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PRESENTATION

Operator

Good day, and welcome to the Crown Castle Q2 2022 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. - Senior VP of Corporate Finance & Treasurer***

Great. Thank you, Paula, and good morning, everyone. Thank you for joining us today as we discuss our second quarter 2022 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. Dave, the discussion, we have posted supplemental materials in the Investors section of our website at crowncastle.com that will be referenced throughout the call this morning. This conference call will contain forward-looking statements, which are subject to certain risks uncertainties and assumptions, and actual results may vary materially from those expected.

Information about potential factors which could affect our results is available in the press release and the Risk Factors section of the company's SEC filings. Our statements are made as of today, July 21, 2022, and we assume no obligations to update any forward-looking statements. In addition, today's call includes discussions of certain non-GAAP financial measures. Tables reconciling these non-GAAP financial measures are available in the supplemental information package in the Investors section of the company's website at crowncastle.com.

With that, let me turn the call over to Jay.

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

Thanks, Ben, and good morning, everyone. Thanks for joining us on the call. As you saw from our second quarter results and updated full year outlook, the strength of the U.S. market continues to stand out. We are seeing the benefits of a strong leasing environment as we support our customers' growth initiatives with their deployment of 5G. This activity drove 6% organic revenue growth in our tower business in the first half of the year, which we believe will meaningfully continue through the remainder of the year. And as a result, it's resulting in higher operating performance relative to our expectations at the beginning of the year. In addition, we expect to double the rate of small cell deployments next year compared to the 5,000 nodes we expect to put on air this year to meet the growing demand from our customers as 5G networks require small cells at scale.

Looking further out, I believe our strategy and unmatched portfolio of 40,000 towers, 115,000 small cells on air or under contract and 85,000 route miles of fiber concentrated in the top U.S. markets have positioned Crown Castle to achieve our long-term annual dividend per share growth target of 7% to 8%.

Dan will discuss the financial results and updated outlook, so I'll focus my discussion on our strategy to deliver the highest risk-adjusted

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returns for our shareholders by growing our dividend and investing in assets that will generate future growth. To that end, we are focused solely on the U.S. because we believe it represents the best market in the world for wireless infrastructure ownership when considering both growth and risk.

As you saw in the release, to better reflect our strategic focus on the U.S. market, we are changing our company name from Crown Castle International Corp. to Crown Castle, Inc., while our ticker will remain CCI. As you can see on Slide 3, the demand drivers for our infrastructure have been strong since the early days of the wireless network investment in the U.S. We have benefited over time from persistent growth in mobile data that has required hundreds of billions of dollars of network investment by our customers.

During the 2G deployments in the mid-90s, wireless operators invested approximately $125 billion over 8 years to enable wireless voice services nationwide. As network and handset technology rapidly improved, that investment cycle gave way to the development of nationwide 3G, which enabled basic mobile Internet browsing that consumes significantly more data than legacy voice services. Over the next 8 years or so, wireless operators invested approximately $200 billion, both to deploy new spectrum on existing cell sites and deploy thousands of new cells in order to add to the network capacity needed to keep pace with the substantial growth in mobile data.

The virtuous cycle continued with network investment and technology innovation, allowing our customers to meet the increasing demand for mobile data that U.S. consumers are willing to pay for. As we entered a new decade in 2010, wireless operators began deploying nationwide 4G that delivered a step function change in how fast data is transferred from cell sites to mobile devices. This innovation led to the development of data-rich applications and use cases that were simply not possible with 3G networks, including mobile video, e-commerce and social media platforms, which drove another step change in mobile data demand.

Over that decade, wireless operators invested approximately $325 billion to develop their 4G network and mobile data demand increased by a factor of 96x during that same period. As a result of the quality of the network and the user experience enabled by this level of investment, U.S. consumers have used their wireless devices more and more, and they have been willing and able to pay for that improving mobile experience.

In turn, the U.S. wireless operators have taken the cash flows generated from their customers and invested even more in their networks and the cycle continues. The combination of this persistent growth in mobile data and the value we deliver to our customers by providing a low-cost shared infrastructure solution has enabled us to consistently generate growth through various macroeconomic cycles.

As you can see on Slide 4, our business has a long track record of delivering growth through periods of U.S. economic expansion and contraction. Similar to past generational network upgrades, we expect 5G to drive sustained growth in our tower business as our customers upgrade existing cell sites and add new sites to our 40,000 towers. We also believe 5G will be different as it will require the deployment of small cells at scale to increase the capacity and density of wireless network as more spectrum deployed across existing macro towers will not be sufficient to keep up with the growth in mobile data demand.

As a result of the requirement to build out this denser network, we believe the duration and magnitude of 5G investment will likely exceed prior cycles, further extending our runway of growth. With this view in mind, we have invested $16 billion of capital in high-capacity fiber and small cells that are concentrated in the top U.S. markets. That capital is yielding more than 7% today. And with more than 60,000 contracted small cell nodes in our backlog, including a record number of colocation nodes, we expect the yield to increase over time as we put those small cells on air.

To put this in perspective, our tower investment began more than 20 years ago at approximately 3% yield when we built and acquired assets that we could share across multiple customers. As we have proven out the value proposition for our customers and leased up our tower assets over time, those assets now generate a yield on invested capital of 11.5% with meaningful capacity to support additional growth.

To provide investors with additional visibility into how our fiber segment investments are progressing, we have updated the analysis we have provided each of the last 2 years outlining the activity and returns for 5 specific markets. Looking at the collective view of how these 5 markets have performed over the year -- over the last year on Slide 5, growth from both small cells and fiber solutions has contributed

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to solid returns with yields that are largely consistent year-over-year. The performance across these markets demonstrate our ability to generate strong overall returns as we co-locate additional customers on our fiber assets while also investing capital to build new assets and expand the long-term growth opportunity.

To that point, we are seeing co-location at scale with solid returns. Across our entire fiber business, about 1/3 of the small cell nodes we have deployed since the beginning of 2018, have been co-located on existing fiber with returns that are consistent with the targets that we have communicated.

Looking at how well our overall strategy is performing. Since 2018, we have increased our consolidated return on invested capital by 160 basis points to 9.5%. Returned nearly $9.5 billion to shareholders through our dividend that has increased at a compound annual growth rate of approximately 9%. While also investing $7 billion of capital into attractive assets that we believe will support the future 5G build-out and contribute to dividend growth in the future.

I believe that combination highlights how compelling and differentiated our strategy is. We provide investors with the most exposure to the development of next-generation networks with our comprehensive offering of towers, small cells and fiber, a pure-play U.S. wireless infrastructure provider with exposure to the best growth and the lowest risk market, a compelling total return with a current yield of 3.5% and a long-term annual dividend per share growth target of 7% to 8% and the development of attractive new assets that we believe will extend our runway of growth.

When I consider the durability of the underlying demand trends we see in the U.S. that provides significant visibility into the anticipated future growth for our business. the deliberate decisions we have made to reduce the risks associated with our strategy and our history of steady execution, I believe Crown Castle stands out as an excellent investment that will generate compelling returns over time.

Before I wrap up, I did want to draw your attention to one other announcement that we made yesterday. We released our 2021 environmental, social and governance report and we also launched a new ESG website as a part of our effort to provide timely and accessible ESG disclosures. Our business is inherently sustainable. With our shared infrastructure solution supporting connectivity that is vital to our economy, while limiting the proliferation of infrastructure and minimizing the use of natural resources. We continue to build an inclusive and diverse community at Crown Castle and are committed to further improving the impact we have on the communities in which we operate with specific goals to be carbon neutral in Scope 1 and 2 emissions by 2025 and meaningfully increase our addressable spend with diverse suppliers by 2026.

We hope you find these new disclosures and the website helpful. And with that, I'll turn the call over to Dan.

Daniel K. Schlanger ***Crown Castle International Corp. - Executive VP & CFO***

Thanks, and good morning, everyone. As Jay discussed, 5G deployments continue to create a strong operating environment and are driving another year of solid growth for us. Results for the second quarter were in line with our expectations, so I want to start by discussing our updated expectations for full year 2022.

Turning to Page 8. Our outlook for 2022 site rental revenues and AFFO remains unchanged while we increased the outlook for adjusted EBITDA by $20 million. The increase to adjusted EBITDA reflects a $20 million increase in the expected contribution from our services business as we continue to capitalize on the consistently high levels of tower activity. In addition to updating our 2022 outlook for strong operating performance, we also reduced our expectations for full year sustaining CapEx and cash taxes by $25 million as we focus on operating the business as efficiently as possible.

These positives do not flow through to AFFO -- additional AFFO growth in the year due to an increase in expected interest expense of $45 million. This $45 million increase reflects the significant increase in interest rates. We have experienced over the last few months and incorporates the now higher forward curve on our $3.3 billion of floating rate debt. As a result of these changes, our AFFO outlook remains unchanged.

In light of the increasingly uncertain macroeconomic and rate environments, I'd like to review our approach to capital allocation and

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balance sheet management. Our first capital allocation priority is to return the majority of the free cash flow generated by our business to our shareholders through a quarterly dividend with future dividend growth tied to future growth and cash flows. Our second priority is to invest in assets that meet our underwriting standards and generate expected future growth, and we fund those discretionary investments with external capital in a manner consistent with maintaining our investment-grade credit profile. When we underwrite these investment opportunities, we set our hurdle rates based on an assessment of our long-term cost of capital to align with the long-term nature of the assets we're investing in.

Our underwriting assumptions contemplate a rate environment that approximates a long-term average interest rate, but we expected the increase in rates to happen over a few years versus the move we've witnessed this year that happened over a matter of months. As a result, the current rate environment does not impact our long-term cost of capital or our desire to continue to pursue investments with the return profiles we have consistently discussed with investors. Since we believe those returns will significantly exceed our cost of capital.

Having said that, the pace at which rates have normalized will present some near-term challenges. As you can see with the $65 million increase in our 2022 outlook for interest expense, when compared to the outlook we established last October. Our last capital allocation priority, if we have excess capital after paying our dividends and investing in new assets is to return that capital to our shareholders through share repurchases Turning to the balance sheet. We ended the second quarter in a very good position with 4.9x debt to adjusted EBITDA and currently have approximately 9 years of weighted average term remaining, 85% of our debt tied to fixed rates and limited maturities through 2024.

Additionally, we continue to focus on ensuring we have sufficient liquidity to meet near-term debt maturities and fund our discretionary capital expenditures. We believe we have accomplished that goal by amending our credit facility in early July to increase the revolver capacity to $7 billion, leaving us with nearly $5 billion of available liquidity.

So to wrap up, we're excited about the demand we're seeing across our shared infrastructure offering as our customers deploy 5G at scale and the best market for wireless infrastructure ownership. We believe we have sufficient capital to invest in new assets to take advantage of the densification of communications networks required to meet the future data demand growth spurred by 5G. and we believe our comprehensive set of solutions across towers, small cells and fiber, which are all necessary to build next-generation wireless networks will allow us to deliver on our long-term growth target of 7% to 8% annual dividend growth per share -- sorry, annual growth in dividends per share.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll take our first question from David Barden with Bank of America.

David William Barden ***BofA Securities, Research Division - MD***

I guess a couple, if I could. First, Jay or Dan, is this big step-up in revolver capacity, should we be reading something into this about maybe your view as to the potential for opportunities to acquire new portfolios increasing as maybe the rate environment, other thing maybe put some pressure on potential sellers? Is that the reason why we wanted so much capacity available? I guess the second question would be, could you kind of just give us your thoughts now on the wisdom of having 15% of the debt be variable rate and kind of you're thinking about that now? And then, I guess, the last piece is something that, obviously, we've been talking about since you shared new disclosures around the amortization of prepaid rents, obviously, the accounting amortization of that is going to fall through time. But presumably, it's falling because new prepaid rents, cash coming in the door is also falling. And just how should we think about that informing your outlook for maintaining 7% to 8% dividend growth annually.

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

I'll take the first question, and I'll let Dan speak to the second 2 questions. On your first question around the revolver, no, there's no read-through here in terms of what we're seeing on the acquisition front. We've been really consistent about our view of particularly fiber assets over the last several years. that the vast majority of the additional assets that we will own over time will likely be as a result of assets that we build as we assess the landscape, we don't see an opportunity to acquire assets at scale that meet the criteria of dense urban footprints with high-capacity fiber that will be used for small cells.

So the increase in the revolver is more, as Dan spoke to balance sheet management and gives us some more flexibility as we think about funding upcoming CapEx over years as well as navigating through any debt maturities that may come in. So no read-through there on the acquisition side.

Daniel K. Schlanger ***Crown Castle International Corp. - Executive VP & CFO***

I'll take the next 2, Dave. The first of which, on the 15% variable debt, there's always a balance that we try to strike between how much certainty do we have in that interest expense line item and the ability to take advantage of short-term debt that is less expensive than long-term debt. We believe around this 15% range is a good strike of that balance where we get to take advantage of the lower cost of capital that comes with having shorter or variable debt. And we believe that we can withstand as we've seen in our 2022 outlook, the ability -- or the consequence of having debt increase in the period. And I think as most of us have seen and understand the rate at which the interest rates have increased in 2022 has been the fastest rate of interest rate increases in the last 50 years. So even in that period, we were able to withstand having 15% debt and still maintain our AFFO outlook. So we think we're in a good balance at this point between fixed and variable debt.

On your last question of prepaid rent amortization, I think the last thing you said was as prepaid rent amortization goes down, does that impact our dividend growth? The answer to that question is I don't believe so because we sized the dividend based on the cash flow generation of our business in the period that we're talking about. And that prepaid rent amortization doesn't increase cash flow in that period. So we believe we will still have the opportunity to grow at 7% to 8% even if we have amortization coming down over time, which you can see in the schedule that we've added to our supplement. But I do want to take a step back and just talk about prepaid rent amortization, more is what is driving it and why it's important to us. And it is an economic trade that we and our customers make at the time of building assets for them.

When we put capital into our assets even in the form of new assets or modification of existing assets, we get reimbursed for a portion of that capital from our customers. That reimbursement and accounting gives rise to a deferred revenue that we have to amortize over the course of the remaining life of the contract. And that is what prepaid rent amortization is. But what you can see in that is that our customers are paying for some of our capital, and that is true economics that we are receiving. And therefore, we, as an industry overall, decided the best way to try to reflect that economic trade was to include the amortization within the definition of AFFO.

But because we know that it isn't exactly clean one way or the other, however, we figured it out, we, as Crown Castle, wanted to give as much information around that prepaid rent amortization as we could which gave rise both to the tables that are in our supplement that show in-period amortization, in-period prepaid rent received and over the next 5 years, what that amortization is going to look like over time. And we hope that, that gives investors the ability to make whatever decision on how to judge within the AFFO calculation, prepaid rent amortization. But I just wanted to make sure everybody understands there's a true economic trade that's happening where we're getting benefit, and we want that to be reflected in our financial statements.

Operator

Moving on we'll go to Simon Flannery with Morgan Stanley.

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

I just wanted to follow up with a couple of things from the AT&T earnings call. The first thing they said was that they had pulled forward their 5G build. The first thing they said was that they had pulled forward their 5G build. They are now at 70 million POPs covered with mid-band by the mid-part of this year, 6 months ahead of schedule. So my question around that is just where are we in this sort of

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mid-band 5G build-out cycle? Are we kind of plateauing now still accelerating? We're seeing some of the carriers with CapEx peaking this year. So how should -- how do you see that looking over the coming quarters?

And then turning to your fiber business. You've talked about the small cells. Thanks for the disclosure again. What's going on, on the enterprise side, on the traditional fiber. Again, AT&T was warning about business wireline pressures, although a lot of that was some of the legacy revenue streams that I think you're less exposed to. But any color there would be great.

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

Simon, thanks for the questions. On the first question, I wouldn't speak specifically to any one of our customers. But broadly, when you look at what's happening on the tower side of our business, we're in the middle of a multiyear acceleration of activity, which has been driven by 5G and the deployment of largely 5G equipment across sites that they were already co-located on for 4G or prior generations.

And across the whole industry -- across all of our customers, I should say, we think that acceleration continues kind of through the -- at least the balance of this year. I don't want to get into giving guidance for 2023 and what we expect activity there to be. But we think, as I alluded to in my comments, this is -- there's a very long runway of activity from 5G build-outs and trying to pick the years where they're the highest over a long period of time, frankly, has proven to be very difficult for us over a long period of time. What we have been very capable of capturing is that opportunity over long periods of time. And I think that's -- the comments that I made around what we've seen in the past on 2G, 3G, 4G and now 5G, it's, I think, something that we're going to continue to see for tower growth for years to come.

Each of those cycles, as I mentioned in my comments, has increased the total amount of CapEx for the carriers. And I think we'll see a similar thing play out in 5G as you already see a very large amount of capital that's been spent on 5G. And as I alluded to, I think we've just scratched the surface on what that's going to look like. So that's on the tower side, and I think it bleeds into the small cell side as the carriers have started to really increase the amount of focus as they densify their network and need small cells as a part of that.

And we're obviously seeing that acceleration as we talked to. This year, we'll do about 5,000 nodes on air. And next year, we expect to do 10,000 on air. So really excited about what the growth is going to mean and certainly don't feel like we're coming towards the end of the build-out of 5G. On the second question around what we're seeing in the enterprise fiber business, we expect this year to grow the top line for enterprise fiber about 3% and haven't really seen any change there. You mentioned this in your comment, which I would echo that our business really has not been very susceptible to movements in economic cycles historically. The vast, vast majority of the services that we provide are to large enterprises, to government institutions, health care, universities. And we do very little of small and medium businesses and do nothing direct to consumers. So we just don't see volatility and haven't seen historically the kind of volatility that many fiber businesses see through economic cycles. So I would not expect the current economic conditions to really impact our view of seeing about 3% growth this year.

Operator

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

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

I was hoping you can maybe give us some insight in terms of like the nature of the leasing activity on your towers. And what I mean is, if I was just guessing, I would assume that the large majority of the leasing on your towers is your carriers deploying recently acquired mid-band spectrum on sites where they already colocate. And so I'm curious if that's actually the case? Or maybe we misunderstand what's driving leasing? And then I know this is a bit of a guess, but whenever they do complete the process of putting their mid-band on sites that they already operate, it's obviously at a much higher frequency. And so presumably, they're going to look to densify. Do you have visibility that they're going to look to do that by putting equipment on towers they don't currently have any equipment on, so it could lead to more amendments? Or are you thinking it may be more of a small cell project? Any insights you have about that, I think, would be appreciated.

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

Brad, thanks for the question. Yes, to your question about are we seeing a lot of spectrum being added to existing sites. That is the most cost-effective way and has been for years for the carriers to increase the capacity inside of their network. So to the extent that they have --

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spectrum they haven't used from -- and have acquired and they're deploying that spectrum across the sites. And obviously, under the nature of the contracts that we've negotiated with them, they get the benefit of using the infrastructure. We get the benefit of increasing revenues associated with that.

Obviously, the other -- we have another customer who is deploying a brand-new nationwide network in the case of DISH, and we're actively engaged in doing that work. So that's happening as well. So I wouldn't limit it solely to new spectrum going on existing sites, although that is a driver of the activity. Typically, as has been the case with past generational upgrades, the densification that comes from additional macro sites as traffic increases, this is kind of a second layer of activity. So we have some of that. But frankly, most of the activity is on sites where they're already co-located on and they're adding additional equipment to those sites already. So that would be the bulk of the activity. And more broadly, on the densification question that you raised, there will be some densification in the network that happens from additional towers that will be filled in.

But as we have talked about extensively on these calls and in other situations, a big portion of that densification really cannot be accomplished with macro sites. They can't be any closer together and there's nowhere to build them. Most of that densification, particularly in dense urban areas, we believe is going to come from small cells. And that's consistent with the large commitments that we've received out of both T-Mobile and Verizon and the activity that we see underway across the top markets in the U.S., where they need to densify their network and they're doing so in large part with the use of small cells.

And the traffic that we see going across those small cells is significant. So these small cells that are being deployed, it's working to densify their network and reuse that spectrum again and again over smaller areas, which is the core of how the shared infrastructure model has worked for 25 years. The opportunity to deploy equipment on shared assets that we own drives the ability for the carriers to provide more capacity to the network, which gets consumed by the users, and we're seeing that at play in small cells. So portends good things over the long period of time as those 5G networks densify beyond the initial activity.

Operator

And next, we'll hear from Rick Prentiss with Raymond James.

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

First, thanks for the disclosure. I've been a big advocate on removing prepaid amortization rent from AFFO. So I really appreciate you guys laying out at exhibit. I want to come back to one of David's questions. What are the underlying assumptions on what kind of prepaid rent you'll receive over those time frames? Because clearly, that's a great thing when your customers want to pay you to help fund capital. But just couple us understand what maybe the underlying assumption is for what kind of prepaid rent you'll receive this year, I think you were thinking maybe $400 million.

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

That is right. It is $400 million. And as you pointed out, the amount of prepaid rent we receive will be dictated by both the amount of capital we spend, therefore, the activity that we see and the negotiations that we have with our customers and how much they are going to foot of that. And those are ongoing discussions at all times. So there's nothing I can point to that would say it would be significantly different than the $400 million that we see in 2022, but then there's also not a specific forecast we can give on that at this point.

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

Okay. Second question, I appreciate you guys emphasizing nodes on air, 5,000 this year, 10,000 next year. Is that a gross or net number? I know at one point, there was a thought that you would have maybe 5,000 nodes come off air next year with the T-Mobile Sprint thing?

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Daniel K. Schlanger ***Crown Castle International Corp. - Executive VP & CFO***

That's our gross number. That's the number that we're going to build this year and next year. And you're right, we did mention when we did the T-Mobile transaction earlier this year that we expect to see some churn in small cells. They have the ability to remove about $45 million of Sprint small cells. We think a majority of that will happen in 2023. So the net number will be lower than that 10,000. And as we get into giving guidance for next year. And then as we get into the year, we'll update the numbers, obviously, as we go from there.

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

Makes sense. And can you update us as far as how many nodes on air you have now? And any change in the trends as far as how much outsourcing carriers are doing as far as self-performing small cells versus outsourcing it to third parties?

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

Yes. On air, we're north of 55,000 now. And so on track this year to put on air 5,000 total for the full year, as I mentioned. In terms of broadly the activity and the conversations, I think there are 2 things that are at play that are consistent with the way we thought the business would play out. One is that the shared solution is a much lower cost deployment than for people to build it themselves, exactly the same dynamic that we saw in towers where it was not the most cost-effective way for each carrier to build their own towers.

They shared assets. And as the tower model developed and there was a third-party owner, the carriers co-located on those towers rather than continuing to build their own infrastructure in places where there was a shared solution because it was so much more cost effective. The same thing is playing out with small cells. To the extent that there's a third party owner that's either willing to put up capital or there are existing assets there that the carriers can use, that's the most cost-effective and timely solution, and we're seeing significant co-location as a result of that dynamic.

There are also -- the second thing I would mention about this, there are also places where we will choose not to put capital to work because we don't see the opportunity to drive returns that are sufficient to cover our cost of capital and beat our opportunity costs. So there are places in the United States where ultimately we're choosing not to put capital and the carriers will build it themselves because there's not an economic -- at least in our view, not an economic opportunity there to deploy a shared infrastructure model. So I think in large part, most of the activity will be -- will end up on third-party shared infrastructure. We feel like we're very well positioned to capture that. And certainly, in the dense urban markets in the U.S., that's true. As it moves out beyond those dense urban markets, well, then we'll study carefully whether or not it makes sense for us to deploy the capital, but we'll see carriers continue to use their own capital to deploy some markets.

Operator

And moving on, we'll go to Jon Atkin with RBC.

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

So I was interested in getting a little bit of a more breakdown on the Fiber segment. And you talked about enterprise education, there's financial services, other -- various other categories. And just any trends to call out that you're seeing this year? And then any kind of macro impacts on those drivers within Fiber solutions that you see coming? And then secondly, as you think about prospective Fiber and small cell deployment, any color around the mix of major versus minor leak cities and where you see yourself kind of expanding?

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

Sure. Thanks, Jon. On your first question, there's no trend lines that I would really call out. As I mentioned, most of the activity that we're doing, whether it's for very large enterprises, government, financial institutions, universities, those have been relatively stable through economic cycles. And so I really wouldn't call out any trends that are changing in the business. We think we'll grow that business about 3% this year and the activity across the various segments in that business is relatively similar. The one thing I probably would call out in the business is, as we've continued to operate it. And as the market starts to -- as the market develops towards 5G, I think the opportunities that we're seeing where there's a convergence between wireline and wireless have created some opportunities for us on the wireless side for potential tenants that outside of the big 4 wireless operators.

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And we think that's where we really shine as a company in terms of being able to capture some of those opportunities. And that would be relatively new as 5G has been deployed and people start to deploy and think about uses of spectrum in ways beyond what people more traditionally think about that. And that has been beneficial, and we think there's more opportunity in years to come on that front.

On your second question around the mix of CapEx between major and minor league markets. I mean the bulk of the capital that we spent to date, and I think this will continue to be true, we'll be in kind of those top 30 to 50 markets in the U.S. That's where the densest populations are, obviously, and where the majority of growth in data traffic is occurring. And so most of the capital and focus is continuing to occur around building out those markets and handling the growth in data traffic and the densification that's needed in those networks. Once it gets beyond kind of those top 30 to 50 markets, there's really disparate outcomes around whether or not their dynamics in the market makes sense for small cell deployments. -- and for our interest in investment in deploying those small cell markets. So, I think as far as we can see in the next several years, I think we're going to be mostly focused on spending the capital in the top markets.

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

And then I'm interested in the backlog conversion within small cells and how much of the pace of that is dictated around when the carrier just sort of gives the green light to kind of continue with the process around provisioning versus your own ability to use or maybe there's other factors that I haven't identified, but pace of backlog conversion? How can that change going forward? You talked about the 5,000 or the 10,000, but maybe to put a finer point on what are the factors behind that? And what are the (inaudible) revenues?

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

Yes, John, you've correctly identified the 2 most important characteristics. One is the coordination with our customers and the timing with which they're receiving equipment and wanting to put those sites on air and the identification of exactly where those nodes are going to be located. That's an important part in the early planning stages of the process. And then the second part is navigating through the various municipality and utility requirements in order to deploy the small cells, which has a big impact on the time line of how long between once we and our customers agree on the exact locations that they want has the biggest determinant of how long does it take to put those on air.

So I wouldn't call out anything in terms of a change there. We're working closely with our customers. They're obviously anxious to get the sites on air. There's been a lot of work that's been done on the planning associated with deploying small cells, and that has increased with our expected doubling of activity going into '23 as well as all of the activity that's going on behind the scenes, us working on municipality and utility coordination in order to ensure that we're able to construct those and grow them as we go into 2023.

Daniel K. Schlanger ***Crown Castle International Corp. - Executive VP & CFO***

Yes. And John, this is Dan. Just one other point of clarification there is with that coordination with the customers that we go through -- one impact it has is whether they ultimately decide to go on systems where we've already built small cells or whether we build greenfield and that will have an impact on how fast we can then put them on air. So the more that they decide to go to co-location, the faster we'll go through the backlog, the more they decide to go greenfield. It will take longer.

Operator

And next, we'll go to Phil Cusick with JPMorgan.

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

I was going to dig into exactly that. What do you see in the proof points for that runway for that acceleration in 2023? And does it make sense that, that 10,000 in 2023 will be mostly second half weighted?

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

Phil, certainly, the activity and proof points are the prework that's being coordinated with the carriers. And in order for us to turn on sites in 2023, at this point, we basically have to have them identified and be working on getting them constructed. So we've got a lot of visibility on what nodes we believe we'll be able to turn on in 2023. So beyond that, I don't know that there's much else to mention. We -- the coordination activities and the work that has to be done with municipalities is ongoing associated with that. So -- we've got to

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continue to do that well. But most of the activity around identifying exactly what sites those are, has already occurred. So we feel good about where we're going to come out in '23.

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

And does that '23 10,000 look more sort of colocation versus the new footprint?

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

Well, there's going to be a mix of colocation and new. We've talked about we've transitioned from several years ago of being almost exclusively new builds, but we'll have a combination of new builds and co-location. As I mentioned in the comments, since 2018. When we look at total nodes, we've added, we're about 1/3 of the total nodes have been colocation. And as we get into next year and start to give you more specificity, we'll be clear about what we see from a colocation versus new build and where those are occurring.

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

Last thing from me. Should we assume that, that $45 million in revenue from Sprint goes away at the beginning of the year? Or are there indications that they might sort of stretch that out.

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

Are you referring to my reference to the churn on small cells?

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

Yes.

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

Yes. We -- what we've indicated previously is that we expect in 2023, a majority of that $45 million to occur, but we haven't been specific about exactly when in the year it would occur. So as we get towards October and we give guidance, we'll be more specific about the impact on our '23 numbers. But there's, at risk, about $45 million of annual run rate, and we think the majority of that occurs in '23.

Operator

And next, we'll hear from Michael Rollins with Citi.

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

Two questions. First, earlier on the call, you mentioned that the performance was better than you originally expected. And just curious where you may be seeing that in some of the organic leasing numbers or if that's something that potentially comes through in the back half of the year? And then just secondly, in terms of capital allocation, just back to that topic, how do you think about over time when you think of cash AFFO per share growth, do you want, over time, to create more flexibility and coverage of that, over time? Or do you like the current payout that's been over the last few years on cash AFFO per share that's been close to 100%.

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

Sure. Mike. On your first question, the comments around the business has performed a little better. Certainly, from a tower standpoint, over a multiyear basis, we're well above the average of historical. And we're in the middle of a multiyear acceleration around the activity and growth in towers. And a little bit of movements inside of the year. But the real call out we were trying to make in our comments and the adjustment to the full year outlook was around services. And that's a combination of we've captured a little bit more of the activity, so capture rate has gone up a little bit and then better economics than what we expected has been the big driver of kind of operating performance that we were adjusting the outlook for in the numbers that we provided last night.

On your second question around how we think about the payout, let me start big picture and then we can talk about -- I'll make some comments about any given year. Big picture, as we've talked about our guide of believing we can grow the dividend at 7% to 8% per year over a long period of time. In order to come up with that statement, we're looking at what we believe the 2 most important assumptions in that, what we believe around those 2 assumptions. One assumption is what do we think the leasing activity is going to be over a long period of time. And then the second key assumption is what is the impact of interest expense against that. Those are the 2 most impactful to our long-term model.

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And on the leasing side, when we look out over a long period of time, we see tremendous growth coming from 5G. That's going to benefit us both on the tower side and on the small cell side as the networks densify. So a lot of activity, both for towers and small cells over a long period of time and growing over a multiyear basis that gives us a lot of top line comfort that we're going to be able to drive that bottom line result over time.

The part of that, that we've also talked about is some of the offsets to that growth as T-Mobile acquired Sprint. We've talked about the churn that we expect in 2025. There's about $200 million of churning off Sprint sites in 2025. And then the comments I was just making a couple of minutes ago, on small cells related to Sprint, are some offsets to that. So we're considering the offset against what we think is really a long-term growth at the top line. So that's the driver of 1 of the 2 assumptions on the top line growth. I feel like we're in a great environment for that.

The second assumption that's really critical to what we think about long-term growth is our expectation around interest expense.

And Dan made some comments in his prepared remarks that alluded to this, but we had an assumption over a long period of time that we would see interest rates come back to a more normalized level than where we've been with just historically incredibly low interest rates that we've been able to capture and take advantage of on the balance sheet. In the short term, those long rates have accelerated at a pace at a historically high pace.

So our long-term model assumed that we would revert more to a more normalized average level of cost and expense. And we have accelerated into that -- closer to that average expense at a rate much faster than, I think, anybody previously expected. So over the long term, that has almost no impact to our model or our expectations of growth. Over the shorter term, when it moves up that much, well, it has an impact to our 2022 interest expenses we put into the guide. And then it has, obviously, an impact as we think about what happens in 2023, depending on where interest rate assumptions are. So as we think about any given year, we take those broader assumptions, what do we think about growth, both for towers and small cells against any movements in interest expense and underlying rates and use that the balance to come out with where we believe kind of in the near term or shorter term periods of time where that cash flow is going to be.

That gets us down to, I think, kind of the heart of your question of how do we think about the payout over time. Our view is that the cash flow that's generated from the business, we should be returning that to shareholders, and then we'll finance any capital expenditures that are needed because the opportunity to invest that capital comes with returns well in excess of the cost of the capital and allows us flexibility to think about it to ensure that we're appropriately getting returns on the capital that we're taking from shareholders and debt holders to finance those activities. So we like the discipline of paying out the cash flow in the business.

So hopefully, that's helpful to your question around how we're thinking about it. Nothing has changed on that front. I still think the best approach is to be disciplined and pay out the cash flow. And then as we look at any given year, we'll look at the ins and outs and be thoughtful about how we adjust the dividend from current levels. And last thing I'll say is when we give guidance in October, as has been our practice, we would expect to make that dividend adjustment as we have in past years. in the same way that we've done in past periods. So -- and the next time we're talking we'll likely be talking about the adjustment we're making to the dividend as well as the update for our 2023 outlook.

Operator

And moving on, we'll go to Matt Niknam with Deutsche Bank.

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

Just 2, if I could. First, on discretionary CapEx. So as you get closer to 2023, seeing we have better visibility on the new notes that come on air. How should we think about a presumable increase in discretionary CapEx relative to this year's low $1 billion range. And then secondly, we've talked about a lot about some of the moving parts for '23, whether it's amortization of prepaid rent, Sprint small cell

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churn, some rising interest rates, we can extrapolate I know you're going to give guidance for 2023 in October, and I don't want to jump the gun, but is there any maybe initial framework or just range you can provide in terms of how you're thinking about AFFO per share both next year relative to that traditional 7% to 8% you've talked about in the past?

Daniel K. Schlanger ***Crown Castle International Corp. - Executive VP & CFO***

Matt, it's Dan. I'll take the first question on discretionary CapEx. Yes, we're going to be in the to [1 to 1.2] range in 2022. And as we've discussed, we believe that there will be an increase in the amount of the number of small cells that we're going to put on air in 2023 over what we're putting on air in 2022. Generally speaking, that will come with more capital. The amount more capital will depend on all the things we were talking about previously about the discussions with our customers when the small cells will go on air, how many will be colocated versus new builds. So we don't have a way of framing that yet. But like you mentioned in your question, as we get to October, we'll give more definition around what that 2023 capital could look like, although we would expect just given the acceleration in the number of small cells that it will be higher than what we've seen in 2022.

And in terms of your second question around our initial framework for AFFO per share growth, I think you answered part of it is we're going to give guidance in October. And you hit on a lot of the aspects that may have an impact on that 2023 growth. It's the continuation of the growth trends we've seen in our business, both on the towers and small cell side. And then how the impacts will shake out between all the things you mentioned, interest expense and AFFO, the prepaid rent amortization. But we've given a lot of that context to date. There's nothing more that we can point to now until we get to October and I think give you all of the information that you're looking for.

Operator

And next, we'll go to Nick Del Deo with MoffettNathanson.

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

First, Jay, a few minutes ago, you talked a little bit about the potential for nontraditional or new tenants on your towers. Were you suggesting that your assessment of the likelihood of one of those potential customers becoming a real customer in coming periods is higher than you might have thought a year or 2 ago? Or was there not really a change in your view there?

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

Nick, I think my comment was specifically towards the value that we're seeing created by having a comprehensive offering of fiber, small cells and towers. It puts us in conversations with customers or potential customers that I don't think we would have identified without the more robust product offering. And so yes, I would say there are some customers that we have bumped into, and we think we'll get the benefit over time that we would not have anticipated. I don't know that I would go all the way to where you went to in terms of significant -- are we talking about -- this is -- that any one of those customers is going to end up looking like 1 of our big 4 customers. I don't -- I think the likelihood of that, at least at the moment is relatively low. However, the combined activity is meaningful to our growth. And I think over the long term, we're going to see people enter this space and deploy wireless networks that will have a combination of small cells and towers that will be additive to our growth rate.

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

Okay. Okay. Appreciate that clarification. And then maybe a second one on small cells. You always note that you price small cells based on yield. When you sign small cell deals -- is the pricing based on the cost you estimate at the time the deals are signed? Or is it based on realized costs? Or maybe stated a bit differently, if the cost to deploy small cells ends up being higher than you initially modeled for whatever reason. Is that a risk you bear? Or does the customer bear that risk? I'm just trying to think about any cost inflation risk associated with your large small cell backlog?

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

Sure. Thanks for the question. So the way we would negotiate with customers would be based on the cost of deploying in various markets. So -- if you took a market and the cost was relatively low, the price to deploy that market to the customer would be lower than the price being at a higher cost or more dense area. And so the cost is variable to the customer ultimately based on the cost of deployment, which is how when we talk about yield at the way that we price that we've got to have security in terms of ultimately, once

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we get to the point where we're actually building the nodes to know we're going to be secure on yield, not thinking about it as a fixed price obviously, those yields would be at risk at that point.

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

Okay. So just to be clear, if the cost of a node in a particular market to which a customer is committed, if it ends up being more expensive to deploy there than you initially expected? You're suggesting the customer ultimately pays more to compensate for that?

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

Well, I think there's a continuum, right? So when we signed customer agreements and they make large commitments to us over time. We're not bearing the risk of inflation if that's the way you're thinking about announced contracts that we've talked about. Once we get to the place where we've committed with a customer that we're going to build a node, and we've told them what the cost of that associated, if we're not good at actually operating and constructing that node, then that risk is ours, that's operating risk. So depending on where in the continuum we are, we could have potential risk if we haven't done a good job estimating and pricing the activity. But we've been very good at that and have good visibility into where the costs have gone and our operating teams have done a terrific job of operating those budgets to the levels that were underwritten. Did that answer your question?

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

Yes, yes, it did.

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

I think we have time for 1 more question.

Operator

And that will come from Brandon Nispel with KeyBanc Capital Markets.

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

Okay. I was hoping to ask on the organic growth guidance. Can you talk about the variability in core leasing activity from 1Q, which was $92 million to 2Q, which was $75 million. And where really do you expect to exit the year? And hopefully, you can sort of outline that in terms of towers versus the small cell and fiber business. then similar question on churn, you guided to $185 million for the year, but you're only at $81 million year-to-date. Where do you expect churn to put this a year at?

Daniel K. Schlanger ***Crown Castle International Corp. - Executive VP & CFO***

Sure. Let me take the first question first. The variability from Q1 to Q2. As we pointed out last quarter, we had some nonrecurring items that hit Q1. When you normalize for that, the organic growth is relatively flat. And there are going to be some increases and decreases on a quarter-to-quarter basis, which is why when we talk about our business, we talk about the yearly growth. And in 2022, we're seeing what we believe will be 6% organic growth for our tower business. And that's generally consistent across the year. So you can see what that exit rate will look like is pretty consistent with the amount that we see in each of the first 2 quarters be normalized for those nonrecurring items.

With respect to churn, as you know, most of the churn in our business is a result of our Fiber Solutions operations. And we do expect some of that churn to increase over the course of the year, but we believe that the 3% overall growth rate will maintain, as Jay has spoken to a few times on the call. And that's, again, a lot of timing around that churn because that's a faster velocity business because things just happen faster. So there can be some changes period to period. But again, we like to look at that as an overall 1-year type of look. And we see the growth bookings and churn very much in line with what we had in our outlook. So around high single-digit churn, which means the low double digits gross bookings to get us to the 3% net growth in the fiber solutions business.

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

If I could just follow up real quick on that, Dan. Did you say 6% net organic growth for towers? I thought the previous guide was maybe 5%. And I guess, are we picking up an extra point on the growth side or on the churn side?

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Daniel K. Schlanger ***Crown Castle International Corp. - Executive VP & CFO***

Overall, that our growth in the tower business is around 6%, and that is no change from our previous outlook.

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

Okay. Thanks, everybody, for joining us this morning, and thanks to our team for doing a great job through the first half of this year. We look forward to finishing 2022 strong. And laying out our guidance for 2023 the next time we're together in October. Thanks so much.

Operator

Thank you. And that does conclude today's call. We'd like to thank everyone for their participation. You may now disconnect.

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