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SBAC.OQ - Q2 2018 SBA Communications Corp Earnings Call

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OVERVIEW:

Co. reported 2Q18 AFFO per share of $1.83.

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CORPORATE PARTICIPANTS

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

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

Mark DeRussy *SBA Communications Corporation - VP of Finance*

CONFERENCE CALL PARTICIPANTS

Amir Rozwadowski *Barclays Bank PLC, Research Division - Director, Head of the U.S. Telecom Service and Comm Infra Research & Senior Research Analyst*

Amy Yong *Macquarie Research - Analyst*

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

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

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

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

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

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

Nicholas Ralph Del Deo *MoffettNathanson LLC - Analyst*

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

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

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

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

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

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the SBA Second Quarter Results Conference Call. (Operator Instructions) As a reminder, the conference is being recorded. I'll now turn the meeting over to our host, Vice President of Finance, Mr. Mark DeRussy. Please go ahead, sir.

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

Thank you. Good evening, and thank you for joining us for SBA's second 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'll 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, July 30, and we have no obligation to update any forward-looking statement we may make.

In addition, our comments will include non-GAAP financial measures and other key operating metrics. The 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'll turn the call over to Brendan.

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

Thank you, Mark. Good evening. The second quarter was another very solid quarter for SBA. We continued to gain momentum in both our leasing and services businesses and produced very positive operating results.

Total GAAP site leasing revenues for the second quarter were $429.9 million, and cash site leasing revenues were $424.7 million. Foreign exchange rates were significantly weaker than our estimates for the second quarter, which we've previously provided with our first quarter earnings release, negatively impacting leasing revenue by $1.4 million. Same tower recurring cash leasing revenue growth for the second quarter, which is calculated on a constant-currency basis, was 5.4% over the second quarter of 2017 including the impact of 1.5% of churn. On a gross basis, same-tower growth was 6.9%.

Domestic same-tower recurring cash leasing revenue growth over the second quarter of last year was 6.4% on a gross basis and 4.7% on a net basis, including 1.7% of churn, a little less than half of which was related to Metro/Leap and Clearwire terminations. Domestic same-tower recurring cash leasing revenue growth on a gross basis increased sequentially over the first quarter. As operational domestic leasing activity and backlog levels continue to be strong, we expect to see the year-over-year domestic gross same-tower growth rate increase sequentially throughout 2018.

Internationally, on a constant-currency basis, same-tower cash leasing revenue growth was 8.9%, including 80 basis points of churn or 9.7% on a gross basis. Gross organic growth in Brazil was 10.6%, which was also a sequential increase over the first quarter.

Domestic operational leasing activity, representing new revenue signed up during the quarter, remained strong in the second quarter and well above year-ago levels with solid contributions from each of the big 4 carriers. Newly signed up domestic leasing revenue came about 2/3 from amendments and 1/3 from new leases, and the big 4 carriers represented 96% of total incremental domestic leasing revenue that was signed up during the quarter. Each of our major U.S. customers remained active, investing in their networks, and we expect to continue to see a healthy level of new lease and amendment signings throughout the balance of the year.

Internationally, we had another solid leasing quarter particularly in Brazil, where we had good contributions from both Claro and Vivo. During the second quarter, 85.9% of consolidated 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 12.4% of all cash site leasing revenues during the quarter and 8.9% of cash site leasing revenue excluding the revenues from pass-through expenses.

With regard to second quarter churn, we continue to see churn from leases with Metro/Leap and Clearwire consistent with our expectations. As of June 30, we have approximately $16 million of annual recurring run rate revenue from leases with Metro/Leap and Clearwire that we ultimately expect to churn off over the next 2 to 3 years.

Domestic churn in the second quarter from all other tenants on an annual same-tower basis was 90 basis points. Tower cash flow for the second quarter was $337.6 million. Tower cash flow was negatively impacted by $0.9 million in the second quarter due to weaker foreign exchange rates than those previously anticipated.

Our industry-leading operating margins remained strong during the quarter. Domestic tower cash flow margin was 82.1% in the quarter. International tower cash flow margin was 68.6% and 90.5% excluding the impact of pass-through reimbursable expenses.

Adjusted EBITDA in the second quarter was $318.9 million, which was negatively impacted by $0.8 million due to weaker-than-anticipated FX rate. Our adjusted EBITDA results in the quarter were driven by solid results from both our leasing and services businesses.

Services revenues in the second quarter were $26.4 million, up 8.8% over the second quarter of 2017. Cash SG&A for the quarter was in line with expectations and continues to remain very low as a percentage of total revenue.

Adjusted EBITDA margin was 70.7% in the quarter compared to 70.6% in the year-earlier period. Excluding the impact of revenues from pass-through expenses, adjusted EBITDA margin was 75.5%. Approximately 99% of our total adjusted EBITDA was attributable to our tower leasing business in the second quarter.

AFFO in the second quarter was $213.5 million. AFFO per share was $1.83, an increase of 5.8% over the second quarter of 2017. AFFO was negatively impacted by $0.8 million or $0.01 per share relative to last quarter's forecasted assumptions due to weaker-than-anticipated foreign exchange rates during the quarter.

During the second quarter, we continued to invest in expanding our tower portfolio, deploying incremental capital into both new tower builds and acquisitions. During the second quarter, we acquired 224 communication sites for $152.3 million with most of those sites located in the U.S. We also built 87 sites during the second quarter.

As noted in our press release, subsequent to quarter end, we have acquired 23 additional communication sites for $5 million. In addition, this afternoon after our press release had been provided to the news wire, we closed the first 451 sites located in El Salvador from the previously announced acquisition from a local subsidiary of Millicom International. As of today, we have 416 total additional sites under contract for acquisition at an aggregate price of $99.3 million, including 360 sites remaining under the El Salvador Millicom transaction. We anticipate that these sites will close throughout the balance of 2018 with some spilling into 2019.

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 $18.1 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 71% of our towers, and the average remaining life under our ground leases including renewal options under our control is approximately 34 years.

Turning now to our updated outlook for full year 2018. The variances in the actual second quarter foreign currency exchange rates versus our assumptions made last quarter, plus the changes in our foreign currency rate assumptions for the remainder of the year, have negatively impacted our full year 2018 outlook by approximately $11 million for site leasing revenue, $7 million for tower cash flow and $6 million for both adjusted EBITDA and AFFO. Excluding the impact of FX changes, we would have increased our full year leasing revenue outlook by $3 million, tower cash flow by $2.5 million, adjusted EBITDA by $2 million and AFFO per share by $0.01. Our outlook for full year site leasing revenue includes a $1 million increase in domestic organic site leasing revenue growth.

Consistent with our historical practice, 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 financings or share repurchases beyond those completed prior to today.

We have increased our full year outlook for net cash interest expense primarily to account for increases in the LIBOR rate since our last earnings release as well as increases in our assumptions for LIBOR throughout the rest of the year, LIBOR impacts and interest expense on our floating rate debt including our $2.4 billion term loan and balances outstanding under our $1.25 billion revolving credit facility. These same factors impacting our 2018 full year guidance, FX and interest rates, are, without future improvement, also making it more difficult for us to produce $10 of AFFO per share in full year 2020.

Our assumptions around these items when we first put out this goal over 2 years ago, which were largely based on forward interest rate curves and projections at the time, were materially lower than where we are today. We also projected repurchasing more stock with the same amount of repurchase dollars. Even though our domestic lease up is anticipated to be better in 2018, '19 and '20 than we initially thought it would be, the FX and interest rates spends are looking tough at this point and something we, of course, watch on a daily basis.

I will now turn things over to Mark who will provide an update on our liquidity position and balance sheet.

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

Thanks, Brendan. SBA ended the quarter with $9.6 billion of net debt, and our net debt to annualized adjusted EBITDA leverage ratio was 7.6x, just above our targeted range of 7 to 7.5x. Our second quarter net cash interest coverage ratio of adjusted EBITDA to the net cash interest expense was 3.5x.

As we disclosed with our first quarter earnings release, we were active in the debt capital markets during the second quarter. On April 11, through a wholly-owned subsidiary, we obtained a new $2.4 billion, 7-year, senior secured Term Loan B. The term loan was issued at 99.75% of par and will mature on April 11, 2025. It bears interest at LIBOR plus 2% per year. The proceeds of the term loan will be used to repay and retire our $1.93 billion of outstanding existing term loans to pay off the existing outstanding balances under our revolver and for general corporate purposes.

In addition to the term loan, we also amended our revolving credit facility at the same time, increasing the total commitments under the facility from $1 billion to $1.25 billion; extending the maturity date to April 11, 2023; lowering the applicable interest rate margins and commitment fees; and amending certain other terms and conditions. As of today, we have $90 million outstanding under the revolver, currently accruing at an interest rate of LIBOR plus 1 50. Our next refinancing obligation is not until late 2019. The weighted average coupon of our outstanding debt is 3.8%, and our weighted average maturity is approximately 5 years.

As previously disclosed, earlier this year our Board of Directors approved the authorization of a new $1 billion stock repurchase plan. During the second quarter, we spent $306.9 million under this plan to repurchase 1.9 million shares at an average price of $163.44 per share. All the shares purchased were retired. As of today, we had $654.5 million of authorization remaining under the repurchase plan. The company's shares outstanding at June 30, 2018, are 114.8 million, down from 121 million at June 30, 2017, or a 5.1% reduction.

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

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

Thanks, Mark, and good evening, everyone. We had another very solid, clean, straight-forward quarter. Solid new leasing business booked in the quarter allowed us to increase our 2018 domestic new leasing revenue forecast. Leasing and services backlogs increased, we executed well and we invested incremental capital in both portfolio growth and share repurchases. Operationally, it was a very strong performance.

In the U.S., all 4 major U.S. wireless carriers have remained very busy, maintained the increased level of new leasing business signed up that we saw in the first quarter, which drove the increase to our forecasted contribution to full year 2018 leasing revenue from organic domestic new leasing activity. During the second quarter, we again saw solid leasing contributions from all of our customers, very similar in terms of types and sources of signed new business to what we saw in the first quarter. Backlogs, however, climbed over first quarter end levels, which has increased our confidence in sustained domestic organic leasing growth through the rest of 2018 and into 2019. At this point, we have not seen any impact to organic leasing activity as a result of the announced T-Mobile/Sprint merger, and our interactions with both companies continue to be business as usual.

On last quarter's call we mentioned that we have begun to see 5G-oriented activity on macro sites outside of urban areas. We continue to see this activity and are excited about what 5G ultimately will mean for SBA. Mobile 5G will require the deployment of advanced radios and antennas across carrier macro footprints. With only a small fraction of this deployment happening over the last several quarters, the vast majority of the opportunity is still in front of us.

Based on commentary from our customers, much of this 5G deployment will require the use of new MIMO antennas, which are bigger than typical antennas, taking up incremental capacity at traditional tower sites and driving incremental revenue opportunities for our industry. We also expect to see additional benefits from the deployment of 5G and higher bands, particularly CBRS and C-bands. Upcoming spectrum auctions, the DISH deployment, the potential resolution of the Ligado spectrum and other items will all help keep the U.S. market a very interesting and active place for the foreseeable future.

Internationally, we also had a very strong leasing quarter, particularly in Brazil. In Brazil, we had solid contributions from all 4 major wireless carriers, including a nice increase in amendment activity with Oi. Oi continues to proceed steadily toward completion of its restructuring. Gross organic same-tower revenue growth increased sequentially in Brazil over the first quarter on a constant-currency basis. The contractual revenue signed up during this quarter in our international markets came about 55% from new leases and 45% from amendments, and we expect the next to remain fairly balanced going forward.

Notwithstanding the solid leasing activity during the quarter, we were, of course, disappointed in the material decline in the Brazilian reais in the second quarter, and there may be some continued bumpy days ahead before we get to the October presidential elections. But the underlying Brazilian economy seems to be improving, and we believe an opportunity for more stability exists once we have moved beyond the October elections.

For example, the Brazilian agribusiness industry is showing real strength in the face of trade issues involving other countries, and increased oil prices, of course, helped Brazil's best energy industry. For our part, we continue to focus on helping our customers address the ever-growing demands on their networks and organically growing our revenue base in our existing markets.

Operationally across all of our markets, we continue to perform at a high level of efficiency. We continue to convert the vast majority of incremental leasing revenues into tower cash flow and adjusted EBITDA. In the second quarter, our tower cash flow margin was 79.5%, and our adjusted EBITDA margin was 70.7%. Our adjusted EBITDA margin, again, ticked higher year-over-year. We take great pride in these margins and focus on continuing to move them up every day as we believe they demonstrate the efficiency, effectiveness and organization of our support operations, our focus on cost control and the quality of our assets and contracts.

With regard to our balance sheet, we continue to believe in the current interest rate environment, the best way to maximize shareholder value is to stay levered at our target range of 7 to 7.5 turns of net debt to last quarter's annualized adjusted EBITDA and investing the incremental capital into quality portfolio growth and attractive share repurchases, and we did both in the second quarter. During the second quarter, we added 311 sites to our portfolio with over 70% of those sites in the U.S. And with the sites we currently have under contract to acquire, we remain in good shape to achieve our 5% to 10% portfolio growth goal this year.

In addition, going to second quarter, we spent over $300 million to repurchase 1.9 million of our shares. During the second quarter, we also demonstrated that we remain a highly preferred issuer in the debt markets in the successful term loan financing and an extension and favorable repricing of our revolver. We're an extremely attractive credit to investors in each of the debt markets we access for capital, allowing us great flexibility in maintaining our target leverage goals although we have no debt maturities until late 2019.

We believe our access to attractive financing and focus on disciplined tower acquisitions and opportunistic share repurchases will continue to allow us to drive increases in shareholder value for growth in AFFO per share. We've had a strong first half of 2018, and we're excited and optimistic about the prospects for the rest of this year and for 2019. I'd like to thank our employees and our customers for their contributions to our success.

And at this time, Laurie, we're ready to open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question, from Ric Prentiss with Raymond James.

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

Obviously, nice, clean, straightforward quarter. We like those. When we look at -- so appreciate your comments also about you've seen no impact from Sprint/T-Mobile merger on the activity. One other one, AT&T FirstNet seemed to have had a little switch in their planning. Originally, we thought they might be doing 20,000-plus sites this year based on their first quarter announcement. And on the second quarter call, they kind of said maybe 12,000 to 15,000 they would touch this year, still planning to do the whole project. So can you talk a little bit about the pacing you've seen from AT&T? And I interpret this to mean that no change to your guidance even with the change from AT&T just kind of [stance] on '18 work.

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

No. No change to our guidance, but I would take their comments, which is that the second half of the year would need to be busier than the first half would be entirely consistent with our comments.

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

Great. And you also mentioned, I think, Brendan, that 451 sites closed in El Salvador. And that would've been, I guess, already in your guidance because it's under contract or closed. But was there any switch in the timing of that then? Or is it fairly small?

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

Yes, so it's fairly small, but there was a little bit of a delay in terms of our expectations of timing. So it was a month or so, and you can actually kind of see that on our revenue bridge where you see the M&A internationally stepped down slightly. That's what it's due to. But getting that closed today, it's now back on track.

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

And then final question for me. We get a lot of questions, and I appreciate the $10 commentary, but we get a lot of questions on can we see with AT&T FirstNet ramping to the second half this year like you pointed out, Jeff, and Sprint hopefully continuing to ramp up their project. Is there the possibility to get back to the 2013 leasing levels? Is it end up somewhere in between? Just people, I think, are trying to gauge are there inflection points in this business. And how should we think about growth rates with the different activity levels we're seeing?

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

Yes, I think it will be hard to get back to the 2013 growth rates in large part because you were operating under a much lower revenue for tower base at that time. And if you kind of compound what's happened since then, it takes a whole heck of a lot more dollars per transaction to accomplish the same growth rate. I -- they're going to be somewhere in between, Ric, which is still going to produce, I think, extremely healthy shareholder value creation.

Operator

And we go to Simon Flannery with Morgan Stanley.

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

Jeff, can you just comment on the overall pricing environment, the competitive environment? Any more activity by the Tillmans of the world? And then, Brendan, perhaps you can just talk about the balance sheet. You went over the top end of your range, 7.6x this quarter. You still bought back stock. You have some acquisitions to pay for. But how are you thinking about how you balance all of those? And do you want to sort of stay at the high end of the range for the next couple of quarters?

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

The pricing environment, Simon, continues to be healthy. Our customers are busy trying to meet some deadlines that they really want to meet. So they -- that factors into all of the ways that we look at price. But at the end of the day, we're there to -- for a very long term, productive relationship on both sides. In terms of the other players and their impact on that, it really hasn't had any material effect. A lot of those sites that those folks are seeking are not in areas that we have historically been interested in. And in areas where they are, they're off of a very limited nature. So really it's a fairly optimistic environment for us at this point.

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

Simon, I'll [hit your query] on the balance sheet question. We did end up just slightly ahead of our -- or slightly above our range, in part due to the FX actually coming in a little bit weaker. But it's our intention to stay within the range. We're comfortable at the high end of the range, but it's really going to be driven by opportunities to buy quality assets or to buy stock opportunistically. So as we see those opportunities, we're very comfortable staying at the high end of the leverage range to do that.

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

And you keep the fixed floating balance pretty much where it is as well?

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

Yes, I mean, we did obviously just do a bank financing that increased our floating exposure during this quarter, but it was our first floating rate debt that we raised in the last 3 years. And I would expect our next 5-or-so financings to all be in the fixed rate markets. And so I think that our shift -- or that we'll see a shift in the mix of fixed to floating a little bit back towards fixed a little bit more, but 75% to 80% fixed is our ideal target.

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

Yes, I would just add, wherever we are today coming out of the recent bank and revolver deals, kind of going to be our high-water mark as we move through the next financings, which is Brendan said are all going to be fixed rate.

Operator

And we go to Phil Cusick with JPMorgan.

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

Brendan, I wonder if you can give us some more color on your comment that domestic lease up has been better and expected to be better in '18, '19 and '20 than you thought when you gave the 2020 $10 guide. I assume that's not good enough to offset the FX and interest expense. But can you just go through what's been better over the last couple of years since you gave that guidance?

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

Yes, it's not been better in that regard over the last couple of years. It's this year and going forward that we expect it will -- just based on the backlog that we built up at this point, we expect to see higher leasing results than what we anticipated when we gave that guidance or that target out a couple of years ago. But you'll remember at that time, we were thinking that if the leasing activity could stay similar to what we were seeing at that time, that we will be able to get to the $10 number. But that also did assume that we would see relatively stable interest and FX rates. And basically, at today's interest and FX rates, it's unlikely we would get to the full year 2020 even with the increased lease up that we expect to see over the next couple of years. But again, it's really a timing issue. It may just be a couple of quarters delayed from what we originally projected. We will ultimately get to the $10 number, just may not be by full year 2020.

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

Yes, and I mean, the reason for the optimism, Phil, around leasing is the projects and the things that are driving leasing today, for the most part, our multiyear projects that we would expect to continue through that 3-year time period.

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

Great. And you also mentioned Oi picking up. Can you remind us where you are on concessions, and those tariffs in Brazil?

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

Yes, the -- I mean, we have a portion -- I don't know the exact -- Brendan, if you know the exact number of the towers that are wireline towers that are subject to these concessions?

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

Yes, I believe it's approximately 2,100 sites.

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

2,100 of those, Phil, are concession towers that are, I believe, 2025.

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

Right.

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

But then Oi has a contractual guarantee through, I believe, 2035 should something happen to the concession that would affect those particular assets.

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

And any changing in Oi's charter as we go through bankruptcy around those concessions?

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

No. No, I think most people are relying on the belief that the government, which has signaled its intent and willingness to change the concession, it just happens to have gotten hung up, nothing's likely to get done until after the presidential elections. Although there hasn't been any real opposition, to my knowledge, to the concept, it's just not something that's going to get done until there's a new regime in place.

Operator

And we go to Amir Rozwadowski with Barclays.

Amir Rozwadowski - *Barclays Bank PLC, Research Division - Director, Head of the U.S. Telecom Service and Comm Infra Research & Senior Research Analyst*

Two questions, if I may. One is really on the allocation of spending dollars with macro site versus small cells. Largely, when we look at Verizon's commentary that they made in bringing their sort of CapEx outlook to the lower end of their guidance, one of the elements of that was their anticipated shift from macro site investing to more small cells. Are you seeing that relative to the activity levels? It doesn't sound like it, but I would just want to clarify.

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

Well, it's a hard question for us to answer, Amir, because we don't do a lot of the small cells, and the level of activity that we're seeing today on macro spending is way up from a year ago. So kind of a hard one to answer. Could it be even more up than way up? I guess, but that's probably about the best answer I can give you.

Amir Rozwadowski - *Barclays Bank PLC, Research Division - Director, Head of the U.S. Telecom Service and Comm Infra Research & Senior Research Analyst*

No, that's very helpful. So you're still continuing to see very healthy levels of macro site adjustment from that?

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

Certainly compared to a year ago, yes.

Amir Rozwadowski - *Barclays Bank PLC, Research Division - Director, Head of the U.S. Telecom Service and Comm Infra Research & Senior Research Analyst*

Okay. Okay. That's helpful. And then going back to your commentary around that $10 per share target, recognizing that some of those factors were FX-related and sort of factors outside the operational control of the business, how do you think about the long-term AFFO growth rate of the business at this point? I realize there are some nuances to the timing from those, but are you still comfortable in terms of your long-term expectations for AFFO growth here?

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

If we can get to a stable FX and a stable interest rate environment, it is absolutely a double-digit AFFO compounding business.

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

Yes, I mean, one caveat to that, of course, is that a number of years from now we will be becoming a dividend payer as an obligation as a REIT, and that will influence the growth in AFFO per share as that obligation grows. But otherwise, what Jeff said is exactly right. We would expect it to be a double-digit grower in a stable interest rate and FX environment.

Operator

And we go to David Barden with Bank of America Merrill Lynch.

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

I guess just 2. Brendan, I think you said the Clearwire Metro/Leap churn was about [6] -- or remaining balance is about $16 million. And in the quarter, we had about a $3 million churn, 8 basis points associated with that -- 80 basis points. So that would kind of argue that the boil off should be may be in the next 5 or 6 quarters, and you said something about the next several years. So I was wondering if you can just give us a sense as to the trajectory or what the determining factors are for that churn kind of getting behind us. And then the second one was just, sorry, again, this $10 number. But back in the day, what it informs that was the forward rate curve for the Brazilian real and the forward rate curve for interest rates. I mean, now it's like it's challenging. We might not get there right on time, but maybe not really ready to throw in the towel yet. What are the breakpoints? If we have a BRL 400 after the presidential election, is that -- that's just going to put a nail in that? Or if we get BRL 300, it's definitely back on the table? Can you kind of put some parameters around this? So as we watch rates in real, we kind of get a sense as to how you're thinking about the business, it'd be helpful.

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

Sure. First, on the churn question, David. The -- I don't feel -- I think the number you're using is based on the percentage that we gave. That's actually the same-tower numbers. So that's reflective of the trailing 12 months activity, but it is $16 million of remaining annual revenue that we have from those guys that we expect to churn off. And our projection is just based on when lease term end dates are and when they can basically get out of agreements is that, that will take about 2.5 years approximately to churn off. So that's where the 2 to 3 years comes from.

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

And we should prorate it over that period, you think?

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

Yes. I think -- sometimes it comes in waves. But for the most part, the renewal dates are spread relatively evenly, so I think probably a little more in the next 12 months or so. But on average, it's not going to be materially different than prorating it.

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

Yes, on the second question, David, I think we're going to respectfully decline to answer that. I will tell you that we are at a point where there are 4, and really only 4, variables at this point. It's the lease up rate, it's interest rates, it's the Brazilian reais and it's the multiple at which we repurchase our stock or purchase assets. I would like to come back to this after the presidential election in Brazil and probably when we give our full year guidance out for 2019 because prior to that, this becomes a daily exercise and I'm not sure it's that useful.

Operator

We go next to Nick Del Deo with MoffettNathanson.

Nicholas Ralph Del Deo - *MoffettNathanson LLC - Analyst*

First, you guys acquired a lot more towers in the U.S. this quarter than you have in a while. Is there anything worth calling out there either around the deal or deals you consummated to get there or the M&A market in the U.S. in general? Is this sort of a -- should we think of this as a one-off? Or has there been a change in pricing expectations by sellers so you can pick up more assets than you have [been there]?

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

No. I think you should view it as a one-off. We had an opportunity to pick up some quality assets, and we did.

Nicholas Ralph Del Deo - *MoffettNathanson LLC - Analyst*

Okay. Okay. And then Verizon's talking about shutting down its CDMA network at the end of 2019. Obviously, you guys won't see any sort of immediate rent step down because of that, but I was hoping you could talk about the puts and takes we should be thinking about over time stemming from 3G decommissionings.

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

Yes, what typically happens when there is a decommissioning of a prior technology is the entitlements get rolled into the equipment that's needed. So it will, at worst, typically from our perspective, result in some lessening perhaps of amendment rates while they swap out antennas or create some capacity for what's needed next. But that's really how it's worked in the past, Nick.

Nicholas Ralph Del Deo - *MoffettNathanson LLC - Analyst*

Right. Did you see any sort of material impact along those lines when AT&T shut down its 2G network? (inaudible)

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

No. None.

Operator

And we go to Mike Rollins with Citi.

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

Two, if I could. So just back to kind of the longer-term financial strategy of the company. Can you talk a bit more about as you move through 2020 and beyond? You mentioned leverage a few times. How should investors think about the amount of deleveraging that you'd like to see in the model and where those net debt leverage ratio should end up, whether it's in the 2020 time frame or even a few years beyond that? And then secondly, if you look at the tower cash flow margins ex pass-throughs, there is a sequential dip 1Q to 2Q. And just curious if there's anything out of trend either last quarter or this quarter that we should think about as you're managing that tower cash flow margin for the company ex the pass-throughs. I think it was Slide 12 in the supplementals.

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

Well, our game plan, Mike, would be to be somewhere in the 6s as we become a dividend payer. Just we'll start small and then grow the dividend from there. And probably the one thing that we have not yet decided with finality is whether as a dividend-paying company, will we feel the need to become an investment-grade company. And that ultimately will be the primary driver of our ultimate leverage positioning. But I could tell you now that we would -- as we move into a dividend payer, we'll move from the 7s to the 6s.

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

Mike, on the tower cash flow margin, there's a few different factors that affected that. Some of those had to do with certain nonrecurring type items and also some of the assets that we've added during the period that come on at lower margins and the new builds that we've done as well. So as those kind of get blended in, they help -- they kind of pull it down as well. So it's not really representative of any shift in trend or anything. I think you'll continue to see it grow on average on the base business over time.

Operator

And we go to Brett Feldman with Goldman Sachs.

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

And I hate to do this, but I do have other question about the $10 guidance and the shift in timing. And correct me if I'm wrong, but I think you'd indicated that when you originally set that target, you were assuming fairly steady level of leasing and you've now acknowledged that leasing is indeed higher than you had thought particularly in '18, '19 and '20. What I'm curious is as you assess the timing to get there, are you still assuming that '18, '19 and '20 are steady years? Because the commentary you've made about the back half of '18 and the entry rate into '19 implies that '19 probably is going to be a better year. So I'm just wondering if maybe you're using a little more conservatism with that long-term target relative to maybe what you have line of sight around for right now.

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

We do think as we sit here today, and we don't want to get too far ahead on '19 guidance, but let's just say we think '19 should certainly be at least as good as 2018. How about if we say that? But the problem, Brett, is when is the Fed going to stop raising short-term interest rates to which LIBOR has almost a perfect correlation? What is the Brazilian reais going to be in 2020? It almost doesn't matter what the Brazilian reais is today. What is it going to be in 2020? That means everything to the $10 by '20. I mean, those are the things that are ultimately going to dictate where the final number comes out.

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

Okay. Got it. If you don't mind, I do have one other question about a comment you made, totally different topic. You said that you're seeing some -- you're starting to see some 5G activity in your markets. And obviously, we don't have standards-based gear yet. But I'm just curious, what is 5G activity? And then what will be incremental to that activity when that gear comes to market?

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

Well, MIMO antennas, we're starting to see very little.

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

Got it. All right.

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

That means, to your point, there's no phones yet that -- and I'm not even sure when they start to come out, when the first handheld devices are really out there. So there's a long path left for activity in that area.

Operator

And we go to Spencer Kurn with New Street Research.

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

So just touching on your backlog activity, it sounds like it's up year-over-year and sequentially. Last quarter when you thought about second quarter backlogs, I think you said it might increase or might plateau. Do you have any visibility on where it's going for the rest of the year? Are we -- is it -- from what you've seen so far in Q3, is it continuing to rise sequentially?

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

It has risen in the month of July. That's about all I can tell you.

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

Got it. And just one more, if I may. On the 5G deployments that you've seen, how do the amendment rates or prices compare to a typical amendment rate of around $500 a month? And then on top of that, how do you think about the amendments you may see from millimeter wave spectrum? My understanding is the equipment is a lot smaller than what we have deployed today. So I'm just curious how you think about pricing, something like that.

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

Yes, on the -- your first question on the -- where we're seeing it in the more traditional spectrum bands, it's typically larger antennas, in some cases, with radios (inaudible) is, in some cases, not. And where we're seeing that, you are getting increased pricing over a smaller package, and that's consistent with our history and how we've approached the pricing of our towers base. In terms of the millimeter wave, Spencer, we have not seen or priced a whole lot of that at this point. So I'll have to get back to you on that.

Operator

And we go to Walter Piecyk with BTIG.

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

We talked about the, I think in the comments, about excluding the impact of FX changes, the revenue -- the full year leasing revenue outlook would be plus 3. Is that -- did I get that right?

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

Yes, the...

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

So be -- there'll be another 2 on the international [with] the 1 -- you just increased the domestic by 1 million, right?

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

We increased the organic domestic by 1 million, that's right. I think if you look at the bridge that on the first page of the supplemental package, you'll be able to see the changes there. So we have -- yes, one there and I think one on the nonorganic M&A side for the domestic. So the domestic was up 2 and the international was down 10, but 11.5 was FX.

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

Right. So the 45, when you look at the first half of the year and what's happened so far, I mean, it implies I think about a 40% growth second half over first half. And is the reason that you're still confident in that 45 just because you basically you have these orders from these operators and you just know that they're going to get put on the towers at certain times, it's just that that's the visibility that gets you to the 45? And is that a way for us to kind of maybe rationalize why when we look at Verizon's CapEx, it was down as much as it was this quarter? I guess that was more on the fiber side, but just CapEx in general down at Verizon that this second half ramp -- not that they're the only ones that really deliver that ramp, but that's what gives you confidence in the second half? Or you just -- you almost -- you know when you think you're going on your towers?

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

Yes, I mean, a lot of the confidence is driven off of stuff we've already signed. So we signed a lot of leases and amendments that are either just commencing now or scheduled to commence in the future. So a lot of it is based on stuff that's already booked, with a minor amount based on the backlog that we got and expectations for signings. But most of it at this stage in the year, because we're so far through the year, is based on stuff that we've largely executed already.

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

Understood. So 40% is pretty massive in terms of an increase?

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

Yes, I think -- I mean, depending on how you're measuring it, remember, this is a full year over full year item. So...

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

True. But it still shows that ramp in the new lease activity is when that's -- second quarter is obviously bigger than first quarter, but it's going to be looking hockey stick-ish, I think, in the third and fourth quarter to hit that number?

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

Yes. Well, we've had a lot more leasing activity in the first half of this year than we had certainly last year and particularly the second half of last year.

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

Great. So then just to [better understand your] 2019 comments...

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

(inaudible) the fourth quarter was probably our low quarter last year.

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

Yes. Right. So Jeff, so just to tie that to the 2019 comments. You're already up 40% in the second half and then -- [47] plus and now you're saying also you're expecting more sequential growth in 2019 as well on top of what's going to be a very aggressive second half of the year. Do I understand that right?

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

We're not 100% sure what the 40% is, but we certainly...

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

Yes, that's your number, Walter. We're saying that we had a okay 2017. We had a better first half. We're going to have a better second half. And right now it feels like 2019, we think, will look more like the second half than the first half.

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

Guys, it's pretty basic math that I'm just -- I just backed in to lower numbers in the first half. So to get to that 45, to put together your Slide 2, there has to be a big ramp in new leasing activity to make that happen. And then Jeff, you were talking about 2019 sequential growth on top of that. I mean, that seems like we're embarking on kind of a new era in terms of that type of growth.

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

Yes, I mean, we've seen material growth. I mean, we'll definitely go over the numbers with you afterwards just to make sure we're on the same page there. But...

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

You bet you. Just one last question. Has DISH -- have you signed a deal with DISH for any towers?

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

They are in the backlog.

Operator

And we go to Batya Levi with UBS.

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

It looks like excluding churn from Leap to Clearwire PCS, normal churn picked up a tad and probably guidance suggests that it's going to continue to go up just a little bit. Can you talk about what the driver of that would be? And then another follow up on the $10 AFFO guide. If you had assumed that the FX and interest rate closed at current levels, would you have come in, in line with that target?

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

On the churn question, we do not necessarily expect the churn on other items to increase. But just as a reminder, there is some (inaudible) that is scheduled to take place in the fourth quarter. I think that's why you're seeing that there's kind of an implied bump, and that's what that is. But otherwise, the increase over the last couple of quarters is really due to just kind of just certain other non-big 4 type of tenants and the timing of when those churn off. And we wouldn't expect to see anything materially change there one direction or the other. That amount is actually fairly consistent with where we were about a year ago.

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

And then in term, we're not actually going to -- we're not going to parse this $10 by '20 anymore. It's 4 things, and we could do a variation a day. I'm sorry. But as of right now, FX and interest rates are making it very difficult for us even with a more rosy outlook for domestic leasing.

Operator

And our next question, Mat.

Niknam with Deutsche Bank.

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

Just on M&A, I think Nick had asked about domestic, but I'll ask it in terms of international and what you're seeing internationally and then maybe just on the back of that as well. What's your appetite for taking up more international M&A just given where you are today with leverage and some of the FX headwinds you're facing?

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

Well, there's more available internationally than there is domestically as we've seen and shown over the last couple of years. And yes, we'd have to take a look. I mean, our -- we do have an appetite to grow the portfolio. We've had some great success internationally over the years. Our returns in Brazil over time have been great. We're ahead of plan on a constant currency basis. We're certainly not discouraged with Brazil and the big picture over one quarter. I mean, Brazil grew -- it was probably our fastest growing market this quarter and probably for the first half of the year. So we would have an appetite, Matt. We would look at things case by case. We'd apply the same discipline and methodology we always do. We would apply a currency factor to the analysis and the ROIC and if it hit, we would -- we'd be interested in moving forward. Now over time, we always are mindful and the overall governor for our capital allocation is the leverage. So we're not interested for any transaction that's going to take us for more than a temporary period of time above the 7 to 7.5. That's going to be much more of a defining point than a particular international market.

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Operator

And we go to Robert Gutman with Guggenheim Partners.

We'll go to Amy Yong with Macquarie.

Amy Yong - *Macquarie Research - Analyst*

I was wondering if you could talk through some of the growth characteristics of the towers you bought from Millicom and maybe the operating environment there.

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

Well, El Salvador is a 4-carrier market, which we like. Millicom is the leader in that market. Tigo is their brand name there. So we have towers that I think are going to prove to be attractive to the other players there, particularly if they're interested in gaining at least the network of the market share leader. They're relatively [low lead] tenanted towers today. I believe they are 1.2, maybe 1.3 tenants per tower. A lot of upward growth opportunities there. A lot of opportunities to improve the margins through land purchases, which we've had with towers that we already own in El Salvador a great degree of success. So we're pretty excited about the opportunity.

Operator

And we go to Colby Synesael with Cowen and Company.

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

In previous generation of upgrades, obviously 4G being the most recent, maybe the most significant, we've seen notable accelerations in growth. And as we now approach 5G, do you think that there's still an opportunity to see those accelerations in growth? Are we now at a point, whether it's because of law of large numbers or carriers having a certain number of cell sites already deploying in the United States, where growth has be relatively consistent. You mentioned for example future growth opportunities like the CBRS or the C-band. But it seems like right now the acceleration that was spoken about a few times on this call into 2019 and perhaps to '20 is driven almost exclusively by AT&T. But when that goes away, what do you think that the growth rate of the sector looks like thereafter?

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

Yes, I don't know that I'd agree it's just AT&T, Colby. Over 20 years, the industry has been fueled by some big booms in technological -- generational technological booms. And I would say, certainly, the move from 3G to 4G was the biggest. And I don't know that 4G to 5G will be as big, not the least of which reasons is the law of larger numbers. But all through that -- those periods, there's -- people don't stop innovating. They don't stop improving radios and antennas, and you just keep moving. And the law -- it's interesting. One statistic that I've always heard is the average life of an antenna in our customer's business is 3 years, and it's not because of weather. It's not because of the fact that it wears out. It's because of technology. So things have always changed, and there's always new and better stuff that our customers seek to deploying their networks to remain on the cutting-edge, and I don't really see that changing. So was that an inflection point? Or is it just a long, constant upward path? I don't know the answer to that, but I think it means there's always going to be things to do.

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

And I guess just my follow-up question, in what appears to be more mature state as we go forward, it seems like the biggest driver of multiples might be things outside of your control, whether it's things like FX or it is interest rates. Under that environment, do you start to think about creating strategic value for your shareholders differently? Or does the same game plan that served you so well, looking back, continue to be the same?

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

Well, I think you'll always have to look at all paths of creating shareholder value. But FX, we could wake up after the election and we could be back at [3 0]. And we've seen last -- remember last year, we were the beneficiary of favorable movements in FX. So those are cyclical-type issues that over time our industry has weathered very well and we've always been able to create value. So the playbook may change a little bit, but I think the basic playbook is going to stay intact.

Operator

I'll turn it back to our speakers for closing remarks.

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

Great. Well, thank you all for joining us today, and we look forward to speaking with you again on our third quarter earnings release.

Operator

And ladies and gentlemen, this will conclude our teleconference for today. We thank you for your participation and for using AT&T Executive TeleConference. You may now disconnect.
