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LMRK - Q4 2016 Landmark Infrastructure Partners LP Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen and welcome to the Landmark Infrastructure Partners fourth-quarter 2016 earnings conference call. (Operator Instructions). As a reminder, this conference call is being recorded. I would now like to turn the conference over to Marcelo Choi, Vice President of Investor Relations. Sir, you may begin.

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

Thank you and good morning. We would like to welcome you to Landmark Infrastructure Partners' fourth-quarter earnings call. Today, we will share an operating and financial overview of the business and we'll 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 would like to remind all participants that our comments today will include forward-looking statements, which are subject to certain risks and uncertainties. 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 the Partnership's earnings release and documents on file with the SEC.

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 definitions and reconciliations of these non-GAAP measures to their most comparable GAAP measures and with that, I will turn the call over to Tim.

Tim Brazy - *Landmark Infrastructure Partners LP - CEO*

Thanks, Marcelo. Good morning, everyone. Thanks for joining us. Today, we are going to present and discuss our results for the fourth quarter and give you an update on the operating activities at the Partnership and our sponsor, Landmark Dividend.

But before I get into the details of this past quarter, I'd like to take a moment to talk about this past year. As you know, 2016 was our second full year as a public partnership and this last year, we've reached a significant number of milestones.

Since the initial public offering, we've nearly tripled the number of assets in our portfolio from the 701 tenant sites we had at the IPO to over 2000 tenant sites as of the end of last year. We've also more than tripled our revenue from approximately $13 million at the time of the IPO to over $47 million today.

And despite some of the major challenges the general MLP sector has faced the last two years, we've increased our cash distributions for eight consecutive quarters, representing growth of over 10% per year.

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In 2016, we continued to execute our business strategy and completed five dropdown acquisitions, including one ROFO dropdown transaction, along with several direct third-party acquisitions. In particular, we completed the Recurrent Energy solar land transaction, which was one of the largest solar land acquisitions in 2016.

In total, we acquired 593 assets last year for consideration of approximately $292 million. These assets have performed extremely well during the year with our overall occupancy rate remaining consistently high at 97% and the portfolio has continued to grow through contractual lease escalators and modifications.

Turning to the fourth quarter, we are very pleased with our operating and financial results. We posted another quarter of strong year-over-year growth driven primarily by the multiple acquisitions we completed within the last 12 months and the organic growth from the assets in the portfolio.

During the fourth quarter, we completed one portfolio dropdown acquisition in December and purchased several individual assets through direct third-party transactions, again highlighted by that Recurrent Energy solar acquisition.

On a combined basis, these acquisitions accounted for 66 assets for total consideration of $93 million. In total, we bought 43 wireless communication assets, 13 outdoor advertising assets and 10 renewable power generation assets and as in all of our prior acquisitions, these were also immediately accretive to distributable cash flow.

The assets added to the already attractive characteristics of our existing portfolio featuring 100% occupancy and average contractual lease escalators of about 2.5% and tier-one tenancy of about 82%.

Additionally, the aggregate remaining real property interest term was 70 years, the lease term was 23 years and the assets had a very broad geographic mix.

For the full calendar year 2016, the 593 assets we bought represented an increase of 41% year-over-year. These acquisitions are expected to contribute annual rents of $18.2 million, increasing total rents to over $47 million per year.

The assets we acquired included both organic and ROFO dropdowns, as well as direct third-party acquisitions.

In terms of macro trends, we believe the opportunity for the partnership is as great today as it has ever been. All three of our primary target markets -- communications infrastructure, outdoor advertising and renewable power generation -- all continue to grow and benefit from a world increasingly driven by the needs and demand for their products and services. These markets are incredibly large, they are highly fragmented and growing significantly crating continued opportunity for us to acquire assets and drive growth at the partnership.

One macro event worth noting, of course, is the recent Presidential election. In the past several weeks, there has been some conversation about how the change in the administration could potentially impact the wireless sector and our business. More specifically, the potential for a T-Mobile-Sprint combination and how that would impact LMRK's top and bottom line.

This is clearly a situation in flux, but we believe that the potential for a T-Mobile-Sprint combination faces real challenges, including strict regulatory hurdles. However, assuming that a merger is eventually approved and completed, we believe that the financial impact to our business would be minimal for a variety of reasons.

First of all, we believe the completion of the merger and the integration of the two companies, including the rationalization of the two separate networks, could potentially take years.

Second, there is not complete overlap between the two networks in every region suggesting that any potential decommissioning would be managed to make the entire network more efficient and the resulting network would continue to use many of the acquired sites.

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At the partnership level, T-Mobile and Sprint accounted for only 13% and 10% of LMRK's fourth-quarter 2016 total revenue respectively; however, the direct overlap of sites is only about 5% of the total revenue in the portfolio. So while the potential impact from the overlap of T-Mobile and Sprint assets in our portfolio could be as high as perhaps a mid-single digits percentage of LMRK's total revenue based on that simplistic analysis, we believe that there would be some significant offsetting revenue opportunities resulting from sites being upgraded to a common platform.

In terms of our sponsor, Landmark Dividend, it continues to make significant improvements in its backoffice resource allocation and process enhancements, all of which have contributed to higher acquisition activity.

Last year, for example, signed acquisition contract volume at the sponsor increased by 67% versus 2015. As in the past, higher volume activity at the sponsor is expected to drive meaningful growth opportunities for LMRK.

The acquisition market for our three segments remains very attractive. In the wireless communication segment, for example, new rooftop and tower tenant sites continue to grow as the wireless carriers and the tower companies continue to deploy significant capital to provide the necessary network enhancements to satisfy ever increasing demand.

We are also seeing opportunities for growth within the outdoor advertising segment, both domestically and internationally as digital conversion for existing and new sites drives better economics for the tenants.

And finally, the renewable power generation segment is driving growth as solar acquisition activity is especially strong.

In addition to our domestic acquisitions, we are also focused on our international efforts and we expect increased acquisition activity from both direct third-party and dropdown transactions.

In December, we formed a joint venture with a partner who will selectively source and manage outdoor advertising assets for us in certain European markets. We believe this venture is a tremendous opportunity for LMRK because it allows us to acquire high-quality outdoor advertising assets in new strategic markets that have potential upside through digital conversion. As a result of this venture, we do expect acquisition volume to increase materially later in 2017 and beyond.

As our sponsor continues to acquire significant numbers of assets, the ROFO asset portfolio plus additional assets under management remains very healthy and currently has about 700 tenant sites as of December 31, 2016. These tenant sites under management at the sponsor represent approximately $16 million in annual rents, which would represent an increase of about 34% over the partnership's current total revenue run rate if the entire portfolio of assets were dropdown today.

Overall, the partnership delivered another quarter and another year of solid operating and financial results, generating stable cash flow and strong year-over-year growth. As we look out to the remainder of this year, we see a clear pipeline of assets available for purchase and feel confident that we have the financial capabilities and flexibility to deliver on our guidance for acquisitions and growth.

Going forward, of course, we will continue to build on our leadership position as the premier ground lease acquisition company in the industry. Our core businesses are performing well and we are excited about where the new international opportunities will take us, but ultimately our commitment remains the same -- to deliver long-term profitable growth and create value for all of our unitholders.

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

George Doyle - *Landmark Infrastructure Partners LP - CFO & Treasurer*

Thank you, Tim. As I review the fourth quarter, keep in mind that, during the quarter, the partnership completed an acquisition from the sponsor and its affiliates. Similar to previous quarters, the assets acquired are recorded at the historical cost of the sponsor as the transactions are between entities under common control.

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The financials of the partnership are adjusted retroactively as if the transactions occurred on the earliest date during which the assets were under common control. The reconciliation in our press release separately presents our results of operations from those of the dropdown assets' predecessor 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 results of the dropdown assets' predecessor prior to the date of acquisition.

We generated revenue for the fourth quarter of $11.7 million, which was an increase of 72% year-over-year. The year-over-year growth is primarily due to the dropdown transactions and third-party acquisitions that we have completed since the fourth quarter of last year and organic growth from the portfolio, including additional revenue from contractual rent escalators.

G&A expenses for the quarter were $0.9 million before the reimbursement from our sponsor of $544,000. The G&A reimbursement from our sponsor is reflected as a capital contribution rather than as a direct reduction to our G&A expense. Our G&A expenses were higher than Q4 2015 as a result of higher professional fees.

Adjusted EBITDA, which excludes several non-cash items, including unrealized gain on derivatives and acquisition-related expenses, increased to $10.8 million for the fourth quarter, an increase of 68% year-over-year.

We ended the quarter with 1956 leased tenant sites out of a total of 2022 available tenant sites and the occupancy rate for the quarter was consistent with the prior quarter at 97%.

We finished the quarter with $224.5 million of outstanding borrowings under our revolving credit facility. The sequential increase was primarily due to the Recurrent transaction, one organic dropdown acquisition in December and several smaller direct acquisitions offset partially by the proceeds from our common unit offering in October.

As of December 31, our leverage ratio under our revolving credit facility was at approximately 6.5 times adjusted EBITDA. The partnership-wide leverage ratio was approximately 7.4 times adjusted EBITDA and approximately 76% of our total borrowings were fixed or fixed through interest rate swaps as of December 31.

In regards to our ATM programs, we did not have any activity during the fourth quarter. For the full-year 2016, we issued 405,000 common units with gross proceeds of approximately $6.9 million and 64,000 Series A preferred units with gross proceeds of approximately $1.6 million.

On January 25, the partnership announced its fourth-quarter cash distribution of $0.35 per common unit or $1.40 per common unit on an annualized basis. This distribution is 7.7% higher than the fourth-quarter 2015 distribution of $0.325 per common unit and represents a 3.7% increase over the third-quarter 2016 distribution of $0.3375 per common unit.

This quarter's distribution also marked the eighth consecutive quarter that the partnership has increased its quarterly distribution since its initial public offering in November 2014.

Our coverage ratio, which is defined as distributable cash flow divided by distributions declared on the weighted average common and subordinated units outstanding during the quarter, was 0.81 times in the fourth quarter. Our coverage ratio for the quarter was temporarily impacted by the common unit offering in October. As we continue to acquire the assets outlined in our guidance, our coverage ratio will improve significantly. As we mentioned last quarter, while we are still targeting a 1.05 times coverage ratio, our coverage ratio is significantly impacted by the timing of capital raises and acquisitions.

The common offering in October positioned us well as we enter into 2017, but it will take a couple of quarters to fully deploy the capital. Restoring coverage on the distribution will depend on the timing of acquisitions and financings in 2017. At 6.5 times leverage under our revolving credit facility, we have significant capacity for additional acquisitions.

Today, we are reiterating our guidance for 2017. The sponsor has expressed its intent to offer us the right to purchase $200 million of assets, which include direct third-party acquisition opportunities. These acquisitions combined with organic portfolio growth are expected to drive distribution

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growth of 10% over the fourth quarter, a 2016 distribution of $0.35 per common unit by the fourth quarter of 2017. Our guidance does not contemplate a common unit offering in 2017 as the common unit offering in October and other sources of financing planned for 2017 have given us sufficient capital to finance the acquisitions in our guidance.

This morning, we filed an amendment to our shelf to increase its capacity, but as I just indicated, we have no planned common offering in 2017 based on the $200 million in acquisitions.

In summary, we are very pleased with the fourth-quarter operating and financial results as our assets continue to perform producing consistent, predictable and growing cash flows. We are also very pleased with our overall performance in 2016 as we were able to deliver another year of solid growth.

As we look out to 2017, we are encouraged by the growth opportunities ahead of us, both domestically and internationally and we believe that we have sufficient capital to deploy in the near term to make accretive acquisitions. We will now take your questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). Ric Prentiss, Raymond James.

Ric Prentiss - *Raymond James - Analyst*

A couple questions. First, appreciate all those details and reaffirming the guidance. When we think about the cap rates, how do you think about that $200 million worth of asset acquisition and what the cap rates might be given that you are seeing some different segments or different geographical areas?

George Doyle - *Landmark Infrastructure Partners LP - CFO & Treasurer*

Sure. We think the blended cap rate for 2017 is going to range in the 7% area. It really is going to depend on where some of the acquisitions are sourced because some of the international acquisition opportunities have a bit higher cap rate, but there are typically a little bit of tax drags associated with that. But on average it's going to be in the 7% range.

Ric Prentiss - *Raymond James - Analyst*

Okay. And then still targeting the 1.05 coverage rate, obviously that's tied to offerings you raised last year, but the pace this year, how should we think about that? We are now almost through February; no dropdowns yet. I guess the first question is how come no dropdowns and announced so far? Is it factor of -- I will just ask it plainly. How come no dropdowns yet?

George Doyle - *Landmark Infrastructure Partners LP - CFO & Treasurer*

Sure, so we did a small dropdown at the end of December. The next dropdown most likely is going to be let's say 90 days out from that dropdown or a little bit longer. So typically we don't do too many consecutively or right after another when they are organic dropdowns.

As far as the pace over the course of the year, there's probably going to be a little bit heavier acquisition volume I would think in the second half of the year as some of the different opportunities that we are focused on start to come home.

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So a little bit of dropdown activity around the end of Q1 I would expect and then obviously some in Q2 as well and then hopefully some larger opportunities come in in Q3 and Q4.

Ric Prentiss - *Raymond James - Analyst*

Okay. And then I think we had originally been thinking you might do about $306 million worth of dropdowns in 2016, but it came in at $292 million. Are there some that are being delayed in closing? I think there were some timing issues, but also is there some that might not close in that -- maybe our original thoughts of what 2016 might be?

George Doyle - *Landmark Infrastructure Partners LP - CFO & Treasurer*

Sure. We actually had a handful of assets. They were particularly larger assets that were under contract, so they are acquisitions where the seller is bound to close, but due to a couple of issues on the development, the timing got pushed back I would say on average by about three months.

So we were originally expecting to have these acquisitions closed in the beginning of the December timeframe and now it looks like they're going to start closing in March. So those acquisitions actually would have put us above the guidance that we had previously provided and they are also relatively high cap rate acquisitions, so that would have brought up the average cap rate for 2016. But those acquisitions are still going to close. It's just timing got shifted by about 90 days.

Ric Prentiss - *Raymond James - Analyst*

All right. So we might be hearing some of those fall into that -- that maybe still gets them in 1Q or 2Q?

George Doyle - *Landmark Infrastructure Partners LP - CFO & Treasurer*

Yes, I'm expecting that some are in 1Q.

Ric Prentiss - *Raymond James - Analyst*

Okay. And when you mention no equity or no common unit offering contemplated, now does that include all forms of common equity like tapping the ATM or is it just really no public offering?

George Doyle - *Landmark Infrastructure Partners LP - CFO & Treasurer*

No public offering. So we may open the common ATM. I would expect that we are going to have some UEP transactions over the course of the year as well. There's also the possibility to do -- the sponsor to take some units back. So in a number of different forms, we expect to issue some units next year, but we don't anticipate another large common offering like we did in October.

Ric Prentiss - *Raymond James - Analyst*

Exactly. But you are still going to keep the leverage -- what is the target leverage range that you want to see flexing around?

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George Doyle - *Landmark Infrastructure Partners LP - CFO & Treasurer*

We want to operate in the 6 to 8 times leverage range. So right now, we are about 7.5 overall, about 6.5 on the SunTrust revolver. So we have a fair amount of room right now and what we will do over the course of 2017 is we will probably term out some balances on the revolver to give us some more revolver acquisition capacity.

Ric Prentiss - *Raymond James - Analyst*

Makes sense. Thanks for those details.

Operator

(Operator Instructions). Michael Gyure, Janney.

Michael Gyure - *Janney Montgomery Scott - Analyst*

Can you talk maybe a little bit on the portfolio mix? I think we are about 68%, maybe 70% on the wireless side, where you envision that going let's say maybe over the next year, year and a half?

George Doyle - *Landmark Infrastructure Partners LP - CFO & Treasurer*

Sure. I think the wireless segment is still going to be in that range, in the current range. It's going to be I would think 65%, 70% of our overall portfolio. It did shift a bit in Q4 with the Recurrent transaction, but as we have kind of mentioned previously, if one segment is out of balance with what we are targeting, then we may consider adjusting our acquisition strategy a little bit. But I think the general range for wireless will be in that 60%, 70% range.

Michael Gyure - *Janney Montgomery Scott - Analyst*

Okay. Then maybe a follow-up on -- could you talk a little bit I guess on the European joint venture, how you envision that and maybe the size you are thinking that ultimately could result in?

George Doyle - *Landmark Infrastructure Partners LP - CFO & Treasurer*

Sure. That's a great opportunity for us. What we have done is we've put together a venture where our venture partner who is very familiar and very experienced with the overall European market, they are the party that is going to actually do the acquisition sourcing, so line up the transactions, then they are going to manage the portfolio.

It's a great opportunity because a lot of Europe is in the process of static to digital conversion on the board. So there is potentially a lot of organic growth that can come out of those acquisitions. We are predominately going to be focused on your larger, more stable Western European countries.

The opportunity is pretty significant. There isn't that much competition over in that market. So as far as acquisition volume, we were thinking for 2017 that international acquisitions may be around 20% of our total acquisition volume, but certainly the opportunity is much larger and can certainly scale up from there over time.

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Michael Gyure - *Janney Montgomery Scott - Analyst*

Okay. And that joint venture is just on the outdoor advertising? If you decide to do wireless acquisitions, that would be outside the joint venture, or how does that work?

George Doyle - *Landmark Infrastructure Partners LP - CFO & Treasurer*

It would be. So that is solely outdoor advertising. We have considered some other asset classes in Europe, but it's very early stage. We are nowhere near actually making any investments in Europe outside of the outdoor advertising at this point.

Michael Gyure - *Janney Montgomery Scott - Analyst*

Great. Thanks.

Operator

Jonathan Adkin, RBC Capital Markets.

Jonathan Adkin - *RBC Capital Markets - Analyst*

I wanted to ask a little bit about the (technical difficulty) where you participate in revenue upside. So I think that would be rooftops and outdoor advertising and I guess to some extent below-market leases and what do you view as the more meaningful buckets to consider as you look forward over the coming year?

George Doyle - *Landmark Infrastructure Partners LP - CFO & Treasurer*

I think the largest opportunity is in wireless at the moment, especially as you start to look out into 2018 and beyond. Our organic growth rates have been pretty consistent with the built-in escalators that you see in wireless, which range around 3% on average and then typically, we are able to get a little bit more amendment revenue on top of that. But as we see more buildout for 5G, so some of the densification and some of the equipment upgrade activity, that will hopefully drive a little bit stronger organic growth.

On the outdoor advertising side, we do receive some increase in rents from percentage rents, which is nice, but it is not a very fast-growing segment for the most part. Outdoor advertising has generally been growing along the same pace as the US economy, so you have about 2% average growth in the market.

There are some unique opportunities potentially in the portfolio over time where we could get a static converted to a digital where potentially we can get a much higher growth rate. But, yes, outdoor is a little bit lower and then renewables, which is our most stable asset class, has a small growth rate, but it's extremely high credit quality cash flow.

Jonathan Adkin - *RBC Capital Markets - Analyst*

Thank you.

Operator

Ric Prentiss, Raymond James.

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Ric Prentiss - *Raymond James - Analyst*

One extra set of questions. Tim, you mentioned the new administration, Sprint-T-Mobile; appreciate the color on what the overlap is, but what about any changes on tax reform, tax relief and what it might mean to you guys and now that you are looking international, any impacts?

Tim Brazy - *Landmark Infrastructure Partners LP - CEO*

Well, on the international side, we take all of the tax and legal frameworks into account when we look at those markets, the market opportunity and the pricing in the US. I think tax reform is still a situation that is yet to be determined. We don't expect there to be a significant impact on our core business, but we will continue to watch and see what the administration -- the direction the administration heads.

Ric Prentiss - *Raymond James - Analyst*

Okay. And I know there have been some thoughts around the MLP versus the REIT structure. Any updated thoughts there?

George Doyle - *Landmark Infrastructure Partners LP - CFO & Treasurer*

No, I think they are still pretty consistent with what we have described before. The REIT structure certainly would be a little bit easier for investors from a tax standpoint. It would eliminate UBTI, but our challenge is to really make the most out of a REIT conversion. We would want to do an internally managed REIT and until we get a bit bigger, a little bit more scale, this business just can't support the internalization quite yet. I think you would have to have north of a couple billion dollars in assets in order to do that.

We think it's an attractive opportunity down the road because it would potentially lower our cost of capital and make our acquisitions a bit more accretive, but we are consistently looking at that and evaluating if there are any options to try and simplify things or identify a path that would help us lower our cost of capital.

Ric Prentiss - *Raymond James - Analyst*

Okay. And then with the ROFOs having about $16 million of annualized revenues still at them again, is that stuff that maybe is more like a 6 cap rate versus the 7s? Just wondering what partner expectations are of that amount that's -- or the parent's expectation what's in the ROFO still.

George Doyle - *Landmark Infrastructure Partners LP - CFO & Treasurer*

Sure, so those assets are what I would say are the traditional wireless and outdoor advertising assets. So they look very similar to our portfolio over the last couple of years, so they are very high quality. They performed very well, but their value I would say is closer to a 6 cap than I would a 7 cap.

So hopefully there is an opportunity for the MLP to acquire those, but yes, it would be a little bit lower cap rate than what you are going to see for the organic dropdowns that the sponsor is going to provide. The sponsor has flexibility in the organic dropdowns and can target potentially a little bit different asset mix to make sure to be able to make those dropdowns a bit more accretive.

Ric Prentiss - *Raymond James - Analyst*

Okay. That's my extras. Thanks, guys.

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Operator

Thank you. I'm showing no further questions at this time. I'd like to turn the call back over to Tim Brazy for closing remarks.

Tim Brazy - *Landmark Infrastructure Partners LP - CEO*

Great. Well, if there aren't any more questions, I'd like to thank you all for joining us today. We appreciate the time this morning and look forward to speaking with you again next quarter.

Operator

Ladies and gentlemen, this concludes today's conference. Thank you for your participation. Have a wonderful day.

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