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# EDITED TRANSCRIPT

SBAC.OQ - Q1 2018 SBA Communications Corp Earnings Call

EVENT DATE/TIME: APRIL 30, 2018 / 9:00PM GMT

**OVERVIEW:**

Co. reported 1Q18 AFFO per share of $1.85.





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**Jeffrey A. Stoops** *SBA Communications Corporation - President, CEO & Director*

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## PRESENTATION

**Operator**

Ladies and gentlemen, thank you for standing by. Welcome to the SBA first quarter results call. (Operator Instructions) And as a reminder, this conference is being recorded.

I would now like to turn the conference over to the VP of Finance, Mark DeRussy. Please go ahead.

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**Mark DeRussy** - *SBA Communications Corporation - VP of Finance*

Thanks, Noah. Good evening, everyone, and thank you for joining us for SBA's First Quarter 2018 Earnings Conference Call. Here with me today are Jeff Stoops, our President and Chief Executive Officer; and Brendan Cavanagh, our Chief Financial Officer.

Some of the information we will discuss on this call is forward-looking, including, but not limited to, any guidance for 2018 and beyond.

In today's press release and in our SEC filings, we detail material risks that may cause our future results to differ from our expectations. Our statements are as of today, April 30, and we have no obligation to update any forward-looking statement we may make.

In addition, our comments will include non-GAAP financial measurements and other key operating metrics. A reconciliation of and other information regarding these items can be found in our supplemental financial data package, which is located on the landing page of our Investor Relations website.

With that, I will turn the call over to Brendan.

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**Brendan Thomas Cavanagh** - *SBA Communications Corporation - Executive VP & CFO*

Thank you, Mark. Good evening.

SBA began the year with a very solid quarter. We produced positive results in both our domestic and international leasing operations as well as realizing incremental contributions from our services business. Total GAAP site leasing revenues for the first quarter were $430.5 million and cash site leasing revenues were $425.1 million. Foreign exchange rates were slightly weaker than our estimates for the first quarter, which we previously provided with our fourth quarter earnings release, negatively impacting leasing revenue by $0.2 million.

Same-tower recurring cash leasing revenue growth for the first quarter, which is calculated on a constant-currency basis, was 5.2% over the first quarter of 2017, including the impact of 1.4% of churn. On a gross basis, same-tower growth was 6.6%.

Domestic same-tower recurring cash leasing revenue growth over the first quarter of last year was 6.2% on a gross basis and 4.7% on a net basis, including 1.5% of churn, 53% of which was related to Metro/Leap and Clearwire terminations.

As mentioned on our previous earnings call, our modest operational domestic leasing activity during the fourth quarter of 2017 will impact our reported leasing revenue and year-over-year growth same-tower growth rate in early 2018 but we expect this growth rate to increase sequentially throughout 2018.

Internationally, on a constant-currency basis, same-tower cash leasing revenue growth was 8.3%, including 80- basis points of churn or 9.1% on a gross basis. Gross organic growth in Brazil was 10.1%.

Domestic operational leasing activity, representing new revenue signed up during the quarter, was up from the prior quarter as we began to convert some of our increased application backlog into signed agreements. Revenue from this signing activity will begin to be recognized at various times throughout the year.

Newly signed up domestic leasing revenue came about 2/3 from amendments and 1/3 from new leases, and the Big Four carriers represented 97% of total incremental domestic leasing revenue signed up during the quarter.

Our domestic leasing application backlog remains elevated, and we expect to continue to see a very healthy level of new lease and amendment signings over the balance of the year.

International operational leasing activity was also solid in the first quarter, with positive contributions from all of our markets, and Brazil in particular.

During the first quarter, 84.6% of cash site leasing revenue was denominated in U.S. dollars. The majority of non-U.S. dollar-denominated revenue was from Brazil, with Brazil representing 13.9% of all cash site leasing revenues during the quarter and 10% of cash site leasing revenue excluding revenues from pass-through expenses.

With regard to first quarter churn, we continue to see churn from leases with Metro/Leap and Clearwire, consistent with our expectations. As of March 31, we have approximately $17 million of annual recurring run rate revenue from leases with Metro/Leap and Clearwire that we ultimately expect to turn off over the next 2 to 3 years.

Domestic churn in the first quarter from all other tenants on an annual same-tower basis was 70- basis points.

Tower cash flow for the first quarter was $339 million. We continue to have success managing the direct costs associated with our towers, allowing us to continue to produce industry-leading operating margin.

Domestic tower cash flow margin was 82.6% in the quarter. International tower cash flow margin was 68.4% and 90.3%, excluding the impact of pass-through reimbursable expenses.

Adjusted EBITDA in the first quarter was $318.8 million. Our adjusted EBITDA results in the quarter were due to solid results from both our leasing and services businesses.

Services revenues in the first quarter were $27.8 million, up 7.8% over the first quarter of 2017. Cash SG&A for the quarter was a little better than expectations due in part to delays on the timing of certain international headcount additions as well as the timing of certain other expenses expected to be incurred later in the year.

Cash SG&A continues to remain very low as a percentage of total revenue and speaks to the efficiency of our operations.

Adjusted EBITDA margin was 70.4% in the quarter compared to 69.7% in the year earlier period. Excluding the impact of revenues from pass-through expenses, adjusted EBITDA margin was 75.2%. Approximately 99% of our total adjusted EBITDA was attributable to our tower leasing business in the first quarter.

AFFO in the first quarter was $218.4 million. Our AFFO per share increased 9.5% to $1.85. AFFO was aided during the quarter by approximately $2 million of lower nondiscretionary CapEx than previously anticipated, about half of which is expected to still be incurred later in 2018.

During the first quarter, we also continued to expand our portfolio, investing incremental capital into both new tower builds and acquisitions. During the first quarter, we acquired 334 communication sites for $106.7 million, with 300 of these sites located internationally. We also built 67 sites during the first quarter.

Subsequent to quarter end, we have acquired 190 additional communication sites at an aggregate purchase price of $119.5 million.

Also, as of today, we have 874 additional sites under contract for acquisition at an aggregate price of $182.7 million, including the previously announced 811 sites located in El Salvador to be purchased from a local subsidiary of Millicom International. We anticipate these sites will close throughout the balance of 2018.

We also continue to invest in the land under our sites, which provides both strategic and financial benefits. During the quarter, we spent an aggregate of $16.1 million to buy land and easements and to extend ground lease terms.

At the end of the quarter, we owned or controlled for more than 20 years the land underneath approximately 70% of our towers, and the average remaining life under our ground leases, including renewal options under our control, is approximately 32 years.

Looking forward now to the balance of the year. Our earnings press release includes an update to our outlook for full year 2018. We have increased our full year leasing revenue guidance on a constant-currency basis, although we have slightly decreased our GAAP full year outlook, reflecting the negative impact of changes in our foreign currency rate assumptions for the remainder of the year. These changes to our foreign currency assumptions negatively impacted our full year outlook for site leasing revenue by $8 million and also, our full year outlook for tower cash flow, adjusted EBITDA and AFFO by $5 million each.

In addition, we have lowered our full year expectation for straight-line leasing revenue by $2 million. Excluding the impact of FX changes and straight-line revenue changes, we have increased our full year leasing revenue outlook by $7 million, consisting of a $1 million reduction in churn expectations, a $2 million increase in nonorganic revenue contributions largely related to timing and a $4 million increase in other revenue items, such as pass-through reimbursable expenses and other miscellaneous revenues.

The increases to our full year cash revenue outlook also positively impact our full year outlook for tower cash flow, which has been increased by $7 million on a constant-currency basis, and adjusted EBITDA, which has been increased by $8 million on a constant-currency basis.

The increase in the adjusted EBITDA outlook includes an approximately $1 million benefit as a result of our strong first quarter services and SG&A results.

Since it has only been 2 months since our last guidance, we are leaving our gross organic growth outlook unchanged.

Our updated full year 2018 outlook does not assume any further acquisitions beyond those closed or under contract today, and it does not assume any additional debt financing or share repurchases beyond those completed prior to today. Our updated outlook incorporates the interest cost impact of our Term Loan B financing closed earlier this month, which Mark will discuss in more detail in a moment.

We raised an incremental $470 million in this financing after the repayment of our existing term loans. We also continue to assume a slightly increasing LIBOR rate throughout the rest of the year, impacting our floating rate debt. As a result of our recent financing activities as well as the additional dollars invested or under contract to be invested in new assets or stock repurchases since we provided our initial 2018 outlook, we have increased our full year outlook for net cash interest expense by $13 million.

Notwithstanding our increase to our full year adjusted EBITDA outlook, we have lowered our full year AFFO outlook by $10 million, primarily as a result of this increase in anticipated interest expense.

Our assumption of no incremental capital allocation beyond that under contract as of today means we have not fully put the new money to work for purposes of guidance, which combined with the increased interest expense assumption now included has resulted in a decrease of $0.015 at the midpoint of our full year AFFO per share outlook.

Excluding the negative impact of the change in foreign currency assumptions, our full year outlook for AFFO per share would have increased by $0.02 from our initial outlook, even with the additional interest expense.

With this -- with that, I will turn things over to Mark, who will provide an update on our liquidity position and our balance sheet.

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**Mark DeRussy** - *SBA Communications Corporation - VP of Finance*

Thank you, Brendan.

SBA ended the first quarter with $9.3 billion of net debt, and our net debt to annualized adjusted EBITDA leverage ratio was 7.3x, right in the middle of our targeted range of 7 to 7.5x.

Our first quarter net cash interest coverage ratio of adjusted EBITDA to net cash interest expense was 3.6x. At the end of the quarter, we had $235 million outstanding under our revolver.

We were active in the debt capital markets during and subsequent to the first quarter with the completion of 2 large financings. On March 9, we issued through our tower trust $640 million of secured tower revenue securities at a fixed interest rate of 3.448% payable monthly. These securities have an anticipated repayment date of March 9, 2023, and a final maturity date of March 9, 2048.

The proceeds of this offering, in combination with borrowings under the revolving credit facility, were used to repay in full our 2013-1C and 2013-1D Tower Securities as well as accrued and unpaid interest.

Additionally, on April 11, through a wholly owned subsidiary, we obtained a new $2.4 billion 7-year senior secured term loan. The term loan was issued at 99.75% of par and will mature on April 11, 2025. It bears interest at our election at either the base rate plus 1% per year or LIBOR plus 2% per year. We have typically used 1 month LIBOR to determine our interest rate. The current interest rate under the term loan is 3.9%. The proceeds of the term loan were used to repay and retire our $1.93 billion of outstanding existing term loans to pay off the existing outstanding balances under our revolving credit facility and for general corporate purposes.

We're very pleased with this transaction as we were able to reduce our interest rate spread and improve flexibility under our credit agreement while also extending our maturity dates. We were able to take advantage of a strong market to upsize this financing and raise an incremental $470 million of debt capital. This financing is supportive of our efforts to maintain our target leverage levels and maintain a level of 20% to 25% floating rate debt as we anticipate our next 5 or so financings will likely be with fixed rate instruments.

Also, this facility will allow us to more efficiently use our international assets as collateral.

In addition to the term loan, we also amended our revolving credit facility at the same time. The amendment increased the total commitments under the facility from $1 billion to $1.25 billion and extended the maturity date to April 11, 2023, lowered the applicable interest rate margins and commitment fees and amended certain other terms and conditions under our senior credit agreement. Amounts borrowed under the revolver will bear interest at our election at either the base rate plus the margin that ranges from 12.5- basis points to 75- basis points or LIBOR plus the margin that ranges from 112.5- basis points to 175- basis points in each case based on borrowed leverage.

As of today, we have $100 million outstanding under the revolver currently accruing at an interest rate of LIBOR plus 1.5%. Pro forma for these new transactions, the weighted average coupon of our outstanding debt is 3.8% and our weighted average maturity is approximately 5 years.

As mentioned with our fourth quarter earnings release, on February 16, our Board of Directors approved the authorization of a new $1 billion stock repurchase plan replacing the prior plan. During the first quarter, we spent $38.5 million under this plan to repurchase 200,000 shares at an average price of $161.60 per share. Subsequent to the first quarter, we spent an additional $261.5 million under this plan to repurchase 1.6 million shares at an average price of $164.82 per share. All of the shares repurchased were retired.

As of today, we have a $700 million authorization remaining under our purchase plan. Share repurchases are an important component of our ability to continue growing AFFO per share. The company's shares outstanding at March 31, 2018, are $116.5 million, down from a $121.3 million at March 31, 2017, and down over another 1.5 million shares in this month of April.

With that, I'll now turn the call over to Jeff.

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**Jeffrey A. Stoops** - *SBA Communications Corporation - President, CEO & Director*

Thanks, Mark, and good evening, everyone.

As you've heard, we are off to a very good start in 2018. We delivered strong first quarter financial results, continued to see strength in both the domestic and international leasing environments, expanded our tower portfolio by 400 sites, reduced our outstanding share count through stock repurchases and completed 2 significant debt financings.

We continue to be well positioned for 2018 and beyond.

In the U.S., all 4 major U.S. wireless carriers have been very busy, driving our domestic leasing application backlog to the highest level in several years.

During the first quarter, we saw an increase in contracted revenue signed-up above levels we saw during any point over the last 2 years. This increase in signings has been in line with our expectations coming into the year, and it will support solid growth in our future reported financial results as these executed agreements begin at various times throughout the year to produce revenue.

During the first quarter, we saw solid leasing contributions from all of our customers, including new leases and amendments signed with Sprint under the master lease agreement we entered into with them in the fourth quarter and amendment activity related to AT&T's FirstNet initiative. We expect to continue to see contributions from both of these projects as well as continued solid activity from our other U.S. customers as we move through 2018, although we obviously will be monitoring any potential impacts on our operational activity levels as a result of the recently announced Sprint T-Mobile merger.

With regard to this merger, it is very new news, and thus, there will be still a lot to be learned. Some things we found interesting in yesterday's presentation were the amount and speed of additional investment contemplated, the commitment to rural markets, the focus on low- and mid-band spectrum and macro site architecture and the goal of adding equipment to make all spectrum available at all sites prior to material site decommissioning. We look forward to learning more and to working with both T-Mobile and Sprint to help them achieve their goals over the next months and years.

Interestingly, at a point that was specifically made on the T-Mobile Sprint call yesterday, we have begun to see 5G-oriented activity on macro sites outside of urban areas consistent with the vision put forth yesterday by T-Mobile and Sprint. We have begun to receive amendment applications for new MIMO antennas, which are just now becoming available in higher performance designs and that will facilitate much faster speeds using existing low- and mid-band spectrum. These new MIMO antenna are generally wider and deeper than current antennas and, in some cases, weigh over twice as much.

We continue to execute at a high level, converting the vast majority of our incremental operational leasing activity into tower cash flow and adjusted EBITDA. In the first quarter, our domestic tower cash flow margin was a very strong 82.6% and our company-wide adjusted EBITDA margin was, likewise, very strong at 70.4%. We believe the strength of these margins is clear evidence of the efficiency and solid cost controls with which we run the business as well as the quality of our assets and contracts.

Internationally, we also had a positive start to the year, including a stronger start in Brazil than we had a year ago. Carriers are active throughout all of our international markets, and the wave of growth in wireless mobile data consumption will continue to drive network investment throughout our Latin American markets in particular.

The contractual revenue signed up during this quarter in our international markets came about half from amendments and half from new leases, and we expect a fairly balanced mix going forward.

Brazil specifically had another strong quarter in terms of operational leasing activity, and we continue to be pleased with the performance of our assets there. We are, however, disappointed in the 10% decline in the Brazilian real in the last 3 months and actually, almost in the last month and the offsetting financial impact it will have on what we expect to be strong operational results from Brazil. We're a bit puzzled by the decline given the improving Brazilian economy, rising GDP and declining interest rates and inflation, and we understand the decline seems to be mostly brought about by political anxiety around the October elections.

We continue to be optimistic about the future. As a result, we have continued to be active in allocating our capital to both new assets and share repurchases. During the first quarter, we added 400 sites to our portfolio with 90% of those sites coming in international markets.

Subsequent to quarter end, we acquired another 190 sites with most of those in the U.S. As a result, and combined with the sites we currently have under contract to acquire, we believe we are in good shape to exceed the low end of our range of 5% to 10% portfolio growth again this year.

We have continued our approach of focusing on high-quality assets in markets well-suited to the macro tower business at prices that will drive incremental value for our shareholders.

As has always been our behavior, we continue to believe it is imperative to stay disciplined and not overpay for assets. This discipline has meant and will likely continue to mean that we have more investment capital available and we have attractive portfolio growth investment opportunities. We have therefore allocated incremental capital toward share repurchases when we believe our stock is trading below its intrinsic value.

At the end of Q1 and into April, we have cumulatively spent $300 million to purchase 1.8 million shares. We believe a healthy mix of both quality asset growth and attractive share buybacks will continue to create value.

In order to continue to meet our capital allocation goals, we intend to continue to stay within our target net debt range of 7.0 to 7.5x at least until such time or close to such time as we become a dividend paying entity.

Toward that goal, we've already had a very successful start to 2018 with 2 significant financings. The first was the $640 million securitization refinancing completed in March; the second, our $3.65 billion financing completed in April. The bank financing, which consisted of the $2.4 billion Term Loan B and the $1.25 billion revolver was the single largest capital raise in our history and the first raise of new money for us in the bank market in 3 years. We achieved historically tight pricing spreads on this transaction, and we added incremental capacity and flexibility to our capital structure.

We believe these recently completed transactions reflect our continued strong access to attractively priced capital.

The solid accomplishments of the first part of 2018 in concert with the significant network needs of our customers give us great optimism for continued solid performance in 2018 and beyond.

I'd like to thank our employees and our customers for their contributions to our success.

And with that, Noah, we are now ready for questions.

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Our first question is from Rick Prentiss with Raymond James.

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

Obviously we had a busy Sunday with the Sprint T-Mobile merger announcement. Jeff, you talked about it there. Can you update us a little bit on also what the remaining life is that you have on your Sprint and T-Mobile leases? And is the new MLA with Sprint, is that take-or-pay? Is that kind of a guarantee? I'm just trying to think through their synergy slides and what it means for you guys.

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**Brendan Thomas Cavanagh** - *SBA Communications Corporation - Executive VP & CFO*

Yes. Rick, it's Brendan. In the press release, we actually did disclose some information regarding our Sprint and T-Mobile contracts, including the stair of revenue that they each represent for us as well as on the overlap site how much revenue comes from each, just to give you those numbers quickly on the sites where we have both Sprint and T-Mobile today. Sprint represented 5.9% of our total cash site leasing revenue and T-Mobile was 6.2%. In terms of the remaining terms, Sprint has on average approximately 6 years left and T-Mobile, approximately 3 years left. But the range of those is quite broad. So in the case of Sprint, it's between 1 and 13 years. And in the case of T-Mobile, it's between 1 and 10 years.

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**Jeffrey A. Stoops** - *SBA Communications Corporation - President, CEO & Director*

We did get some nice average term elongation from that MLA, Rick. And that is, in fact, a hard obligation, which will not be impacted by the news of yesterday.

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

Great. And then we got a lot of questions about acquired network churn. Obviously, it's coming down. But if you look back to the days when Leap, Metro and Clearwire got acquired like in 2013 and 2014, how long was it before you -- when the deal was closed or when you started getting notification of churn and then the churn started occurring? We're just trying to gauge if the Sprint T-Mobile deal is approved, what sort of time frame we should be thinking about given those average lives and your past history with other transactions?

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**Mark DeRussy** - *SBA Communications Corporation - VP of Finance*

Well, I think it's hard to generalize what happened with those deals and with this deal given the disparate spectrums and the large number of folks that need to be migrated over. I think the commentary that was given yesterday that talked about really making sure they had all the spectrum available at all the sites that were going to remain before they started any decommissioning, I think is going to -- take it at face value. I think that is going to make this a longer process than what we saw with -- certainly with AT&T Leap, for example, and then even the case with T-Mobile and Metro. But even in those cases, it was several years after closing before you really started to see any type of termination notices.

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

Okay. And final question for me is as you look at AT&T, FirstNet and Sprint starting to ramp their applications, how long is the process from application to revenue getting booked? I know you said it varies but just trying to gauge, is it 3 months still for amendments? Or is it 6 or 9? Just what should we think about that time frame?

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**Mark DeRussy** - *SBA Communications Corporation - VP of Finance*

Well, you left out a critical component, which is the execution of the final document, whether it be an amendment or a lease. And then the most critical element is the revenue commencement date, which can be as short as immediately upon an amendment to as long as the greater of a date in the future or installation. So that's really the missing link to your question, Rick. But to generalize from -- it's actually hard to generalize from application because there's a lot...

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

I should have said execution. I really meant that.

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**Mark DeRussy** - *SBA Communications Corporation - VP of Finance*

Yes, from execution to 6 months-ish to 9, at usually the outside.

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**Operator**

Next, we go to Nick Del Deo at MoffettNathanson.

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

First, now I recognize that you can't give us numbers, but are the monetization rates you're starting to negotiate for FirstNet consistent with what you anticipated coming into the process and are they consistent with other amendments you negotiated for comparable deployments in the past?

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**Mark DeRussy** - *SBA Communications Corporation - VP of Finance*

They are. And I would say, though, that they vary greatly, Nick. Wide variety of equipment loads are being requested given the wide variety of circumstances from which the sites that are being touched are coming from. The averages are where we thought but it -- the goalposts -- the end zones are pretty wide.

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

Okay. Got it. That makes sense. And maybe one on Sprint, T-Mo. I mean, it seems like there's a potential for a healthy amount of amendment revenue involved in moving Sprint's spectrum onto T-Mo sites and vice versa. I know it's early and we don't know a lot. But given what we do know about their spectrum holdings and only sharing one band in common, is it appropriate to think that the rate for an amendment covering that sort of equipment package will be a fair a bit higher than average? Or do you think there are other factors we should take into consideration?

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**Jeffrey A. Stoops** - *SBA Communications Corporation - President, CEO & Director*

Well, I think we have to see ultimately what the configurations look like. To my knowledge today, and I'm not a product expert, but to my knowledge, there is no single radio unit and certainly no single antenna unit that covers the spectrum -- covers the range of spectrum that will be deployed by the combined company. So you're looking at multiple units to cover that full array of spectrum. And then if you start to get to the desired MIMO configuration on the antennas, that actually could add quite a bit of weight. And that -- obviously, depending to the load and things like that, that will impact the price. So there could be a wide range of outcomes there.

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**Operator**

And next, we will go to Simon Flannery with Morgan Stanley.

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

Maybe we could just touch on international a little bit. You talked about good momentum in Brazil. Can you talk about Oi specifically? And what's the latest on their restructuring and their capital plans? And then any other markets that you're seeing good momentum in? And then I think you said 97% of the leasing was the Big Four. Any interesting trends from DISH or others outside of the Big Four?

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**Jeffrey A. Stoops** - *SBA Communications Corporation - President, CEO & Director*

Yes, the Oi restructuring plan continues to move forward as intended. June is a critical date where I believe the debtors will make some decisions on whether or not they will continue to insist on Oi reaching an agreement with the government over the outstanding Anatel fines, so that's something that we're watching. People expect there to be a resolution there that will allow Oi to move forward, be capitalized and emerge and start more greatly investing in its network. And obviously, that's something that we're optimistic and hopeful for as well. In terms of the markets, Central America -- not every country but it seems like at any given time -- 1 or 2 countries in Central America is hot, carrying the region. We continue to see very good activity in Ecuador, starting to see good activity in Peru, although relatively new in that country. We think Brazil is going to be good all year long. We're just generally continue to be very pleased all in all, Simon, with Latin America. And in terms of the other U.S. things, while there's a lot of initial discussions with DISH and others, certainly, the lion's share of the leasing activity this year so far, I'm sure, with respect to the remainder of the year will come from the Big Four.

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**Operator**

Next, we'll go to Philip Cusick with JPMorgan.

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

Brendan, I noticed as you talked about your guidance, you said since it's only been 2 months since our last guide, we're going to leave it unchanged. But it sounded like there may have been a little bit of shift on how you were thinking about it within that sort of range. Can you give us any more visibility into sort of how you think about the guidance versus where you may have seen visibility over the last couple of months?

**Brendan Thomas Cavanagh** - *SBA Communications Corporation - Executive VP & CFO*

Yes. Well, I mean, that comment was specific to the organic growth component of it. And while we've seen good activity and continue to see our application backlogs grow, there really hasn't been enough time go by where we could comfortably say we expect that to impact that number for 2018. So really, the comment was just to kind of say, hey, it really hasn't been that long but things are going well from an operational standpoint. And so let's see how the rest of the year plays out.

**Jeffrey A. Stoops** - *SBA Communications Corporation - President, CEO & Director*

Phil, I just wanted to say, that's really consistent with our guidance approach of we'll report it as incurred and not projected.

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

Makes sense. And then second, if I can, the buyback you said was mostly in April. Was this driven by a 10b5 due to the weakness in the share count or something that was under your control -- weakness in the shares?

**Jeffrey A. Stoops** - *SBA Communications Corporation - President, CEO & Director*

It was a little bit of both actually, yes.

**Brendan Thomas Cavanagh** - *SBA Communications Corporation - Executive VP & CFO*

It was both, yes.

**Operator**

And our next question will come from Amir Rozwadowski of Barclays.

**Amir Rozwadowski** - *Barclays Bank PLC, Research Division - Director and Senior Research Analyst*

Just dovetailing on Phil's prior question in terms of thinking about the organic growth rate. If we think about sort of some of the build and activity levels that you're seeing, do you believe that, that organic growth rate has room for improvement based on the activity levels that you guys are seeing at this point?

**Brendan Thomas Cavanagh** - *SBA Communications Corporation - Executive VP & CFO*

Well, first of all, to be clear when we talk about growth rates, the same-tower growth rate that we report is indicative of a year-over-year. So the number that we gave for the first quarter was growth that really represented the previous trailing 12 months. So as we move forward through the year, based on what's happening now, which is an increased level of leasing activity compared to where we've been over the last year, we certainly expect to see that increase sequentially as we move through the year, and we would expect to exit the year at a much higher rate. But in terms of isolated to an individual quarter, we're not assuming that it gets better than where it is today but that it continues at a similar level to where we are now. So to Jeff's earlier comment, we're not stretching out on something that we haven't seen yet get signed up.

**Amir Rozwadowski** - *Barclays Bank PLC, Research Division - Director and Senior Research Analyst*

That's helpful. And then going back to the deal of the day with Sprint and T-Mobile, one of the things that they did talk about is sort of a material expansion of their small cells. I believe they had cited a number of 50,000. If we think about sort of the opportunity set between some of the deployment of new spectrum versus some of the capital that will go towards small cells, how do you think about sort of the allocation or opportunity set when it comes to macro versus small cells now? Has anything really changed from your perception of the market or the opportunity set that's taking place with how these networks are going to get constructed for 5G network?

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**Jeffrey A. Stoops** - *SBA Communications Corporation - President, CEO & Director*

Not really. I mean, we always assumed that there would be a very healthy numeric sampling of small cells out in these networks. And for us, it continues to be a ROIC issue, Amir.

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**Operator**

And now, we go to Walter Piecyk with BTIG.

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**Walter Paul Piecyk** - *BTIG, LLC, Research Division - Co-Head of Research and MD*

I think you provided some color on amendments on colos, domestic, $44 million for the year, and I think it was -- what was it here for escalations? $39 million for 2018. Are those still targets? Did I miss whether there was an update on that?

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**Brendan Thomas Cavanagh** - *SBA Communications Corporation - Executive VP & CFO*

They haven't changed. That's in our supplemental financial package, the bridge there. You're talking about domestic growth, those numbers are the same. The only organic number, domestically, that we shifted was the churn, which we actually reduced by $1 million from last quarter.

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**Walter Paul Piecyk** - *BTIG, LLC, Research Division - Co-Head of Research and MD*

Got it. So this churn rate that -- it's just -- you just gave in terms of the absolute level as opposed to just saying like, okay, it's going to be at 1.5% going forward?

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**Brendan Thomas Cavanagh** - *SBA Communications Corporation - Executive VP & CFO*

Yes. Well, in the bridge, we gave an absolute dollar amount...

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**Walter Paul Piecyk** - *BTIG, LLC, Research Division - Co-Head of Research and MD*

(inaudible) Okay.

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**Brendan Thomas Cavanagh** - *SBA Communications Corporation - Executive VP & CFO*

Yes. But we did give -- would have given the same-tower growth rates, we gave the churn rate, which is in the first quarter as compared to the first quarter of the prior year was 1.5% domestically, which is basically indicative of the last 12 months. So that should be generally where we are. Although at the end of the year, there's a little bit of iDEN churn expected. So maybe slightly higher, but...

**Walter Paul Piecyk** - *BTIG, LLC, Research Division - Co-Head of Research and MD*

If we look at 6 2 versus kind of prior growth periods, is any of that from escalations? Like, is there any deviation that could occur in the escalations in the first quarter?

**Brendan Thomas Cavanagh** - *SBA Communications Corporation - Executive VP & CFO*

No. It does include escalations but any variance is really not due to escalations. It's due to having less leasing activity in the latter part of last year. So as mentioned in the prepared comments, I expect it to increase as we move through the year because we are obviously signing up more organic business now in the first quarter and into the second quarter.

**Walter Paul Piecyk** - *BTIG, LLC, Research Division - Co-Head of Research and MD*

Got you. And then I think I maybe -- it sounds like I missed a bunch of stuff in supplemental bridges but I didn't see any reference to the $10 target of AFFO for 2020. Does that still hold for you guys? Or what's the update on that?

**Jeffrey A. Stoops** - *SBA Communications Corporation - President, CEO & Director*

That's still the goal. That's still the goal. Still the goal. We're still striving towards that. The results through the EBITDA line and with the backlogs, we continue to march towards that goal, Walter.

**Walter Paul Piecyk** - *BTIG, LLC, Research Division - Co-Head of Research and MD*

But there's no change? I mean, it sounds like -- I mean -- I don't know. Is there any change in the buy language on that? I mean, it's one thing to strive to something to get a goal as opposed to being like, hey, we're confident, we're going to hit this $10 in 2020.

**Jeffrey A. Stoops** - *SBA Communications Corporation - President, CEO & Director*

Well, we all -- I -- let's go through some of the headwinds and the tailwinds there. I mean, the tailwinds have been, I think, through the EBITDA line are going to be really, really good as we see this operational activity. From the time we first put forth the 10 by 20, we're probably 100- basis points higher on interest rates where we assume things and we are 3 multiples higher, I believe, on our actual stock repurchases versus our assumed. So those are the 2 headwinds. We're about where we were on FX. So ahead on operations, a little bit of headwind below the line. But all in all, that's still the goal, and we're still confident of getting there.

**Operator**

And our next question will come from Spencer Kurn at New Street Research.

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

I just have a question on long-term strategy. So as you think about laying out the next 5 to 10 to 15 years of growth, it looks like some of your competitors are laying their groundwork in small cells and some are developing innovation strategies. Just curious, if -- how do you think about weighing a slowdown in domestic macro activity versus other sources of growth, which may carry slightly lower ROIC?

**Jeffrey A. Stoops** - *SBA Communications Corporation - President, CEO & Director*

Well, we've kind of looked at that previously, Spencer, and that's what drove us to pursue international activity. And that continues to be where we are today. And I -- where our stock has created, that continues to be the preferred capital allocation and growing our FFO per share through that way is kind of our view of growth. Some folks want to see that growth on the revenue line. I continue to submit to you that the ROIC that we can produce by doing what we're doing is better, and the value created for our shareholders will be better. I think our historical results have borne that out. So we will continue to do what we're doing, looking for good investment opportunities. But in terms of feeling like we have to find a new trick to grow the revenue line, we don't feel any pressure to do that at all.

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**Operator**

Next, we will go to Jonathan Atkin at RBC.

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

A couple of questions. I wanted to ask about the lag time between signings or executions and revenue generation on the international side. I think you gave a good domestic answer but seeing if that's any different in Brazil. Secondly, on FirstNet and the pacings of both signings and the pacings of deployments, any kind of commentary on whether there's been any change this quarter versus last? And specifically interested in whether you've noticed any changes in light of the Crown Castle M&A with that customer?

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**Jeffrey A. Stoops** - *SBA Communications Corporation - President, CEO & Director*

Yes, I'll take the last one first. The FirstNet backlogs continue to grow, so we have -- that gives us good feelings for the future. Timing is a little more difficult to predict but the application backlogs continue to grow, and that's a good sign. In terms of the international timing, I don't know that there's much difference. Is there, Brendan?

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**Brendan Thomas Cavanagh** - *SBA Communications Corporation - Executive VP & CFO*

It's not materially different. There are times, certain deals that we sign up where there are maybe more lenient commencement time frames but generally...

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**Jeffrey A. Stoops** - *SBA Communications Corporation - President, CEO & Director*

That would be specifically negotiated.

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**Brendan Thomas Cavanagh** - *SBA Communications Corporation - Executive VP & CFO*

Specifically negotiated as part of maybe a larger agreement but otherwise, they're basically the same.

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

So FirstNet signings. So FirstNet deployments, nothing to speak of. FirstNet signings continuing any change in the pace since mid-quarter when the MLA was agreed upon between Crown and AT&T?

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**Brendan Thomas Cavanagh** - *SBA Communications Corporation - Executive VP & CFO*

Not material, no.

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**Jeffrey A. Stoops** - *SBA Communications Corporation - President, CEO & Director*

That's specific to the signings. Now the backlogs have continued to grow.

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

Got it. And then Cingular, AT&T wireless. You didn't comment on that. Is that any more applicable than some of the other deals that you talked about in terms of how integration might unfold?

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**Jeffrey A. Stoops** - *SBA Communications Corporation - President, CEO & Director*

I think that will be the least applicable given the almost totally similar spectrum and technologies that those 2 companies had.

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

Okay. And then finally, on M&A multiples. Any commentary on domestic multiples, international multiples that you're seeing in the market? And any more or less competition for deals that you're seeing in, say, Brazil or LatAm versus the U.S.?

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**Jeffrey A. Stoops** - *SBA Communications Corporation - President, CEO & Director*

Multiples in general stay high -- or are high, have stayed high, which is why we're selective, which is why we will continue to most likely not invest all of our investable dollars in portfolio growth. And there remains a healthy bid both internationally and domestically. And you have to be -- and we feel we are but you have to be very, very selective.

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**Operator**

We go now to David Barden with Bank of America.

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

So 2 questions. I guess, Jeff, just thinking back to the Sprint iDEN network shutdown as we kind of think ahead to the potential Sprint T-Mobile combo. There were a couple of different approaches that tower companies took. One was the kind of American Tower approach where they kind of traded off a little near-term opportunity for longer-term churn certainty. And I think you guys kind of did it a little differently, kind of monetized as much as you could and then kind of took the churn pain later. It would be helpful to kind of get your reflection on your experience of that period and kind of what, if any, new approaches you'd might consider as you look ahead to potential combination there. And then second, Brendan, just in this kind of rising rate environment, could you kind of talk through why a 20% to 25% variable debt exposure is the right one? If you kind of look at the most recent financings, it seems you got maybe a 60- basis point better financing rate on the term loan versus the fixed loan. But in a rising rate environment, that's not going to last. Is there are a set of certain circumstances that would change your view there, it would be helpful to think about through.

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**Jeffrey A. Stoops** - *SBA Communications Corporation - President, CEO & Director*

Yes. Looking back at the deal we got with Sprint, David, that was -- it had many different component to it. So it had a term extension component. It had a network vision component. It had a LightSquared component, which, of course, did not come to pass. It had -- and then it had an iDEN churn component. So it was really the totality of all 4 that made that deal for us. So it's hard to say is that the right recipe going forward. There is a right recipe, for sure. We've done these deals before, and we'll do them again. But it really is very much a facts and circumstances type test. That was the right deal for us at that time based on those 4 variables and the agreements that we got with respect to each. Whether or not those circumstances will present themselves again, we'll see. But it's certainly something we're amenable to and would be very open to under the right circumstances.

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**Mark DeRussy** - *SBA Communications Corporation - VP of Finance*

And David, on the term loan, we have historically targeted that 20% to 25% range, this floating rate debt, and that is still where we're focused but we are constantly evaluating whether or not that is the right mix. I would tell you, a lot of that comes from kind of looking at the alternative. It's one thing to say, well, we're going to do more fixed rate debt when you have to look at what that cost of that fixed rate debt would be. In addition, there's also factors that go beyond just the interest rate, which include the ability to collateralize, for instance, our international assets in the U.S. here. The bank market is one of the markets that allows us to do that. And so it's a logical place for us to do a portion of our financing. Not all of our assets are well-suited, for instance, for the securitization market. So when we look at our different alternatives, we're looking for the most cost effective but also the most efficient in terms of our capital structure, and we'll continue to do that. And also, bear in mind that we do have always the flexibility to fix some component of that floating rate debt through swaps or even through refinancing that debt because it is freely prepayable after 6 months. With debt from a fixed rate market, we see that as a better alternative.

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

Got it. And there's no absolute rate that -- or velocity of rate increases that's informing that decision right now?

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**Brendan Thomas Cavanagh** - *SBA Communications Corporation - Executive VP & CFO*

Not specifically. But obviously, if they were to continue to accelerate at a fairly rapid pace, that might affect the way we view it but it also might affect our overall views in our leverage levels in totality. So all those factors would fit together.

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**Operator**

Next, we will go to Brett Feldman with Goldman Sachs.

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

Two. The first one is quick. The average remaining lease term under the Sprint leases of 6 years, as you noted, the term is actually 1 to 13. I'm just curious, is it concentrated around 6 years? Is it very spread out? And then just a bigger picture question. It's been a long time since domestic tower construction was a primary source of your capital allocation, and there are some operators out there, newer, private, who have a view that there's a considerable number of new towers that need to be constructed in the U.S. for a range of products, including 5G and others. And so I'm curious whether you think there may be an opportunity to start putting more dollars towards that type of construction or whether the terms that are being asked for that continue to be unattractive relative to your alternatives.

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**Jeffrey A. Stoops** - *SBA Communications Corporation - President, CEO & Director*

Yes, I'll take the last one first. I think there are going to be some opportunities. They're going to be, in many cases, in more rural areas, which pose their own challenges. But I also do continue to believe, Brett, that there will be some terms and conditions, challenges that go with that work as well.

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**Brendan Thomas Cavanagh** - *SBA Communications Corporation - Executive VP & CFO*

Yes. And Brett, in terms of the concentration of the terms, there are some fairly well spread out, there are certain years that are more than others. I would say the bigger years are in the 6- and 7-year time frame. So that's where the average kind of ends up there.

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

If you don't mind, I'm going to ask a follow-up question around the build-to-suit. You noted in the past that because recently, developers have been building towers under terms that you didn't find particularly attractive that it was also going to reduce your appetite for potentially picking up these portfolios down the road, which you've done a lot of in the past in the U.S. I'm curious, have you actually bought any of those portfolios? And if so, are you actually paying meaningfully lower amounts or are you just finding that there aren't portfolios out there right now that look attractive to you in part because of the terms they decided to construct the towers under?

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**Jeffrey A. Stoops** - *SBA Communications Corporation - President, CEO & Director*

We have had some very interesting conversations with some folks who've taken those terms and been very disappointed at the amounts of money we were prepared to pay.

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**Operator**

And next, we'll go to Colby Synesael with Cowen and Company.

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

Two questions, if I may. I think investors --and I think analysts, for that matter -- look at the overlap revenue as the potential risk when we see a deal like Sprint and T-Mobile announce. And I'm just curious, when you saw that 35,000 tower decommission number that they put up, does that align with that logic? Or is that higher or lower than what you would have otherwise anticipated? And then also, when they mentioned 85,000 towers on a pro forma basis going forward, you look at that compared to what Verizon or AT&T have, that's meaningfully higher than where both of those companies are today. Do you think there's something unique about what T-Mobile and Sprint are intending to do that would support why they need to have so many? Or do you think that that's a number ultimately that the sector itself is going to have to go towards?

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**Jeffrey A. Stoops** - *SBA Communications Corporation - President, CEO & Director*

I don't know -- that's a very interesting question, Colby, on your last one. The combined Sprint/ T-Mobile clearly wants to make great use of the 2.5G spectrum, which everybody knows doesn't promulgate as far. So that's my layman's potential answer but that's -- that and a nickel will get you a cup of coffee. That's -- so I don't really know the answer to that. Maybe it's just their more nuanced view of the capacity and density requirements of a full 5G network that others will ultimately have to get to once they get to that level of thinking. And in terms of the 35,000, it'd be nice to see the detail on all that and whether some of that consists of Clearwire and Metro and iDEN and things that everyone already has kind of thought has gone away anyway. I happen to think it does but I'm not quite sure of that myself. But at the end of the day, I think this is going to be much as prior integrations have gone and decommissionings, except this one has the added positive offset of knowing that every single site that remains has to have potentially significant equipment added to it to satisfy the combined companies' ongoing needs.

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

Maybe if can just slightly adjust the question. Do you still think that us looking at the overlap revenue, in this case, 6% for SBA, is the best way to think about the worst case scenario in terms of ultimate churn risk from this deal?

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**Jeffrey A. Stoops** - *SBA Communications Corporation - President, CEO & Director*

Yes.

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**Operator**

And our next question will be from Matthew Niknam with Deutsche Bank.

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

Just one on 5G. I think, Jeff, you may have mentioned seeing more early 5G activity in some of the rural markets. Is there any more color you can give on what's driving this and whether it's from a single carrier or across a number of carriers?

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**Jeffrey A. Stoops** - *SBA Communications Corporation - President, CEO & Director*

Yes. I didn't say rural. I said non-urban. And it's basically the use of MIMO antennas, which was highlighted in the Sprint T-Mo call yesterday, as a way to use the lower -- the non -- than the millimeter wave spectrum as a way to get to 5G. So we are starting to see applications for that. And so it is happening, what they actually talked about.

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**Operator**

The final question will come from Batya Levi at UBS.

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

I think you mentioned that you expect to grow the portfolio at the low end of the 5% to 10% range outlook that you have for the year. Is that more of a function for the multiple you see for the opportunity or leaving more room for the buyback?

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**Jeffrey A. Stoops** - *SBA Communications Corporation - President, CEO & Director*

No. I -- if that was the impression, I said that would be at least -- we're going to do at least that given how much we've already done at this point in the year. So we have the opportunity to grow the portfolio more than what the low end of the range. We will surpass the low end of the range assuming we close everything we have under contract, which I have no reason to doubt that we will. And the only thing that will hold us back, Batya, is what I discussed earlier about price sensitivity and getting good deals.

I want to thank everyone for joining us, and we look forward to our next call.

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**Operator**

And that does conclude the conference for today. Thank you for your participation and for using AT&T teleconference. You may now disconnect.