

THOMSON REUTERS

EDITED TRANSCRIPT

Q3 2019 Crown Castle International Corp Earnings Call

EVENT DATE/TIME: OCTOBER 17, 2019 / 2:30PM GMT



CORPORATE PARTICIPANTS

Benjamin Raymond Lowe *Crown Castle International Corp. (REIT) - VP of Corporate Finance*
Daniel K. Schlanger *Crown Castle International Corp. (REIT) - CFO, Senior VP & Treasurer*
Jay A. Brown *Crown Castle International Corp. (REIT) - President, CEO & Director*

CONFERENCE CALL PARTICIPANTS

Batya Levi *UBS Investment Bank, Research Division - Executive Director and Research Analyst*
Brandon Lee Nispel *KeyBanc Capital Markets Inc., Research Division - Research Analyst*
David William Barden *BofA Merrill Lynch, Research Division - MD*
Jonathan Atkin *RBC Capital Markets, LLC, Research Division - MD and Senior Analyst*
Jonathan David Charbonneau *Cowen and Company, LLC, Research Division - VP*
Michael Rollins *Citigroup Inc, Research Division - MD and U.S. Telecoms Analyst*
Nicholas Ralph Del Deo *MoffettNathanson LLC - Analyst*
Richard Hamilton Prentiss *Raymond James & Associates, Inc., Research Division - Head of Telecommunication Services Equity Research*
Robert Ari Gutman *Guggenheim Securities, LLC, Research Division - Senior Analyst*
Simon William Flannery *Morgan Stanley, Research Division - MD*
Spencer Harris Kurn *New Street Research LLP - Analyst of Towers and Infrastructure*
Timothy Kelly Horan *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*
Yong Choe *JP Morgan Chase & Co, Research Division - VP in Equity Research*

PRESENTATION

Operator

Good day, and welcome to the Crown Castle Q3 2019 Earnings Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Ben Lowe. Please go ahead, sir.

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

Great. Thank you, Samantha, and good morning, everyone. Thank you for joining us today as we review our third 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 crownccastle.com that we'll refer to throughout the call this morning.

This conference call will contain forward-looking statements, which are subject to certain risks, uncertainties and assumptions, and actual results may vary materially from those expected. Information about potential factors which could affect our results is available in the press release and the Risk Factors sections of the company's SEC filings. Our statements are made as of today, October '17, 2019, and we assume no obligation to update any forward-looking statements. In addition, today's call includes discussions of certain non-GAAP financial measures. Tables reconciling these non-GAAP financial measures are available in the supplemental information package in the Investors section of the company's website at crownccastle.com.

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

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

Thanks, Ben, and good morning, everyone. We delivered another quarter of strong financial results that reflect the significant demand we are seeing for our shared infrastructure assets. I believe our strategy, an unmatched portfolio of 40,000 towers and 75,000 route miles of fiber concentrated in the top U.S. markets, has positioned Crown Castle to generate growth and cash flows and dividends both in the near term and for years to come. Steady execution against this strategy is resulting in consistent dividend growth as we increased our annualized common stock dividend by 7% to \$4.80 per share, in line with what we believe our AFFO per share growth will be in 2020.

Over the last 5 years, and inclusive of the increase we announced yesterday, we have grown the dividend at a compounded annual growth rate of approximately 8% while investing heavily in assets that we believe will generate significant growth over the long term.



Dan will discuss the results for the quarter and the full year 2020 outlook in a bit more detail, so I want to focus my comments this morning on 2 key points. First, new leasing activity across our business is expected to be higher in 2020 than in 2019, including activity in our tower business remaining at the highest level in more than a decade. And second, I'm excited about the long runway of growth for Crown Castle as 4G investment remains robust and the deployment of 5G is just getting started.

On the first point, in 2019, we are seeing a significant acceleration in tower leasing as our customers add capacity to their wireless networks in response to the rapid growth in mobile data traffic. The current demand environment is largely tied to our customers investing heavily in their 4G networks to keep pace with 30% to 40% annual data demand growth. As you can see in our outlook for 2020, we expect the elevated level of tower leasing to continue into next year.

As 5G becomes a reality and wireless networks expand from connecting everyone to connecting everything, we believe new use cases will develop that will generate significant long-term demand for our infrastructure with towers remaining at the core of the wireless networks.

As I think back on my time at Crown Castle over the last 20-plus years, there have been significant advances in the broader wireless industry like the rapid deployment of technology that has taken us from tracking mobile penetration rates and voice minutes with 1G to the current 4G unlimited data plans that feed a seemingly insatiable demand for data from consumers. And now the industry is in the beginning stages of what is likely to be the next decade-long investment cycle with the deployment of 5G, which brings with it the promise of a step function change in the role that wireless networks will play in supporting the digital economy going forward.

While technologies have changed, there has been one constant: the significant and sustained demand for tower assets in the U.S. This steady growth has been driven by increased data traffic and investment to maintain and improve the wireless user experience. With continued strong data growth, we believe the carriers will respond to pressure on their networks as they have over the last couple of decades by leasing access to our infrastructure.

In addition, future networks will need to be significantly more dense than current infrastructure can handle, which brings me to my second point. I see a long runway of growth in front of Crown Castle as our customers continue to invest heavily in their 4G networks to keep pace with data demand growth from existing technologies, while the deployment of 5G is just getting started.

We are at the very beginning of what the World Economic Forum has deemed the fourth Industrial Revolution. The first used water and steam power to mechanize production. The second used electric power to create mass production. The third used electronics and information technology to automate production. And the fourth will be the digital revolution that leads to long-term gains in efficiencies and productivity and impacts almost every person and every industry. The fourth Industrial Revolution is closely tied to the deployment of 5G, which will allow for billions of devices to be connected and communicating in real-time. This level of connectivity is unprecedented and will require a network that is denser and closer to end users than has ever been the case.

We saw this change in network architecture begin with 4G, driving us to expand our shared infrastructure beyond towers and build the leading industry small cell business in the U.S. We believe creating this unique portfolio has increased our opportunity to deliver long-term growth and dividends per share by tapping into the same underlying demand trends that make U.S. towers so valuable. The extension of our strategy utilizes the same playbook we used with towers by sharing the asset across multiple customers. In the case of small cells, fiber is the critical shared asset. We have rapidly scaled our small cell business to where we are today with 70,000 small cells on air or under construction, and we believe we are still in the very early innings.

According to CTIA, the number of small cells deployed in the U.S. is expected to increase nearly tenfold from 85,000 at the end of last year to 800,000 by 2026. Against that backdrop, we see tremendous opportunity to increase the returns on our fiber investments over time by adding new small cell tenants to existing fiber networks as we're doing today. We also see a path to further improve our small cell returns by sharing the fiber assets across a larger addressable market of customers that require high bandwidth connectivity including large enterprises, healthcare institutions and government agencies.

When I look at the entire opportunity in front of us, I see we are generating a 9% recurring yield on the \$37 billion of capital that is



invested across our 40,000 towers and 75,000 route miles of fiber. With the lease that we have driven over the past 2 decades, we are now just over 2 tenants on average per tower. In a similar vein, with an average investment age of just 3 years, we have less than a small cell -- 1 small cell tenant equivalent across our fiber networks, giving us a long runway of growth as we have significant capacity to add more tenants to our assets over time.

So to wrap up, the growth we are seeing in our business reflects 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 operating in the best market in the world for communications infrastructure ownership, I believe Crown Castle is in a great position to capture these substantial long-term opportunities and consistently return capital to shareholders through a high-quality dividend that we expect to grow 7% to 8% annually.

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

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

Thanks, Jay. Good morning, everyone. As Jay mentioned, we delivered another great quarter results that sets us up to finish 2019 on a strong note and provides a solid foundation for 2020. Our third quarter results were positively impacted by higher services contribution and lower sustaining capital expenditures than we had expected, though this is just timing related, so our full year expectations for both remain unchanged.

During the third quarter, we also continued to improve our financial flexibility by taking advantage of favorable market conditions to proactively lock-in attractive long-term interest rates and extend the weighted average maturity of our outstanding debt to nearly 7 years. We finished the quarter with leverage 5x debt to EBITDA, which is consistent with our investment-grade credit profile.

Turning to our full year 2019 and 2020 outlook on Slide 5 of the presentation. There are a few items I would like to highlight. First, the 2019 outlook remains unchanged from our prior outlook. Second, the 2020 outlook assumes the proposed merger between T-Mobile and Sprint closes prior to the end of the first quarter 2020. And lastly, in 2020, relative to 2019, we expect a similar contribution of growth from towers, a consistent number of small cells deployments with approximately 10,000 nodes constructed and consistent contribution to growth from fiber solutions.

Also, please note the 2020 outlook reflects the impact of the mandatory conversion of preferred stock that we anticipate occurring in August 2020. The conversion will increase the diluted weighted average common shares outstanding for 2020 by approximately 6 million shares and reduce preferred stock dividends paid by approximately \$28 million when compared to 2019. In addition, we increased our annualized common stock dividends by -- per share by 7% from \$4.50 per share to \$4.80, tracking the expected growth in AFFO per share.

Moving to Slide 6. We expect approximately \$245 million of growth in site rental revenues from 2019 to 2020 at the midpoints, consisting of \$285 million of organic contribution to site rental revenues offset by a change in straight-lined revenues for approximately \$40 million. With these expectations, we anticipate consolidated contributions -- organic contribution to site rental revenues of approximately 6% in 2020 consisting of: 5% organic growth from towers, inclusive of 3% contribution from escalators offset by 2% churn; 15% organic growth in our small cell business inclusive of 1.5% contribution from escalators offset by 1% churn; and 3% organic growth from our fiber solutions inclusive of 9% churns and no contribution from escalators. As it relates to the expected tower churn in 2020, the 2% remains at the high end of our long-term 1% to 2% range as the last of the acquired network churn is expected to occur in late 2019 having an impact on 2020 financial results.

Turning to Slide 7. I would like to briefly walk through the expected AFFO growth from 2019 to 2020 of approximately \$210 million at the midpoint of outlook. The growth is primarily driven by the organic contribution to site rental revenues growth of approximately \$285 million at the midpoints, which is partially offset by an approximately \$90 million increase in [classic] -- cash expenses. This increase in expenses is a combination of the typical cost escalations in our business, including lease escalations and cost-of-living adjustments and



the direct expenses associated with new leasing activity. The balance of the changes relates to the expected contribution from network services and other items that are primarily related to changes in financing costs.

To support this growth, we expect our overall discretionary capital expenditures in 2020 to be around \$1.7 billion or around \$1.3 billion net of capital contributions from our customers. Based on our expected cash flow growth and the incremental leverage capacity that growth will generate, we believe we can finance this level of spending without issuing equity.

In closing, we're excited about the positive growth trends driving demand for our tower and fiber assets. Looking forward, we believe we're in a great position to continue delivering on our annual dividend growth target of 7% to 8% while at the same time making significant investments in our business that we believe will generate attractive long-term returns and support future growth.

Before taking questions, I want to address one other item. As you saw in our 8-K filed yesterday, we received a subpoena from the SEC in September requesting certain documents from 2015 through the present primarily related to our capitalization and expense policies for tenant upgrades and installations in our services business. Additionally, we have previously provided information to the SEC relating to certain of our service-related vendor transactions, which are not material in amount. The subpoena requires us to produce certain documents, but is not a finding that any violation of law has occurred. We believe our long-standing capitalization and expense policies are appropriate and we will, of course, cooperate fully with the SEC including a connection with their review of those policies.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question will come from Simon Flannery from Morgan Stanley.

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

So just following up on the SEC, do you have any sense on timing of when you've got to get back to them and when you might hear some more clarity around what exactly they're looking for here?

And then on the outlook for next year, you talked about this small cell business being similar to this year. Any more clarity around your ability maybe to revisit an acceleration? Clear up some of the zoning and other issues to get -- if it's not next year, at least in the other years to get back to that sort of 15,000-type number over time?

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

Sure. Good morning, Simon. On your first question, we don't have any indication of timing. So as Dan mentioned, we'll fully cooperate with the request that have been made of us. And we'll work through the process as appropriate.

On the second question around small cells, we do think, as we talked about extensively on the last quarter call, we're seeing a meaningful amount of delays from both municipalities and utilities in certain jurisdictions around the country where we're trying to deploy small cells, which has caused the timeline, expected timeline, to extend from what we had previously seen around 18 to 24 months to now a range of about 18 to 36 months. And we're working that on a number of different fronts in terms of trying to come up with [a stall] on how do we do that more quickly and work through the process more quickly with municipalities and utilities.

But I don't have, at this point, any update or more positive perspective. I think we still believed, as we sit here today, that the timeline's going to be 18 to 36 months. And the activity that we're giving for 2020 on the call this morning, reflects that time line of 18 to 36 months. And to the extent that we do have some breakthroughs on that front, we'll certainly update you.

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

Great. And [any channel for the] backlog [here]?



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

Now on the backlog, we did -- as we talked about, that's up to 70,000 small cells on the backlog. So we put about 2,500 on roughly during the third quarter. And then, we took on some new orders so the total pipeline and constructed small cell nodes went from 65,000 to 75,000 from second to third quarter of this year.

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

Yes. Just to be clear, that number is 70,000 of the ones that are on air and under development, which is around 40,000 on air and 30,000 under development; which, as Jay mentioned, you can see that we added both of those numbers in the quarter. So we had some bookings in the quarter that I think are indicative of what Jay was talking about earlier, which -- looking at the big picture of all of this, it does feel like -- and we're a little frustrated about it too, it's taking longer to put these on air than we would have anticipated it at this point.

But we're really in the early innings of this whole rollout of small cells and really haven't gotten into 5G. So what we're looking at is how can we make this business sustainable and scale it, because we believe the activity levels are there and will continue to grow. And we think we're making progress on that front. But as Jay mentioned, there are going to be some hurdles we need to get over and we're working really hard to get over them.

Operator

Our next question will come from Philip Cusick with JPMorgan.

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

This is Richard for Phil. Wondering if we could get an update on your current thoughts around incremental opportunities around data centers or towers or nodes? And along with that, alternative connectivity solutions, such as directly connecting Crown at One Wilshire to other networks so bypassing meet-me rooms.

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

Yes. I think at this point, the strategy that we've undertaken is the core of our focus. So we're focused on the components of the network related to towers and fiber, particularly around small cells. We think that the vast majority of the opportunity is going to lie in those 2 areas as the world goes through what I talked about in terms of the fourth Industrial Revolution. We have -- as you know, we've made some investments around edge data centers in Vapor, and we're continuing to watch that space. We think there's opportunity not only to create potentially a lease-up business by utilizing the space at the very edge of the network, which we would have as a result of our investments in small cells and towers, but it also gives us a perspective of kind of where the world is going.

So at this point, I really don't see data centers playing a significant role in our long-term strategy. We think the opportunity for us really relies around towers and then the use of the fiber for small cells, and then utilizing that same asset for -- as I mentioned in my comments, for other customers like hospitals and universities and other users that need high bandwidth fiber.

Operator

Our next question will come from David Barden with Bank of America.

David William Barden BofA Merrill Lynch, Research Division - MD

I've got a few, but I guess the first one would be on the Sprint T-Mobile merger assumption. Could you kind of talk us through how you landed on choosing to assume they close in the first quarter? And kind of what does it contribute to the guide incrementally if it didn't happen at that quarter or happen at all?

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

Sure. I think we needed to make an assumption, obviously, as we went through the guidance portion and based on the approvals of the DOJ and the FCC of the transaction, we believe the industry is operating under the assumption that the deal is going to close in the first quarter of next year.

I think as we think about the business and as we sit down to do the outlook each year in October for the following year, I think it's important to keep in context how our business operates and how it works. We oftentimes talk about how few inflection points we have in the business. And the reason for that is because how -- because of the amount of visibility that we gain into the business.

If we think about the 2020 outlook and talk specifically about kind of the leasing component of that, it's a combination of 3 components as we sit down and try to figure out what we're going to do for the year. One, it would be the leases that have commenced during 2019 that are contributing to our results in calendar year 2019 but didn't contribute to the full year of 2019. So as we go over into 2020, we get a full 12-months contribution from all of those leases that were signed and commenced during calendar year 2019. That adds to growth.

The second component would be leases that we signed during 2019 but they won't actually turn on until 2020. So those leases are committed. They're signed, we know when they're going on air roughly. And that would be the second component of our -- of how we lay out the outlook.

And then the third component and the smallest component of the contribution to growth in a given year is the leases that we'll sign in the next calendar year, in the year that we're giving guidance to. And some component of those leases that are signed next year, those will commence in the second half, in all likelihood, towards the second half of next year. That's a relatively small component of the guidance.

So one of the things that we used to say, and we haven't talked about it in a long time but it's still true, in any given year, when we get to this point of thinking about the next year of our guidance around site rental revenue growth, a very significant percentage of the 6% growth that Dan was speaking about in his comments, we already have visibility to. And in many cases, more than half of that is probably already signed by customers or is already producing revenue in our statements today, and we'll get the benefit of the full year of it next year.

So that's on the site rental side. And then on the services side, as we start to think about it, there's 2 components of the services business. There's the installation component where we're project managing the work for carriers. And that benefits from all of the leases that have been signed in this year that will get installed next year and then some component of what gets done in 2020 that we don't have visibility to yet but leases that we think we'll sign. And then the last component would be around preconstruction work that we do, or what we often call, site development services. And that is pre-work that's done. So we would be doing the site development services today for leases that are going to go on in 2020. And then we'll do some work in 2020 for preconstruction work, but construction work won't even be done until 2021. So when we look at all of those elements, it gives us a tremendous amount of visibility into the business, which is why we guide in October of every year for the next calendar year because significant portions of it are known today.

So -- and I know you asked specifically about how we think about Sprint T-Mobile. Dave, you've followed us for a long time, so you know we don't like to talk about specific customers and don't want to do that on the call.

But that's how we've built up our outlook in any given year, and we did that consistently for 2020 as to what we've done in prior years. And then to put a finer point on it, we thought for sure someone would ask us what did we do with the Sprint T-Mobile merger? And so the assumption that we made was that it goes on in the first quarter.

But I think the explanation, more broadly, of how we think about the outlook and what drives that outlook should help folks understand kind of the visibility that we have towards that outlook. And then to the extent that there's a development broader in the space that changes -- forces us to need to change the assumption that we've made here, we're happy to come back and give you that update to our outlook when it occurs or when a certain development necessitates us revisiting our assumption.

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

Just to add one point of clarity to that, David, is that, as Jay mentioned, the 3 components that can add to new leasing activity in the subsequent year that we're giving guidance for, and that last one he talked about, the leases that we would sign in the year and put on in the year that would impact the financial statements in '20, that's the smallest piece. And that's what we would be talking about if there

were a significant change in either the timing or outcome of the T-Mobile and Sprint merger. It's what we would be signing next year and would go on air next year. So that's the -- like you said, it's a smaller portion of what could impact new leasing activity from the tower side.

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

Awesome. And I guess maybe a second question would be just on the small cell lease-up side. So you've been talking about kind of 2019 and 2020 kind of looking roughly similar in terms of node deployments, presumably, and then the lease-up in revenue terms is also pretty similar. I was wondering why the leasing incremental revenue on the small cell business wouldn't be higher because if you're going to deploy the same amount this year as you did last year, but you've got the opportunity to lease up last year's systems for incremental tenants, we should be seeing kind of a revenue acceleration in dollar terms rather than flat. Is there something I'm missing in that equation?

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

I don't think you're missing anything in the equation, David. I think what is happening is the timing of the new nodes going on air in 2020 is back-end loaded, which results in not having as much contribution to the new leasing activity in the year. But we believe that, that will over time, come into play.

Operator

Our next question will come from Jonathan Atkin with RBC Capital Markets.

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

A couple of questions. So as you laid out the components of guidance for 2020 in the different buckets, where do MLAs play a role? Is that strictly in the escalator? Or is there a portion of that in leasing?

And then related to guidance and David Barden's question, I guess just to kind of put a finer point on it, you do -- it sounds like you do assume some modest amount of integration-related CapEx in 2020. Is that correct?

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

On the MLAs component, and this -- I know you know this, Jonathan, but just for the broader audience, oftentimes, the term MLAs is used to describe agreements that we strike with the customers where they make committed levels of activity to us. Oftentimes, those are over multi-year periods of time. We generally do not assume and have not assumed anything with regards to this outlook, with regards to new customer agreements in our outlook for 2020. So it's business as usual, if you will, in terms of how we're contracting with customers and the activity -- the activity that we've baked into that outlook.

I'm not sure I understand your question, the second one. Could you rephrase that or ask it in a different way?

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

Yes. Yes. If 2 carriers were to emerge before March of 2020, presumably they would embark on some integration-related CapEx that might lead to elevated amendment revenues, let's say, as one carrier deploys 2.5 and then the other deploys lower. Different spectrum is going to get cross-pollinated on to the different sets of assets. So that can lead to maybe a little bit of a higher pace of amendment revenues next year. So the question is, is that -- it sounds like that's contemplated in your guidance. But to Dan's comments, it's the smallest part of your guidance. Is that a fair characterization?

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

Yes. I think obviously, as we noted, we are assuming that the T-Mobile Sprint merger happens in the first quarter. And I think broadly, the industry is working and thinking under that assumption.

The part that I would have, and I think consideration of this that's important is, in the activity cycle of the deployment of what's coming, and obviously when you listen to Sprint and T-Mobile talk about the rationale for the merger and you listen more broadly to all of the players in the space, the capital spending is going to start to transition here in the next 18 to 24 months from largely being focused on 4G

to 5G. And those activities, while they will start in the next 18 to 24 months really in earnest, this is going to be a decade-long, we believe, investment cycle that we'll go through with the carriers. And trying to put a really fine point on which quarter that activity actually starts in and what the scale of that activity is, we have proven, I think, to ourselves over 20 years of trying to do this that it's nearly impossible for us to be that precise.

And so we generally talk about the business, think about the business, manage the business over kind of year -- year-plus cycles. And I think as we get into 5G, I think what you will hear us talk significantly about is that the wireless carriers will go out and touch the sites that they're on already and upgrade that technology towards 5G. And commensurate with that, some of the comments that I've made, I think you will also see them increase the density, particularly in the top 30 markets in the U.S., where there's greater density of users in order to provide 5G. And 5G is going to require a greater density of a network. We think, that will really benefit small cells.

And then the last phase of it will be a densification around the macro sites where you see carriers come back and trying to find opportunities to put in additional antennas and lines and macro sites that they're not on existing. So I do think -- to your point, I do think you're right, that we'll see in the early stages kind of an amendment activity to existing leases. But I think that's going to happen over a very, very long period of time, think decade, rather than trying to put a finer point on a quarterly outcome.

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

And then lastly, related to new business. There may be auctions that take place perhaps in the C-Band at some point in the first part of next year. And then unrelated to that, there'd be the sort of mandated fourth network that gets filled out as part of DOJ's approval of the deal. So I wondered how much or what are the timelines to sort of contemplate? And do we see any of that in 2020 around C-Band deployments and then maybe a mandated forced network deployment? Or was that not part of you are thinking when you -- with your initial outlook?

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

I think as we think long term about the network, certainly, we would expect that the FCC will continue to go down the path of trying to make additional spectrum bands available. I think they have been really clear, and all of the research has shown that despite the significant amount of investment that's going to happen around densifying the networks, there's not enough capacity in the existing spectrum bands to meet the demand that's going to come both from consumers and industry around the deployment of 5G. So I think we will see the C-Band as an example of that.

I think there are multiple other examples that are being talked about in terms of coming to auction. But I think even beyond what's contemplated today, I think we're going to see over the next decade, additional spectrum bands freed up and come to market. And as those bands get freed up, the absolute best thing -- best place to be, as an infrastructure provider, is when there's a combination of new spectrum being deployed or a spectrum that has previously been fallow, and that ends up in the hands of a provider, whether that logo is known to us today or otherwise. And that, that provider then has either an incentive as mandated by the FCC to get it deployed, or has a business interest and economic desire to get that spectrum deployed. And when those 2 things come together, an opportunity to -- and capital to invest in the network along with new spectrum bands, that goes really well for our industry, and has for a long period of time.

As we contemplate the guidance that we're giving this morning, we're not assuming that there are additional spectrum bands that are given in the next 12 months. As we think about 2020 back to my earlier point around what contributes to that, that would really have to be known today and we would already have leases. To the extent that it was any of those things that I'm talking about now, that would be very small, and frankly, pretty much inconsequential to our guide. But I wouldn't dismiss that in terms of the long-term benefit that those things are going to bring to our business. We think those are significant. And if we really think about the upside from the investment that we've made around fiber and our long-standing assets that we have on towers, both of those assets are going to benefit significantly as additional spectrum bands are deployed over the long term.

Operator

Our next question will come from Michael Rollins with Citigroup.

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

Just going back to the FCC inquiry. Is the accounting that you used for tenant upgrade and installation similar or the same as your competitors? And do you know if they've also received a similar request?

And then, maybe just moving over to the network services business more broadly. How would you look at the potential for the gross profit that you're generating from that business to be similar or greater over time to the current level? And is there a framework that you use to sort of measure what that might look like relative to the underlying activity for leasing within the financials that you report?

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

Sure. On your first question, I can't speak to the accounting of our peers, or whether or not they've received a letter.

On the second question around services gross profit over time, historically, this has basically tracked leasing activity in the tower business. The amount of services that we perform are really small outside of the tower business. So virtually, all of the gross profit that we have comes from the tower business. And as I mentioned in my earlier comments, there are 2 primary things that we do for the wireless carriers in the services business. And I'll do this sequentially, not in order of scale.

The first thing that we do for carriers would be what we would call site development services. Those would be things that are preconstruction. There are things like site acquisition, application fees and other things that we do prior to actually beginning the construction process for a new tenant. And whether that new tenant is an amendment to an existing lease or a brand-new installation on the tower, we will do some work for them preconstruction.

That represents -- I think in 2018, that represented about 40% roughly of the total services activity that we had. The 60%, which would be the second component of it, is the project management of actually installing their equipment on our sites. And in that regard, we're providing project management services to tenants as they're wanting to install the equipment, whether it's, again, amendments or brand-new leases.

There have been occasions over time where the growth in our gross profit has been a function of us capturing greater percentages of the activity. In periods where activity in towers was relatively light, if you go back historically, lighter than levels today, at times, people will come into that business and they would bid the price and the margins really tightly. And we'll walk away from some of that business because we just don't see margins in it. In periods of time where activity is more robust, there are times when we capture a higher, higher percentage of it. So it generally tracks activity but not perfectly.

And so if you look at the increase in services gross profit over the last several years, you can basically track that to our continued increase in activity around tower leasing activity. And as we've mentioned a couple of times this morning, we're -- in 2019, and we think we'll be again in 2020, in terms of tower leasing activity, we're at the highest level we've seen in more than a decade. And so our services business is obviously tracking with that.

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

And it just seems like in 2019, you may have gotten a little bit of a multiplier on the gross profit growth relative to the -- the gross profit growth in network services relative to the movement if we measure activity by just the internal leasing dollars. Is that fair? Or is there more to unpack to try to get at the change in activity relative to the change in gross profit?

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

Yes. There is a bit of -- that's why I made my comments about there -- it's not single dimension. We did benefit from 2018 into '19, we've captured a higher percentage of both preconstruction work as well as installation work. So we've grabbed some market share there during 2019 relative to 2018. So it's a combination of the activity and a little bit higher market share.

Operator

Our next question will come from Colby Synesael with Cowen and Company.



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

This is Jon on for Colby. Within the fiber business, can you talk about the bookings trends you witnessed in the third quarter versus maybe the second quarter? And do you believe there's some potential that the 3% growth for 2020 could ultimately prove conservative?

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

Yes. We saw the business continued to perform well. In the third quarter, it obviously came in line with our expectations. You saw from the numbers that we gave on an incremental basis in 2020 our midpoint of growth, \$165 million, compared to \$150 million in 2019. Of that larger asset -- off the larger revenue base, the growth is still 3% which is where we guided. I think our outlook for that and guidance around it, as we've said a couple of times this morning, is that 3%. We feel good about that. We believe we can sustain that over a long period of time, and we're doing everything we can to increase it.

As I look at the quality of the fiber and where it's located and the opportunity there, that fiber is running right past a significant addressable market that I believe our fiber could provide services to. And I think as we get better at the business, I'm hopeful that we will be able to increase it and see an opportunity.

Our 2020 outlook is a balanced view of what we think are the best thing that could happen to us, the worst things that could happen to us and trying to weigh a number of different assumptions around it. And as we get into 2020, if we figure out a way to do a little better in the business, we'll certainly update you.

Operator

Our next question will come 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 if I could. Jay, I think you mentioned that the change in the straight-line adjustment for 2020 looks like about maybe \$40 million improvement there. We have been expecting maybe more like \$100 million change there. It looks like T-Mobile now is more like 6 years versus 5 years, but how should we think about that change?

Then also as we look into maybe '21, are we expecting a bigger change from straight-line adjustment as we go from '20 to '21 and get that to be a positive adjustment since cash is so important to look at?

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

So Ric, let me take that one. What adds to that straight-line, as you know, is extension of current leases and signing new leases. And we believe that the combination of those 2 activities will lead to an additional \$40 million to straight-line revenue. I can't really -- I don't -- I can't really speak to your expectation of \$100 million compared to that number. But we believe that what we've captured in there is a new leasing activity that we expect in our guidance and our outlook. And included in that, like I said, is the extension of current leases to the extent that, that happens.

And looking into 2021, we're just giving guidance for 2020 now. So we can get into that when we start talking about 2021 and how it all may look out. But right now what we're talking about, as we mentioned, at the midpoint, we're around \$40 million for 2020.

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

Sure. In the supplement, you do give a little extra detail. But obviously, it's a static picture as far as what the adjustment between book and straight-line is. So that's kind of where we had gotten the early indication on 2020 and thinking on '21. So that's why I'm just trying to -- I know you don't give guidance on '21, but you do provide that supplement, some extra kind of color.

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

That supplement, as you pointed out, is a snapshot in time as of our business -- that relates to our business as of September 30, 2019. And it will move depending on what happens with the business as we sign new leases and extend new leases. So that's why we give it

because we want to give as much detail as we can. But looking into the future, we want to give that as part of our outlook not as a static picture.

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

Sure. Okay. Second question is amortization of prepaid rent. It looks like that amortization of prepaid rent went up maybe about \$25 million from 2018 to 2019. As we look at your 2020 guidance, should we assume a similar increase of maybe \$25 million, more or less? Just trying to think of what the amortization of prepaid rent contribution is in 2020.

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

Yes. First, that's about right. It's in that neighborhood from 2018 to 2019. And we believe that going into '20, it will be a little higher but not anything that would be material.

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

Okay. And then the last one, Dan, you mentioned, on churn on the tower side be up at that 2% level in 2020 because of kind of wrapping up the acquired network churn late '19. How much dollars are left in there so we just can kind of get a sense of what that is as we get to finishing up '19 and into 2020 on a dollar basis?

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

Well, what we've seen now is that we think we've taken almost all of it at this point, and then it'll just be the flow-through from the activity that we've already seen going into the remainder of this year and then into 2020. And it's most of the difference between our -- what will be normalized at 1% and where we are now at about 2%. And therefore, as we get into the back end of 2020, we think that, that number of incremental churn will come down and we'll get closer to the lower end of our 1% to 2% long-term guidance.

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

Makes sense. So long term, more like 1% what you're seeing in the historical asset and in the other acquired networks, et cetera.

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

I think that's fair, it's within that range. And we'll be on the lower end of that range as opposed to the higher end of that range.

Operator

Our next question will come from Nick Del Deo with MoffettNathanson.

Nicholas Ralph Del Deo MoffettNathanson LLC - Analyst

Dan, can you walk us through the mechanics of what gets expensed and what gets capitalized in the services business?

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

Sure, Nick. I want to take a step back and just talk about that, generally, as how we think about capitalization. And what we do, and I think this is what any company does, that it's basically looking at what are the expenditures that add to the long-term value of an asset can generate future revenues on an asset. Anything that does that, we will capitalize. To the extent that we are making expenditures that, for instance, are more maintenance in nature but do not add to the long-term revenue-generating potential of that asset, we will expense.

Nicholas Ralph Del Deo MoffettNathanson LLC - Analyst

Okay. Are you capitalizing -- so does that mean you're capitalizing costs incurred for the services business to PP&E, like tower improvements?

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

Yes. They're -- so Nick, like I said, we capitalize the costs that add to the long-term nature of the asset. And I think you can appreciate that given where we are with our discussions right now, we don't want to get into a lot more detail here.

Nicholas Ralph Del Deo MoffettNathanson LLC - Analyst

Okay. Understood. Then maybe switching gears then, one on the small cell front. As we think about the lengthening installing frame, are there any exit clauses in customer contracts if you're not able to deliver the small cells in a given time frame? I recognize that they may not choose to exercise them because waiting might be a better option than exiting, but I'm kind of curious if they're there.

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

I'm sure they have an exit should we not perform appropriately under the contracts, but these are committed contracts. So to the extent that we're performing appropriately, we're not on the hook based on certain barriers like municipalities and utilities that would make the time line very, very long. So I think as we talk about the contracted base of small cells that we have, we don't view those at risk as long as we can get them on air at some point.

Operator

Our next question will come from Batya Levi with UBS.

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

Couple questions. Just going back on the guidance. Given that you're expecting a similar organic growth in macro next year, and this includes a small amount from new leases that could be signed when the deal closes, can you provide more color on what type of activities you think actually could slow down to make for that difference?

And maybe any thoughts on commercial availability of CBRS if you're seeing any increased activity from the carriers as they deploy that? And a final question on the discretionary CapEx. It looks like it's a little bit lower versus '19. Can you talk about what's driving that reduction?

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

Sure. On the first point, I really don't want to get into a specific customer guidance around what we expect in calendar year 2020. We've tried to frame this in a way that's helpful and just relatively minimal amount of activity that would happen in 2020 and how that would flow through to the guide that we've given. So I'm not sure I can add much color to that. We certainly assume that during 2020, we'll see new macro leases across the portfolio and across the industry, and those will have some contribution in 2020 but those leases will, frankly, have more meaningful contribution to our 2021 results.

On CBRS, we are watching that activity. There is some of it, but it's not material to the results today. We don't expect that it will be material to our results in 2020 and the outlook that we're providing. Initially, I think most of the CBRS activity appears to be focused in building. So we're seeing some of that in the venue opportunities that we have, and that may contribute there. But it's really small at this point and not a material driver of the business.

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

On the discretionary capital, Batya, the reduction really is to -- is related to what we believe it will take to put on air all of the assets that we believe will generate the new leasing activity that we have coming in to 2020. And we believe that's just lower in 2020 than it is in 2019. As you know, there was a step-up in activity going into 2019, and we're leveling out a bit in 2020. And the result of that is a slightly lower capital expenditure profile than what we're seeing in '19.

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

Okay. One just follow-up. Can you give us a rough split of the fiber and small cell revenue base as we exit the year? Is it more like 80% fiber and 20% small cell?



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

Yes. It's closer to 70% fiber, 30% small cell going into 2020 than it is the 80/20.

Operator

Our next question will come from Robert Gutman with Guggenheim Securities.

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

The site leasing -- fourth quarter site leasing revenue implied, given year-to-date progress and even at the high end of full year guidance, it seems like the fourth quarter implication is pretty flat versus third quarter, just a hair higher as we think about fourth quarter usually being seasonally stronger. So can you talk about -- a little bit about the timing through the year there?

And maybe pull into that a little bit about how you see order activity in the second half of the year versus the first half of this year.

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

Yes. Happy to answer that question. We had maybe a seasonally strong third quarter as we think about -- as we think about historically the activity in Q3 was stronger. So I would just -- I would chalk that up to timing. Obviously, we're not changing our full year outlook for 2019. We did expect Q3 to be really strong relative to the full year. And so to the extent you're noticing a little bit of movement between Q3 and Q4, we believe that to be just timing.

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

And what about the pace of new order activity in the second half of the year versus the first half of the year?

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

Well, the second half of the year leads right into our 2020 outlook. So the leasing and the bookings that we're doing in the second half of this calendar year, those flow into leases that are turning on in 2020 to the extent we don't get them on air at the end of 2019. So I think a good read-through for particularly second half activity of '19, that is you can get a good proxy for that by looking at the outlook for 2020. So when we make comments in 2020 to say that the leasing activity in '20 looks substantially similar to that of 2019 in terms of change in our reported revenue growth, that's really a proxy for what happened for the second half of 2019.

So I say all that to say second half of 2019 activity is at the highest levels we've seen in a decade, except for the periods in the second half of '18 through the beginning of '19. So it's been incredibly, incredibly strong. And really hopeful as we go into '20.

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

And as you remember, Robert, we increased our new leasing activity expectations earlier this year on an increasing level of activity through 2019. So we believe that this higher level activity we're seeing now will continue.

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

Great. And on the incremental small cell orders, how much of that is new builds versus second tenants, the breakout proportionally?

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

Similar to what we've seen over the last several quarters. So we're still seeing the predominant amount of the activity is coming from new locations where we're going to extend the fiber off the plant. But we're seeing co-locations in that mix as well to the tune of about 30% to 40% of the activity is coming in, in co-locations, and about 60% -- 60% to 70% would be new extension of the fiber networks that we have in place.

The activity continues to be focused in the top 30 markets of the U.S. So there is some marginal activity outside of that, but certainly this increase that we're talking about this morning, that's coming in, in almost entirely the top 30 markets.

Operator

Our next question will come from Tim Horan with Oppenheimer.



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

Maybe just asking -- I'm sorry guys. Maybe just asking the question a little differently on Sprint, T-Mobile, DISH. Do you think that merger ends up changing the trajectory of revenue at all over the next 5 years for the -- does it improve it? Does it keep things relatively the same? Does it hurt? I mean I know there's a million moving parts.

And then secondly, are you seeing much industry -- interest from the cable companies yet or do you think they're engineering wireless networks at this point? And then lastly, are the municipalities and utilities, are they improving on their ability to kind of process all the orders here for small cells? Or when do you think that improvement comes where we could get to a good run rate again?

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

Sure. I think to your question around longer term, the driver of our business is really data traffic growth, which I referenced a couple of times in my comments. And I think regardless of the logos, the number of logos, who owns what spectrum, I think what drives our business and the investment in the infrastructure goes to what is the data traffic opportunity. And if our assumption is right around the coming of 5G and the amount of infrastructure that's going to be required for that, I think our business is going to perform really well, regardless of the outcome there. There may be some short-term changes that we're talking about on a quarter-to-quarter basis, depending on what the ultimate outcome of the industry structure is.

But the long-term trajectory of revenue growth, we believe, that is a very favorable environment. And it's why we -- when Dan and I are having these kinds of conversations, it's why we spent so much time trying to focus around the dividend and our dividend growth of 7% to 8%. Inside of that range of 7% to 8%, we're taking into consideration a number of different outcomes, whether it's movements and activity around leasing as well as changes in interest rate environment and other things. We're trying to look out over a really long period of time and say, well, how do we think the business will perform over a long period of time? And that drives us to talk about kind of the dividend growth of 7% to 8%.

And to your question, looking at the longer term of kind of what it would look like over the next 5 years or so, I would say I think our view around dividend growth of 7% to 8% encapsulates the number of different industry structures, deployments in new technologies, different spectrum bands. And we believe it'll be really favorable for us.

On your second question around cable companies, again, I'm going to beg off on that because I really don't like to talk about specific customers. I think more generally, as we move towards 5G, there's a mix of a lot of customers that are starting to look at the need for infrastructure and how they could own wireless networks in ways that go beyond what we've historically seen. And we've seen leasing from players outside of the 4 big operators in the U.S. this year, and that activity has been up compared to prior years. So we've benefited from some leasing outside of the big 4 operators. I think as we move towards 5G, you're likely to see that continue.

Then your last question around municipalities and utilities. We're certainly working really hard to try to get there. There have been a number of governmental entities that have been helpful on that front. Obviously, the FCC has worked really hard to try to put out some guidance and some rules that are intended to give clarity to the timeline and to the amount. Those rules have been helpful in a lot of cases. But we also ran into utilities and municipalities that just failed to comply with the orders and the rules of the FCC.

A number of states have undertaken activities and try to -- to try to help this activity. And so we're up to mid-20s in terms of number of states that have passed legislation that enables our ability to deploy this with committed timelines and committed cost structures. And there are a number of other states that we're working on at the state level. In general, though, I would say as we talked about kind of the operating components, how long is it going to take us to deploy these, all of those changes and opportunities, they really haven't changed our trajectory of how quickly we think we can deploy these.

Ultimately though, I mean just going all the way back to kind of where we started in the conversation in my prepared remarks, this business, at its most basic level, is the significant investment of capital up front to own an asset that can be shared. And that sharing occurs over a very long period of time. And the timing, while we certainly are working on it and we want to deliver for our customers a small cell node as absolutely quickly as we can, ultimately, as we think about looking at the business and whether or not it makes sense

for us to own the shared asset and what the returns are, we're less focused on the exact timing of when we can get these small cell nodes on and much more focused around what's the addressable market and what's the opportunity there.

And we have found, by running the tower business over a long period of time, that the patient, steady execution of adding tenants to that shared asset over a long period of time is how you can effectively drive great returns on the investments that we've made. And we're really focused on how do we do that cost-effectively and thoughtfully and then position ourselves really well with our customers to be the go-to provider because we can provide them with the low-cost solution that they can count on. And that's what we're focused on day-in and day-out to run the business well.

Operator

Our next question will come from Spencer Kurn with New Street Research.

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

I have a couple of questions. But on small cells, you talked about your new leasing revenue being back-end weighted. I was wondering if you can provide a little bit of context on the cadence of new leasing activity that you expect in the guide for towers and fiber.

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

Those are generally flat across the 2020 outlook, Spencer. There's no significant change from first half to second half, [at least for us].

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

Okay. Got it. And then on CapEx, I was just wondering if you could put a finer point on where you expect the lower CapEx to come from, whether it's towers or small cells or fiber in 2020?

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

It's in the fiber, small cells arena, Spencer. The towers are going to be relatively similar and then building the asset out for the fiber, small cell business is what we're spending a little less money on in '20 than we did in '19.

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

Got it. And then just lastly on small cells, have you -- you've historically talked to a win rate of around 50% of the market. And in the meantime, it feels like we've seen more growth from carriers building small cells themselves or cable companies talking about adding CBRS or WiFi to their own infrastructure. So I was just wondering if you could update us on your perspective of the competitive landscape. Has anything changed? Are you seeing better win rates? Or are they remaining stable?

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

Yes. You're correct in that our historical experience has been we've one with what we believe to be about 50% of the opportunity that's been available in the market. And the small cells that have been deployed, we believe we've won about 50% of that activity. We're certainly not underwriting. As we think about the long-term returns of the business, we're not underwriting that has what we believe will have significant growth in the amount of activity. I quoted the CTIA stat in terms of a tenfold increase in the number of small cell nodes between now and 2026.

We don't assume that we're going to continue to win 50% of the activity. We believe we'll win a very high percentage of the activity that happens in the areas where we have existing fiber. And to the extent that there is activity outside of where we have fiber today, then it will be just an investment decision around whether or not we would like to continue to expand the business. And that goes back to kind of my comments, a couple of questions ago, around how are we thinking about running the business. We're focused on how do we grow the dividend per share over a long period of time. And to the extent that we continue to expand the base and follow the carriers in the markets beyond what we have today, that will really be an investment decision around what do we believe the returns are, the initial returns plus the opportunity for future growth there. And to the extent that the return -- the return structures stay similar to what it is today, I think we'll continue to do that. If it changes, then we'll evaluate that capital at that point. But we're not underwriting an assumption there.



To your question around self-perform, we believe that it is the most likely -- if Crown Castle is not building a small cell, the most likely scenario is that the work is being self-performed by the carriers. Again, similar to kind of the tower industry in the earlier days, where there were a few providers who were building a bunch of towers but the carriers were also self-performing. There are locations that we choose not to build small cells and build fiber, and in those cases, oftentimes, the carrier is going to do it themselves. There are other cases where we would potentially be interested in doing it but the carriers decide that they want to self-perform.

I think the scale of what's going to be needed around small cells over the coming decade is you're going to have some of all of that and more. And so I think we'll continue to see the carriers self-perform and build a significant number of small cells themselves. And I think we'll do really well in the places where we've chosen to build fiber and capture lease-up opportunities against that fiber to drive our returns.

Maybe we'll take -- given the time, we'll take one more question.

Operator

Our last question for today's presentation will come from Brandon Nispel with KeyBanc Capital Markets.

Brandon Lee Nispel KeyBanc Capital Markets Inc., Research Division - Research Analyst

I want to follow up on Robert's questions on bookings activities. Specifically on towers, though, is the backlog of business signed but not commenced up year-over-year? And maybe just provide some color from a year-over-year and quarter-over-quarter perspective in 3Q. Then I have a follow-up question.

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

Yes. Just to clarify, Brandon, you're asking third quarter of 2019 over third quarter of 2018? Is that the question you were asking?

Brandon Lee Nispel KeyBanc Capital Markets Inc., Research Division - Research Analyst

Yes. Yes, [actually].

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

Yes. I think from what you can piece together, especially from how we've talked about the new leasing activity being higher in '19 than '18, and then increasing it during '19 from our original outlook and expectation, that it has been building over time and that is included into the third quarter. And we believe that, as Jay has mentioned a few times, that this activity level in towers which is the highest we've seen in a decade will continue into 2020. So it has been increasing. And we think it will continue around this pace going forward.

Brandon Lee Nispel KeyBanc Capital Markets Inc., Research Division - Research Analyst

Got it. And then on the small cell business, I know you guys called out 1% churn in small cells. Why is that happening? That is pretty new in the last couple of years. I'm just curious why there's any churn in that business at all.

Then on the escalator for the small cell business, is 1.5% sort of the best that you guys do? And does that cover your cost inflation in that business longer term?

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

Sure. The churn of about 1%, I know this may not be a totally satisfying answer, but there are going to be times when there are certain nodes that just aren't performing in a way that it is appropriate, or that somehow we want that our customers don't want, at one particular point or one particular location. And 1% churn level now, I think you can take it to say that it's pretty de minimis and not something that I think is indicative of anything other than there are just certain times where nodes get turned off.

With regard to the escalator itself, the 1.5%, as we've talked about historically, there's been somewhat of a thought process split. It's not in the contract, but a thought process between the escalation on the node portion and the escalation on the fiber portion. Where the fiber portion doesn't get an escalator, the node portion, which is approximately more -- approximates more, the tower business does get an escalator. And as we've kind of worked through that, we've gotten to a point where the escalator is on average about 1.5% in the small

cell business.

We don't think that, that will go up over time. No, I don't think it will get better than that. For that dynamic I just spoke of, it's that fiber generally doesn't have an escalator associated with it. And that's a significant portion of the build.

And as far as cost escalations, there aren't really many cost escalations within that small cell business. Once we -- just like in the tower business, once we have the asset in place, it is in place. And we believe that because of that, what really will drive the incremental returns and ultimately the incremental gross margins associated with the small cell business will be lease up as we add those at higher incremental returns and margins than the anchor build just added. So what we'll see, we believe, is increasing returns and margins over time as we lease up the assets and the escalator recover any cost increases that we see in the underlying business.

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

Thanks, everyone, for joining us this morning. We're obviously incredibly thrilled with the results in the third quarter. I want to give a shout out to our employees who have done a terrific job, delivering for our customers during 2019 thus far. And we're looking to finish up the year strong. And we're obviously really excited about the long-term opportunity that's in front of us as we turn the page from largely focused on 4G. And I think as we get into 2020, there'll start to be even greater conversations around the opportunity in 5G and what it's going to mean for our business. We think it's going to be great things. Thanks.

So thanks for joining us this morning. We look forward to catching up with you soon. Bye-bye.

Operator

Thank you for joining. This concludes today's teleconference. You may now disconnect.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Briefs are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT BRIEFS REFLECTS THOMSON REUTERS'S SUBJECTIVE CONDENSED PARAPHRASE OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT BRIEF. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2019 Thomson Reuters. All Rights Reserved.

