, 5, 6 quarters, we've seen that revenue escalation percent rate decelerate, and we've seen the churn come up a little bit, and you've commented earlier on some of the factors for churn. But is part of that trend on the deceleration escalator and the pickup in churn, is that related to the fiber businesses coming into the portfolio where you're buying businesses that might not escalate as quickly or might be dealing with some churn issues for the non-wireless revenue that you might not find as strategic?

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

No. It's related to the ending of the MLA agreements that we had with customers as we moved from the committed amounts of activity on the sites to doing them on more of a pay as they touch the site basis. So the escalator came down, so that's the reason why that's come down. And as we talked about on the last several conference calls, we're now at a point where all of the activity that we see from customers is, as they touch the site, there's a revenue impact rather than baking into a higher escalator over a period of time. So that's the reason for the movement in escalators. Back to my earlier point around pricing, we haven't seen any change in the pricing environment with the operators.

Operator

And we will take our next question from Timothy Horan with Oppenheimer.

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

Three quick clarifications maybe. Are we still seeing 3 small cells equal kind of 1 macro tower, broadly speaking? And Jay, just following up on this, and I keep saying it, but do the carriers understand your argument on pricing? And there was a lot of volume a year ago, 6 months ago, but it seems like their arguments on pricing, I really haven't heard much about it in the last few months. Just curious where you think they are in their mind-set. And then lastly, can you just maybe talk qualitatively where you are with churn over the next couple of years and maybe possibly what you've learned from churn with PCS and Cricket for any kind of future M&A?

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

Yes. On the first question around Small Cells and equating those to Towers, as Dan talked about, the unit economics have not changed as the opportunity has scaled. And so it's important that we tie this back to thinking about yields and returns because if we're building some of these systems in the central business district, the pricing may look different than once we get out of a central business district in terms of dollars per node because we're pricing systems on a return basis. And I think the best way to speak about it and think about it, Tim, is the way you've heard

Dan and I talk about that on the call, which is we focus on returns. And the unit economics for that first tenant are in the neighborhood of about a 6% to 7% yield for us, and then the second tenant, significantly higher than that as we leverage the existing capital that's been invested there. So roughly, on the unit economics, it's roughly the same, but probably better to continue to think about it in terms of the yield or return on asset rather than tying yourself too much to a dollar per node because, depending on where that node is, you may get a different answer. Around the discussions with the wireless operators, it's completely fair for them to always look to drive down cost in their business, and we believe that's the value proposition that we present to them. So the conversation that we would have with them is similar to the conversation that I've articulated this morning around we've got to provide real value for the value proposition that we give in the pricing components. And we believe on the alternative to sharing the infrastructure, the cost would be much greater. So our value proposition is the lowest-cost alternative. And I think our operating results, whether you look at the amount of leasing that we've had consistently over the last several years, we look at things like the escalator, the renewal rate, other things around the business, all of those point to a pricing environment and leasing environment that's very similar to what we've seen historically. And I think that's driven by the -- at the core that is the value proposition that we provide to the carriers.

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

Yes. And on the churn, Tim, you can see from our supplemental what we think the acquired network churn is going to be over time, and it's going down over time, and we anticipate it to be generally over by 2019. But in terms of the non-acquired, so normal churn, as we would call it, we talked about it earlier. We believe it's in the same range it has been for a long time. There's just the timing impact for 2017. So we think that the acquired network churn was an additional. I think that's what you're looking for a little bit more color on. And what we've seen and you can see there is that it takes a little while for an acquired network to turn into an acquired network churn. And then it takes a little while even for that acquired network churn to happen because I think as the carriers try to compete more and more on quality of network and consistency of network and the coverage, taking down a lot of network isn't what's really in their best interest. What's in their best interest is to deploy more spectrum on our sites. So we're seeing them -- and they have, over time, pushed out a bunch of churn over time, but also, just -- it doesn't happen immediately upon the acquisition or the consolidation of the market. Does that address the question you're asking?

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

Yes. But Dan, do you think they end up doing a little bit less given the unlimited plans and everything we've seen in terms of grooming?

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

Yes. We think that given the significant increase in data demand, they will do less churn, yes. And said more positively, we think there's going to be a tremendous amount of leasing due to the fact that there's a lot of data demand over the course of the next 5 to 10 years. And so whether you look at that, whatever study you want to look at, whether it's 40% or 50% a year, there's tremendous amount of data demand that we think will drive leasing.

Operator

Our next question will come from Amy Yong with Macquarie.

Amy Yong - *Macquarie Research - Analyst*

A quick question on Wilcon. Obviously, the footprint is very complementary to Sunesys. I was wondering if you could talk about the growth profile and how we should think about that $40 million gross margin contribution going forward. And then also, is that embedded in your 2018 and beyond guidance on Small Cells?

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

Yes. The growth profile there is going to be driven -- as I talked about, about 1/4 of the contracted pipeline is in that Southern California market. So those assets from Wilcon, we believe, will benefit greatly from those contracted nodes, and that will drive the growth rate there. As I mentioned, they're relatively new assets with a relatively low amount of existing revenue. So the growth rates, and we're not going to segment-report Wilcon on a go-forward basis, but the growth rates there would be pretty high from a gross margin standpoint as we add those nodes that we were talking about. To your second question, I don't know that I would get to that level of specificity around exactly how many nodes and what exactly is going to happen on that fiber. I think it's better for us to stay -- in terms of big picture, the opportunity there and the returns in the Southern California market are going to look very similar to the overall component of the 25,000 nodes that we mentioned before.

Operator

Our next question will come from Batya Levi with UBS.

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

A couple of follow-ups. First, on total CapEx for this year, can you just give us an idea how much we should expect and what percent of that is going to come from Small Cells? With the ramp-up in the Small Cell activity, is there any change to your guidance of the amortization of the prepaid revenues that you expected for '17? And lastly, on the macro side, T-Mobile has suggested that they're going to deploy some of the 600 spectrum this year in rural markets. Can you talk about how you're positioned to capture some of that growth?

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

Sure. Let me talk about CapEx. It's in the neighborhood of $1 billion for this year, and that has not changed very much or at all since our last discussions on this. And there's not a lot of change in the amortization of prepaid rent other than what we would have included in our guidance to date. Didn't change a whole bunch on that front. So I don't know if there was anything you're asking specific, but...

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

I guess you were expecting down $25 million for this year. Does that still hold?

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

Oh, yes. Yes, that is still holding. So it's not down $25 million. The growth is decelerating by $25 million on our prepaid amortization on the Tower side. So yes, we still anticipate that to be the case, yes.

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

On your last question around T-Mobile, I would probably encourage you to ask them. I don't want to speak to how they're deploying their network. But leasing that happens or occurs in the back half of this year, obviously, the revenue impact to us is relatively minimal. We would get any benefit to that really as we start to think about 2018 results. At this point, we have pretty good clarity on the leases that will turn on over the calendar year of 2017, and the activity that occurs from this point through the back half of the year is less impactful to our '17 results and more impactful to years beyond '17.

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

Okay. Maybe just one more on the Small Cells. As you deploy the 25,000 nodes, by the end of that deployment, what do you think the tenancy per node would be?

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

Well, Batya, appreciate the question. I think it's really helpful to just maybe take a step back and talk about the assets that we're leasing on the Small Cell side and make the comparison to Towers. Really, the best analogy to Towers is rather than thinking about a node at the tower, think about the fiber as a tower, a tower laid on its side. And we think about and talk about and focus on how many nodes can we get over a given mile of fiber and the revenue and margin associated with those nodes. So in some cases, we'll take a single pole, and inside of the cabinet, we'll put multiple tenants inside of the same cabinet on a given pole. And in some cases, we'll utilize that fiber by using the next pole over or 2 poles over and add additional tenants there. And as we speak about returns and focus on driving the returns on the business, in the same way that on the Tower side we talk about the total number of tenants that we've added across the full vertical height of the tower, we're focused on the horizontal length of the fiber and adding as many tenants across that horizontal length as possible. Whether they go on the same exact pole or on the Tower side on the same exact height of the tower is really irrelevant, it's about what's the incremental return and increasing yield on the asset across a given length. And so on the Small Cell side, when we talk about the 25,000, about 30% of that activity, we believe, is going to be added to existing fiber runs or co-locations, if you will. And then about 70% will be in locations where we don't have existing fiber footprint, have not built small cells to date, and so we'll be out constructing and building additional fiber in order to accommodate those nodes. Those new constructed nodes become like towers. They become newly constructed towers upon which we have future lease-up potential. And that's what's important about the sizing of this opportunity is we're increasing both the co-location activity. As I pointed out, the co-located nodes are as great as our entire activity on an annual basis currently. But on top of that, we're having the opportunity to build significant future opportunities in top 10 markets, and the business has been proving that out over time, that as we build them in top 10 markets, top 20 markets, we see co-location that impacts, over time, that drive the return on those assets. So we're adding immature assets that have future potential and showing that the immature assets that we've built thus far are increasing in returns as we're seeing co-location opportunity.

Operator

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

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

I was just hoping you could review what was driving the increase in network services gross profit in the remainder of the year in your updated guidance.

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

Yes. Generally, what we see is an increase in our market share and our expected market share over time. Going back to what we have seen in 2016, so when we came into '17, we didn't think that we were going to get to the same level of market share, and that was the reason we had taken, from '16 to '17, our network services margins down a little bit. But as we look out over the course of what we can see over '17, we think that that's going to go back up, and that's driving the incremental gross margins.

Operator

And our next question will come from Walter Piecyk with BTIG.

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

Just first off, on churn, I was hoping you could maybe help us dissect it a bit on the -- I know the 4% was obviously driven by Metro, Leap, Clearwire, whatever. If you were just looking at the Small Cell business, which obviously has some kind of other core fiber business, what type of churn rate is there? Is it less than 1%? Is it 2%? Can you just give us some sense of the churn on that side of the business?

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

Walter, it's way less than 1%.

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

Okay. Even though the revenue includes some of that kind of enterprise fiber type of revenue, right? Got it. My next question is more philosophical, I guess. You've mentioned the '90s and the returns in the Tower business, and as we all know, the Tower business evolved, where everyone ultimately sold their towers, right, sale/leaseback, and that's what made the business great. There's companies out there like Charter, Comcast, others that have fiber that might, maybe at some point in the future, look for the same type of transaction if they don't find that they're getting through their own use of it, the same type of return. So if you suspend your disbelief for a moment and said like if you were looking at Charter's fiber footprint in that type of transaction, how much less would it be worth given that maybe the strand count relative to Wilcon is probably less? So in some ways, you get some right-of-way, and you could put some more fiber along those hung strands or whatever conduits they may have. But on the other hand, there's obviously some CapEx investment. So how would that impact, you think, the valuation if you had an opportunity to buy fiber and then lease it back to that anchor tenant customer and then, obviously, make that available to your wireless customers?

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

It's an interesting question, and I think if you make the analogy back to Towers, what made Towers so interesting is that we were able to analyze, based on where the network was, what we thought the future opportunity from wireless carriers was going to be. And diligence is required in order to figure out whether or not there's an opportunity for co-location. Obviously, the towers that were built were built small and didn't have the opportunity to add additional tenants were not interesting to us as we were looking at acquisitions. And I think the same thing would hold on the fiber side. We really have to analyze what the wireless opportunity is and then what's the capacity and is there real value in the asset for that upside. And that's the way we would look at it. Our acquisitions to date, we believe, are proving out by the lease-up. That's got to have -- that's got to be dense urban, and it's got to have enough fiber strands to really be valuable for co-location of wireless.

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

So let's assume that on the negative side, they would require more strands, right? But on the positive side, they would argue that where our fiber is located is much better than what Wilcon or whoever else was out there have because we're just closer to the end user, and that's the endgame here. Which is more important when you look at the relative value of that fiber footprint versus what we've seen you pay for assets like Wilcon?

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

It's not as simple as just sort of an A or B trade, right? You've got to really do the diligence and understand what's the component of the asset and then what would be the cost associated with that against the total revenue opportunity and margin opportunity. So it's a matter of where do we think the opportunity is against what's the cost of the asset, just like it would be for anything else that we would look to from an acquisition standpoint. Now I think broadly, moving out of the more theoretical discussion about this, one of the things that's unique about the fiber that we've looked at, and we've talked about this ad nauseam, I think, that not all fiber is created equal. And so the fiber needs to be structured and built in a way that's valuable for wireless. And so in some cases, some of these businesses, you've referenced a few, there are others, sometimes, the existing fiber footprint in the way that it's built and where it's located, we don't necessarily think is in the right locations for small cell leasing.

So there's also a component to it of what's the use of the fiber and where is it located against the cost and, ultimately, the opportunity from the wireless side. But it's not a -- there's not an easy or simple answer to that question. It will require diligence and a thoughtful consideration of whatever the asset was.

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

Understood. Let me just try one different version of that question. And sorry for the last question. But the cable guys or those that are kind of bulls on them, have suggested that the incremental cost to take an existing run, whether it's hung or within conduit, is just very cheap, like that -- look, newbuilds suck because you've got to dig ditches, and that's very expensive. But they're claiming that Charter's fiber is worth a ton because they have it already and that pulling more fiber across those lines is not going to cost a lot of money. Does that sound like an accurate statement to you?

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

As we look at the fiber footprint that we have, there are locations where we've come back and used the existing conduit to pull additional strands for fiber as we see co-locations and the need for that. So it really depends on the nature of the build. If there's existing conduit and space to pull additional strands through that conduit, yes, that's a relatively cheap proposition. If the conduit is full and it's literally the same as building it from scratch, then no, there's not as much leverage or opportunity from that.

Operator

And our next question will come from Brandon Nispel with KeyBanc Capital Markets.

Brandon Nispel

I guess just on last week's announcement, one of your customers wants to build a lot of fiber on its own. How does that change your expectations maybe for leasing fiber in certain markets?

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

I think it's indicative of the fact that there's going to be a lot of small cells built in the market, so we certainly aren't anticipating or underwriting the idea that we're going to build them all ourselves. The carriers will likely continue to self-perform. Verizon indicated that in their announcement, and we'll see others doing it. But I think it's indicative of the fact that the opportunity that's in front of us in Small Cells is going to be really large and significant, and a component of that will be solved by others.

Brandon Nispel

And then I guess just as a follow-up, you talked about of a lot of activity in dense urban environment. Are you guys going to be active in small cell deployments that could be going towards more just outside of the dense urban and more for maybe fixed wireless solutions?

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

We do believe this solution's going to be used in the top markets outside of the densest urban areas of those markets. I think it was 2 calls ago, we laid out our Chicago example, where the original system we had built in Chicago was in the central business district and then had expanded over time. That's a similar thing that we've seen in almost all of the metro markets, where the initial builds may be in the central business district and then expanding from there throughout the cities. And once it's built, we see additional co-location in the initial portions that were built in the central business district, and then as it expands out from there, then we see co-location opportunities as we build and increase the reach of the fiber network across the metro market.

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

And in addition to that, not only do we think it's going to move from dense urban areas to more suburban but also outside of the top 10 or 25 markets to all markets, so we're going to have geographic expansion in 2 ways. And we would anticipate participating in any of those that we think will generate good returns on the investments that we've made.

Operator

And we will take our next question from Spencer Kurn with New Street Research.

Spencer Kurn - *New Street Research LLP - Research Analyst*

I just want to be clear. The $1.2 billion and 10% yield on that for Small Cells, how does that factor -- or how do acquisitions factor into that yield? You mentioned Wilcon was sort of part of your build-versus-buy strategy. That was $600 million. So I'm just trying to make sure I get the numbers right.

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

Sure. These co-locations and new leases that we're talking about from small cell nodes, they're leveraging, in some cases, existing fiber footprint. The $1.2 billion would be the benefit of leveraging existing fiber as well as building additional fiber. When we talk about the roughly 70% that are new locations, those are locations where we're building additional fiber. And then 30%, in most of those cases, we would not be adding additional fiber. We would be utilizing either the acquisition that we had done, any number of acquisitions, or fiber that we had already built.

Spencer Kurn - *New Street Research LLP - Research Analyst*

Got it. And your leverage increased to 5.8x this quarter, and you've been around 5.5 for much of the last couple of years. Is this a sign that rating agencies are getting more comfortable with an investment-grade credit rating closer to 6x for you?

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

Well, I can't really speak to what the rating agencies are going to do or think necessarily. But what we've done is -- I do think that our business model and the security of the cash flows, the long-term recurring nature of the cash flows supports a significant amount of leverage on it. And we've seen that our debt costs have not been impacted by any of that movement you might talk about. I do think that our target is to be lower than where we are now, so our target's going to be in the, call it -- we want to get down to 5x range over time and that we will try to manage our balance sheet to maintain the investment-grade credit metrics that we talked about. I think that some of that has to do with financing FiberNet and not getting a full benefit from it. So it's not indicative of exactly where we'll be on a run rate basis. So we think we will be levered over time, but the business can withstand a fair amount of leverage and still be viewed as a very good credit.

Spencer Kurn - *New Street Research LLP - Research Analyst*

Got it. And do you believe you can finance the 25,000 incremental small nodes with existing free cash flow? And if you can't tap debt markets because you want to delever, is issuing equity a part of the consideration for you meeting that 25,000 target?

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

Yes. We think we can finance a lot of that internally. But when we look at these investments, what we want to make sure of is that they are going to be investments that clear our overall cost of capital, inclusive of maintaining an adequate amount of equity and an adequate amount of debt to have an investment-grade rating profile. So whether we fund them internally through cash flow or we fund them through debt or however we want to do that, we do look at the returns and make sure that they would clear our all-in cost of capital. But to answer your question specifically, we think we can finance most of that with internally generated cash flow or incremental debt capacity we generate from incremental EBITDA.

Operator

We will take our final question from Nick Del Deo with MoffettNathanson.

Sydney Marks

This is Sydney Marks calling in for Nick. He was having some technical difficulties before. Back to the 70% anchor builds and 30% co-location mix for the pipeline that you've discussed, can you talk about how this mix compares historically? And when you talk about co-location, does that mean on the system that currently has small cells? Or does adding a small cell to fiber acquired from, say, Sunesys count as well?

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

On your first question around the 70-30, initially, obviously, over the first couple of years, 100% of them would have been brand-new builds. And we've started to see an increase in co-location as those initial systems that we had built and acquired have started to mature, and the activity has increased over time, so the percentage of co-location has increased. But to some degree, the percentages will lie to you because the opportunity has gotten so big. As I've made the point a couple of times on the call, the 30% of co-locations in the neighborhood -- is in the neighborhood of the total activity of small cell nodes that we're putting on air during calendar year 2017. So if we were to -- said another way, if we were to just stop and say that all we were going to do was co-locate nodes on existing fiber, our activity level actually would not come down. The amount of activity we've got in the pipeline would suggest there's significant co-location opportunity. So we're expanding the overall size of the business and, at the same time, seeing a really significant increase in the amount of co-locations. On the second question around what will we consider a co-location, we think about the fiber as a tower. So when we can utilize existing fiber, we think of that as a co-location because we're using an existing asset. So there would be a mix of fiber that we constructed ourselves as well as fiber that we've acquired over time in order to calculate what is the 30% co-location rate.

Sydney Marks

Okay, great. And if you have time just for a quick follow-up. It looks like the expected CapEx per node on your pipeline seems to be about 50k per node. It's quite a bit lower than you've talked about in the past. How much of the delta is driven by the fiber assets that you've bought versus other factors that might be applied?

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

Appreciate you picking up on that. That's exactly the point. As co-locations occur, we can utilize the existing investment in the assets, and that -- just like the tower model, once we have the asset in the ground and as additional tenants come along, the additional investment of CapEx comes down dramatically. And you can see that across the whole $1.2 billion of investment that we're talking about and 25,000 nodes to come where we're utilizing assets that we've already paid for and expanding the return on those existing assets.

I appreciate everyone joining us this morning. Excited to share the news with you about the first quarter and look forward to talking to you through the rest of the year.

Operator

This concludes today's call. Thank you for your participation. You may now disconnect.