Q2 2023 Earnings Call ***(Corrected version)***

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Company: Crown Castle, Inc.
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Company Participants

Kris Hinson - Crown Castle, Inc., Vice President-Corporate Finance & Treasurer
Jay A. Brown - Crown Castle, Inc., President, Chief Executive Officer & Director
Daniel K. Schlanger - Crown Castle, Inc., Executive Vice President & Chief Financial Officer

MANAGEMENT DISCUSSION SECTION

Operator

00:00:17 Good morning and welcome to the Crown Castle Second Quarter 2023 Earnings Conference Call. All participants will be in listen-only mode. After today's presentation, there will be an opportunity to ask questions. Please note, this event is being recorded.

00:00:33 I would now like to turn the conference over to Kris Hinson, Vice President of Corporate Finance and Treasurer. Please go ahead.

Kris Hinson

00:00:41 Thank you, Kate. Good morning, everyone. Thank you for joining us today as we discuss our second quarter 2023 results. I'm Kris Hinson, and I recently joined Crown Castle as the Vice President of Corporate Finance and Treasurer. With me on the call this morning are Jay Brown, Crown Castle's Chief Executive Officer; and Dan Schlanger, Crown Castle's Chief Financial Officer. To aid the discussion, we have posted supplemental materials in the Investors section of our website at crowncastle.com that will be referenced throughout the call this morning.

00:01:08 This conference call will contain forward-looking statements, which are subject to certain risks, uncertainties and assumptions and the 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 factor sections of the company's SEC filings. Our statements are made as of today, July 20, 2023, and we assume no obligation to update any forward-looking statements.

00:01:32 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.

00:01:45 With that, let me turn the call over to Jay.

Jay A. Brown

00:01:48 Thanks, Kris, and good morning, everyone. Thanks for joining us. Before I begin, I'd like to welcome Kris. We're very excited to have him here on the Crown Castle team.

00:01:56 Turning to our earnings release, I wanted to provide some context for the wireless industry environment that led us to reduce our outlook for 2023, and Dan is going to speak to the specifics of the changes.

00:02:08 Across each US wireless generation, the deployment of new spectrum, followed by sell-side densification, has increased network capacity and enabled exponential mobile data demand growth. For us, this has played out with an initial surge in tower activity to build out the latest generation network, followed by a consistent level of activity over a long period of time to support our customers.

00:02:33 As a part of the most recent upgrade to 5G, the US wireless carriers spent more than $100 billion to acquire spectrum from 2020 to 2022. Our customers moved quickly to deploy their newly acquired spectrum, driving record tower level activity and dividend per share growth of almost 11% per year over that same period. I believe this initial surge in tower activity has ended.

00:03:01 In the second quarter, we saw tower activity levels slow significantly. As a result, we are decreasing our 2023 outlook, primarily as the result of lower tower services margins. Importantly, our tower organic revenue growth outlook remains at 5% despite this lower level of activity. The resilience of our tower revenues is the result of our decision to pursue holistic long-term agreements with each of our major customers. In each of these agreements, our strategy has been to maximize the economic value, while simultaneously providing visibility and stability in our long-term cash flows.

00:03:40 To illustrate this point, slide 4 shows our organic tower revenue growth since 2013. Over this period, we've consistently worked with our customers to provide them with enhanced flexibility to move quickly in deploying their networks, while increasing our level of contracted activity. Due to our focus on reducing risk and generating resilient organic growth, we have contracted 75% of our expected annual tower organic growth of 5% through 2027, while also delivering record tower growth in 2021 and 2022 during the initial phases of 5G rollout.

00:04:21 In addition to the benefits we've captured from our long-term customer agreements, we've complemented our portfolio of towers with fiber and small cells, making us uniquely positioned to capitalize on the long-term growth and data demand regardless of how carriers deploy spectrum and densify their networks. Our current backlog of 60,000 small cells provides a line of sight to doubling our on-air nodes over the next several years, which we expect will drive double-digit small cell revenue growth beginning in 2024.

00:04:54 To provide additional visibility on how our fiber solutions and small cell businesses are progressing, we have updated our analysis across the five markets we have previously highlighted since 2021, as highlighted on slide 10. We continue to generate solid returns from the benefits of co-locating additional customers on our existing fiber assets, offsetting the churn related to the legacy Sprint rationalization.

00:05:21 Phoenix, which was not impacted by Sprint churn, is a good illustration of what we can achieve with our fiber strategy as we add nodes to existing fiber. There, we have seen our yield expand from 9% a year ago to over 11% today, as we roughly doubled our nodes on air from 1,400 to 2,800 nodes. Los Angeles and Philadelphia also illustrate the benefit of our shared infrastructure model. Here, with a combination of small cells and enterprise fiber, we see yields of 8% to 9%, with the potential to grow yields as we have done in Phoenix and Orlando as we add small cells.

00:06:03 Overall, I'm encouraged by these results, particularly as we accelerate small cell deployment. With 60,000 nodes in our backlog, the majority of which are co-location nodes, we have line of sight to attractive incremental returns and double-digit small cell revenue growth.

00:06:22 Zooming back out to the consolidated level, we're consistently looking to deliver the highest risk-adjusted returns for our shareholders. Our strategy has delivered growth and driven improvements on both the risk and the returns side of the equation. Several years ago, it became clear to us that small cells will become an important component of the wireless carrier network densification required to support data growth. We saw an acceleration in small cells towards the back half of the 4G era, as the vast majority of the 60,000 nodes we have on air today are 4G nodes that were deployed, because towers alone could not support the continued rise in mobile traffic.

00:07:03 Now, as we've past the initial 5G surge in tower activity, we are seeing our customers accelerate the selection and identification of new small cell locations to densify portions of their networks that have experienced the most traffic. The results of our early move into establishing a leading portfolio is reflected in our double-digit small cell organic revenue growth in 2024 and provides a platform for continued growth throughout the 5G era.

00:07:33 With our diversified asset base, we have positioned ourselves to benefit from carrier activity on towers and small cells. Additionally, we have reduced our risk by increasing the resiliency of our business through our long-term customer agreements and improving the strength of our balance sheet.

00:07:51 As a result of these actions, despite a significant reduction in tower activity in the back half of 2023, we continue to expect 5% organic tower revenue growth, 10,000 small cell node deployments, and 3% fiber solutions growth by the end of this year. This resilient underlying growth across our business underpins our expectation of returning to our long-term annual dividend per share growth target of 7% to 8% beyond 2025.

00:08:26 And with that, I'll turn the call over to Dan.

Daniel K. Schlanger

00:08:25 Thanks, Jay, and good morning, everyone. I wanted to take a moment to frame the changes to our 2023 outlook before getting into the specifics of our results.

00:08:35 Over the last quarter, both tower industry-specific and macroeconomic factors have negatively impacted our business. On the industry-specific side, the end of the initial surge in activity related to the early stage of the 5G investment cycle has resulted in a decline in tower activity of more than 50%, causing us to reduce our outlook for services gross margin by $90 million.

00:08:57 At the same time, interest rates continued to rise as a result of the macroeconomic conditions in the US, resulting in $15 million of additional interest expense. Combined, these headwinds have reduced our outlook by $105 million. While this is a sizable change, our strategy to pursue the highest risk-adjusted return that Jay just discussed has limited the impact.

00:09:20 Of course, we're not standing still in the face of these forces. We are focusing on managing our business and cost structure to match the lower activity levels, removing significant cash costs, so the net impact to our AFFO is only $40 million. We're encouraged that our focus on the resiliency of our cash flows and managing costs allows us to withstand this reduction in tower activity with minimal impact to our bottom line.

00:09:43 Turning to second quarter results on page 5 of the earnings materials. Growth in site rental revenue is highlighted by nearly 6% tower organic growth. On a consolidated basis, we generated 12% organic growth, or 4% when adjusted for the impact of the Sprint cancelations. We also had outsized growth of 14% in AFFO and 10% in adjusted EBITDA in part due to the Sprint cancelation.

00:10:10 As expected, most of the impact of the Sprint cancelations occurred in the second quarter, including a net contribution to site rental billings of $100 million. Because of Sprint cancelations have a number of moving parts in our second quarter and full year results, we've inserted a slide into the appendix of our earnings materials detailing their impact in 2023 and our expectation for those cancelations through 2025.

00:10:35 Turning to our full year outlook on page 6. Our outlook for site rental revenues remains unchanged. The decrease to adjusted EBITDA and AFFO is primarily driven by a lower contribution from services, partially offset by lower expenses, leading to a $50 million decrease to adjusted EBITDA and a $40 million decrease to AFFO.

00:10:53 On page 7, tower organic growth remains at 5% for the year despite a slight reduction in tower core leasing, which is partially offset by a slight reduction in tower churn. Additionally, we lowered our Sprint cancelation-related small cell non-renewals by $5 million due to timing, leaving our consolidated organic growth unchanged at approximately 7%.

00:11:15 Turning to page 8. As I previously mentioned, the lower contribution from services totals $90 million and our outlook for interest expenses increased $15 million. More than offsetting the increased interest expense is $10 million of higher expected interest income and $15 million of lower sustaining capital expenditures. Our discretionary CapEx outlook remains unchanged, with gross CapEx of $1.4 billion to $1.5 billion, or approximately $1 billion net of expected prepaid rent.

00:11:45 Our balance sheet is well positioned to continue to support investments that we believe will contribute to long-term growth. Consistent with our strategy to limit risk in our business, we've taken steps to minimize our exposure to floating rate debt, including twice issuing fixed rate bonds this year, totaling $2.4 billion at a weighted average rate of 5%.

00:12:05 We exited the second quarter with 4.6 times net debt-to-adjusted EBITDA, more than $6 billion of available liquidity and only 7% of our total debt maturing through 2024. Since achieving an investment-grade rating in 2025, we have taken various steps to de-risk our balance sheet, including increasing our weighted average maturity from five years to eight years, decreasing our floating debt exposure from 32% to 9%, and reducing the amount of our secured debt, which provides access to that market in the future if it is attractive.

00:12:35 To wrap up, we believe we are very well-positioned to generate attractive risk-adjusted returns going forward. The strategy we have pursued over the last decade has positioned us to benefit from the carriers network augmentation and densification, regardless of whether that activity is focused on towers or small cells. Additionally, we have structured our customer agreements to generate organic growth that are resilient through deployment cycles.

00:12:59 At the same time, we have limited the risk in our business by focusing on the US and maintaining a solid balance sheet that allows for continued investment in future growth. As a result, we believe we are positioned to return to our long-term annual dividend per share growth target of 7% to 8% beyond 2025, as we get past the remaining large Sprint cancelations.

00:13:33 And with that, Kate, I'd like to open the call to questions.

QUESTION AND ANSWER SECTION

Operator

00:13:47 The first question is from David Barden of Bank of America.

Analyst: Alexander Waters

00:13:50 **Question – Alexander Waters:** Hi. Good morning, everyone. Thanks for taking my question. It's Alex Waters on for Dave. Maybe just first off here, just hoping we could get a little bit more clarity on the structure of the MLAs and the line of sight you have within a year? Just curious on like the certain characteristics that are in the agreements that would allow the shift in 2023. And then, secondly, just on the new leasing guide for the fiber segment. Just wanted to walk through kind of the line of sight you have there for the remainder of the year, just given that there's a pretty good ramp here in the second half? Thanks.

00:14:22 **Answer – Jay A. Brown:** You bet. Good morning, Alex. Thanks for the questions. On your first question around the MLAs, this has been something that we've done over a long period of time. We did it during the 4G cycle and have continued to do it as we've entered the 5G cycle. There's benefits to us, because it gives us line of sight and visibility into the cash flows and the contracted growth that Dan and I both spoke about. There's also a benefit to our customers of those MLAs.

00:14:49 They're better able to predict the cost of network deployment and it eases the amount of interaction on a site-by-site basis between our companies. So there's value there. I think the economic value is clear from the comments that we laid out this morning, and then there's also the operating benefits of those MLAs, and I think they benefit both parties. As to the specifics of those contracts, we don't disclose customer-by-customer agreements or the specifics. So I'll stop with just sort of a high level view of why we do it and the benefits to both of us.

00:15:29 On your second question around new leasing in the fiber business, this is the way we expected the year to play out. Obviously, we had a difficult year-over-year comp in the first quarter, and then we expected a rebound in the second quarter, which we saw. And we expect the second half of the year to be better than the first half of the year. And by the time we exit 2023, we think we'll be back at that 3% growth on a year-over-year basis as we go into 2024. And what we're seeing in the market in terms of activity, backlog, the conversations we're having with customers, et cetera, would suggest that's the pace that we're on.

00:16:10 **Question – Alexander Waters:** Thanks, Jay.

Operator

00:16:11 The next question is from Greg Williams of TD Cowen. Please go ahead.

Analyst: Gregory Williams

00:16:16 **Question – Gregory Williams:** Great. Thanks for taking my questions. You're clearly noting a slowdown in second quarter tower activity. Just curious, in your conversation with carriers, when do you anticipate that activity to maybe inflect up again? How prolonged do you think the slowdown is, given there's a lot of spectrum still on the sidelines? Second question is just on your network services, which also came in late naturally. Is the $124 million that you posted in the second quarter sort of a good cadence, or is there further declines from here? Thanks.

00:16:47 **Answer – Jay A. Brown:** Sure. On your first question, around the slowdown in activity, I think history serves really helpful lesson, both in terms of what we've seen in 4G, as well as what we saw in 2G and 3G. On page 4 of the presentation, we – you can see historically basically through the period of time with 4G, we had that initial surge of activity where our leasing results were kind of around 5% and then it did drop off a bit. But that initial surge didn't mean the end of activity or the end of growth. We saw a really good consistent growth throughout that entire 4G cycle of deploying the network. So I don't know if when we'll see a pickup in activity, but our view of the business is that we will see consistent growth over a long period of time and, obviously, we have the contracted benefit of that. But I believe those contracts as much as they represent stability and resilience in our cash flow stream, what they also represent is a view by our customers of needed continued investment that they will do around towers and particularly, our towers over a long period of time.

00:18:04 So, as I look out, I think we're through the initial surge of 5G and we've benefited well from that. And then as we get into the – as we get past this initial surge and into activity beyond this, I think we're going to continue to see good consistent growth as the demand for towers continues to drive over a long period of time.

00:18:30 On the services business, that business is, as you can go back and look at our results over a long period of time, that's just going to track with whatever the activity is on tower sites. So as we see a move downward in terms of activity, and you'll see that reflected in the outlook that we gave for the second half of the year for services, the future periods of time and the activity that we see around towers will drive what that services outcome is. So over a long period of time, I'm not – I can't really give you guidance as to how to think about your model, but it's going to track, we would expect, largely in line with the activity, tower leasing activity that we see in the business.

00:19:17 **Answer – Daniel K. Schlanger:** And just to put that into 2023 context, Greg, because we saw the slowdown in activity happen in the second quarter, we would expect the second half of the year to be less on the services side than the first half of the year because of the activity levels and what Jay was saying. So the $124 million that you're talking about of services revenue in Q2 will likely come down over the course of the year, but that's what's reflected in our outlook and why we brought down our service gross margin outlook by $90 million. So that's all baked into that outlook.

00:19:47 **Question – Gregory Williams:** Got it. That's helpful. Thank you.

Operator

00:19:51 The next question is from Ric Prentiss of Raymond James. Please go ahead. Hello, Ric. Is your line muted?

Analyst: Ric Prentiss

00:20:11 **Question – Ric Prentiss:** Yeah. Sorry about that. Can you hear me?

00:20:06 **Answer – Jay A. Brown:** We can. Good morning, Ric.

00:20:08 **Question – Ric Prentiss:** Yeah. Good morning, guys. Yeah. Hey. I want to follow along the lines on the services business first. Obviously, a big change from the prior guidance, a $90 million change on services business. Was it really related to one carrier more so than the whole group? Just trying to gauge what really caused a pretty big change on the services business, although it's a low multiple business in our opinion?

00:20:35 **Answer – Jay A. Brown:** We saw the activity change across multiple carriers during the quarter.

00:20:41 **Question – Ric Prentiss:** Okay. And the margins, I assume it's moving from kind of planning to deployments of the cost side, probably, reflects some further pressure maybe on the services business as well?

00:20:56 **Answer – Jay A. Brown:** Yeah. I think if you go back and look at our historical results, there's obviously a portion of costs that are fixed in that business. But there's also a lot of marginal costs in that business that we have been able to move up and down commensurate with that activity. Dan spoke to that briefly in his comments. And we expect to be able to do the same here where we'll adjust the cost structure and manage the cost structure appropriately for the level of activity. And some movements in the margin as the types of services that we perform change from whether it's pre-construction or construction work that we're doing for customers. So there's some movement in those margins. But we would expect most of the costs associated to come back down and margins to stay in and around what you've seen historically. But I would not try to put a point in time on a particular quarter. I would look at it more broadly over kind of what you've seen us do over multi-years, and it's likely to look like that in the future.

00:21:59 **Question – Ric Prentiss:** Yeah. Okay. Last one for me might be a little bit wonky on the supplement. There's a chart in there that talks about consolidated annualized rental cash payments at time of renewal, and it shows a big chunk for T-Mobile coming up in 2025. It shows a very large chunk for AT&T here in 2023. Is that suggesting that there's an AT&T renewal coming up this year? And then also on the All Other line, just want to make sure I understanding (00:22:29) how that plays out over time, because that remains to be a pretty high number every year out there. Just trying to think about how I should be thinking about that?

00:22:37 **Answer – Jay A. Brown:** So these contracts have – depending on which carrier we're looking at, we'll have various, in essence, expiry dates before they enter into their already contracted option dates. Typically, our MLA agreements will have multi-year – multi-term option periods and those options are usually for 5 to 10 years beyond the term that they're in currently. And we've already contracted what the percentage growth in those future periods is as well. And so as they come up for their natural renewal, those leases are generally extended on to their next term. So we would expect that portion of the supplement to constantly be changing as leases come up for renewal, roll into their next period, and then we're into that next term.

00:23:29 That's the normal way that the business operates. And we're not seeing anything that would suggest that would change. So from a modeling standpoint, as you think about our business, we've talked about churn rates on the tower side outside of the Sprint rationalization in kind of that 1% to 2% range. We would expect that to continue.

00:23:49 As for the All Other, that relates to customers other than the specifically named customers. And we haven't seen any change in that business and would expect we'll continue to see normalized renewals. And those time periods of remaining term will just move around as we are in various stages of the terms.

00:24:09 **Answer – Daniel K. Schlanger:** I'll just add a couple things there, Ric. One, you pointed out the one on T-Mobile as being a big number in 2025. That is the already pre-disclosed Sprint cancelation that's going to happen on the tower side. But that chart is for all of our businesses together. So a lot of the All Other is outside of the wireless as well.

00:24:30 **Question – Ric Prentiss:** Outside of wireless, can you give us some examples of who the bigger – so that would include the fiber-type stuff, I guess?

00:24:36 **Answer – Jay A. Brown:** Right.

00:24:36 **Answer – Daniel K. Schlanger:** Right. It's the – so we have fiber – obviously, we have fiber contracts that roll off over time. That's part of what we already disclosed. As Jay pointed out, there's no difference in the fiber churn overall. We still think that's in the high single-digits range, which has been our experience for a long time. But there are always going to be contracts that roll off. It doesn't mean that the revenue goes away. We re-contract a lot of those businesses, too. Generally speaking, the average term of our fiber business is in the neighborhood of five years, and you would always see a pretty consistent level of non-renewals in any given year.

00:25:11 **Question – Ric Prentiss:** Right. Right. A big number for AT&T in 2023. It's just when the expiry date for the normal course and that moves into option period would be the way to interpret that?

00:25:20 **Answer – Jay A. Brown:** Yes. And that's a very normal thing to happen for the customers over time. So we've seen that over a lot of years. And what you're seeing in the disclosure whether it's their initial period, and some of those leases frankly are not even their initial period. They're already into their option terms and then they're renewing. We would expect those options will renew into a new term, a new option period and then the term of that will then be reflected in that supplement.

00:25:48 **Question – Ric Prentiss:** All right. Thanks so much. Stay well.

00:25:52 **Answer – Jay A. Brown:** You bet.

Operator

00:25:53 The next question is from Batya Levi of UBS. Please go ahead.

Analyst: Batya Levi

00:25:58 **Question – Batya Levi:** Thanks a lot. Just to follow up on that payment schedule at renewal, is the decline that we're seeing in the second half related to a payment that's pushed out to 2026, or can you generally talk about what drove the increase in 2026 this time around versus the last schedule? And also, just again, to follow up on the macro lease guidance taken down by slightly $10 million in the second half. Again, if you could – if you don't mind, can we go over that what drove that and maybe what gives you the confidence that it would stay around 5% level going into next year? Thanks.

00:26:37 **Answer – Daniel K. Schlanger:** Yeah. Batya, I had a little bit of a hard time following your first question. I'm really sorry. But could you restate that so I can try to answer the question you're getting at?

00:26:47 **Question – Batya Levi:** Sure. So the schedule that you provide in terms of payments at renewal, it looks like the second half or the remainder for 2023 has come down versus the prior schedule. And when you look at the renewal at time of renewal for 2026, there was an add-back. So there is – is that related to potentially one payment that was expected to be received this year that's pushed out three years out, or what would drive that increase in 2026?

00:27:19 **Answer – Daniel K. Schlanger:** Yeah. I think what I would point you to is there's nothing specific that moved from 2023 to 2026. This is just the normal course of our business where we have lots of contracts that have lots of provisions in them and they move around. And when we're talking about numbers of this size on the business, it's just – this is a normal course of how our contracts flow through that schedule.

00:27:40 I think the important parts that I would point to are, obviously, I pointed to them earlier that T-Mobile in 2025, but also as Ric had just pointed out, the All Other is in line with what our fiber business typically does. What we would say from a non-renewal perspective is that what we see our customer activity being supports our view that in the tower business, we generally see 1% to 2% churn and in the small cell business, generally 1% to 2% churn, and in the fiber business in the high single-digits, and nothing has changed from that perspective. So as we think about the long-term health of the business, this cash payment at time of renewal chart can move around just based on what the underlying contracts say. But for a long period of time, I would just continue to bake in that 1% to 2% for towers and small cells and the 9% to 10% for fiber.

00:28:32 **Question – Batya Levi:** Maybe if I could just ask it more indirectly, was there any change in the MLA that you have with DISH?

00:28:39 **Answer – Jay A. Brown:** We're not going to speak to specific customers or specific contracts that we would do with customers. The question broadly around MLAs, though, we've not changed terms of our MLA. So what you're seeing in that schedule is just, as Dan said, is just the normal activity of leases coming up to their natural end, and that could be a small cell lease, that could be a tower lease, that could be a fiber lease, and then pushing that out to its now new term and so the numbers in those schedules are moving.

00:29:12 The passage of time, obviously, to your question about 2023, is also impactful, because we're just a quarter further into the year. So some leases came up for their renewal during the second quarter and would have adjusted out of the 2023 column and into some future column. So, it's going to constantly move.

00:29:31 **Question – Batya Levi:** Got it. Okay. Thank you.

Operator

00:29:36 The next question is from Simon Flannery of Morgan Stanley. Please go ahead.

Analyst: Simon Flannery

00:29:41 **Question – Simon Flannery:** Great. Thank you very much. Good morning. If I could just come back to the guidance change and the 50% reduction in activity. Verizon and T-Mobile had laid out early in the year and even before that they were going to be kind of winding down their 5G build with front-end loaded CapEx and activity in 2023. Is this over and above that? Presumably, you are well aware of their plans for that. So is there something else that is going on that's causing this pullback and perhaps, you could just revisit what percent of your sites have been upgraded to 5G at this point? Thank you.

00:30:19 **Answer – Jay A. Brown:** Sure. Simon, I – it's difficult to reconcile, because we don't speak to individual customers, which we're going to continue to not do. It's difficult to reconcile to the public comments of individual carriers what we're seeing. What I would tell you is the – we expected there to be an initial surge in 5G, which at some point would come back down and we would get to the point as we have in the past and past cycles, where we see good growth over a long period of time. And I think what our results reflect is that we're at that point, where we've moved from that beyond that initial surge of activity and into a period of time, which we think will continue for a long period of time of good growth that we can count on. And our customer agreements, I think, reflects that as well. So the customers are going to continue to spend.

00:31:12 Inside of a – specifically, inside of the year, obviously, we'd lowered our expectation for services. So the back half of 2023, we did see a change relative to what we previously expected. The first half of 2023 came in exactly where we thought it was going to, and we saw the change in activity during the quarter. And that's what affected our second half of the year, the activity that we'll see in the – we believe we'll see in the third and the fourth quarter.

00:31:43 **Question – Simon Flannery:** Right. And the tower count, 5G?

00:31:52 **Answer – Daniel K. Schlanger:** It hasn't moved much, Simon. It's not going to move in the course of the quarter. And I don't think we're going to update that quarter-to-quarter. That was try to give people a sense for where we were overall in terms of the 5G deployment, but it really hasn't moved that much from the last quarter when we gave the guidance.

00:32:16 **Question – Simon Flannery:** Great. And just one quick follow-up on the dividend. I think in the past you said that there would be minimal dividend growth in the next two years. Is there any change to that with this new guidance?

00:32:23 **Answer – Jay A. Brown:** We're going to be on our normal course of giving guidance for the next year in October. And when we give that guidance for next year, we'll also update where we are with the dividend, as we have done in past years. So I think you'll see us continue to follow that same historical pattern.

00:32:43 **Question – Simon Flannery:** Thank you.

Operator

00:32:44 The next question is from Brett Feldman of Goldman Sachs. Please go ahead.

Analyst: Brett Feldman

00:32:50 **Question – Brett Feldman:** Thanks. I was hoping we could gain a little more insight into how you're thinking about building the funnel of small cell nodes going forward. So we've moved through this surge period with the carriers, which was very focused on getting mid-band to a decent chunk of their existing sites. I think one of the questions we get is, until we've reached a point where carriers have deployed mid-band across all their sites and maybe even expanded the densification of that on macros a bit more, what would be the basis for going in and starting to do more on the small cell side? So maybe if you could just give us some insights into like what those conversations are like, what's driving it, how you think about what could create more of an uplift around 5G small cell leasing, that would be great? Thank you.

00:33:33 **Answer – Jay A. Brown:** Sure. Good morning, Brett. The driver for small cells is the constraint on the network that happens from a capacity standpoint. And as we see activity from consumers increase and where those concentrations of that increase occur, there is a need to increase network capacity. Initially, whenever there's a new generation of network deployed, they touch the macro sites as they've done over multiple cycles in the history of the company, and they have done that with 5G. So they've gone out and covered a significant portion of the country, provided capacity and coverage through that initial overbuild, and that's a very efficient and effective way to deploy spectrum.

00:34:24 The places where they supplement with small cells are places where that capacity that's been created by overlaying 5G on towers has been consumed quickly. So underlying all of the conversations that we're having around network capacity and densification is the consumer demand and data growth from that consumer demand. And that traffic increase at the consumer level has continued to grow exponentially during this period of time. And so the pain points of that significant growth by the consumer and consumption of data usage is the places that drive the need for small cells.

00:35:07 And as I think about what we've seen at kind of the market level, you can see that reflected in those – in our results as we've co-located nodes across fiber that we built for other carriers at previous periods of time. And then over time, as data growth increases, carriers come back to those same locations because of the density of the population, they need to densify the network in those same areas, and so they come back and lay additional small cells across that fiber asset that we own. And I think you'll continue to see that play out.

00:35:42 So if we're in a period of time – specifically to your question about spectrum band, if we're in a period of time where the carriers have new spectrum, or they haven't deployed spectrum in a particular market, our expectation would be that the first place that they'll go and deploy that spectrum would be across the macro sites that they're already on. And then, as that spectrum band starts to begin to be used, then the pain points will be created around network capacity and they'll solve that problem by using small cells in those areas of densification, where the growth and data traffic drives the need for additional capacity. And I think that's what we're seeing. That's consistent with our conversations, the contractual arrangements that we have with the customers and the activity that we expect, both in terms of the growth we're talking about for 2023 and then moving to double-digit revenue growth in 2024 for small cells.

00:36:37 **Question – Brett Feldman:** Got it. And just a quick follow-up. It may be too soon for you to have any insight here. But are you seeing evidence that the continued growth of fixed wireless is in any way shaping how or where carriers are deploying additional density in their networks?

00:36:53 **Answer – Jay A. Brown:** I think it is having some impact, and we talked about this a little bit on our last quarter call. Fixed wireless is a good example of a 5G use case. It's driven nice margins for our carrier customers. It is – so it's good to see the revenue growth there, and the returns from – associated from the adoption of that product mix. And I think, we believe we will see other uses for 5G beyond fixed wireless. But it does illustrate the pain points and the using up of capacity. And we've certainly seen areas in the country where fixed wireless has been deployed that – I don't want to say, which is first between the chicken and the egg. But the point is those are places where there have been increases in activity on the 5G networks and they correlate with locations that we've also seen increases in small cell nodes and investment along those lines.

00:37:48 **Question – Brett Feldman:** Okay. Thank you.

00:37:50 **Answer – Jay A. Brown:** You bet.

Operator

00:37:53 The next question is from Michael Rollins of Citi Investment Research. Please go ahead.

Analyst: Michael I. Rollins

00:38:00 **Question – Michael I. Rollins:** Thanks, and good morning. Just a few follow-ups, if I could. First, as you think about maybe the reasoning for the slower activity beyond just getting through the initial 5G surge, are you hearing from your customers that the mid-band spectrum they're deploying is getting better propagation so they just didn't need as much as maybe they initially thought in this first round of 5G capacity deployments? And I have a couple others, but I can ask afterwards if I could, please.

00:38:35 **Answer – Jay A. Brown:** Sure. I'll take the first one and then you can ask your others. They're not always specific with us as to the reasoning, but I probably wouldn't go quite as far as you did in terms of trying to get to causation there. I think it's the natural thing that we have expected would happen. We saw it happen with 4G, and we expected this day to come where they had overlaid significant portion of their network and touched the sites and then the surge would pass.

00:39:08 So I think we're just at the stage where we've moved from that initial surge and now we're at a point where we would expect to see continued growth over a very long period of time. So it feels like we've seen this movie before and we're just moving to the next chapter of deploying a wireless network. And we're excited about continuing to deliver for the customers and what's going to be needed over a long period of time. And we look at the underlying driver of the need from the – for the carriers to continue to do that. The consumer demand for wireless data is healthy and growing and so it portends that that investment will continue to come.

00:39:47 **Question – Michael I. Rollins:** And then second, you've held on to a larger services business than some of your peers. And does the recent variability of performance or as we're getting into these next phases of the 5G cycle, does this lead you to reconsider whether the services business is strategically important to Crown or whether there's opportunities to maximize value in someone else's hands?

00:40:18 **Answer – Jay A. Brown:** Mike, I think in any business that we're in or any activity that we're in, that's always a question that we'd consider. What is the value of the business, what are the returns associated with that business, and is it going to ultimately drive shareholder returns, which, in our way of thinking is, is it helpful to us being able to grow the dividend over a long period of time. So we're asking those kinds of questions across the entire business.

00:40:44 Obviously, the services business has been profitable for us and has been very profitable for us during the initial surge. We would not expect to see quite that level of profitability come out of the services division at lower levels of activity. And so we'll just have to evaluate as we do with everything in our business, what do we believe the forward-look is on the activity and then make a good business decision around what make sense from a products and services that we offer.

00:41:15 **Question – Michael I. Rollins:** And then just lastly, and thanks for taking all these questions, on the cost side. So you announced cost cuts for the second half of the year. Does that provide a follow-on benefit into the first half of 2024? And can you just unpack some of the sources of cost savings that the company has been able to identify?

00:41:36 **Answer – Jay A. Brown:** Yeah. We spoke to some of this earlier, Mike. On the question around services and it relates directly to that, there's a significant portion of variable cost in the services business. So as the revenues decline associated with that, we're going to see costs come out associated with that, which has a pretty meaningful impact to where we expect costs in the business to go for the balance of the year.

00:42:07 We also made mention of SG&A. We'll adjust there as we have done in the past through periods of time when the activity rises and falls. And so I don't know that there's anything in particular that I would point to, but just making good business decisions, as we adjust for the level of activity that we see in the business and then being thoughtful about how we're able to continue to deliver for customers based on the activity that we're seeing in the business.

00:42:34 **Question – Michael I. Rollins:** And sorry, does this – I'm sorry, if I missed it. So does this extrapolate into the first half of 2024 as an expense benefit as well?

00:42:45 **Answer – Jay A. Brown:** The cost structure in 2024 will reflect whatever activity level we expect and we'll update our guidance for 2024 when we get to October. So there are components, obviously, of things that we do this year that roll over. But the cost structure in 2024, I can't really answer that question without answering a revenue question. And we'll take the extra three months and give you guidance in October on what we think 2024 cost structure is going to look like.

00:43:13 **Question – Michael I. Rollins:** Thanks very much.

Operator

00:43:18 The next question is from Phil Cusick of JPMorgan. Please go ahead.

Analyst: Philip A. Cusick

00:43:24 **Question – Philip A. Cusick:** Hi, guys. Thanks. Just following up on a couple things you talked about. Looking at history, carriers would move to densification after deployment, and you've talked about that in small cells. What do you see in towers? Is there any sign of that?

00:43:38 **Answer – Jay A. Brown:** Sure. They're using towers to densify and there will continue to be lease-up associated with that. So some portion of the contracted revenue growth that we were speaking to relates to sites that they're not on today that they'll be adding equipment to and then portions of it are amendments to existing sites where they'll add more equipment to sites they're already on.

00:43:59 **Question – Philip A. Cusick:** And are you seeing acceleration in that discussion?

00:44:04 **Answer – Jay A. Brown:** Well, I think, broadly, what I would say is, as we've mentioned, the surge of activity initially is we're coming off of those levels, but we're seeing good growth over a long period of time that we expect would continue. From this point forward, given where we are in the cycle, certainly, there will be densification to the extent that they can solve network capacity constraints with macro sites. That's the most efficient and effective way to deploy capital to create additional capacity in the network, if there is a macro site that can solve the problem.

00:44:39 So some portion of the growth that we'll see will be the investment of the capital around macro sites. And then if there is not macro sites that can solve the challenge of the densification, then we would expect to see that activity come towards small cells. So we've seen it. Conversations are consistent with that. Our contractual arrangements are consistent with that. And I think we'll see that play out over the next several years.

00:45:03 **Question – Philip A. Cusick:** Okay. And then second, without an acceleration in the business, it looks like your 2025 leverage is going to be like mid-5 times than the low where we are now. How should we think about your comfort with that and agencies as we get closer to it? Thank you.

00:45:18 **Answer – Daniel K. Schlanger:** Yeah. As we've talked about, our target leverage that we think is appropriate for the business at this point is around 5 times. We've also said that it's going to fluctuate up and down. You saw this quarter is at 4.6 times, a lot of that has to do with the Sprint cancelations. But it has been below 5 times for the last several quarters. There will be times where we invest in front of getting revenue and cash flows where our debt to EBITDA will go up, because we have the capital out before we get the cash flow. But over time, we would expect that to reverse and therefore, the organic growth in our business would result in a lower leverage ratio going forward. So those fluctuations are natural.

00:46:00 I think, specifically, where would we get uncomfortable and say, okay, that's too high, I'm not exactly sure what that would be. But I think it really depends a lot like what Jay was talking about a second ago. (00:46:11) It really depends on what the forward-look of that growth looks like. And if we're at 5.5 times and we see a lot of EBITDA coming in the next year and we can bring it down really quickly, I think we would be fine. I think the agencies would be fine with that. We've had that in past. But if we think there's going to be continued investment and we need to go fund that investment, we would, even it's not our preference, but even if that requires equity, because the returns in the investments that we're making, we believe exceed our cost of capital inclusive of any equity cost of that capital. And as long as that's the case, our job is to try to invest in projects that generate returns over and above our cost of capital. And as long as we believe we're doing that, we would. But hard to speak to exactly what happens in 2025 without understanding what the next several years are going to look like and how quickly that leverage would move up or down from there.

00:47:06 **Question – Philip A. Cusick:** That helps. Thanks, Dan.

Operator

00:47:10 The next question is from Matthew Niknam of Deutsche Bank. Please go ahead.

Analyst: Matthew Niknam

00:47:16 **Question – Matthew Niknam:** Hey, guys. Thanks for taking the question. I'm just curious if maybe you can speak to how some of the services activity progressed over the course of the quarter, because it seems to be maybe more of a precipitous drop-off in June. But if you can comment on that? And then as we think about the follow-on effect. I'm just wondering, I know there was a $10 million reduction for core new leasing on the tower side this year. Presumably, there may be more of a spillover effect into 2024. And so I'm not necessarily asking for the guide, we'll wait three months for that. But I am just curious in the sense that are you comfortable with that 5% number each year between now and 2027, ex-Sprint churn? Or could that fluctuate and the 5% is more of a multi-year average to consider? Thanks.

00:48:01 **Answer – Jay A. Brown:** Yeah. Good morning. Thanks for the questions. On your first question around services decline, we did see a change over the course of the quarter, I mean, probably a level of precision that may not be broadly helpful. But as we got towards the second half of the quarter or towards the end of the quarter, we did see a greater decline than the periods at the beginning of the second quarter.

00:48:23 On your question around $10 million of leasing decline, any revenues that we sign this year have rollover into next year. In the same way, if we lower expectation for leasing in this calendar year, then those revenues won't exist in the following year. So certainly, there's a follow-on effect to this. It's one of the great things about the business. It's why it's so predictable, because we know the leases that we have in the business and we know what the contracted escalations are going to be. And then as we've contracted forward the revenue growth, we can look at what those revenues are going to be and have a good sense of what they're going to be in future periods.

00:49:08 So are we – by our guidance of saying 5%, are we trying to put a precision on every 12-month period of time or every quarter going forward? No, that's not our intention to do that. We're trying to take a multi-year view and then look at what do we think the growth is going to be over that multi-year period of time, more from a CAGR standpoint of 5%. And I think history, which is as we laid out on slide 4, I think it's helpful to see in and around the number moving a little up, a little down over that period of time. So wouldn't predict it with precision, but would expect that we can deliver over a period of time about 5% organic tower revenue growth on an annualized basis.

00:49:50 **Question – Matthew Niknam:** That's great. Thank you.

00:49:51 **Answer – Jay A. Brown:** You bet.

Operator

00:49:54 The next question is from Brendan Lynch of Barclays. Please go ahead.

Analyst: Brendan James Lynch

00:49:59 **Question – Brendan James Lynch:** Good morning. Thanks for taking my question. I just wanted to dig in a little bit more on the MLAs from a high level. Can you just remind us what creates the volatility quarter-to-quarter in the tower core leasing activity? Is it simply timing of demand above and beyond the contracted minimum step-up, or is it related to leasing outside the MLAs or anything else?

00:50:21 **Answer – Jay A. Brown:** Sure. Good morning, Brendan. Those things that you mentioned, so there is some variability in the contract of when they will actually go on air. So we have a committed amount. Sometimes those commitments are done earlier than the contractual amount, which will have some effect there. And then there are portions of the business that are not contracted. If you think about our forward growth, 75% is contracted. There's another 25% that is uncontracted at the moment and will have variability to it. So it's both of those factors across the entire population of our customers working themselves out in any given quarter or a year.

00:51:04 **Question – Brendan James Lynch:** Great. That's helpful. And then another one on the reduction in sustaining CapEx guidance by $25 million. It's going to be at the lowest level in five years. I'm wondering if that CapEx is just being deferred until next year or there's another reason for the change?

00:51:21 **Answer – Jay A. Brown:** No. I don't think it's just deferred CapEx into next year. As we're continuing to operate the business well, we're always looking for opportunities to run it more efficiently and effectively. And so our operating teams have done a really nice job of maintaining our assets and looking for ways to be thoughtful about sustaining capital expenditures, and so you're highlighting something they've done a nice job at in the business.

00:51:47 **Answer – Daniel K. Schlanger:** I just want to clarify one thing there, Brendan. The reduction sustaining capital is $15 million, not $25 million.

00:51:54 **Question – Brendan James Lynch:** Okay. Great. Thank you.

Operator

00:51:58 The next question is from Brandon Nispel of KeyBanc Capital Markets. Please go ahead.

Analyst: Brandon Nispel

00:52:06 **Question – Brandon Nispel:** Great. Thanks for taking the questions. I think two for Dan, and sticking on the tower leasing thing. The new guide, $130 million in leasing is a 20% decline from last year. If we're still coming off the surge in activity, what's that core leasing number look like in a normal environment? And then, can you – Dan, can you split between us the second half from a leasing standpoint the $60 million guide, how we should think about that 3Q and 4Q, and whether or not the exit rate should inform how we think about 2024? Thanks.

00:52:41 **Answer – Jay A. Brown:** I'll take the first question, and Dan could take the second one. Brandon, I don't know that we're going to give you much clarity – much more clarity than we've already done round what we think the future leasing is going to look like. We think in a normal go-forward period of time, over a multi-year period, we're going to see about 5% tower organic revenue growth, and it's likely to move a little above, a little below that in certain periods. But I think, generally, that's what our expectation would be. And that's what's driving our longer-term, if we think about value creation.

00:53:20 When we talk about being able to get back to a point where we're growing the dividend 7% to 8% once we're beyond the Sprint site rationalization process that we're in the middle of, once we're past that point, returning to being able to grow the dividend at 7% to 8% over a long period of time underlying that is our assumption around top line growth. And we think that's going to be in and around 5% for a long period of time. So in particular, as to what it's going to be in certain periods, we'll continue to do as we've done in the past. And when we get to October, we'll give you a view for 2024 and what that lease-up will be and would expect we'll continue to try to give you some view of what our longer-term forecast will be for revenue growth. At the moment, that's about 5% as we think our best guess of what a normal leasing environment is going to look like.

00:54:10 **Answer – Daniel K. Schlanger:** Yeah. And Brandon, on your second question on the $60 million remaining to the tower leasing guide for the rest of the year, obviously, there were some questions in the first quarter why tower leasing for the first quarter was a little low and then we came in with the second quarter and it was directly in line with what our previous guide had been, because if you add the two together, you got to $70 million of new leasing, is right halfway to the $140 million as in our previous guide.

00:54:39 As we look forward that $60 million, we would say what we said last time, which is it's probably very even. There's not a lot of fluctuation to it. But that doesn't mean that each quarter is going to be exactly $30 million, because there are fluctuations, like Jay just spoke about. So I would assume it's going to be evenly split between the next two quarters and it may move around here and there, but it won't be a significant change from the third quarter to the fourth quarter.

00:55:06 **Question – Brandon Nispel:** Great. Thank you.

00:55:07 **Answer – Kris Hinson:** Kate, maybe we can take one more question.

Operator

00:55:12 The next question is from David Guarino of Green Street Advisors. Please go ahead.

Analyst: David Anthony Guarino

00:55:18 **Question – David Anthony Guarino:** Thanks. Question on your expectation for the 5% organic macro tower growth through 2027. So on the remaining 25% of activity that you still need to secure, the assumptions you guys have in your model assume that comes just through densification or through new spectrum being made available? And then I have one more follow-up, please.

00:55:37 **Answer – Jay A. Brown:** Sure. It's a combination of spectrum. When you say new spectrum, the way I would think about that is spectrum that's in the hands of carriers today that has not been deployed. Based on the spectrum that could be deployed over the next several – could be auctioned off in the next several years, I think inside of the timeframe that we're talking about predicted growth, we're not assuming that there's an FCC auction followed by then a build-out of that spectrum. There is spectrum in the hands of carriers that has not been built out yet and some portion of our future leasing is related to that spectrum that's in the hands of carriers and has not been built out yet. And also, as you referenced, there's also the expectation that spectrum that has been built out, they'll continue to densify that. So there's a component of both of those elements, but not an expectation that an additional spectrum will be auctioned and then deployed in the next several years.

00:56:37 **Question – David Anthony Guarino:** Okay. That's helpful. And then the last one, just wanted to ask about the recent report that came out highlighting some of your tenants, the potential sizable cleanup costs they might have on some of their legacy telecom networks, and I know nothing has materialized on that yet. But I just want to know, did you consider any potential financial burden on your tenants when you reiterated that 5% guidance through 2027?

00:57:01 **Answer – Jay A. Brown:** We have not seen any behavior change from our carrier customers and so I'll let them speak to what the impact to their business will be of those recent news reports. But obviously, they're very healthy and have a long history of being able to navigate through various cycles. And the wireless business and the demand from the consumer, we think, is going to continue unabated. And so we would expect to see continued investment, as they improve their network and improve the margins and their business over a long period of time from improving their network associated with that growth in demand.

00:57:39 **Question – David Anthony Guarino:** Great. Thank you.

00:57:40 You bet. Thanks, everyone, for joining the call this morning. We look forward to catching you up in October as we give our guidance for 2024, if we don't see you before then. Thanks for joining.

Operator

00:57:50 Thank you for joining the call. Ladies and gentlemen, you may now disconnect your line. (00:57:54)