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Q1 2020 Crown Castle International Corp Earnings Call

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PRESENTATION

Operator

Good day, and welcome to the Crown Castle First Quarter 2020 Earnings Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Ben Lowe, Vice President of Corporate Finance. Please go ahead, sir.

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

Thank you, and good morning, everyone. Thank you for joining us today as we review our first quarter 2020 results. With me on the call this morning are Jay Brown, Crown Castle's Chief Executive Officer; and Dan Schlanger, Crown Castle's Chief Financial Officer. To aid the discussion, we have posted supplemental materials in the Investors section of our website at crowncastle.com, which we will refer to throughout the call this morning.

This conference call will contain forward-looking statements, which are subject to certain risks, uncertainties and assumptions, and actual results may vary materially from those expected. Information about potential factors which could affect our results is available in the press release and the Risk Factors sections of the company's SEC filings. Our statements are made as of today, April 30, 2020, and we assume no obligations to update the 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.

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

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

Thanks, Ben, and good morning, everyone. Thanks for joining us on the call this morning. As you saw from our press release, we delivered another quarter of positive results and maintained our guidance for 2020 growth in AFFO per share of 7% to 8%, consistent with our long-term growth expectations. I believe our strategy and unmatched portfolio of more than 40,000 towers and approximately 80,000 route miles of fiber concentrated in the top 100 U.S. markets have positioned Crown Castle to generate growth in cash flows and dividends per share, both in the near term and for years to come. Dan will discuss the results and the full year 2020 outlook in a bit more detail, so I'll focus my comments this morning on 2 key points. First, our business is performing well despite the challenges and uncertainties created by COVID-19. And second, I believe the strong fundamentals of our business and long-term trends driving demand for our critical infrastructure remain intact and provide a long runway of growth for Crown Castle.

On the first point, we see robust activity across our business, both in terms of customer demand as well as our ability to continue to effectively operate. As a provider of critical telecommunications infrastructure that is considered essential to public health and safety, we continue to construct and install our customers on our infrastructure.

Since the outbreak of COVID, we have focused on 2 primary goals to help guide our decision-making: first, care for our workforce; and second, deliver for our customers and the communities in which we operate. We have undertaken a number of measures to promote the health and safety of our employees, including implementing work-from-home arrangements for the portion of our workforce that typically work from the office, imposing travel restrictions and canceling in person meetings, providing an additional 5 days paid time off to all of our employees, allowing flexible working hours to accommodate our employees who are taking care of children and other loved ones and maintaining our workforce at pre-COVID-19 levels. Our people have been terrific throughout this crisis, adjusting to our new normal, and we will continue to make the appropriate decisions to promote their health and safety.

In addition to our employees, we have focused on delivering for our customers, and I am encouraged by the activity levels we are seeing across the business. On the tower side, our customers continue to invest in their networks by deploying additional spectrum and cell sites to keep pace with the 30% to 40% annual growth and data demand. As we previously discussed, the noticeable decrease in activity that occurred late last year amid uncertainty around the merger between T-Mobile and Sprint carried in to the first quarter of this year. With the merger now complete, we believe this slowdown will prove temporary as we anticipate a significant increase in industry activity in the second half of this year as all our carrier customers begin to spend money to improve their existing networks and as 5G investments begin to ramp.

Within our small cell business, we finished the quarter with approximately 45,000 small cells on air, and expect to deploy approximately 10,000 this year as we are actively working on our construction pipeline that currently exceeds 25,000 nodes. We continue to respond to the significant demands from our customers, while at the same time navigating ongoing deployment challenges from some of our municipalities and utility. Adding to the returns we are seeing on our fiber investments, we generated 3% revenue growth from our fiber solutions business in the first quarter and anticipate similar levels of growth for the full year. This growth is due to the increased bandwidth requirements we are seeing from our large enterprise and carrier customers, which make up the vast majority of our fiber solutions customer base. Although we have not seen a material impact from COVID-19 on our ability to deliver for our new small cell and fiber solutions customers to date, it is possible we could see some new challenges emerge with respect to getting construction crews to sites or traversing an already difficult zoning and permitting environment. On a positive note, we have seen the wireless carriers' efforts to improve their networks continue during the last 6 weeks.

As we discussed last quarter, we are expecting a significant ramp in activity throughout 2020, particularly in the second half of the year. Obviously, the level of intra-year ramp implied in our outlook is significant. And while there are many unknowns due to COVID-19, we believe we will be able to achieve this growth. Importantly, we believe that any potential near-term impacts from COVID would not alter our long-term growth trajectory, which brings me to my second key point. We remain confident that our long-term contracted revenues will allow us to deliver value to shareholders through a high-quality dividend that we expect to grow 7% to 8% per year given the durability of the demand for our critical infrastructure. We have situated the company with the right assets in the right markets with market-leading capabilities to deliver value to our customers and generate shareholder returns for years to come. We are providing investors with a consistent return of capital with a dividend funded with contracted revenues from our existing tower and fiber assets, while investing in new assets that will be critical for the future of communications networks.

Since last year, we have experienced the highest level of tower leasing activity in more than a decade, with activity largely tied to our customers investing heavily in their 4G networks to keep pace with the 30% to 40% annual data demand growth that I mentioned earlier. The combination of the market dynamics and our unique portfolio of assets positions us for a long runway of continued growth as the wireless industry transitions into another long investment cycle, this time to deploy 5G. As I look at the big picture, I believe we are seeing the very beginning of the wave of 5G activity that will begin this year and continue for years to come.

My view is supported by the public comments that Verizon, AT&T and T-Mobile have made over the last several weeks, affirming their commitment to build robust 5G networks. Adding to this long-term opportunity, a new customer is entering the wireless market at scale for the first time in more than a decade, with DISH Networks planning to deploy a nationwide network over the next several years to compete with the established operators and to meet its significant buildout requirements in its DOJ settlement. With our unmatched asset base of towers, small cells and fiber, we believe we are in a very favorable position to assist DISH as they build out their network.

And with this unmatched portfolio of assets, our financial wherewithal and operating in the best market in the world for communications infrastructure, I believe Crown Castle is in a great position to excel in the current environment and to capture substantial long-term opportunities while consistently returning capital to shareholders through a high-quality dividend that we expect to grow 7% to 8% annually.

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

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

Thanks, Jay, and good morning, everyone. As Jay discussed, we got off to a solid start with first quarter results performing in line with our expectations, and we continue to expect to generate attractive growth in cash flows and dividends per share for the full year 2020.

Turning to Slide 3 of the presentation, we experienced another excellent quarter of strong top line results that included nearly 6% growth in organic contribution to site rental revenues, driven by approximately 10% growth from new leasing activity and contracted tenant escalations, net of approximately 4% from tenant nonrenewals. The revenue growth was offset by lower services contribution and increased costs relative to the same period last year, resulting in 1% growth in adjusted EBITDA and AFFO. The lower services contribution was in line with our expectations and tied to the slowdown in tower activity that began in the fourth quarter of last year and carried through the first quarter of this year.

As Jay mentioned, we anticipate a significant increase in industry activity in the second half of this year as all our carrier customers invest to improve their existing networks and as 5G investments begin to ramp. With respect to the increase in costs, we incurred approximately $10 million of costs in the first quarter that we do not expect to recur going forward.

Turning to Page 4. We are maintaining our full year outlook for 2020. At the midpoint, this represents approximately 5% growth in site rental revenue, 6% growth in adjusted EBITDA and 9% growth in AFFO year-over-year compared to 2019 and includes approximately 6% growth year-over-year in organic contribution to site rental revenues.

Turning to investment activities. During the first quarter, capital expenditures totaled $447 million, including $21 million of sustaining expenditures and $426 million of discretionary capital investments across fiber, towers and small cells. Additionally, we returned significant capital to our shareholders during the first quarter with our quarterly common stock dividend totaling $513 million or $1.20 per share representing growth of approximately 7% on a per share basis compared to the same period a year ago.

At the end of the quarter, we further improved our financial flexibility by opportunistically accessing the investment-grade bond market to lock in long-term debt at attractive rates. Specifically, in April, we issued $1.25 billion of senior unsecured notes with a combination of 10- and 30-year maturities using the net proceeds to repay outstanding borrowings under our revolver. The offering had a weighted average maturity of 18 years and coupon of approximately 3.6%, achieving the second lowest coupons in our history for comparable maturities.

Our ability to opportunistically access long-term capital at historically low all-in rates during a period of disruption in capital markets speaks volumes to the strength of our underlying business and the level of support we have from our investors.

Following this financing transaction, our balance sheet and liquidity position remain in great shape with $5 billion of available liquidity from our undrawn revolving credit facility, only $1.6 billion of debt maturing through the end of next year and a weighted average cost of debt of 3.7% with a weighted average maturity of 7 years across our entire balance sheet.

In addition, we finished the quarter at 5.6x debt to EBITDA. We remain committed to our investment-grade credit rating and anticipate a glide path back to our target leverage of approximately 5x by the end of 2020 based on the expected EBITDA growth throughout the year.

So to wrap up, our first quarter results were in line with our expectations, and we believe we remain well positioned to generate 7% to 8% growth in AFFO per share in 2020. Looking further out, we believe our ability to offer towers, small cells and fiber solutions, which are all integral components of communications networks, provides us the best opportunity to generate significant growth while delivering high returns to our shareholders.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from Simon Flannery at Morgan Stanley.

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

Great. So I wonder if you could just talk a little bit more about the ramp in the back half of the year. Can you give us some more color about how long you think it will take to negotiate with T-Mobile, where you stand on that? And then, do we see a significant activity into Q3? Or is it really Q4 when a lot of the major activity will take place? And then on the fiber, how much -- can you talk a little bit about your exposure to SMB? And are you seeing any pressure from that segment?

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

Simon, thanks for the question. On your first question around the ramp in the second half of the year, I think the ramp is probably most pronounced in our services business. You saw that down sequentially quarter-on-quarter in the first quarter. We expect the second quarter to look somewhat similar to what we saw in the first quarter. And then as we get into the second half of 2020, we think it's going to look pretty similar to what we saw in the first half of 2019, and that's based on activity that we're seeing across the entire industry. So obviously, Dan spoke to, and I mentioned it briefly, what we saw from T-Mobile in the fourth quarter of 2019, and then that continued into 2020 until they got the merger complete. But if we zoom out away from just thinking about one customer, I would point folks to go back and look at what activity looked like in the first half of 2019, and we think that's about what it's going to look like in the second half of 2020. That's separate and distinct, importantly, from what we're seeing around the recurring revenue. So as we think about site rental revenues, those are continuing to grow throughout the course of 2020. And I think the differentiation on the ramp really plays itself out in terms of services for all of the reasons that both Dan and I mentioned in our prepared remarks, is the carrier activity really starts to pick up and they start to see the benefit of 5G.

On your second question around fiber exposure to small businesses, a little less than 5% of our total revenues on the fiber side are coming from small businesses, medium businesses. We are -- the vast majority of our fiber business is related to large enterprises from things that are -- things like education, health care, the carriers. And those businesses are really skewed away from things that we would expect to be impacted by COVID-19. So as we look at the landscape today, we really don't see much impact from COVID-19 and have very little exposure to the small and medium business side in that business.

Operator

(Operator Instructions) The next question comes from Philip Cusick at JPMorgan.

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

First, a follow-up on Simon's question. I wasn't quite clear. So services ramp certainly should ramp in the second half. Do you think that site rental revenue ramps as well? Or does it just happen too late to really impact this year and the impact is more on next year?

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

Sure, Phil. On the ramp and recurring revenue, obviously, the business has the nature of whatever we put in revenue today, we -- that recurs next quarter, and then we add to it. So there is a ramp in the back half of the year. But as folks think about the amount of ramp and the pronounced impact of that ramp, it's more impacted by what happens with services. As we think about site rental revenue growth over the course of 2020, remember, there's sort of 3 components that drive that growth inside of the calendar year and are reflected in our expectations of growth at the top line. We have all of the leases that we signed during 2019 that turned on during 2019, but we didn't get a full year benefit of those leases. So there's a rollover effect that we have in 2020 as we get a full 12 months of those leases. Then there's a group of leases that we signed in 2019, and those are turning on now in 2020. So we have visibility to them, they're already signed, they're scheduled in the pipeline to be turned on there, and that will benefit growth in revenues year-over-year.

And then the last component, the smallest component by quite a measure, would be leases that we signed in any given calendar year, i.e., we sign them in 2020 and then those leases turn on in 2020. That represents the smallest portion of our site rental revenue growth. So the portions that drive the biggest impact, we have really good visibility to those because, frankly, they've already been signed and, in many cases, are already turned on, and we're benefiting from the rollover effect. And as you saw from our numbers, our organic revenue growth from our prior guidance, in addition to us not changing how we think about the full year in terms of guidance, if you look at the components of that guidance and the organic revenue growth, whether it's towers, small cells or fiber, those are unchanged from our previous expectations. So we still expect tower revenue growth to be $175 million, small cell revenue growth to be about $70 million and then the fiber revenue to be up about $165 million year-over-year, which is exactly what we expected last time.

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

Okay. And does the restatement of services change the benefit at all as you compare that second half '20 activity levels versus first half '19?

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

No. The numbers that I'm speaking to in terms of pointing back to 2019 would be the restated quarterly numbers for 2019. So it's an apples-to-apples comparison.

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

Good. And then finally, can you give us a sense, just digging in on what you see in fiber and small cell construction, not a surprise, there hasn't been any delay in permitting and construction here?

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

Yes. If you look at our results in the first quarter, we saw no impact at all from COVID-19. And thus far in April, we've only seen a minimal impact anywhere in our business. And we believe, as reflected by the fact that our guidance is unchanged, we believe that we can work through the challenges without any material impact on our results. I think my cautionary statements and comments that I made in my prepared remarks, those are in recognition that the world is seeing significant disruptions across nearly every industry. And so it seems to me both -- be both prudent and appropriate to state the obvious, that we may not have visibility today into all of the impacts that COVID would have on our business. I think on balance, we believe our business will perform within the range of the outlook, which is unchanged from our prior view. So we're excited and pleased with how it's done so far and believe we're in a great position for the balance of the year. But trying to remain both clear-eyed and open-minded to the fact that there may be things that today we just don't have visibility towards.

Operator

The next question comes from Jonathan Atkin at RBC Capital Markets.

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

Yes. So a couple of questions. I wanted to ask you about kind of the ramp that we see in the second half attributable to 5G. Is that true across each of the major carriers? Or was that more of an aggregate trend that you're calling out?

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

Jonathan, it would be true of both, both in aggregate and individual.

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

Okay. Yes. That's very helpful. And then, I apologize if you didn't touch on this, but the $10 million increase in costs that you didn't expect to recur going forward, what's the nature of those?

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

Yes, Jonathan. Those are related to some legal fees associated with our lease statement and then taxes on our RSU vesting that happened in the first quarter in terms of the number dollars.

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

Okay. And then lastly, maybe more of a bigger picture question and I've asked it on prior calls as well, but just the -- any updated thoughts on edge computing and the role of your Vapor IO investments as well as your fiber assets?

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

Sure. We're seeing really encouraging results on that front. As you'll recall, we made an investment in Vapor IO several years ago which has been our ability to sort of have insight into what's happening on the edge. And it certainly plays to our strategy of owning the infrastructure around the ecosystem of telecommunications, both on the fiber side as well as on the tower side and believe that those assets combined have real strategic value. Edge networks has developed largely in line with what we expected really to enable some resource allocation to reduce network connection -- congestion and improve the latency around the networks. And the value and the opportunity that we really see in this is -- we think about it as kind of network or access edge, which really requires both the fiber and network integration. So the physical edge component of the network is not really that unique. If you've got real estate at the edge of the network, i.e., if you own real estate close to where cell towers are, the differentiation is not so much just that physical access. It's the combination of the physical access with the fiber. And so we believe we have a really unique and compelling opportunity here on the edge. We're operational in 4 markets now in the U.S. on the edge side. And as we're thinking about the rest of this year and into next year, there's a number of other markets that we'll be operational in. It's not material today in terms of our results, but it is an early, I think, an early indication of our strategy being one that creates some pretty compelling opportunities long term. So we're thinking about this as kind of a long, long, long runway and opportunity for future growth, not material today. It won't be material probably next year. But as that continues to develop, it could create some real unique and exciting opportunities for us.

Operator

The next question comes from Colby Synesael at Cowen.

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

Great. You may have just touched on this, as it relates to Jonathan's question, but has there been any notable change in carrier behavior since '19? We've obviously seen Verizon go and pick up its CapEx expectations. AT&T seems to be suggesting that they're maybe not lower than they previously are expecting. Just color -- if you can just talk about that, potentially without mentioning names something if that's your preference. And then also, as it relates to T-Mobile, so I guess more specifically to the [name], would it be your intention to sign a new MLA with them? And if so, any color on when that might actually occur?

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

Sure, Colby. On your first question around the change in carrier behavior, if I step back and look at where we are today and where we were 6 to 9 months ago, I think our long-term visibility around the investment that the carrier is going to make around 5G is better today than it was 6 to 9 months ago. We can see it across the entire industry. The plans are becoming more real, more specific. We're starting to see exactly where they're targeting the sites and how they're thinking about deploying 5G network in terms of what equipment needs to be added, how much of it needs to be added. So I think the visibility today is there have been a change in behavior. If you were to ask me this relative to 6 months ago, yes, the change in behavior is better today than what it was. And that thing that's happened in the last 6 weeks around COVID-19 has changed that view. As I mentioned in my prepared comments, I think carriers have been really public about the fact that they are intending to build 5G networks and have affirmed that, even in the midst of the current environment. So I think from everything that we can see, we're more encouraged today than we would have been 6 months ago about what that deployment and opportunity looks like.

On your second question, I'm going to beg off of that. We really prefer not to talk about specific customers or what their network deployment plans are. So we're in great shape with all of the carriers across the industry in terms of their ability to access our sites, and we're certainly really focused on making sure that all of them are able to achieve their deployment plans across our infrastructure.

Operator

The next question comes from David Barden at Bank of America.

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

So thanks for sharing the details or the data point on the small business exposure being kind of sub-5% in the fiber services business. I was wondering if you could kind of elaborate a little bit more on what the enterprise fiber services exposure you do have is related to. And then, Dan, we saw some provisions being taken at AT&T and BD for their business services exposure, presumably mostly on the SMB side, but I was wondering kind of what, if anything, you guys are provisioning for or expect you may have to provision for on the [bad debt] in enterprise services.

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

Yes, Dave, thanks for the question. On the -- the vast majority of our customers would fall into the camp of what we would call the carriers and then large enterprises. That would make up more than 2/3 of the base of revenues. And specifically, on the large enterprise, we're heavily skewed towards health care, education and financial services. So if you were to take those 3 large components, that's going to -- along with the carriers, that's going to make up the vast majority of our revenues. And as I mentioned earlier, and you referenced it, less than 5% of the revenues are coming from small and medium businesses. So obviously, when you think about health care, education and financial services, that customer base, we think, is less likely to be impacted by COVID. And as we look at the new lease bookings that we saw during the month of March, and as you know, our business is heavily weighted towards the Northeast corridor, which, in many industries and aspects was shut down in the second half of March, we didn't see any impact in the month of March. In fact, we had a very good showing in the month of March even as we were booking new revenues. As I mentioned in my comments, there are some places and some facilities where customers who have committed to use our service and need the bandwidth from us, have delayed our ability to access their facilities as a result of COVID-19, but we think that's a relatively short impact. So once there are protocols in place and we're able to access the facilities, then we'll go in and be able to add the additional bandwidth and bring the service to those customers. So I think in terms of our exposure, both in terms of what the direction of that is and then how we've seen that play out over the last 6 weeks, I think our business there has -- we'll see very little to no impact from COVID-19.

Operator

The next question comes from Brett Feldman at Goldman Sachs.

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

I want to ask the MLA question a little more broadly. Because if we look at your business, you have customers, as Colby noted, who might be to combine MLAs. You might have new emerging customers who might need to create them. You might have existing customers you just want to revisit them for a range of reasons. And you're offering multiple types of infrastructure now, you're offering towers, you're offering small cells, you're offering fiber, and most of your large wireless customers might have an interest in all of them. And so as you approach these conversations, what are you hoping to achieve as you enter into new or modified or combined MLAs? What are the success components to that as you do -- as you go look at that and see whether you're checking the boxes or not?

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

Yes. Brett, thanks for the question. Stepping back from this and just kind of a broad answer to how we think about running the assets and really just as to how we think about the investment as well, we make investment decisions based on what we think the recurring yield on those assets is going to be and, ultimately, whether or not it is enhancing to our long-term dividend per share growth rate. So embedded in that, obviously, if we're going to get to growth in the dividend, we have to consider all of the cost of capital associated with the assets that we're looking at, and then how much cash flow can we ultimately generate off of those assets.

So we start first with kind of a perspective of what's the cost of the capital to acquire the asset and then what do we think the return around the asset is going to be and then build it up from there. As we've talked about areas of the company, and I think this is particularly important as we think about the investment that we've made in fiber and in small cells, where there's not -- I think in the historical way of thinking about the tower business, there was more of a rote way of thinking about what the price per tower was. And as we think about the pricing around small cells, which we think is the biggest driver of returns on fiber, that pricing is determined based on cost. So it's going to look different in a major metro dense urban downtown business district than it might in a more suburban setting, depending on the cost of deployment. So as we turn to having conversations with the carriers, our aim is to provide them with the lowest cost alternative to them owning or building it themselves. And so our aim is trying to deliver something to them that the shared infrastructure model is at play where it's cheaper for them to share it among all of the carriers and to lease it from us than it would be for them to build it themselves. And then as we think about whether or not that asset or that particular opportunity would be of interest, we're measuring that against the returns required in order to make sure we're delivering equity returns above and beyond any cost of the capital associated with that.

To be a little more specific to your question around how we think about that with the assets, well, then we just play that out into the specific asks of the carriers. So we'll go and understand what markets are they trying to go into, what type of infrastructure do they want or need from us and then work our way backwards through the framework of ensuring that we're pricing appropriately in order to achieve the appropriate returns across the assets.

Operator

The next question comes from Ric Prentiss at Raymond James.

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

Should we think -- I'll attack the question maybe from a different angle. Would it require new MLAs to see -- or modified MLAs to see the ramp in the service business in the second half?

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

No. We don't need to sign new MLAs with our customers in order to achieve the ramp in front of us.

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

Okay. And then obviously, you guys have approached the debt market, got some really good tenor and cost of debt. You've got the glide path. But what, if anything, would cause you to think that you would have the equity markets? I know in the past, you've kind of laid it out there as a potential. But what would be make raising equity interesting as opposed to not interesting?

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

Yes, Rick. We, as a general rule, don't want to issue equity on it, keep our equity for our existing holders. So we think there's significant value there over the long term. So the thing that would make us -- put us in the position of having to issue equity would be if we do get to a point where that glide path is not happening and our leverage is remaining at elevated levels or too high that it would jeopardize our investment-grade rating, at that point, we would -- in essence what that means is that our EBITDA generation doesn't create enough leverage capacity to make up for the capital we're spending, then that would lead us to issuing equity. So we're not looking at it as necessarily to say, "Okay, is this opportunistically, can we get something done right now?" It's more, how is this going to impact our overall leverage profile, and when will it be required in order to maintain the rating that we -- the investment grade rating that we want to maintain for all the reasons you said earlier, which is we're able to access the debt markets during a pretty disruptive period. We got very good tenor and very good rates. And we want the ability to do that going forward because we want, in times of distress and in times of things going well, to be able to spend money on assets that we think will generate good long-term returns. And Jay was just talking about -- and we think that having an investment-grade rating really helps that.

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

And from the zoning permitting side, any -- I assume you're watching, but any concerns on ability to get crews or equipment supply, with the supply chain out there, anything from the crew side or the supply chain side?

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

Yes, Ric. I mean, I can speak to only what we've seen thus far, which is we haven't seen, as I mentioned before, we haven't seen any impact to date from COVID-19. So I recognize, and again, I'll say it again, I think that the widespread nature of COVID-19 and maybe the second and third derivatives of impacts, I don't want to say that I have perfect visibility to what that's going to look like into the future. But thus far, our crews have been able to continue to work and install our tenants and deliver the infrastructure that's necessary. So we've not seen any impact. We didn't see any impact in the first quarter results and haven't seen it thus far. Our teams are continuing to work. And the states have been great, as well as the federal government, and they have been really clear that the deployment of telecommunications infrastructure is essential work that needs to be done. And so our crews have been able to navigate and to work and to do so safely and install the infrastructure. And so at this point, we don't see any impact from COVID-19 in terms of limiting our ability to continue to deliver for customers.

Operator

The next question comes from Michael Rollins at Citi.

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

Two, if I could. First, if you can step back on the small cell business, can you frame how the contract value allocates between the fiber infrastructure you're providing versus the access that you have to poles and to other structures that they might be attached to and then the actual electronics or antenna or anything that you provide that's on a more technical basis. And then just secondly is there an update to your prior disclosures around the inquiry from the SEC?

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

Sure. Mike, thanks for the question. On the first question around the small cell contracts, we don't differentiate that as -- in terms of the contract itself. I think probably the best way, and hopefully, this answers the question in terms of what you're driving towards. If you think about the capital costs associated with building small cell networks, about 80%, 85% of the total cost of building those networks is in the fiber itself. So if you think about the contractual value coming back to us and what we're pricing the investment, back to my comments about it differs market-by-market and even inside of the market based on the type of infrastructure that has to be deployed in order to achieve a small cell solution for the carriers. The majority of the -- think about the revenue and the underlying cost associated with that is going to be in the fiber asset, the fiber asset itself. And then what it looks like in terms of the aesthetic and the actual delivery of the antenna, that will really change based on the architecture and the desired aesthetics by the municipality or potentially by the utility that we're working with in order to figure out what is the vertical infrastructure that becomes the broadcast point for that small cell. And that's a much smaller component of the overall cost and, therefore, a smaller driver of what the return to us is or cash flows to us are.

On your second question, we don't have any update to the SEC process. The prior comments that we've made still stand. Obviously, we're fully cooperating with any questions that they have for us, and we'll continue to do so.

Operator

The next question comes from Nick Del Deo at MoffettNathanson.

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

First, with respect to small cells and fiber solutions, can you help us understand what the typical lag is between when the permitting for project is complete and when you actually deploy an infrastructure? And does it vary very much between small cells and fiber?

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

Sure. Thanks Nick. On the small cell side and fiber side, it will -- there are different answers depending on the communities because the amount of work that we have to work through, whether it's a utility or a municipality or both, those have differing answers. But in general, the entire time line from the time that a carrier tells us that they would like a small cell to when we have it on air, the outcome there is ranging from about 18 months to 36 months, and the majority are kind of in the 24-month to 36-month period of time. The vast majority of that time period is we're incurring what we would describe as soft costs and those costs are relatively low. And the reason for that is because we're working through the process with the municipalities and the utilities in order to figure out what the structure and access is going to look like in order to build it. Once we have all of the zoning, permitting, approvals that are necessary in order to build or to deploy that -- those assets, the build cycle itself is relatively short. So we'll incur the majority of the cost of the capital in the last several months of the build before the revenue turns on. So that build cycle is relatively short. Now when I say relatively short, it's relative to the

24- to 36-month time cycle, there are exceptions to that where we're putting in fiber in places that are very difficult to build, and it may take us longer than just a few months in order to actually build the infrastructure. So but in general, that would hold where we go through a long period of time with the soft cost to build and then the actual construction portion is relatively short.

The same would hold true on the fiber solutions side if we're building new fiber for new customers in a new market. But it would not hold true if we were looking at a building that we were already providing fiber to or a location where we had already built small cells and we had a fiber run just outside or relative proximity to a potential enterprise customer. And in those cases, the ability to get them on air is much faster than that time line of 24 to 36 months. Generally speaking, we'll have a new customer on air within 6 months of contracting with them on the enterprise side or on the enterprise fiber side. Some of that, and I think this is helpful just in terms of from a strategic standpoint, as we think about the business, we think about the long-term value drivers, we believe, is going to come primarily from small cells. And so where we've invested the capital, and as we've thought about the opportunity, we're zeroing capital in, in places where we think there's going to be the most small cell opportunity. We then look at that -- those assets that have been created for small cells and reinvested in because of the opportunity we think about from a small cell standpoint. And then we pursue customers on the enterprise side that could use those fiber runs. So a portion of the reason why we're faster on the enterprise side is, by definition, we're targeting customers who can utilize that same asset that we're utilizing on the small cell side. So it self selects. Whereas on the other side, when you think about where we're building small cells, we're working closely with the carriers in places that there is no existing fiber today, and so we're going in and building high capacity, dense urban fiber for the purpose of small cells, and then we would go back and roll that into opportunities that are on the enterprise fiber side.

Nicholas Ralph Del Deo *MoffettNathanson LLC - Analyst*

Okay. That's helpful. And just -- maybe just to put a finer point on it and kind of where I was trying to get with the question. If we think about the remaining nodes that you plan on putting on air for the balance of the year, is it then fair to say that a good chunk of those are kind of through the permitting process and ready to go?

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

Yes. They would be in various stages of that. But in order to get them on air in 2020, we would have to have pretty good visibility towards either -- we've either achieved all of the approvals or the majority of them and we have line of sight that the other approvals are coming.

Nicholas Ralph Del Deo *MoffettNathanson LLC - Analyst*

Okay. Okay. Good. And then one on the expected services ramp. Can you expand a little bit on the degree which your expectation of the ramp is based on your interpretations of the carriers' intentions versus specific planning discussions you're having or work orders you've received?

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

Well, I think going back to my comments that I made around the recurring revenue, the leases that we would have signed to date, whether that was last year or this year, the services work would be related to that. So preconstruction work that we're performing for the carriers in advance of them installing on a site and then a much smaller component of the services now coming in the periods in which we perform the work, where we're actually adding tenants to the tower. So we would have pretty good visibility towards what that activity would look like. Now the same comments that has always applied to this business I think certainly applies today, it is the most volatile component of our results because knowing exactly when some of these sites will turn on when and that work will actually be completed, we don't have the same kind of visibility that we do on the recurring revenue side. So I think any time we couple, and this is why my remarks were really bifurcated between here's what we're seeing in the current year 2020 and then this is what we're seeing over a long runway period of time. Is there a possibility that some of the services activity that we're expecting to come in, in the second half of the year, that some of that slides into 2021? That's possible. But the activity level in terms of the recurring revenue, I think we have pretty good visibility on that front and we feel better about that recurring revenue opportunity today than what we did 6 months ago. And so whether that results in services activity as we believe it will in the second half of the year, if a little bit of it slips into 2021 from a run rate standpoint, if we get out into '21, I think we feel better today about our run rate in '21 than what we would have 6 months ago. So our best view today is the guidance that we've provided. And that looks like second half of services in '20, kind of similar to what we saw in the first half of 2019. And then that second quarter that we're in right now probably looks similar to what we saw in the first quarter of this year.

Operator

The next question comes from Batya Levi at UBS.

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

A couple of follow-ups. First, on the small cell deployment side. Can you talk about if there has been any change in demand from the carriers? The pipeline for the ones on air and under construction seems to be relatively flat in the last few quarters. I was wondering how we should think about that total number going forward. And a second question on the mobile usage growth. With work-at-home in place right now, is there any change in that usage growth that you could -- that you can talk about that could potentially delay the carrier activity down the road? And just a final question on DISH. Now that the -- your tenants are adding DISH spectrum temporarily to their sites, if that [new one] is expanded beyond 60 days, do you think that could provide an opportunity for you?

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

Sure. On the first question around the pipeline for small cell nodes, we continue to see activity in normal course and believe that will continue as the carriers work on their 5G deployment plans. We've seen steady growth in that front over the last several quarters, and so really encouraged about the continued need for it. I think we're positioned really well for that opportunity, both in terms of the systems that we built in the early days and have great locations. Those are anchored by one of the big 3 operators today and well positioned for additional lease-up from those operators. And then obviously, we have the capabilities to be able to stand with the carriers as they think about broadening out the number of markets that they want to go in, and those discussions have continued to be really fruitful.

On your second comment around office remote working relationships, as I've said in a couple of different ways, we haven't seen any change in behavior from our fiber customer side and, frankly, don't expect to see any change of behavior there. I think it will be interesting to see in terms of what the traffic patterns change and what the impact is ultimately to overall data growth. I think our bias is probably towards believing that it is increased data traffic, and then there's been a number of studies out that have kind of shown some increases in overall traffic as a result of a change in the working environment. But I'd say net-net, that has not really led to a change in the way we think about the business. And then your last...

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

Yes. Just to clarify on that. So sorry. I was mostly asking about the macro environment, actually. Have you seen any mobile usage kind of maybe stepping down a little bit as more people use their broadband connectivity at home?

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

No. We haven't. I mean to my comments, in terms of the carrier activity, we've seen them not -- we've not seen them change at all. They're pushed towards building out their networks, improving their networks for 4G and then also getting ready for 5G. And the prior statistics that we've talked about for years in terms of overall data growth, 30% to 40% annual growth in data, that appears to be intact and maybe even biased a little bit towards the upside. So in terms of carrier behavior in the current, as well as conversations that we're having with them about what it's going to look like over the coming months and years, again, we feel better about what that opportunity is today than what we would have said 6 months ago.

On your last question around DISH, obviously, they're at the very beginning portion of beginning to, as I made in my prepared comments, they're at the very beginning of starting to launch the network. And they have some big targets in terms of how much deployment is going to be needed and to come. We don't expect that and don't have any benefit of that in our 2020 results or very little impact in our 2020 results. We think that's really a 2021 and beyond impact. And so we're working closely with DISH, to provide them the best service that we possibly can. And then we'll see how it develops from there.

Maybe it's time for just one more question, operator.

Operator

The last question comes from Spencer Kurn at New Street Research.

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

I just wanted -- want to clear things on what you're seeing in your tower backlog. I would think that the piece of the applications -- the volumes of applications have fallen since we saw a slowdown from Sprint and T-Mobile and DISH in the back part of last year. But curious as to where it stands now relative to trough levels, and what you're basically expecting for volumes improving as you are progressing, relative to the numbers that you saw last year.

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

Sure, Spencer. I think my comments earlier, Spencer, around how we think about the growth in recurring revenue is probably the best way to think about the answer to your question. So obviously, we had really good activity throughout 2019 across the board from the carriers. And a lot of those leases are now turning on here in 2020, which gives us comfort that we've been able to assess where the run rate of revenues will be as we go through the portion of 2020. And then new leasing activity, obviously, we're getting new applications every day and so factoring that into as we think about the growth over the balance of the calendar year and then the implication of that on revenues. The leases that we're signing today and then turning on in calendar year 2020, that makes a relatively small impact in the overall results for calendar year 2020. So less impactful there. But again, to all of the comments that I've made throughout the call, we're seeing a significant amount of activity and the conversations with the carriers would indicate that, that activity is going to continue to ramp as we go through the calendar year, and that will be in a place where we'll see even greater applications than what we're seeing today for our sites. That -- while that's the trend line, that doesn't really impact our 2020 results. But that's what we're seeing is an environment that we're more positive about today than where we would have been 6 months ago. So I would -- I'm a little -- I would be resistant to describing a backlog that's falling. I think the pipeline and the opportunity set is growing as we think about what's in front of us.

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

Got it. And then if I just could follow up on the other topic, which is just churn. In the power business, we tend to think of the normalized churn around 1% annually. And for the past several years, you've been running above those levels because you've had -- you've shown a few problems in churn from MetroPCS and even Clearwire. I was just hoping you could touch on how much of that churn do you have left. And is there a prospect that would sort of return back to more like levels later this year as we think about the next several years ahead of us furthermore and the impact of a Sprint would do to the churn, which could happen a few years away?

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

Sure, Spencer. On the churn side, we saw the end of the consolidated churn in terms of an event happening in the fourth quarter of 2019, so late in the year. So in terms of run rate -- impact on the run rate that's continuing to affect our results if you were comparing Q1 of 2020 to Q1 of 2019, we still have that elevated level of churn. It's about 2% on an annualized basis roughly. So about double our normalized churn, which you accurately said was 1%. That is our normalized level of churn. As we get into the back half of 2019, and by the time we get to the fourth quarter of 2019 -- sorry, as we get into the back half of 2020 and into the fourth quarter of 2020, we think that normalized churn of about 1% is what we'll see. So part of the answer is you think about what's the net impact on site rental revenues is we're benefiting from a reduction in churn as we go up -- go through the course of the year in addition to the uplift for the new leasing that we're seeing. So we believe by the time we get towards the back half of the year and particularly the fourth quarter, all of the consolidating churn that we've been talking about over the last several years will have -- that will have worked itself through.

Well, thanks, everyone, for joining the call this morning. I want to lastly just thank all of our employees who've done a tremendous job over the last 6 to 7 weeks and both delivering for our customers and delivering for the communities in which we operate. So many thanks to all of you for the hard work that you're doing. Keep up the great job, and we'll talk to everyone next quarter. Thanks so much.

Operator

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

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