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SBAC.OQ - Q3 2019 SBA Communications Corp Earnings Call

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OVERVIEW:

Co. reported 3Q19 AFFO of \$247.4m or \$2.15 per share.



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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the SBA Third Quarter Earnings Results Call. (Operator Instructions) And as a reminder, this conference is being recorded. I would now like to turn the conference over to our host, Chief Financial Officer, Brendan Cavanagh. Please go ahead.

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

Good evening, and thank you for joining us for SBA's Third Quarter 2019 Earnings Conference Call. Here with me today is Jeff Stoops, our President and Chief Executive Officer; Mark DeRussy, our Vice President of Finance, is a little under the weather today and, thus, will not be on this afternoon's call. However, Mark will be available subsequent to the call to address any follow-up questions you may have.

Some of the information we will discuss on this call is forward-looking, including but not limited to any guidance for 2019 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, October 28, 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. 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 now turn to our third quarter results. We had another solid quarter in the third quarter, with strong operating and financial results in both our leasing and services businesses. Total GAAP site leasing revenues for the third quarter were \$468.6 million, and cash site leasing revenues were \$464.8 million.



Foreign exchange rates were weaker on average than our estimates for the third quarter, which we previously provided with our second quarter earnings release, negatively impacting leasing revenues by \$2.7 million. FX rates were also a slight headwind on year ago comparisons.

Same-tower recurring cash leasing revenue growth for the third quarter, which is calculated on a constant currency basis, was 6.5% over the third quarter of 2018, including the impact of 2.4% of churn. On a gross basis, same-tower growth was 8.9%.

Domestic same-tower recurring cash leasing revenue growth over the third quarter of last year was 8.6% on a gross basis and 5.9% on a net basis, including 2.7% of churn, a large portion of which continues to be related to Metro/Leap, Clearwire and iDEN consolidation terminations. Domestic same-tower recurring cash leasing revenue growth increased again quarter-over-quarter due to our strong operational domestic leasing activity during the last 12 months.

Domestic operational leasing activity, representing new revenue placed under contract during the quarter, was again very solid in the third quarter, although down sequentially from the second quarter due to delays in the resolution of the Sprint/T-Mobile merger. Amendment activity was again very high, with newly signed up domestic leasing revenue coming 84% from amendments and 16% from new leases.

We saw contributions from each of the Big Four carriers, with the Big Four carriers representing 84% of total incremental domestic leasing revenue signed up during the quarter. Our domestic applications backlog continues to be strong as well, indicating a significant amount of future investment into our customers' 4G and 5G networks.

Internationally, on a constant currency basis, same-tower cash leasing revenue growth was 9.4%, including 0.6% of churn or 10% on a gross basis. We had another solid leasing quarter internationally with Brazil the largest contributor. Gross same-tower organic growth in Brazil was 12.7% on a constant currency basis, and we continue to have contributions from all 4 major carriers there.

During the third quarter, 85.7% of consolidated cash site leasing revenue was denominated in U.S. dollars. A majority of non-U.S. dollar-denominated revenue was from Brazil, with Brazil representing 12.1% of all cash site leasing revenues during the quarter and 8.7% of cash site leasing revenue, excluding revenues from pass-through expenses.

Moving now to third quarter churn. We continue to see churn from leases with Metro/Leap and Clearwire consistent with our expectations. As of quarter end, we have approximately \$5 million of annual recurring run rate revenue from leases with Metro/Leap and Clearwire that we expect to ultimately churn off over roughly the next 2 years.

Also, our same-tower churn numbers continue to include the impact of approximately \$6 million of annualized churn incurred in the fourth quarter of 2018 from certain legacy iDEN-related leases. This is the last quarter that this iDEN churn will affect our reported same-tower churn results. Domestic churn in the third quarter from all other tenants on an annual same-tower basis was 1.5%, the same as last quarter.

Tower cash flow for the third quarter was \$376.3 million. Our industry-leading domestic tower cash flow margin was 83.9% in the quarter. International tower cash flow margin was 69.3% and was 90% excluding the impact of pass-through reimbursable expenses.

Adjusted EBITDA in the third quarter was \$355.4 million. Our adjusted EBITDA results in the quarter were again driven by strong performances in both our leasing and services businesses. Services revenues in the third quarter were \$39 million, up 21.9% over the third quarter of 2018, driving about \$1 million more services gross profit than the year ago period. Our adjusted EBITDA margin was 70.6% in the quarter, down slightly year-over-year, partially due to the larger contribution from our services business. Excluding the impact of revenues from pass-through expenses, adjusted EBITDA margin was 75%. Approximately 98% of our total adjusted EBITDA was attributable to our tower leasing business in the third quarter.

AFFO in the third quarter was \$247.4 million. AFFO per share was \$2.15, an increase of 12% over the third quarter of 2018.

During the third quarter, we continued to invest in expanding our tower portfolio. On August 30, we closed on our option to acquire all but 6% of Atlas Tower South Africa, a previously unconsolidated joint venture. At closing, Atlas had 889 towers in operation, with many more in development, including 12 built sites completed in the quarter postclosing, for a total of 901 sites in South Africa at September 30.

In addition, we acquired 78 other communication sites during the quarter for \$27.8 million, and we built a total of 86 sites in the quarter, excluding those built in South Africa. Most of the added sites were located internationally.

Subsequent to the end of the quarter, we acquired 6 additional sites for \$6.7 million. As of today, we have under contract for acquisition and anticipate closing by the end of the first quarter of 2020 on 107 additional sites at an aggregate price of \$32.7 million.

We also continued to invest in the land under our sites, which provides both strategic and financial benefits. During the quarter, we spent an aggregate of \$15.9 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 72% of our towers, and the average remaining life under our ground leases, including renewal options under our control, is approximately 35 years.

In today's earnings press release, we included our updated outlook for full year 2019. We have left the midpoints of our guidance ranges largely the same, with minor improvements to our outlook for services revenue, net cash interest expense, AFFO and AFFO per share. Our outlook has been negatively impacted by weaker than previously anticipated foreign exchange rates, particularly in Brazil. Variances in the actual third quarter FX rates versus our prior assumptions as well as changes in our FX assumptions for the fourth quarter have negatively impacted our 2019 full year outlook by approximately \$7.7 million for site leasing revenue, \$5 million for tower cash flow and \$4.6 million for adjusted EBITDA and AFFO, meaning that our strong third quarter performance would have otherwise resulted in solid full year guidance increases across the board. We did, in fact, increase our outlook for domestic site leasing revenue by \$4 million.

Our outlook does, though, imply a moderation in the fourth quarter for our services business. As has been widely reported, there has been some slowdown since the first half of the year in the activity of T-Mobile, Sprint and DISH as they await certainty around the outcome of the T-Mobile/Sprint merger and their future paths. This is logical and to be expected given the circumstances. We expect an immediate escalation in activity once the outcome of the merger becomes clear and long-term network decisions can be made with certainty.

Moving now to our liquidity position and balance sheet. We ended the third quarter with \$9.9 billion of total debt and \$9.8 billion of net debt. Our net debt to annualized adjusted EBITDA leverage ratio was 6.9x. Our third quarter net cash interest coverage ratio of adjusted EBITDA to net cash interest expense was 3.7x. On September 13, we issued \$1.165 billion of Secured Tower Revenue Securities, which have an anticipated repayment date of January 2025 and final maturity date of January 2050. The fixed interest rate on these securities is 2.836% per annum. The net proceeds of this offering were used to repay in full our \$920 million of 2014-1C Tower Securities as well as accrued and unpaid interest and all amounts outstanding under our revolving credit facility.

Proforma for this issuance, the weighted average coupon of our outstanding debt is 3.8%, and our weighted average maturity is approximately 4 years. As of today, we have no amounts outstanding under our \$1.25 billion committed revolver.

During the third quarter, we repurchased just over 700,000 shares of our common stock for \$175.7 million or an average price of \$249.04 per share. All shares purchased were retired. As of today, we have \$824.3 million of repurchased authorization remaining under our \$1 billion stock repurchase plan.

The company's shares outstanding at September 30, 2019, are 112.6 million, down 1.4% from September 30, 2018. In addition, during the third quarter, we declared and paid our first cash dividend of \$41.9 million or \$0.37 per share. Last week, we announced that our Board of Directors declared another dividend of \$0.37 per share, payable on December 19, 2019, to shareholders of record as of the close of business on November 21, 2019.

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

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

Thanks, Brendan, and good evening, everyone. The third quarter was another very good one for SBA. We delivered strong financial results in both our leasing and services segments and, as a result, continued to deliver very healthy growth in AFFO per share.

We allocated capital into new assets, share repurchases and our first cash dividend. We took advantage of the low interest rate environment with a successful new financing. And we continued to work closely with our customers on their network investment plans.

In the U.S., we are continuing to see the majority of spending around 4G densification. All 4 major U.S. wireless carriers were active during quarter, with the bulk of investment coming from amendments. These amendments represent upgrades to our customers' existing networks through technological improvements, the deployment of new spectrum bands and the addition of capacity. We anticipate this type of activity to continue for at least the next several years.

In addition, initial 5G investment is underway, and we believe we are at the very beginning of a long 5G deployment cycle. In the future, 5G networks will involve the deployment or redeployment of low- and mid-band spectrum, further solidifying the importance of macro sites to our customers' network plans. As a primarily macro-focused company, we remain well positioned to capitalize on the organic growth opportunities this future network investment will create.

We continue to take important and meaningful steps to position SBA well for the upcoming 5G world. Time and energy spent by all participants in the 5G ecosystem continue to build. As Brendan mentioned earlier, once there's clarity around the resolution of the Sprint/T-Mobile merger, we believe activity explodes as all impacted parties continue active planning discussions, and both T-Mobile and DISH have committed to concrete and aggressive 5G coverage requirements. We think the availability of a 5G iPhone, just as it has with prior generational upgrades, will prove to be a decisive catalyst.

Cable companies and facilities-based wireless carriers are actively engaged with CBRS analysis and trials, and we believe the upcoming auctions of CBRS will unleash a new era of demand for both macro and in-building deployments. As one of the first recipients of a test CBRS license from the FCC, we have been trialing a number of new uses and initiatives that we think will open up a whole host of new properties, particularly in-building that previously found traditional solutions such as DAS uneconomic. We've been growing our portfolio of in-building properties under contract quite materially in anticipation of these opportunities and now manage close to 14,000 properties in addition to the sites we own.

To further our expertise and reach in this area, in the third quarter, we made a minority investment in Federated Wireless, the nation's premier development company related to the use and commercialization of CBRS. The anticipation and excitement around the auction of C-band spectrum continues to build. And the focus placed on moving the spectrum into the hands of the traditional wireless community by the FCC is clear evidence of its importance to our 5G future. It is also increasingly clear that this spectrum will be deployed in large part on macro sites.

Finally, to further our readiness and expertise to best capitalize on mobile edge computing on the over 30,000 sites we own globally, we purchased in the third quarter a stand-alone data center in West Chicago together with a fiber loop connecting to downtown Chicago that will provide us with a perfect platform to test various business models so that, when mobile edge computing becomes a reality, we will be ready to best maximize SBA's opportunities. There are truly exciting times ahead.

Internationally, we also had another solid leasing quarter with steady contributions across all of our markets. The contractual revenue signed up during this quarter in our international markets came 57% from new leases and 43% from amendments.

Brazil was once again our largest contributor internationally, and we continue to have solid contributions from all 4 major wireless carriers in Brazil, including Oi, who has been investing and upgrading their sites to 4G. The recent congressional approval of the bill of Law 79, which removes many of the concession restrictions on the country's wireline providers, Oi and Vivo, should have a positive impact on those companies and the overall telecom situation in Brazil, improving those companies' ability to further invest in their wireless operations. Our core operations in Brazil continue to go well on a constant currency basis and are ahead of plan.

Our other big news internationally during the quarter was that we closed on the purchase of additional equity interest in the South African joint venture, bringing our total ownership interest to 94%. The closing went very smoothly, and we added around 900 high-quality sites in South Africa and a first-class operational team. We're very excited about the opportunities for organic and portfolio growth in this new market. With the closing and consolidation of our investment in South Africa, we expect we once again will achieve our annual growth of 5% or greater portfolio growth.

During the third quarter, in addition to portfolio growth, we also continued to increase shareholder value through enhancing our capital structure and allocating capital to both share repurchases and cash dividends. On the capital structure front, we completed our largest single tranche ABS deal in the company's history, raising \$1.165 billion at a fixed interest rate of approximately 2.8%, an outcome that we are very pleased with. We will continue to actively evaluate our existing capital structure and look for opportunities to take advantage of the current low interest rate environment in order to improve our cost of debt.

During the third quarter, we were able to use some of our incremental capital to return value directly to our shareholders through both our first-ever cash dividend and also through share repurchases. We distribute approximately \$42 million in dividends, and we spent approximately \$175 million on share repurchases. Combined with our investments in tower acquisitions and new builds, we were able to effectively allocate capital into all 3 of our primary areas of shareholder value creation during the quarter.

We were also pleased to be able to announce plans to pay our second quarterly dividend during the fourth quarter. Next quarter, when we develop our full year guidance, we will also consider an increase to our dividend, which we will evaluate on an annual basis. We expect to continue with a balanced capital allocation approach into the next year that we believe will help us continue to meaningfully grow AFFO per share. We ended the quarter at 6.9x leverage, and we are comfortable operating at that level or perhaps even slightly higher for the next year.

Lastly, I'd like to thank our team members and our customers for their contributions to our success. Without each of them, we would not be able to successfully do what we do, connecting people. We have had a great 2019 thus far, and we're excited for a strong finish to the year.

And with that, Caroline, we are ready to take some questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we do have a question from the line of Spencer Kurn from New Street Research.

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

So I'm trying to get a little bit better understanding of the levels of activity you're seeing. You previously talked about an expectation for a slowdown in network services following your agreement with Sprint, but you didn't really seem to have that. So was it the case that you did see a slowdown from Sprint and T-Mobile as you've called out, but the activity was replaced by others? Or did that slowdown just never actually occur?

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

Well, I think we have suggested that there has been a slowdown by any and all of Sprint, T-Mobile and DISH, Spencer, as a result of the uncertainty that is pending because of the indecisions around the -- and uncertainty around the merger.

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

Okay. Got it. I was just -- I was a little bit confused that it didn't really seem to manifest in the services business.



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

Yes. The third quarter results during the first half of the quarter continued to be at a similar pace to what we've seen in the first half of the year. It's only toward the end of the quarter we started to see some of the slowdown Jeff just referred to.

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

Got it. And if you could just help us on the organic growth guide for the U.S. To get to your guided \$63 million for the year, are you assuming essentially a similar quarter in Q4 that you saw in Q3?

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

Yes. We would expect the incremental year-over-year growth to probably be slightly less than it was in Q3, but in terms of activity levels and contribution, it's not that different.

Operator

Next, we have a question from the line of Batya Levi from UBS.

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

As you start to plan for next year, can you help us understand how you think about the base case for Sprint/T-Mobile, if you would expect that new leasing activity to ramp from the current levels if the deal closes and any churn that we should think about next year?

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

Yes. I don't think we're going to get into next year's guidance because we'll be giving that next quarter. And I do think, with the pending lawsuit from the states' attorney generals that I believe is scheduled to start in December, we fully expect, by the time we will be given our report in late February, that there will be clarity and resolution that will allow us to speak to that issue with a degree of certainty, Batya. But I can tell you that, today, both Sprint and T-Mobile are pretty much neck-and-neck in terms of sites where they are both tenants. Sprint has 6.4% of cash leasing revenue, and T-Mobile 6.5%. And Sprint leases have a remaining term of 4.6 years, and the T-Mobile leases have a remaining term of 4.3 years.

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

Got it. And maybe just one follow-up. T-Mobile just increased guidance saying that they're ramping 600 coverage sooner than they had anticipated. Are you seeing any pickup in their activity as we exit the quarter into the year-end?

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

Our comments were as to the combined magnitude of Sprint, T-Mobile and DISH, and I don't really want to call out variances as amongst any one or the other.

Operator

Next, we have a question from the line of Simon Flannery from Morgan Stanley.

Landon Hoffman Park - *Morgan Stanley, Research Division - Research Associate*

This is Landon Park on for Simon. Just wondering if you can shed any light on if you're seeing anything out of the cable companies or how maybe your discussions are progressing on that front and if there's anything you can talk about on the M&A front domestically or internationally, how you see some of that shaping up as we head into next year.

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

That's 2 separate questions, right?

Landon Hoffman Park - *Morgan Stanley, Research Division - Research Associate*

Yes, 2 separate questions.

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

Well, there's a number of discussions around CBRS. So I do think there's some active interest there, tests and uses of existing available CBRS, which may or may not lead to further interest in what ultimately gets auctioned. And as far -- so that's a positive sign as to potential additional activity for our sector.

In terms of M&A activity, there's always something out there. And there are a number of opportunities that we're currently looking at, which we're always looking at. So we continue to believe that we will once again have a goal for next year of at least 5% portfolio growth and be optimistic that we'll hit it once again.

Landon Hoffman Park - *Morgan Stanley, Research Division - Research Associate*

And just one follow-up. On your earlier comments related to the leasing activity and how that trended in the quarter. Are you able to put any specific numbers around sequential decrease or maybe what the year-over-year looks like.

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

I think we gave you the year-over-year for the quarter.

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

Yes. I mean we can't really get into specifics in terms of individual dollars. The quarter was -- in terms of operational leasing activity, meaning new business signed up, I'm talking just domestically here, was a little bit lower in the third quarter than it was in the second quarter, but it's not something that we would get into parsing the specifics on.

Operator

And next, we have a question from the line of Jonathan Atkin from RBC.



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

I wanted to drill down a little bit on the topic of mobile edge compute, and you talked about the New Continuum acquisition you made in West Chicago. And going forward, do you anticipate that your macro towers are going to be kind of core of your participation in that segment? Or do you think that buying smaller sites, data centers not necessarily tied directly to mobile infrastructure might be an activity that you would get more into following on your initial investment in New Continuum?

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

No, Jon. At this point, we're thinking about it as the former that the focus would be on maximizing the opportunities presented by the existing investment we have around our macro sites and related real estate and that the New Continuum investment gives us really a research and development opportunity to understand the variety of business models that may come to pass at the cell site.

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

Okay. So it sounds like nothing of that nature in the near term additional to what you've already done. And then in Africa -- in South Africa or Africa more broadly, just any kind of further thoughts on the opportunity set for further M&A.

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

Yes, we will look, but as we've discussed South Africa opportunity, the rest of Africa is very different. We have the operational expertise and capabilities to handle it should we find an opportunity that we like from a price and a future opportunities perspective but nothing imminent.

Operator

Next, we have a question from the line of Nick Del Deo from MoffettNathanson.

Nicholas Ralph Del Deo - MoffettNathanson LLC - Analyst

First, there have been some M&A ramblings regarding Oi plus from established players in the market and essentially new entrants. Can you update us on your remaining lease terms with Oi? And if Oi were to merge with an existing carrier or be carved up somehow, how should we think about the puts and takes for your business?

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

Well, from a big-picture perspective, Nick, as we've discussed many, many times, it wouldn't be necessarily bad if 4 players went to 3 in Brazil because we think that the overall health of the Brazilian wireless telecommunications sector would be improved by that. Depending on how things would get carved up if they're amongst the existing players, there would be some consolidation decommissioning issues, which we have to be tower-specific and participant-specific, and we'd have to look at that and see how that played out. Obviously, if there were new players coming in from outside of Brazil, that could definitely be a positive thing. So it's all very fact-specific. But even if there were a short-term intra-country event where there was 4 going to 3, we think, over the long haul, that's ultimately very positive for the health of the Brazilian wireless sector, and we think, long term, we would be a great beneficiary of that.

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

Yes. And Nick, on the average lease terms, I'll have to get back to you after the call with the exact number, but it's pretty extensive because most of the leases we have with them came as part of sale leasebacks around varying schedules, but we had very long-term commitments from them that were double-digit years. So let me get the exact number based on how much time has gone by, and we'll get that to you off-line.

Nicholas Ralph Del Deo - *MoffettNathanson LLC - Analyst*

Okay. Sure. And then, Jeff, I think you noted 14,000 managed properties who had the right to install in-building systems, and you said that had grown material -- materially. I guess, first, can you say what that number was a year or 2 ago so we get a sense for how aggressive you've been in terms of snapping up these rights? And second, can you tell us how many generate revenue today, or if we think out a few years, what a reasonable percentage might be for the share that might generate revenue?

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

Yes. It was probably half that a year ago, maybe 10% of those generate revenue. And I wouldn't say we have unfettered rights to do whatever we want with those properties. I mean that's part of why there isn't more -- a higher percentage of participation -- revenue participation on them and why we're more excited about CBRS, because, really, what we found in the in-building area over time is, unless it's like a premier venue, like a casino or a stadium, you get to venues where there's just a real economic issue as to who pays and where's the value proposition. And we believe CBRS is going to be a so-much-better economic solution than DAS, and it's going to open up just so many more venues. So that really gets to the heart of the optimism around that.

Operator

(Operator Instructions) And we do have a question from the line of Michael Rollins from Citi.

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

So curious, as you look at the antenna structures that are on your domestic towers, are you able to tell, based on your inspections and the work that's gone ahead of time from your carrier customers in terms of what they're putting on your structures, where the antennas are technologically in terms of are they MIMO, advanced MIMO type of antennas? And from all that information, are you able to deduce the percentage of these antennas that might be upgraded over a 1-, 3-, or 5-year period based on their age, capability, new technology that has become available? I'm just kind of curious how you look at that cycle of antenna updates and upgrades from your carrier customers.

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

We are able to do that, Mike. And if you're driving it, where are you in terms of 5G? And if you believe that, outside of the dense urban markets, you need the massive MIMO-type antennas, which will be primarily necessary in mid-band spectrum to effectively offer 5G service, which we are of that general belief, the only carrier that has done any of that today to a -- I won't say small degree but certainly not to a large degree, is Sprint with the 2.5G spectrum. So if you're trying to gauge the remaining opportunity set there, it's very large.

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

And are you starting to see similar applications for amended structures coming through the pipeline? Or is it too early for that?

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

For a while, we were seeing a fair amount of that from Sprint, and I think we will continue to see that from Sprint. And we will see an even greater -- much greater -- dramatically greater amount of that once there's clarity around the deal, and others are going to follow.

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

And one other question. Based on your experience with Federated and CBRS, do you expect that spectrum to be deployed for outdoor applications and appear on your macro towers? Or do you think that's going to end up being more of an indoor spectrum band?

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

Right now, it looks like it's going to be more indoor because there are power limitations on its use, but there are petitions afoot that would change the tower regulations around that spectrum that can make it a more viable outdoor use, Mike.

Operator

Next, we have a question from the line of Ric Prentiss from Raymond James.

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

I hope Mark's feeling better. Question on the services business in the guidance. So I think you mentioned the total of T-Mobile, Sprint, DISH, you've seen a little slowdown in the services business. I know you're not giving 2020 guidance yet, obviously, but should we assume that could have a pacing issue as we look into leasing activity into the first half of 2020, then it should see kind of a slowdown on the services business going into fourth quarter, and maybe you don't get a decision until maybe sometime in February of '20? Just trying to think pacing.

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

Well, I mean you -- DISH has kind of gotten a free pass, right? So they don't have to do anything, nor if you were Charlie Ergen, why would you do anything until you have clarity since you don't know whether you're deploying a narrowband or a broadband network? So I think when you kind of think through the logic of where the vast difference in the roads that some of these folks are on, yes or no, merger up or down, I think that answers your question, Ric.

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

That's good. And then as we think through the -- what if the answer is a no on the merger? If it was a yes, we could an explosion of applications come in that could help the pacing. But what if it's a no? What do you think might happen? Or how...

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

You're going to see a ton of stuff happen because one road is really good, the other road is really good for activity. The problem is the 2 don't really overlap.

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

Yes. Just need a decision so they know which way they're going.

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

DISH is the best example. You can't spend money on a narrowband and have it work on a broadband and vice versa.

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

Okay. To Michael's question on CBRS, and it does sound like thus it seems more indoor now for CBRS and unless those petitions come through, what would the role you play in an indoor CBRS-type situation look like? Would it be providing capital, providing neutral host systems? What would the role of SBAC be and how would the economics compare to, say, macro towers versus small cells?

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

We would be a capital provider, a network owner. We would basically take the burden off of the -- we would basically be appealing to the building owners to upgrade and offer them a solution that they would find attractive at a price point that made sense for everybody, and then it would be a recurring revenue model for us.

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

And again, trying for probably significant colocation to tell the owner of the building, we'll get everybody in here. You don't have everybody pestering you individually.

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

Yes. That's one, although there are also models where they just pay one fee. If they want to -- if that's the way they want to provide their people, whether it be a residential complex or commercial complex Internet, for example, or a private LTE system, they -- there might not be need to be any colocation for it to be an attractive proposition.

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

The last one from me is none of us are FX experts, I know, but in the past, you've hazard a guess on -- with the elections or other things happening in Brazil or the economy in Brazil. How do you look at the Brazilian FX rate where you think it might be headed as you look at that being a fairly sizable amount of your revenues, at least from a book leasing standpoint?

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

Yes. I mean, Ric, we look at what the, I'll say, "experts" say, I mean all the various banks and financial institutions and economists that study that sort of thing. Unfortunately, nobody's been quite right over the last few years, but expectations are that there will be some modest improvement from where we are today. We've actually seen some improvement just over the last week or so. But I think the more that pension reform is now kind of getting addressed and some of the other big question marks that are sort of overhangs in Brazil get settled, it will provide some stability that will hopefully kind of go through to the exchange rates as well.

I mean from our perspective, we have what we have down there. We try to address it by being wise in terms of the timing of when we repatriate money to the extent that we can put expenses that we have a choice between U.S. dollar-based and BRL-based. We try to offset our revenues with expenses in local currency, although we've found financing options down there to not be particularly attractive in terms of pricing. So at this stage, it's a little bit limited in terms of our options to mitigate it, but we watch it closely, and we try to manage the timing on repatriation of funds and when funds go down.

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

Yes. And Brendan, in his comments, raises a good point. We haven't put any fresh U.S. dollars into Brazil probably in closer to 2 years now, so everything that is really being considered as the timing of money that's coming at Brazil as a source of cash, not a use of cash. So what you're seeing and what's frustrating from a reporting perspective is just that. It's a reporting issue as opposed to realized economic gain or loss.

It's also a relative issue. I mean as the -- a lot of good things are happening in Brazil. But if the U.S. dollar continues to strengthen relative to other currencies around the world, that's -- you have a relativity issue as well there.

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

Right. Although you do get probably some benefit on the escalator side then as you go through what's happening [with it all].

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

You do. That's on a much more absolute basis. And there is some real logical tie to the way the Brazilian currency tracks its own inflator, but not a lot of tie to how the inflator necessarily tracks relative straight with the U.S. dollar. I mean that's more of a wildcard.

Operator

Next, we have a question from the line of Walter Piecyk from LightShed.

Walter Piecyk;LightShed;Analyst

Jeff, I'm going to mix it up on you this time and go after the dividend this time as opposed to the share repurchase. You've had a couple quarters you talked about growth rate or having a growth rate there being appealing to investors. How are you thinking about that in 2020? Is this going to be kind of you put up 4 quarters of the same dividend and then increase it? Have you considered maybe increasing that on a sequential basis? That's something that I think has worked well for Cogent in terms of investing or finding some new investors. Just thoughts on the dividend.

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

Good question, Walt. We actually have talked to a number of investors about that very concept because we know Cogent has done it and we know American has done it. And actually, no offense to both those companies, who I respect quite a bit, but the investors didn't really seem to move one way or the other about it. So we have decided, and I tried to make this clear in my comments, that we will look at this once a year, so 4 times at 1 number and then look for a nice jump. Or in the case of starting halfway through the year, like we did this year, we'll basically be looking to revisit the dividend every time we look at and give out guidance, which just so happens to be our next release.

Walter Piecyk;LightShed;Analyst

Understood. Also, has there been any inquiries by some of the major telecom operators about kind of a new plan for 2020? I'm just trying to get a sense of like a T-Mobile was planning on spending on 2.5, and that was going to hit your towers maybe in the first half of 2020. And now things are delayed. There's a lull, whatever. But have they gone so far as to say, well, maybe if this deal doesn't happen, here are some other bands and looking at other towers? Or is it really you don't know until you literally get the orders, and they'll say, "Okay, now we're putting on these towers and this is the spectrum we're using?"



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

No. There's a merger plan, and there's a nonmerger plan.

Walter Piecyk;LightShed;Analyst

Oh, there is a nonmerger plan. Got it. And has that always been the case? Or is the nonmerger plan something new that's kind of emerged in the last couple of weeks, months, whatever?

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

No, I don't know any details about what that is, what that is. I don't know that, but I know that that's a practical discussion at these companies, and they'd like to know which way they're going.

Operator

Next, we have a question from the line of David Barden from Bank of America.

Joshua Matthew Frantz - BofA Merrill Lynch, Research Division - Associate

It's Josh in for Dave. Just following up on your comments on Brazil and the pension reform. Outside of the strengthening real, which we've seen in the past week like you mentioned, do you think there's any change in the business on an organic basis based on that, on what kind of could happen and the fallout potentially positive?

And then secondly, it looks like Amazon kind of launched their Sidewalk program product. Have you had any discussions with them? And if so, could you share?

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

Yes, on the Brazil side, I think it's more of the general pension reforms. Some of the other posterity moves there, I think, will, in the long term, be healthier for the economy, which should result in a better situation for our customers and carriers, which, historically, in our business, has been a virtuous cycle or a circle where you've seen that lead to increased spending on the networks. So I think the bigger question that will have more of an impact is really around the stuff that Jeff discussed earlier, which is what happens with the carriers down there. Is there some combination? Just the change that we mentioned around the concession rule, I think, will be very positive. That's more likely to have a direct impact on our business in a positive way. Amazon.

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

I'm sorry to say I'm not familiar with the Amazon Sidewalk project.

Joshua Matthew Frantz - BofA Merrill Lynch, Research Division - Associate

Okay. Yes, it looks like it's using 900 megahertz spectrum. I'm just not sure kind of this -- if you've been in touch with them, but okay, fair enough.

Operator

(Operator Instructions) We do have a question from the line of Brandon Nispel from KeyBanc.

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

I may have missed this, but, Jeff, could you comment just on the level of backlog of signed but not commenced leases from a year-over-year and quarter-over-quarter perspective? Then maybe also if you just comment on -- more broadly on the labor market for tower climbers, that'd be great.

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

The backlogs are relatively similar as to where they were a year ago and probably a quarter ago, materially similar. And the tower climber situation, I think, is okay for the time being, but it may prove tight once there is resolution on the merger and everybody gets really cooking, like I think will be the case when that happens, but we'll see. There's a lot of focus on that. A lot of people are getting trained, and there are a lot of initiatives underway to make sure that there are enough resources when they're needed.

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

I guess if I could follow up on a separate topic. You guys commented on CBRS and how you think that, that's going to be an in-building solution. Verizon's done some tests using dual band -- I guess dual band and CBRS with some of their existing spectrum. Have you had any discussions with any of your customers on using CBRS in sort of a dual band -- with a couple spectrum bands in carrier aggregation?

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

We may have in the leasing group and worked it into some overall antenna and amendment configs but not that I'm uniquely aware of.

Operator

Next, we have a question from the line of Colby Synesael from Cowen.

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

Two questions, if I may. There's been some discussion at the cable companies of late that they might look to build out networks on a market-by-market basis to effectively reduce their alliance on roaming from their wireless partners. And I'm just curious if that's something you're starting to have conversations with some of those cable companies about.

And then secondly, this morning, AT&T guided to \$20 billion in CapEx from \$23 billion in 2019. Now they did acknowledge that part of that is reduced investment in fiber. But I'm curious if you're seeing anything on the -- your side of the business that would suggest that you're also seeing them pull back or expecting to pull back on their investment as they start to think about leasing for 2020.

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

Yes, I'll take the last one first. I mean all of our comments about timing and pacing are purely temporal and specifically merger-related and should be construed that this is very temporal, has nothing that is secular or even cyclical. This is -- as soon as this uncertainty is done, this is going to really pop. That's what we believe. And the conversations that are ongoing amongst everyone involved are evidence of that, and we're right in the middle of all that. So the answer as it pertains to AT&T, Colby, is no.



And as far as the cable companies are concerned, yes, we have had some of those conversations. They're obviously company-specific. And if you have certain agreements with certain of those roaming partners, you have a lot less flexibility than others. But I can't really get into any more specifics than that.

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

Do you think it'll be just kind of anecdotal in nature and not something we would see from the outside looking in, in terms of having an impact on your numbers at least for the foreseeable future? Or is it, in your opinion, POP looking to happen more rapidly than that, and a year from now, we could actually be talking in more meaningful manner?

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

Of the cable companies?

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

Yes.

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

I think we'll have to wait and see how they do with these upcoming auctions, and then I think you have to ask that question in a year.

Operator

(Operator Instructions) There are no further questions in the question queue.

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

Great. Well, we appreciate everyone joining us for the call today, and we look forward to our next call, which will be our fourth quarter and full year guidance call. Thank you.

Operator

Ladies and gentlemen, this conference will be available for replay after 8 p.m. Eastern today through November 11. You may access the AT&T Executive replay system at any time by calling 1 (866) 207-1041 and entering the access code 1984299. International participants may dial (402) 970-0847.

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



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