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LMRK - Q3 2015 Landmark Infrastructure Partners LP Earnings Call

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Brian Young *RBC Capital Markets - Analyst*

David Rodgers *Baird Investment - Analyst*

Jay Dobson *Wunderlich Securities - Analyst*

Alan Salinas *Raymond James - Analyst*

PRESENTATION

Operator

Good day ladies and gentlemen, and welcome to the Landmark Infrastructure Partners' Q3 2015 earnings call. At this time, all participants are in a listen only mode. Later, we will conduct a question and answer session. Instructions will follow at that time.

(Operator Instructions)

If anyone should require assistance during the conference, please press star, then zero on your touch tone telephone. As a reminder, this call is being recorded.

I would now like to introduce your host for today's conference, Marcelo Choi, Vice President of Investor Relations. Sir, please begin:

Marcelo Choi - *Landmark Infrastructure Partners - VP - IR*

Thank you and good morning. We'd like to welcome you to Landmark Infrastructure Partners' third quarter earnings call. Today we will share an operating and financial overview of the business, and will also take your questions following our presentation.

Presenting on the call today are Tim Brazy, Chief Executive Officer, and George Doyle, Chief Financial Officer. I will like to remind all participants that our comments today will include forward-looking statements which are subject to certain risks and uncertainty.

A number of factors and uncertainties could cause actual results in future periods to differ materially from our current expectations. For a complete discussion of these risks, we encourage you to read a partnership's earnings release and documents on file with the FCC.

Additionally, we may refer to non-GAAP measures such as EBITDA, adjusted EBITDA, and distributable cash flow during the call. Please refer to the earnings release and our public filings for definition and reconciliation of these non-GAAP measures to their most comparable GAAP measures. And with that, I'll turn the call over to Tim.

Tim Brazy - *Landmark Infrastructure Partners - CEO*

Thank you, Marcelo. Good morning, good afternoon everyone. We appreciate you all joining us today as we present and discuss our third quarter results. Landmark delivered another strong quarter of financial and operating results, with growth driven by the three drop-down transactions we



completed in Q3. Overall, we're extremely pleased with our continued strong performance and the execution of our acquisition and drop-down strategy.

We are tracking to the guidance we previously provided of \$15 to \$18 million of annual rent drop-downs, and recently increased our quarterly distributions of the third consecutive quarter to \$0.3175 per unit.

Also, given our strong, distributable cash flow growth, and recent drop down activity, we're raising the lower end of our distribution growth guidance to 12 percent from our initial guidance of 10 percent.

Today, I'd like to touch on our substantial drop-down activities during the third quarter and year-to-date periods, as well as provide some comments on expected drop-down activity and some other developments at LMRK.

It has been a very busy quarter, with drop-down activity accelerating in the second half of this year. We completed three drop-downs during the third quarter, including the first drop-down of ROFO assets, those assets from our sponsor's private funds that are subject to our right to first offer. In July, we completed drop-down number three, which consisted of 100 tenant sites, for a total consideration of \$35.7 million.

In August, we completed drop-down number four, which consisted of 193 tenant sites from a private investment fund affiliate of our sponsor, for total consideration of \$66.4 million. That acquisition was funded with approximately \$2 million LMRK units valued at \$31.5 million, plus cash of \$34.9 million.

That transaction was the first drop-down of assets, subject to our ROFO and the first transaction where we issued units as partial consideration since our IMPO. In addition, this was our first solar ground lease acquisition. Solar energy is one of the fastest growing U.S. power sources, and we see it as an attractive opportunity within LMRKs renewable power industry segment.

We believe that solar leases are attractive for a number of reasons. Ground rents are very stable and are typically less than 10 percent of the project revenues. In addition, solar projects contain 15- to 20-year power purchase agreements, with regulated utilities that have strong credit ratings, and it's a significantly growing market segment within the renewable power generation industry.

In September, we closed drop down number five, which consisted of 65 tenant sites, for total consideration of \$20.3 million. The total third quarter acquisitions consisted of 266 wireless communication sites, 86 outdoor advertising sites, and six renewable power generation sites, for total consideration of approximately \$122 million.

Similar to prior drop-downs, these three acquisitions were immediately accreted to distributable cash flow. The assets included added to the already attractive characteristics of our existing portfolio, featuring 100 percent occupancy, contractual lease escalators across approximately 90 percent of the assets, and strong diversification across the wireless outdoor advertising and maneuverable energy industries.

The assets also have a percentage of Tier 1 tenants, a long-term remaining property interest term of approximately 80 years, and a lease term of approximately 20 years, and a very broad geographic mix, with the 358 tenant size located in 41 states.

Our drop-downs this year have resulted in substantial growth in the partnership. Year-to-date, we've acquired 512 tenant sites through separate drop-down acquisitions, which represents a 73 percent increase from our initial portfolio.

The total consideration paid was approximately \$170, and these acquisitions are expected to contribute annual rents of approximately \$10.1 million, an increase of approximately 76 percent since our initial public offering. We expect acquisition and drop-down activity to remain at these higher levels for the rest of this year and heading into 2016, consistent with our guidance, and driven by strong acquisition activity of our sponsor, and the purchase of additional ROFO assets from our sponsor's private funds.

Acquisition activity in Landmark dividend, our sponsor, continues to be very strong with the company achieving its best quarter ever in terms of signed contracts in Q3. This record level of acquisition volume at the sponsor drives the opportunity for higher acquisition activity at LMRK.

Our sponsor continues to increase activity in its core markets and expand its operations, increasing personnel, and exploring new opportunities, including new asset classes in our existing industries and additional international markets.

We believe the increased level of activity at the sponsor supports not only our current guidance, but represents additional potential acquisitions for LMRK for next year, more drop-downs, or a larger ROFO portfolio that sponsors private funds. Currently, the ROFO portfolio includes more than 850 tenant sites, representing approximately \$17 million of annual rents.

In other developments at LMRK, we remain focused on rolling out our Unit Exchange Program where LMRK would acquire assets with units as an alternative currency instead of cash. As we said before, we believe the Unit Exchange Program would provide significant benefits to sellers, including the potential to defer taxable gains, cash flow diversification through the large growing portfolio owned by LMRK, and an opportunity for growth through the ownership of LMRK units.

We believe the Unit Exchange Program will enable us to increase our acquisitions, capturing assets that might not have otherwise been viable acquisition opportunities and raise equity capital without going the market with an offering as frequently, and incurring offering-related discounts and expenses. Responses to preliminary discussions we've had so far have been very positive.

In closing, we believe that LMRK is very well positioned for the future, and our business is fundamentally simple, collecting rents on essential operating assets within large, growing, fragmented and under-penetrated industries.

We believe our strategy and the underlying characteristics of our target markets will allow us to continue to acquire and consolidate real property interest assets across a large number of individual property owners, driving distribution growth and delivering strong operating and financial results.

And with that, I'll hand the call over to George for a more detailed financial review of the quarter.

George Doyle - Landmark Infrastructure Partners - CFO

Thank you, Tim. As I review the third quarter, keep in mind that during the quarter the partnership completed three separate acquisitions from Landmark and its affiliates. Similar to last quarter, the assets acquired are recorded at the historical cost of Landmark as the transactions are between entities under common control.

The financials of the partnership are adjusted retroactively, as if the transaction occurred on the earliest date, during which the assets were under common control. The reconciliation and our press release separately presents our results of operation from those of the acquired assets prior to our ownership.

I will focus my comments on the results in the column labeled "Landmark Infrastructure Partners, LP" in the Reconciliation, which excludes the result of the acquired assets which excludes the results of the required assets prior to the dates of the three acquisitions.

We generated revenue for the third quarter of 2015 of 5.5 million, which is an increase of 26% from last quarter. Revenue was favorably impacted by the three drop-down acquisitions completed during the third quarter, which contributed approximately 0.9 million in revenue for the quarter.

G&A expenses for the quarter were 462,000 before the reimbursement of our sponsor of 291,000, which is in line with our expectations. As we have discussed on prior calls, the G&A reimbursement from our sponsor is reflected as a capital contribution, rather than as a direct reduction to our G&A expense.

Adjusted EBITDA for the quarter was 5 million, an increase of 25% from the second quarter of 2015. We ended the quarter with 1,184 leased tenant sites out of the total of 1,207 available tenant sites, and the occupancy rate for the quarter was 98%, which remains unchanged from the second quarter.

On October 22, Landmark Infrastructure Partners announced its third quarter cash distribution of \$0.3175 per unit or \$1.27 per unit on an annualized basis. This distribution is 10.4 percent higher than the MQD, and represents a 3.3% increase over the second quarter distribution of \$0.3075 per unit. It also marked the third consecutive quarter that the partnership has increased its quarterly cash distribution since it first went public in November 2014.

Our coverage ratio, which is defined as distributable cash flow divided by distributions declared on the weighted average unit to outstanding during the quarter was 1.01x. While there could be quarter-to-quarter fluctuations in the coverage ratio, we continue to target a distribution coverage ratio of 1.05x, which is reflected in our guidance.

We finished the quarter with \$164.5 million of outstanding borrowings under our revolving credit facility, leaving us with an additional \$85.5 million in borrowing capacity subject to certain borrowing limitations.

In August, we executed a seven-year interest rate swap at 1.74%, which effectively fixes our floating interest rate on an additional \$50 million of borrowings on our revolving credit facility at 4.24% per annum beginning in October.

After the closing of the fifth drop-down acquisition in September, our leverage ratio is at approximately seven times adjusted EBITDA and approximately 90% of the \$164.5 million in borrowings are fixed.

As of the end of the third quarter, we were in compliance with all of our debt covenants. Today, we are raising the low end of our distribution growth guidance. We continue to expect significant growth from additional drop-down opportunities.

The partnership's sponsor, Landmark Dividend, has previously expressed its intent to offer us the right to purchase assets with annual rents of approximately 15 to 18 million over a 12 month period beginning February 26, 2015.

Our expected growth through drop-downs, when combined with organic portfolio growth expected from contractual run escalators, leasing activity, and revenue sharing arrangements is now expected to drive distribution growth of 12% to 15% over the minimum quarterly distribution of \$0.2875 per unit by the end of 2015.

In closing, we are pleased with the solid offering and financial results, and remain focused on achieving the growth targets that we have announced in generating value for our unit holders. We will take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

The first question is Dave Rodgers with Baird. Please go ahead.

David Rodgers - Baird Investment - Analyst

Yes, Tim, George, good morning out there. Just wanted to ask a question from the sponsor level perspective. How does that acquisition or backlog of acquisitions look for the sponsor, and what's pricing and competition been looking like out there as you're out looking for more deals?



Tim Brazy - Landmark Infrastructure Partners - CEO

Sure. As far as pricing and competition, I would say that not much has changed in the last couple of quarters. It's still fairly competitive I would say in the wireless side. On the outdoor advertising, we see a few competitors. Really regional groups that will acquire assets.

And then on the alternative energy side, there are a number of groups that will go after those assets. But, we're still able to get a very good mix of assets, very diversified portfolio, you know, when we accumulate them during the quarter.

So, I would say really not too much has changed, and they still represent an attractive drop-down opportunities for LMRK.

David Rodgers - Baird Investment - Analyst

Good. Maybe second question for you with regard to any concerns around additional tenant non-renewals or cancellations? Anything, kind of, on the horizon that you're watching?

Tim Brazy - Landmark Infrastructure Partners - CEO

Nothing that we see. You know, the metro sites that we have are really the primary risk in the portfolio when we went public. And we believe, as we have said before, that we received all the termination notices, the majority of them we would expect to see from that consolidation.

The rest of the portfolio, we believe, is very strong. It doesn't have a lot of exposure. There's a handful of sites with some tenants who have had consolidation in the past, but it's a very small percentage of the portfolio. We don't think it will have meaningful impact on our numbers.

David Rodgers - Baird Investment - Analyst

Last question, Tim mentioned, which was the unit exchange or acquisition. Is there any upward bound or limits on how much of a transaction you can do through that, and any early sense of how many of the ROFO assets that are left that you might be able to do through a unit conversion?

Tim Brazy - Landmark Infrastructure Partners - CEO

Yes, there's really no limit on the unit exchange program. Obviously, for bigger transactions and bigger portfolios, we could structure a unit transaction, but on the individual and smaller portfolios, it's really no limit other than we don't want to issue them in to small of amounts just because the transaction cost associated with it would be a little bit expensive.

So, yes, we think most of what we acquire, aside from the smaller deals, could be done in a unit exchange program. OK. Sorry, what was the second question?

David Rodgers - Baird Investment - Analyst

You said the reception is good, but any sense on how much of those remaining ROFO assets or what percentage might be able to be done directly like that?

Tim Brazy - Landmark Infrastructure Partners - CEO

Yes, the ROFO assets, we like the idea of dropping those down for part cash part unit consideration, and the cash has to be used to pay off the existing debt facilities on those assets. So, those, generally are around 50% debt 50% unit consideration when they're drop down.



George Doyle - *Landmark Infrastructure Partners - CFO*

The advantage of the unit exchange program is that we're able to go after assets wouldn't otherwise be available, Dave. So, the landlord don't necessarily need or want to sell for cash, find the unit exchange program intriguing because it allows them to get a combination of benefits that they wouldn't be able to get otherwise. So, we're really tapping into a vein of potential production that we don't necessarily have the same access to today.

David Rodgers - *Baird Investment - Analyst*

Got it. That makes sense. All right. Thanks, guys.

Operator

The next questioner is Jay Dobson with Wunderlich. Please go ahead.

Jay Dobson - *Wunderlich Securities - Analyst*

Tim, George, good morning.

George Doyle - *Landmark Infrastructure Partners - CFO*

Morning.

Tim Brazy - *Landmark Infrastructure Partners - CEO*

Morning.

Jay Dobson - *Wunderlich Securities - Analyst*

Hey, following a little bit on the competitive landscape, and maybe just drilling down a little bit, can you talk a little bit about just cap rates that you're seeing? Not specifically that you're executing on, but maybe the range of cap rates that you're seeing, and sort of the deals that come across your desk? And, how they change maybe over the last, you know, 90, 180 days?

Tim Brazy - *Landmark Infrastructure Partners - CEO*

Sure. It really depends. It really depends on the asset class of the segment and it depends a bit on the market as well. We generally will see cap rates in the six to seven range, but you will have some outliers. You will sometimes see then down in the fives or even fours. But then, also, on occasion you'll see something in the eight range.

Part of that has to do with the growth profile of the assets. The assets with stronger growth than obviously lower escalators, those are usually in some of the more expensive parts of the country. But generally the wireless, I would say is in the low six's and the other asset classes are around there or slightly higher.

As far as change in the market over the last, say three to six months, haven't really seen too much. Obviously as we mentioned before one of our competitors closed shop so that reduced competition there but there's plenty of other buyers in the market that have replaced that competition.



So, as far as we can tell the environment is going to stay like this until there's a big change in interest rates or cost of capital.

Jay Dobson - *Wunderlich Securities - Analyst*

No, that's really helpful. And with that in mind, George, would you expect to get any benefit on the cap rate if you pursue a unit exchange? So your using a currency that you probably fundamentally believe is undervalued. Does that buy you anything with the seller or can it or is it sort of cap rates are cap rates and sort of you pay with whatever you are paid with?

George Doyle - *Landmark Infrastructure Partners - CFO*

Right. I think you're right. I think unit deals would have a higher cap rate associated with them, because there's the benefit to the recipient of receiving those units over cash.

I mean, for some sellers of their assets that have really low basis, they get to defer the tax obligation. So that's very attractive to them and that would be part of negotiations when we do a unit transaction.

We may not always be able to issue more units for more attractive deals but that is part of the negotiations that we plan to have when we do a unit exchange transaction.

Tim Brazy - *Landmark Infrastructure Partners - CEO*

The two issues that we are addressing with the Unit Exchange Program is the taxable gain on a sale and the question of what to do with the proceeds once they actually sell us the asset. So, clearly, we're able to provide an opportunity for potentially deferring those taxes and an opportunity to essentially trade into units at MLRK, which you know that have other benefits and meet some of their other criteria.

Jay Dobson - *Wunderlich Securities - Analyst*

Sure, no absolutely absolutely. And maybe shifting to 2016 and appreciate you haven't provided guidance yet, but, Tim, think you were saying that you expected case of drop-downs sort of looking forward for the foreseeable future to remain at this sort of new higher level that we've seen over the last three or four months.

Can you give us some sense of how you see all that unfolding in 2016 and sort of how that might impact your outlook for the same period?

Tim Brazy - *Landmark Infrastructure Partners - CEO*

Sure, we think the drop-down activity will be somewhat similar to what you saw this year. It will be a combination of the organic acquisitions that the sponsor's doing, then it will also probably include some ROFO asset drop-downs.

We would expect it to be somewhat spread out during the year, similar to what you saw this year. But as far as more detail than that, we're going to save that until the call we have in the first part in the year.

Jay Dobson - *Wunderlich Securities - Analyst*

Got you. That's great. And then last one, George, George the \$80 million or \$85 million you liquidity you said you had around the revolver, is that net of the 20 I think under the covenant you have to remain or keep sort of \$20 million of net liquidity undrawn? So is \$85 million what's actually net available to fund drop-downs or is that a smaller number?



George Doyle - *Landmark Infrastructure Partners - CFO*

The real governor under the revolving credit facility is our leverage level. So our leverage level limit is 8.5x adjusted EBITDA. It can go up over that for a limited period of time. So that's really the primary governor.

There are some other covenants, such as interest coverage ratio but that would mostly likely not be the limiter on borrowing. It's more the leverage level. Since we're targeting 6 to 8x leverage, that limit of 8.5x is outside of where we expect to be at any point in time.

So out of the 80 some million of capacity, we can do a certain amount of peer debt acquisitions before we get to that, close to that level but we can certainly do some ROFO asset dropdowns, where it's a combination of units and cash and that capacity would be available.

Jay Dobson - *Wunderlich Securities - Analyst*

Excellent, thanks so much for the clarity, I appreciate it. Congrats on a great quarter.

Tim Brazy - *Landmark Infrastructure Partners - CEO*

Thank you.

Jay Dobson - *Wunderlich Securities - Analyst*

Thank you.

Operator

(Operator Instructions)

The next questioner is Brian Young with RBC Capital Markets.

Brian Young - *RBC Capital Markets - Analyst*

Hi, thanks for taking the call. On the site that you acquired during the quarter, is it weighted toward any particular geographical region of where your current portfolio is? And, also, was there a weighting towards a particular wireless power company or tenant compared to the rest of the portfolio?

Tim Brazy - *Landmark Infrastructure Partners - CEO*

Sure as far as the geographic diversification it's actually very comparable to the existing portfolio. Some of the larger metro areas is typically where a lot of our acquisitions come from, so New York, Chicago, California. So no real change from what we have today. And as far as the tenant mix, also very comparable. Nothing, no real outliers from our existing portfolio.

Brian Young - RBC Capital Markets - Analyst

Okay, going back on the sponsorship level, you guys talked about how you guys assigned a record, a quarter, assigning for the sponsor level. Can you tell us a little about what's driving that record level? Is it more efficiency by the sales rep? Is it just more volume coming through or is the close rate increasing? Then you got your stock level, can you give a little more color on what's the driver for that?

Tim Brazy - Landmark Infrastructure Partners - CEO

Sure it's principally due to the investment that the sponsor has made in additional acquisition per sale and entering new markets. So the headcount at the sponsor has increased significantly. There's been a huge focus over the course of the last 12 months towards growing the acquisition volume at the sponsor level.

And so you're seeing that mostly domestic with some international growth, but, yes, it's principally what the sponsor, you know the investment and sponsor's making. It's not so much the closing ratio or efficiency of the salesforce. It's more expansion.

George Doyle - Landmark Infrastructure Partners - CFO

All right. Great. Thank you for taking the question.

Operator

And the next question, comes from Alan Salinas with Raymond James. Please go ahead.

Alan Salinas - Raymond James - Analyst

Hey, guys. How are you?

Tim Brazy - Landmark Infrastructure Partners - CEO

Good.

Alan Salinas - Raymond James - Analyst

Can you hear, can you hear me?

Tim Brazy - Landmark Infrastructure Partners - CEO

Yes.

Alan Salinas - Raymond James - Analyst

So the last quarter, you guys had mentioned that you were looking into possibly expanding internationally to Australia. Any update on that initiative?



George Doyle - *Landmark Infrastructure Partners - CFO*

Sure. We're continuing to look at that market. The sponsor is adding additional headcount in Australia and looking at New Zealand as well. The acquisition volume at the sponsor level in Australia is picking up. That is working out to be a great market for the sponsor to enter in to.

Nothing, no foreign assets, were dropped down into MLRK during the quarter. Still all activity is going on at the sponsor level but it looks to be a great market.

Alan Salinas - *Raymond James - Analyst*

All right. But so the sponsor is already actively acquiring leases in Australia?

George Doyle - *Landmark Infrastructure Partners - CFO*

Yes.

Alan Salinas - *Raymond James - Analyst*

OK and then the last, the second question I have is you guys execute the first ROFO drop-down this quarter and third quarter. Any idea when we might see the next chunkier ROFO drop-down happen?

George Doyle - *Landmark Infrastructure Partners - CFO*

I don't think there's going to be really a big, chunky drop-down for the remainder of this year. Potentially, that would be 2016, where you would see a really big, chunky drop-down.

For the remainder of the quarter, we expected there to be a bit of activity, just to get to the guidance range that we provided. But don't necessarily anticipate that it's just one big drop-down.

Alan Salinas - *Raymond James - Analyst*

OK. Great. Thank you, guys.

Operator

And I am showing no more questions in the queue and would like to turn the conference back to Tim Brazy, Chief Executive Officer.

Tim Brazy - *Landmark Infrastructure Partners - CEO*

If there are no further questions, I'd just like to thank everyone for joining us today. As George and I have said, we're very pleased with the performance of the company this quarter and remain very optimistic about our growth prospects and meeting the targets that we've set out. Thank you for joining us on the call and we look forward to speaking with you again next quarter.

Operator

Ladies and gentlemen, thank you for joining us today. This does conclude the program and you may all disconnect. Everyone, have a good day.



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