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PRESENTATION

Operator

Good day, and welcome to the Crown Castle Second Quarter 2019 Earnings Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Ben Lowe, Vice President of Corporate Finance. Please go ahead, sir.

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

Great. Thank you, Todd, and good morning, everyone. Thank you for joining us today as we review our second quarter 2019 results. With me on the call this morning are Jay Brown, Crown Castle's Chief Executive Officer; and Dan Schlanger, Crown Castle's Chief Financial Officer. To aid the discussion, we have posted supplemental materials in the Investors section of our website at crowncastle.com that we will refer to throughout the call this morning. This conference call will contain forward-looking statements, which are subject to certain risks, uncertainties and assumptions, and actual results may vary materially from those expected. Information about potential factors which could affect our results is available in the press release and the Risk Factors sections of the company's SEC filings. Our statements are made as of today, July 18, 2019, and we assume no obligations to update any forward-looking statements. In addition, today's call includes the discussions of certain non-GAAP financial measures. Tables reconciling these non-GAAP financial measures are available in the supplemental information package in the Investors section of the company's website at crowncastle.com. So with that, let me turn the call over to Jay.

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

Thanks, Ben, and thank you, everyone, for joining us on the call this morning. We delivered another quarter of great financial results that exceeded our expectations and reflect the significant demand we are seeing from our shared infrastructure assets. I believe our strategy and unmatched portfolio of more than 40,000 towers and approximately 75,000 route miles of fiber concentrated in the top U.S. markets has positioned Crown Castle to generate growth in cash flows and dividends per share both in the near term and for years to come. Due in large part to the increasing demand we are seeing across our tower assets, we are increasing our full year 2019 outlook and now expect to grow AFFO per share by approximately 8%, which is at the high end of our longer-term target of 7% to 8% annual growth. Dan will discuss the results for the quarter and the increased outlook in more detail, but I'll focus my comments this morning on 2 key points.

First, tower -- current tower leasing activity is our highest in more than a decade, which we expect will carry into next year; and second, our small-cell business is delivering compelling returns at scale. On the first point, we are seeing a more significant acceleration in tower leasing this year than we previously expected, with broad demand from each of our largest customers as they deploy additional cell sites and spectrum in response to the rapid growth in mobile data traffic. We now expect new leasing activity on towers to be approximately 30% higher when compared to the level of leasing last year, with activity in the back half of the year exceeding the growth generated year-to-date. And I believe that current level of activity will continue as our customers respond to data traffic growth on their 4G networks while also embarking on the deployment of 5G. According to a recent report from Ericsson, data traffic for smartphone in North America is expected to increase from 7 gigabytes per month in 2018 to nearly 40 gigabytes per month by 2024, representing the highest rate of data consumption in the world and a compound annual growth rate of more than 30%. Additionally, as 5G becomes a reality, new use cases will develop that require wireless networks to connect not only people and their phones but also billions of things. The expansion of the uses of wireless networks will require ubiquitous, low-latency, high-speed connectivity, which we believe will extend demand for our towers for many years to come.

In addition to towers remaining a crucial element of the future, networks will need to be significantly more dense than current infrastructure can handle, which brings me to my second key point. As you see on the map on Slide 4, we invested early and at scale to build and acquire fiber in the most densely populated markets where small cells are being deployed and demand is expected to be the greatest. Said another way, all the gray space you see on the map where we don't have fiber is intentional.

Turning to Slide 5. This strategy is delivering compelling results. The small cell projects summarized on this slide are in the process of being completed. While the projects included in this data set are not finished, some of the nodes within those projects are on-air while other nodes are in various stages of construction. In total, this analysis represents approximately 75% of the 65,000 nodes we have on-air or under construction and represent the most recent data points for measuring returns. When these projects are complete, we expect to have invested just over $2 billion of capital, both to build new systems for anchor tenants and to co-locate new small cells on existing fiber networks. These projects are expected to generate a recurring yield of approximately 8%, the blend of first tenant economics in a 6% to 7% range and co-location economics of approximately 20%, which is consistent with our disciplined underwriting requirements. As the data shows, similar to the development of the tower business, we are seeing significant demand from multiple customers for the same asset, which results in co-location economics.

The small cell co-location on existing fiber accounts for nearly 30% of the incremental cash flows we expect to generate from these projects, but only 10% of the incremental capital investment. This operating and capital leverage is very much like what the tower business has exhibited over time, and we believe our strategy of investing early in fiber for small cells will pay off in much the same way that our early investment in towers continues to. And whether we have built or acquired the fiber, we are seeing co-location economics as we add small cell customers to the existing fiber. To that end, approximately 75% of the co-location activity is coming from the markets where we acquired the fiber in recent years. While our levels of activity, initial yields and lease-up economics are all very encouraging, the significant increase in the volume of small cells being constructed is straining the response times from municipalities and utilities who are not complying with the FCC orders, resulting in longer construction timelines than we previously experienced. As a result, we are seeing construction timelines averaging 18 to 36 months, which is longer than our prior average of 18 to 24 months. Due to the elongated construction timelines, we now expect to deploy approximately 10,000 small cells in 2019, which is at the low end of our prior expected range of 10,000 to 15,000 in this year, but it's approximately 30% more than what we delivered all of 2018.

In the near term, we expect the delays to reduce our 2019 new leasing activity from small cells by approximately $5 million. Longer term, we do not expect the extended timelines to impact our overall growth or our returns.

Taking a step back and reflecting on where we are with our fiber and small cell strategy, it is remarkable to me how much progress we have made in a relatively short time frame. What began about 10 years ago with measured investments intended to explore the small cell opportunity has accelerated over the past 5 years as the scale of the opportunity and the business model have come into focus. As a result, we sit here today as the clear leader in the small cell industry with approximately 75,000 route miles of high-capacity fiber concentrated in top markets, more than 65,000 small cells on-air or under construction, more than $13 billion of invested capital generating a recurring yield of approximately 8% and a robust pipeline of small cell projects that will add to the returns on our current fiber asset base while increasing the longer-term opportunity as we expand with new anchor builds.

As we look ahead, we see tremendous opportunity to increase the returns on our fiber investments over time by adding small cell tenants to existing fiber networks as we we're doing today. Along these lines, our experience is that the same fiber necessary to support small cell customers can serve large enterprises and government agencies who require high-bandwidth connectivity. As such, we see a path to further improve our small cell returns by sharing the fiber across these customers. This is similar to our approach with towers, where the vast majority of the economics are driven by the wireless carriers. And we also work hard to increase the returns on our towers by sharing the asset with others. As shown in our 2019 outlook, we now anticipate fiber solutions revenues to grow approximately 3% or approximately $15 million lower than our previous expectation. As you would expect, we've prioritized activities related to our long-term strategy of adding small cells to our fiber, including integrating recent acquisitions into a single operating structure and platform. And consequently, we lost some sales momentum in this business. While we want to generate as much revenues from these sources as possible, we continue to believe that the growth from small cells will be the primary driver of future return on our fiber investment.

So to wrap up and moving back to the collective outcome, 2019 is shaping up to be another great year for Crown Castle, with AFFO per share growth now expected to be at the high end of our longer-term 7% to 8% target. We see the growth in our business reflecting the positive underlying fundamentals driving demand for our infrastructure, including the continued growth in mobile data on existing 4G networks and the early stages of our customers developing 5G networks. With our unmatched asset base and expertise, I believe Crown Castle is in a great position to capture these substantial long-term return opportunities and consistently return capital to shareholders through a high-quality dividend that we expect to grow at 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 discussed, we delivered another quarter of very good growth, reflecting the strong demand for our unmatched portfolio of towers, small cells and fiber assets. Turning to Slide 6, you can see we had a great quarter with site rental revenues increasing 6%, adjusted EBITDA increasing 12% and AFFO increasing 14% when compared to the same period a year ago.

On Page 7, you can see that at the midpoint, we are increasing our full year outlook for site rental revenues by approximately $3 million, for adjusted EBITDA by approximately $41 million and for AFFO by approximately $43 million when compared to our prior outlook. Our AFFO guidance for 2019 implies approximately $5.94 per share, representing 8% growth compared to 2018 and an increase from our prior outlook of 7% growth. The increase to full year 2019 outlook for site rental revenues, adjusted EBITDA and AFFO primarily reflects the higher expected contribution from straight-lined revenues and an increase in the expected contribution from services, both of which relate to higher expected tower activity in 2019 as compared to the prior full year 2019 outlook. The increase in full year AFFO also reflects reduction and expected full year financing costs.

Turning to Page 8. We now expect between $245 million and $275 million of organic contribution to site rental revenues, reflecting an increase in the expected contribution from towers, offset by lower expected contribution from both small cells and fiber solutions. New leasing activity is expected to contribute between $345 million and $375 million to organic contribution to site rental revenues, which is approximately $5 million lower than our prior outlook. At the midpoint, new leasing activity consists of $140 million from towers compared to $125 million in our prior outlook, $70 million from small cells compared to the prior $75 million and $150 million from fiber solutions compared to the prior $165 million.

Turning to Page 9., you'll find our 2019 outlook for components of AFFO growth. The increase in full year outlook for AFFO growth reflects the increase in the expected contribution from services tied to higher tower activity and a reduction in expected full year financing cost resulting from lower interest rates and recent financing activities. These improvements were offset by the reduction in organic contribution to site rental revenues and additional expenses primarily related to incremental incentive compensation tied to our improved outlook.

From a balance sheet perspective, in the second quarter, we continue to improve our financial flexibility and liquidity by increasing the commitments under our revolver to $5 billion and extending the maturity date on our credit facility to a new 5-year term. As we have previously discussed, we intend to finance the business with approximately 5x of leverage longer term, consistent with both our commitment to maintaining our investment-grade credit profile in the level at which we finished the second quarter.

So in closing, our second quarter results exceeded our expectations, leading us to increase our full year guidance for 2019 across site rental revenues, adjusted EBITDA and AFFO. We continue to believe our ability to offer towers, small cells and fiber, which are all integral components of communications networks, provides us the best opportunity to generate significant growth while delivering high returns for our shareholders.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

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

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

I guess a couple. First, the services business is really strong this quarter. I was wondering if you could call out anything that you thought was kind of maybe a recurring driver or a one-off driver of that business activity in the quarter, and kind of maybe some thoughts on how it kind of plays out for the year. And then the second piece is just on the other side of it, you kind of called out the fiber services piece. I think there was a [co-gen] explanation for small cells maybe kind of being tougher because of the utilities and the municipalities being strained to kind of come to terms with the volumes. But the fiber business seems to just kind of keep getting a little weaker. This time, it was bookings and I was wondering if you could kind of give us some color on what the game plan is for that business. Is it secular forces? Is it sales problems? Is it, I don't know, SD-WAN? If you could kind of like elaborate a little bit on what's going on with that business, it would be great.

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

Sure, Dave. On your first question around the services business being strong, I think that's the best reflection of what we're seeing in terms of the tower leasing activity that we talked about. If you look at the activity we're talking about for full year 2019, we're up about 30% year-over-year. That's -- a direct reflection of that is what happens inside of the services business. If you look at it year-over-year and the first half of the year, I think it's up almost 50% year-over-year. So the tower activity is indicated by the results on the services side. And as we said historically, we think that, that activity will match leasing activity. And so if we stay at an elevated level of leasing activities, then the services business, we would expect, would continue to do so and our outlook for the year sort of reflects that.

On your second question around fiber solutions, I made reference to this in my comments, but as we went through the acquisition activities, we initially focused on making sure we got the assets integrated and purpose ready for our long-term strategy of small cells. I think given that we've gotten that behind us, it's certainly appropriate for a little more attention to be paid on the sales side around fiber solutions. But I really don't believe that long term, this is the best indication of value in that business. The way that we underwrote the investment in fiber was based on our view around small cells and the need for this kind of fiber to be available for small cells. Fiber solutions revenue supports some level of return there, but the long-term returns and the driver of long-term returns are going to come from the wireless business and be driven by small cells. And if I look at the environment for that today, it's healthier, more robust and better visibility than what we had, frankly, when we were making these fiber investments over the last several years.

So from an underlying thesis around fiber, I think we feel like we're in a better place today than we were several years ago when we made the investments and, certainly, have a lot more data points to support that view as we're talking about in the 75% of the 65,000 nodes that we have on-air or under construction.

Operator

We'll take our next question from Simon Flannery of Morgan Stanley.

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

On the tower leasing, could you give us a little bit more color around where you're seeing the strength? I think you said it was very fairly broad-based and, I think, from beyond the big 4 carriers. How's the mix between colo and amendment activity? And then the -- sort of are you seeing this in suburbia or it's other which are very broad based? Any color around what the big theme is driving the new activity areas?

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

Sure, Simon. On the drivers there, we're seeing that across the board from the wireless operators. And their activity is a mix of densifying the network, improving their network and deploying additional spectrum. Given the nature of our assets, which are more focused in the metro markets than rural, we're seeing that activity happen in the metro market. That may be just by virtue of the nature of our assets and our bias towards being in the metro market in terms of the location of the current asset base. We've seen the increase in activity come from both first-time install as well as amendments. Both of those boats are rising with the tide, so the mix has stayed relatively similar to what we've seen over the last couple of years. We're at about 40% first-time installs and about 60% of the activity being driven by amendment. And that's pretty similar to what it's been over the last several years.

To your question around outside of the wireless carriers, yes, we are seeing some increase there, but the majority of the driver here is -- continue to be the wireless operators, and we're benefiting from a little bit of activity outside of those wireless operators. It makes up about 15% of our overall activity, 85% coming from the wireless carriers.

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

Great. So you're -- just to be clear, you think your second half leasing activity will be ahead of the first half? So you'll exit the year kind of accelerating from the full year number?

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

That's correct.

Operator

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

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

The statistics you've been giving us, 65,000 small cells that are on-air or in the backlog, it's been a pretty stable number now for the last 2 quarters, which implies there has not been a lot of new booking activity through the first half of the year off of what had been fairly active in 2018. So I was hoping maybe you can just help us understand what the demand environment is like, what the small cell opportunity funnel looks like as you go into the second half. And should we expect that there will be a pickup in bookings as we move through the remainder of the year?

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

Yes, Brett. As you've seen in the past, the activity of new bookings is very lumpy. They come in very large-scale projects with a number of nodes that take, as I was talking about in my earlier comments, long period of time to construct. So as I look across the horizon, there are a ton of opportunities that we see for continuing to add bookings. But the amount of work that goes into even preparing and designing to get to the place where we have bookings is a pretty significant period of time. And that activity is as robust as we've ever seen it. We're seeing activity from all of the carriers as they look at deploying small cells, and I think we will, at some point, see that overall number continue to increase.

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

Is there any change in the environment in terms of your customers, particularly the largest ones, deciding to do more of this in-house? Or is it really just the timeline factored that you outlined?

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

It's just the timeline factor that we've outlined. We haven't seen any movement towards greater self-perform that what we've seen historically. We continue to believe that, broadly, at the market, we're capturing about 50% of the total activity, and of the total small cell activity and the balance of it would be done mostly in self-perform and then some components of third-party providers.

Operator

We'll take our next question from Richard Prentiss of Raymond James.

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

I just want to follow up on a couple of Brett's questions as well. Can you update us as far as roughly how many of the nodes you have on-air versus how many are in the backlog?

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

We're a little under 40,000 nodes on-air, and then the balance would be in backlog, Ric.

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

Makes sense. And then with the slip out from 18 to 24 to be 18 to 36, how should we think about the bulk of that backlog pacing it into beyond '19 and '20 and '21?

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

Yes. I think based on what we're seeing at the moment, the best guidance I could give you is to expect that we'll put about 10,000 nodes on-air annually or 2,500 roughly per quarter, which would suggest that the backlog that we have now carries us through 2020 and '21. And so it gives us really good visibility around revenue growth in small cells over those couple of year period of time. And the works that we're doing around attracting new bookings would be related to revenue growth in 2022 and beyond.

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

Makes sense. And then also, I noticed this quarter, I think there was a sequential drop quarter-to-quarter on the fiber small cell operating cost. Is there anything seasonally there? Or has it something to do with the weaker sales bookings in the fiber side? I'm just trying to think as we look at the gross margin side on fiber small cells as a segment.

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

No. I think there's not a lot to be gained from trying to compare those 2 directly, Ric. There -- as you pointed out, yes, there's going to be some lower cost with lower bookings, but that's not going to be a huge driver of the business. I think what I would say is there's always going to be timing for when cost come in and when revenue comes that will move margins move around a little bit. But I think, overall, what we think is the margins that we're providing in that market -- in that business right now are ones that we think that will continue over time, with small fluctuations here and there, but I don't think you can take anything from the sequential movement to give a sense for what could be extrapolated into a long period.

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

And final one for me. I think, Jay, you mentioned the straight-line adjustment, or it might have been Dan mentioning the straight-line adjustment did modify in the quarter. Was that really just the new leasing activity? So I'm just trying to think, as we look out into '19 and '20, what we should be thinking about straight-line -- we're probably looking at straight-line flipping colors at some point.

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

Yes, it's actually the combination of the new leasing activity and the extensions on current leases that we have. So it's a combination of things we've talked about in the past as well, Ric, just continuing. And because the activity continues to accelerate, we're continuing to see an acceleration of that straight-line revenue.

Operator

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

Jonathan David Charbonneau ***Cowen and Company, LLC, Research Division - VP***

This is Jon on for Colby. Within the small cell business, you noted longer construction time frames, especially in the top markets. Are you starting to see demand beyond those very top markets? And then within the fiber solutions business, are you seeing any notable change in the demand environment there or from competition?

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

Yes, Jon. Your first question, what I would say is the vast majority of the activity and conversations are continuing to happen in the top 30 markets in the U.S. It's where we've invested, thus far, the vast majority of the capital. Frankly, you can probably even narrow it down to the top 10 markets, the vast majority of the capital would be invested in the top 10 markets, and it continues to be the biggest focus around the need to densify the networks and bring small cells on-air. So the focus continues to be there. We expand out beyond the top 10, top 30 markets. There is some limited amounts of activity in those markets, but not meaningful in terms of margin opportunities or investment of CapEx. I think longer term, as I listen to what the carriers are talking about their networks, depending on which carrier is talking about their networks, they talk about top 100 and in some cases, all the way out to the top 250 markets in the U.S. So I think you're going to see the need for small cells well beyond the top 30 markets in the U.S. And ultimately, whether we decide to play in that market will be determined based on the returns and what we believe the co-location opportunities are around fiber and markets beyond the top 30. At this point, and as we talked about the pipeline, we've got several years worth of visibility where we know the activity is going to be coming in the top 30 markets. So I think at this point, that's the majority of the focus. But to the extent that there was future opportunity beyond those top 30 markets and we thought the returns were going to be similar to what we've seen thus far, it will certainly be something we will be willing to look at and study and see if it makes sense for incremental investment.

On your second question, I really don't think the demand for the service has changed at all. I think it's much more an issue of our own focus and attention towards making sure we have the asset right for its long-term intended use and what we think is the primary value driver.

Operator

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

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

First, Jay, again on fiber solutions. Would you argue that the prior 5% long-term target for growth you've laid out is still appropriate if you look beyond this year? I mean you kind of said that you don't think current performance is indicative of its potential and demand hasn't changed. And you also kind of downplayed the growth outlook for non-wireless solutions, so it just wasn't clear to me how that all shook out.

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

Sure, Nick. I think what I would tell you is it may come back to the level of 5% at some point in the future, but we're not willing to predict that as the outcome. Our focus in the business around small cells is the long-term driver of the business, and we think that's the most appropriate place for us to spend our time talking about the long-term prospects of the business. As much revenue as we can get from fiber solutions, that obviously makes sense to do so because it adds the returns around the fiber. But we're trying to be really clear about what we think the long-term driver of the returns are and why we made the investments that we did. As I look at where the business is performing relative to our underwriting assumptions, our underwriting assumptions, we're tracking right on where our underwriting assumptions around these assets were. I think publicly, we had indicated that we thought we were going to be a little bit higher than even what our internal underwriting assumptions were. But in terms of the focus and what we think the opportunity is, we're -- I would suggest that investors look at the business as we guided this morning to growth of about 3% in the business. And if we're able to improve it from there, we'll certainly let you know once we've done it. And don't think it should impact how you think about the long-term returns around fiber.

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

Okay, got it. And then yes, on the small cell front, are there reasons to think that municipalities and power companies are going to spend the money to stock up so they can work through small cells request at a pace consistent with demand? And to the extent that your overhead cost might not be aligned with the lower installation rates you're forecasting, are there any opportunities to trim those costs.

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

Well, one of the great benefits of the FCC order is that it requires the municipalities and the utilities to timely respond and deal with these -- with both the permits and the process of applications for installing in the right of way. So -- and the mechanism around the fees that we paid for that reimbursed the municipalities and the utilities for the reasonable cost associated with managing that activity regardless of the level of volume. And so I think folks should read my comments as -- and they're intended to say, the municipalities that are complying with the FCC order have done a great job of doing that. In a number of markets, that has helped the process, but there are still some municipalities and utilities out there that have been resistant to complying with the FCC order, and I think we're in the process of both working through that with the local municipalities as well as working closely with the regulators to make sure that it's handled appropriately. I wouldn't look beyond that towards kind of G&A or staffing or anything else as causes or reasons for it. I think the long-term outcome, we're hopeful, will be that this is somewhat temporary and that, ultimately, you'll see municipalities and utilities fall in line with what the FCC order is, and that will come back to a more normalized timeline around these activities. And if that happens, we'll come back and update you on that. But based on what we're seeing currently, I think the 24 -- the 18 months to 36 months is probably the right timeline.

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

And Nick, I think one of your questions was around our own overhead and whether the reduction going down to the 10,000 node per year range would change that. I would just call your attention that what we had before was a 10,000 to 15,000 range, so we're on the low end of the range, but still within the range of what we thought was appropriate for the cost structure we have. Of course, to the extent that we can reduce our cost structure because there is lower activity or there are places we can get more efficient, we will be looking to do so as aggressively as we possibly can. But I wouldn't expect that in the base case because this is within the range of outcomes that we were expecting for the year.

Operator

We'll take our next question for Michael Rollins of Citi.

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

First, can you just give a little bit more context on the change in straight line within the 2019 guidance? And second, can you give us an update on your outlook for discretionary capital spending with the change in outlook on small cell deployment and fiber revenue growth?

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

Sure. So Mike, as I mentioned before, the change in straight line, really, is a combination of new leasing activity, which causes new straight line and then the extension of current leases, which also causes an extension of the term and, therefore, an increase in the straight-line revenue. Both of those are related to increased tower activity. And as we've seen in the first couple, or in the first quarter and the last quarter of 2018, those extensions in those amendment, I note that new leasing activity has caused us to continue to increase the straight-line revenue because the activity levels are increasing more than what we had anticipated. And so we are excited about that because I think it's just like Jay said about services as an indication of what's going on with the tower leasing, overall.

On the discretionary CapEx, we think it will remain consistent with what we said before. About $2 billion of CapEx in 2019 is our expectation and continues to be, on a net basis, around $1.5 billion. And the reason for that is most of the capital that we spend comes well before we are putting in the node portion of the small cell builds, and so we're continuing to have to do that and continuing to do that work now. Even though some of the time frame has been elongated, a lot of that has been on the back end. So we anticipate making progress on the projects at the pace that we were anticipating and expecting from a capital perspective for 2019 as we were on our prior outlook.

Operator

We'll take our next question from Batya Levi of UBS.

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

On the fiber solution side, can you provide a rough split of the $150 million incremental revenues you expect this year in terms of wireless-driven versus enterprise-driven? And second question, on the guidance. Can you remind us what it includes for expense activity this year?

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

Yes. On the first point of $150 million, that part is on the fiber business itself, and so all of that $150 million is related to our fiber solutions business, not wireless customers.

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

Right. In terms of the fiber backhaul for wireless nodes as opposed to pure enterprise business? If you split it that way.

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

Yes. We don't split it that way and largely because a lot of that business is a similar business. Although I would say that within that fiber business, the majority of it is enterprise, the vast majority for it is enterprise and not in the wireless backhaul. What we've said in the past is about -- to give you a little bit more color, is about 50% of that business is generally with enterprise customers and 50% is with carriers, as we would call it, or larger customers that have more backbone type of needs than what I think that you're trying to get to is enterprise versus that backbone is about 50-50.

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

Batya, on your second question around Sprint, we don't comment on specific customers or their activities, so we'll let them speak for themselves in terms of what they're expecting to do with their network.

Operator

We'll take our next question from Philip Cusick of JPMorgan.

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

Beating this fiber bookings a little more, recognizing that fiber is still hitting your underwriting goals, are there are regions or verticals that aren't really holding up in the bookings side? Or I wonder if you become more wary of the sort of contract or revenue mix in fiber.

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

Well, I think so what I would say is there's opportunity there. We haven't really seen the market change, which I was trying to make point to just a minute ago. We went into this process of making these fiber acquisitions over the last several years. The way we underwrote the investment and thought about the opportunity was driven from our macro view of the need for small cells and what that would portend over time. Obviously, given the way fiber had historically been utilized, it was built originally solely for the use of, in many cases, the enterprise and fiber solutions revenue that you're asking about. So that's a relatively new business to us. That wasn't the driver for which we underwrote. So if I were to go back and look at kind of our underwriting assumptions and try to match those to your questions around which components are doing better or worse than what we initially expected, that's probably a level of granularity and focus that frankly, we just -- we didn't aim towards that when we were going through the process. We were focused much more on a range of outcomes around what we thought was going to happen in the wireless business. And as I referenced in my comments earlier, the environment for that today is more robust and healthier than the environment in which we underwrote the fiber, the fiber investments initially with regards to small cells. So I'm not trying to sidestep your question other than to honestly tell you that that's really frankly not where we spend a lot of time trying to analyze, and so trying to make the comparison, I don't know that there's much of a comparison to be made there.

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

The reason that we're -- I was just going to say that I think the reason we're spending so much time on it is not because, again, that the fiber into small cell opportunity is not a good one. But I think a lot of us had been maybe concerned that as you bought a lot of fiber revenue that was existing, that you may over time not exercise that the growth there may end up dragging you more than sort of the mid-single-digits that it had originally been. So I think this is -- some of us are concerned that this is the first step of sort of deemphasizing that revenue growth that may drag the top line for a while.

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

Well, I think it's fair to ask the question and to wonder about what the long-term prospect is going to be. And as I said, in the same way we would think about on towers, obviously, we want to drive revenues outside of just the big for wireless operators of all of the activity, which makes up about 15% from non-wireless carriers on towers was to dry up, that would impact our growth rate on towers and the same thing is true around fiber solutions. So I don't need to -- I don't mean to dismiss the question as irrelevant, that's not just the primary focus of the investments that we made and, therefore, has a lesser focus in terms of the way we think about operating the asset, while at the same time, believing that every dollar that we get there is beneficial to, ultimately, the returns around fiber. And therefore, it does warrant the appropriate level of attention and focus to make sure we're maximizing the opportunity there.

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

Understood. If I can, one more quick one. Given the restrictions are coming from the sort of approval side, is 10,000 small cells a year a good guide going forward? Or do you see any shift that municipalities may be able to prove these more quickly in the future?

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

I think it's a good guide in terms of how you think about our model over the next couple of years with the bookings that we have and backlog currently. So I would guide you towards the 10,000 number in the short term. Longer term, the reason why the FCC order was put in place was to facilitate the deployment of 5G in the United States. And our belief in terms of the macro opportunities around small cells is far greater than what's happening currently. And I think you're going to see the overall pie associated the market sizing of the need for small cells to grow pretty significantly over the coming years as networks transition from 4G to 5G. And so municipalities and utilities are going to have to figure out a way to use the benefit of the FCC order which provides for the cost associated with scaling this up. They're going to have to get to the place where they facilitate that in order for the U.S. market to stay competitive and for the deployment of 5G. And I suspect they will. Obviously, the FCC has been responsive and has been really thoughtful in terms of the way they've drafted the order. And in the places, I should at least tip my hat to the places that have complied with the FCC order, it has really helped. It's helped in terms of the deployment of small cells. And you can see in our own activity, deploying 10,000 small cells thereabouts in 2019, that's about 30% higher than what we were able to do last year. Some of that is a direct result of some of these municipalities and utilities that are complying with the FCC order, which we find to be really encouraging. So I suspect, over time, we'll see broader embrace of that and compliance with it and I think that would be helpful.

Operator

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

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

Jay, is there any thinking or talks with municipalities that have more shared fiber infrastructure? Because I mean, thinking of these roads kills the structural integrity, and getting power is very difficult and putting cell sites on the street lamps and everything else out there. Are you having any of those kind of conversations? Because you're one of the reasons Verizon is also building out really aggressively. Just thinking about these roads time after time again does not make any sense.

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

Sure. That's certainly one of the areas that we look for, is that there's existing conduit that can be used to pull fiber through or other opportunities or ways to do it with minimal -- as minimal an impact as possible inside of these municipalities. And ultimately, the municipalities and the utilities, we are working hard to be good partners with them and figure out ways to reduce the amount of impact in the community. If you look at small cells across the country and go market-by-market, the types of poles that we deploy them on, the type of structure that we deploy, where we put the cabinets, the sizing of the cabinets, the sizing of the antennas and other things is often tailored to the aesthetic desires of the local municipalities. And so a component of it is aesthetic that we're working with them on. Another component or some of the things that you're referring to is, are there ways for us to deploy this kind of infrastructure and minimize the amount of impacts in the community. We're incented to do that because it lowers our cost when that's available. So to the extent that there are ways to do that, we're certainly looking for ways to be smarter and faster about how we're both spending the time and investing the capital.

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

And the other thing, Tim, that I would point out is the core to our business is shared infrastructure. And we believe we are in the best position to put that infrastructure in [one] and shared across as many customers as we can. As Jay was pointing out, with the focus on small cells, we can reach multiple of the wireless customers but also with the focus on providing fiber solutions, we can add customers that same fiber infrastructure. And we think we're in the best position of any company to do that. And if the municipalities really are focused on trying to limit the times that a street is dug up, then allowing a third-party provider who can share that asset as many times as possible to be the provider of that asset is likely the best outcome for everybody involved.

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

No, you're preaching so far on that. I guess the question is that the city has really recognize that if any cities implemented a policy like that, like New York City with Empire City Subway.

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

I don't know that I would put it in the -- adopted a policy, but do we work with municipalities to do that? Absolutely. And there are occasions where we found ways to do that.

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

Well, I guess lastly, in this regard, Verizon says they're building out aggressively. They want owners' economics that's key to their 5G strategy. Do you try to coordinate with them and not build in the areas that they're going to or vice versa? Any thoughts on that would be great.

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

Well, as I mentioned earlier in my comments, about half of the overall activity that's happening in the market, we think we're accomplishing, and the other half is largely being accomplished through self-perform by the wireless operators. Similar to the tower business, we don't see people overbuild assets. So once an asset is there, those fastest and lowest-cost means by which to deploy infrastructure like small cells is to use the existing assets, and that's the way we're seeing the business develop, I think, we continue to see it go that way. I certainly don't expect that we're not going to build all of the miles of fiber that are going to be required in the U.S. for the deployment of 5G and small cells. There's going to be a number of players in this space, including the wireless carriers who are going to build significant amounts of fiber and probably share that among themselves at some point.

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

I guess what I was asking, that 50%, is that hopefully occurring in locations where you're not building. It's like where you building, you're getting like 100% of the small cells?

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

Right. I mean what I would point to is, again, back to kind of the tower example, as infrastructure is in the market and there is opportunity there, existing infrastructure is preferred over trying to build new infrastructure on top of the existing infrastructure. This is very early days of what's going to need to be built for small cells across the country. And so I think you can see the flow of capital to areas that are not currently covered, and therefore, the investment to build new fiber-built areas that don't have any existing fiber, whether that's fiber that we built or somebody else built.

Operator

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

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

So maybe just to ask a question on the tower side. Can you just provide a little bit more color around your updated guide for new leasing activity on towers? You're targeting $140 million at the midpoint today. Could you shed some color on how that paces throughout the year? Just trying to understand if guidance implies similar levels of growth as the second quarter, or if you're expecting a further acceleration in the back half of the year.

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

Yes, Spencer, on the revenue guide, we are expecting more activity in the second half than what we saw in the first half. So there's an acceleration in the back half of the year, I think that's somewhat similar to what historically we've seen, where in our business, the back half of the year tends to be more loaded than the front half. So we are expecting an acceleration relative to the first half of the year and the second half.

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

And then just one follow-up on the comment you made in your prepared remarks. You talked about 4G activity and 5G activity driving a strong tower growth -- strong growth on towers over the next couple of years. Could you just elaborate on how you see 5G playing out on towers versus small cells? I love to get your thoughts on that.

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

Sure. I think what we will see is the combination of 2 things running parallel. First is the carriers build out, upgrading their networks. They will tend, as they have done in past migrations of technologies, to go to the places where they already have existing technology to upgrade equipment to the new technology. So I would suspect we'll see significant amendment activity at sites where they go out and deploy additional antennas and lines and amend their existing equipment to make it 5G-ready. I think we'll also see in places where the carriers have additional spectrum that they have acquired where they will put what will feel like to us as new installations in order to deploy that equipment. In addition to that, I think you're going to see some places running parallel with that in the initial stages is infills because of capacity constraints, which will flow towards investments in small cell. So the areas that we've already put fiber in the ground have fiber in dense urban areas where there's a high amount of traffic. I think as the 5G network starts to begin to be loaded, I think you're going to see the carriers invest not only in upgrading their existing equipment, but also offloading some of that traffic on the small cells in those dense urban environment, just like we saw in 4G, whereas macro sites reached capacity, they offloaded some of that traffic on to small cells in order to improve the cost efficiency and effectiveness of the macro site. I think you're going to see a similar play out on the 5G side. So it will be a combination of investment around both the macro sites as well as small cells.

And we'll take one more question.

Operator

We have one more question from Jon Atkin of RBC.

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

So I don't know if I missed this earlier or not, but I just want to kind make sure I get the kind of the broad [contours]. It sounds like the small cell growth that you are expecting going forward might be a little bit less capital-intensive. I don't know if that's a fair read or not. And then secondly on the M&A side, in terms of tuck-in fiber acquisitions, can you maybe describe the landscape and what looks interesting or not interesting to you?

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

Sure. Less capital-intensive is -- that's certainly true with regards to the co-location activity. As we go over the long term, we would expect that once there's a certain base of fiber that's been built, anchor-built fiber, as we get to the point where this flips from being anchor-built new sites, in essence, being built, we'll move towards a greater percentage of co-location and then therefore, the capital intensity comes down as associated with that activity. I think based on our macro view, though, Jon, that may be several years away from the environment that we're in today. As I made my comments earlier around how the carriers are thinking about the deployment of small cells, I think there's a lot of work still to be done even in the top 10, top 30 markets in the U.S., and then we'll just have to see how it develops beyond there. But as we get towards the point where co-location becomes the vast majority of the business, similar for drawn analogies to the tower business, you go back and look at the 1999 to 2003 time frame, there was a significant amount of capital that had to be poured in to build and acquire towers. And now we're are a place from the tower business where we're virtually all the capital is related to co-location, that's very low capital intensity required to do that. So I think the same thing will happen in small cells. I think we may still be several years away when we get to that point where the vast majority of the activity is just solely co-locations. On your second point around M&A. I've made this point now for probably 1.5 years or so, but we just don't see any opportunities for large-scale acquisitions of the kind of fiber that we believe fits our strategic goal. We need dense, high-capacity, urban fiber in order for it to really fit the small cells opportunities that we believe lie ahead. And from what we've seen in the market, there may be, from time to time, some tuck-in acquisitions in certain markets to cover a portion of that market, but we really just don't see a lot of opportunity to make acquisitions. So I would suspect that to the extent that you see us allocating dollars towards investing in fiber, we're more likely to do so on a build basis than we are to do it from the acquisitions.

Thanks, everyone, for joining us this morning. We appreciate it. Look forward to catching up with you next quarter.

Operator

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