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LMRK - Q1 2015 Landmark Infrastructure Partners LP Earnings Call

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CORPORATE PARTICIPANTS

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Tim Brazy *Landmark Infrastructure Partners, LP - CEO*

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CONFERENCE CALL PARTICIPANTS

Dave Rodgers *Robert W. Baird & Co. - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Landmark Infrastructure Partners First Quarter 2015 Earnings Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will be given at that time. (Operator Instructions)

As a reminder, today's program is being recorded. I would now like to introduce your host for today's program, Marcelo Choi, Vice President, Investor Relations. Please go ahead.

Marcelo Choi - *Landmark Infrastructure Partners LP - VP, Investor Relations*

Thank you and good morning. We'd like to welcome you to Landmark Infrastructure Partners' first 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. Also in the room with us today is Keith Drucker, Senior Vice President of Investments.

I would like to remind all participants that our comments today will include forward-looking statements which are subject to certain risks and uncertainties. The 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 partnerships earnings release and documents on file with the SEC.

Additionally, we may refer to non-GAAP measures such as it 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'll turn the call over to Tim.

Tim Brazy - *Landmark Infrastructure Partners, LP - CEO*

Good morning, everyone. Thank you, Marcelo, and thank you all for joining us today. We're happy to be here and excited to present the quarterly results for Landmark Infrastructure Partners. Our first quarter results, both operationally and financially, were quite strong. George will provide more detail a bit later in the call, but the execution of two accretive dropdown acquisitions in particular highlight our activity and we continue to track to the guidance we previously provided.

During our last call, I shared some thoughts as to why we believe LMRK is a compelling story for investors. Today, I'd like to briefly talk about the two dropdowns and then focus on the three industries we target -- wireless communication, outdoor advertising, and renewable power generation.

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With regard to the dropdown acquisitions, as you know, we recently completed two acquisitions from our sponsor, Landmark Dividend. We bought a total of 154 tenant sites with expected annual rents of over $2.8 million for total consideration of approximately $47.3 million. Both of the dropdowns are immediately accretive to distributable cash flow and the assets have the same extremely attractive attributes as our initial portfolio.

Dropdown highlights include 100% occupancy, contractual lease escalators with average annual increases of 2.5%, a very high percentage, about 90% of Tier 1 tenants, long term remaining real property interest in lease terms about 85 years and 16 years respectively, and a very broad geographic mix. The 154 tenant sites are located in 31 states.

It's also very important to note that these two dropdown acquisitions were not part of the sponsor's private funds that are subject to our right of first offer. In fact, our ROFO assets have grown from 832 at the time of the IPO to approximately 1,000 today, a very significant increase that we believe further strengthens LMRK's position in the opportunity for future growth.

Overall, we're very pleased with the execution of these acquisitions. And given the activity plan for the remainder of the year, we're confident we can deliver the 10% to 15% growth that we've previously communicated in our guidance.

Now, the three industries we target -- wireless communication, outdoor advertising, and renewable power generation -- represent a significant, growing, fragmented, and underpenetrated market opportunity for us. We estimate that our total addressable US market is over 360,000 locations as of today. And underscoring that opportunity, our current asset portfolio, including the available ROFO assets, only represents less than half of 1% of this total domestic market.

I'll start with the wireless communication industry since this segment represented 83% of our total revenue this past quarter. As you know, mobile data traffic has been driving demand for the wireless carriers in the tower companies. As smartphone penetration continues to rise and technological improvements drive higher mobile internet speeds, mobile data traffic in North America has been exploding and is expected to grow by almost seven times over the next five years.

Video traffic in particular is expected to lead this growth. And Cisco forecasts global mobile video streaming will increase by almost 13 times over the same period. To keep up with this anticipated hyper growth, the wireless carriers have ramped up their CapEx budgets. Publicly traded carriers combine to spend over $32 billion in 2014 versus approximately $20 billion in 2009, a compound annual growth rate of nearly 10% over the past five years.

As competition has intensified for the carriers, network quality has also become a critical factor for their success which could drive more spending to improve individual network capacity and density. The most recent spectrum auction highlights the importance of network capacity for the wireless industry. A record $45 billion of spectrum bidding was announced earlier this year. That spectrum will need to be deployed and is further evidence that tower demand should remain strong for the foreseeable future.

All of this is incredibly positive and indicative that the underlying wireless communication industry is extremely healthy. We expect to benefit from continued tower and site development, equipment modification and upgrades.

Moving on to the outdoor advertising segment, this industry sector represented 17% of our total revenue for the quarter. SNL Kagan expects US outdoor advertising revenue to grow from approximately $7.2 billion in 2014 to $10.9 billion in 2024, representing real market share gains from other modes of advertising. Outdoor advertising revenue as a percentage of core advertising revenue, which includes outdoor, TV, radio, and print mediums is projected to grow from 4.3% to 5.1% during the same period.

The shift to digital billboards in particular is expected to play an important role in the growth of the overall outdoor advertising industry since those structures have the ability to change advertising messages without the time or labor required to refresh content on static billboards. The digital billboards also help create operational efficiency and adaptability by offering flexible, shorter term contracts to prospective advertisers and by enabling them to better target their audiences.

And as we all know, the outdoor advertising industry is also regulated. Various federal, state, and local laws and zoning regulations limit, in many cases, the development, replacement, and modification of existing billboard structures. That in turn really enhances the value of the current inventory and locations.

And lastly, I'd like to touch briefly on the renewable power generation industry. Although it doesn't contribute significantly to our current business, it is a growing industry and an increasing portion of the ROFO assets that I previously mentioned. Renewable power generation which includes wind, solar, geothermal and hydropower has been the fastest growing energy sector in the United States, increasing at an annual growth rate of 7% over the last five years.

Government incentives, the increasing competitiveness of renewable energy and environmental regulation have all helped drive demand. Wind and solar in particular, have been the fast growing components within the industry. The EIA expects wind and solar to grow from 3.5% of total power generation capacity in 2009 to 8.5% in 2040.

Wind and solar power generating assets are typically located on land that's leased from third parties or directly owned by the power companies. We believe that owning real property interests underneath renewable power structures will provide us with very attractive secure rental streams given the importance of the power generating infrastructure, the substantial levels of capital investment that are required, and favorable industry trends.

In conclusion, we believe that the fundamentals are very attractive for each of these industries which should drive significant growth in the underlying assets that we acquire.

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, LP - CFO and Treasurer*

Thank you, Tim. As I review the first quarter, keep in mind that on March 4, 2015, the partnership completed its acquisition of 81 tenant sites and related real property interests from Landmark. The assets acquired are recorded at the historical cost of Landmark as the transaction is 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 in our press release separately presents our results of operations separate from those of the acquired assets for the period prior to March 4th.

I will focus my comments on the results in the column labeled Landmark Infrastructure Partners in the reconciliation which excludes the results of the acquired assets prior to the period owned by the partnership.

We generated revenue for the first quarter of 2015 of $3.8 million. Revenue was favorably impacted by the first dropdown acquisition and higher occupancy levels in the 97% guidance we provided. The first dropdown acquisition generated approximately $100,000 in revenue for the quarter. Included in revenue for the quarter was non-cash revenue associated with straight line rental adjustments and amortization of above and below market lease intangibles of $19,000 and $192,000 respectively.

We maintained high margins during the quarter with no property operating expenses. We expect high margins to continue looking forward since substantially all of our leasing arrangements are effectively triple net lease structures.

As expected, G&A expenses of $1 million were higher than the previous run rate due to expenses associated with our 2014 yearend audit, 2014 tax return and K-1 preparation, and unit-based compensation to our independent board members.

For the quarter, we generated adjusted EBITDA of $3.4 million which excludes several non-cash items including impairments and unrealized losses on derivatives. We ended the quarter with 766 leased tenant sites out of a total of 776 available tenant sites and the occupancy rate for the quarter was 99%.

We have received termination notices related to 23 Metro PCS sites. As of the end of the quarter, four tenant sites had been vacated with the majority of the remaining sites vacating over the next three to six months. We recognized impairment charges of $2.8 million, primarily related to these Metro PCS sites. Most of the tenant sites that were impaired were tower sites where the tower was taken down by the tenant.

We believe we have received the bulk of the decommissioning notices, if not all of the notices associated with Metro PCS sites. In our prior guidance, we assumed in our forecast that occupancy would decline from 99% historically to 97% as a result of expected decommissions from our tenants that experienced consolidation in the past. We believe our forecasted occupancy level and our guidance of 97% adequately takes into consideration the Metro PCS decommissionings and potential decommissionings from other tenants.

On April 23rd, Landmark Infrastructure Partners announced its first quarter distribution of $0.2975 per unit or $1.19 per unit on an annualized basis. This distribution represents a 3.5% increase over the minimum quarterly distribution of $0.2875 per unit.

Our coverage ratio, which is defined as distributable cash flow divided by declared distributions on the weighted average units outstanding during the quarter, was 1.09x. We finished the quarter with $97 million of outstanding borrowings under our revolving credit facility. On April 8th, we announced the closing of the second dropdown acquisition which took our borrowings under the revolving credit facility to approximately $118 million and leaves us with an additional $72 million in borrowing capacity subject to certain borrowing limitations.

Recall that we recently executed two interest rate swaps which essentially fixed our floating interest rate on $95 million of borrowings on a revolving credit facility at a blended rate of approximately 4% per annum. This means that at the end of the first quarter, approximately 100% of our outstanding borrowings were at a fixed rate. After closing the second dropdown acquisition in April, approximately 80% of the $118 million in borrowings are fixed. This compares to our expectation of approximately 60% at the time of our IPO. As of the end of the first quarter, we were in compliance with all of our debt covenants.

Today, we are reiterating the guidance that we have previously provided. We continue to expect significant growth from a series of dropdown acquisitions. The partnership sponsor and our dividend has previously expressed intent to have the right to purchase assets with annual rents of approximately to $15 million to $18 million over a 12-month period beginning February 26, 2015. These dropdowns will more than double the size of the partnership in terms of revenue and assets.

Combined with organic portfolio growth expected from contractual rent escalators, leasing activity and revenue sharing arrangements, the dropdowns are expected to drive distribution growth of 10% to 15% over the minimum quarterly distribution of 0.2875 per unit by the end of 2015.

We expect to recommend at the board to increase the partnership's second quarter 2015 cash distribution to 0.3075 per unit which is 7% higher than the MQD of 0.2875 per unit and is expected to be paid in August 2015.

In closing, we are pleased with our quarterly results in the execution of the dropdown acquisitions. Our focus remains on meeting the growth plans that we have announced and ultimately generating value for all of our unit holders.

We will now open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Dave Rodgers from Robert W. Baird. Your question please.

Dave Rodgers - *Robert W. Baird & Co. - Analyst*

Yes. Good morning out there, guys. George, maybe to start with you real quick on some accounting related questions. First, on the acquisitions and the as if pooled basis. With regard to I guess future acquisitions and how it's going to impact the consolidated results, does the sponsor have to hold the assets for a certain period of time? Should we expect that they're seasoned at some point, whereas asset acquisitions are dropped down for you, we'll always going to have a full quarter impact?

George Doyle - *Landmark Infrastructure Partners, LP - CFO and Treasurer*

Right. So the ROFO assets are going to very seasoned. Those, I would say on average, have been in our funds for a couple of years. And so when those get dropped down, then the historical financial statements would be recast for a couple of years, so going back to 2013.

The acquisitions that Landmark acquires on a quarterly basis, just the one-by-one acquisitions, those will season on Landmark's balance sheet for, I would say on average, maybe a month or two. So not very long, but there will be a little bit of seasoning so when those get dropped down, then you'll have some historical results from those that also get reflected in the recast periods.

Dave Rodgers - *Robert W. Baird & Co. - Analyst*

Okay, that's helpful. Switching gears, again on accounting, go to the impairment, talk a little bit about how you come up with the impairment number. It sounds like from what you said, Metro PCS has taken the towers down so that you get to the impairment by what it would cost to rebuild the tower. Is it purely just the lost cash flow on an NPV basis? It seems a little unusual relative to traditional real estate. So, I'm trying to think about how that works in your math.

George Doyle - *Landmark Infrastructure Partners, LP - CFO and Treasurer*

Sure. So our asset class is a little bit unique relative to traditional real estate because we own real estate rights versus owning the actual land or structure. When a tower is taken down, that basically leaves us with the rights to lease that spot to another tower owner.

If the current tower owner took down the tower, they probably think that the likelihood of re-leasing that site is extremely low. So that goes into our decision-making when we look at what we're going to do with that asset.

And since the likelihood is very close to zero that you will find another tenant that would be placed on a tower there, we write off the book value of that asset. So in the case of the charts this quarter, we wrote off $2.8 million worth of book value associated primarily with these towers.

The rooftops are a little bit different. The rooftops, when a tenant vacates, we still have the right to put another tenant on that rooftop space or we can take one of the existing tenants on the rooftop and have that expand over into the vacated space.

So it's much easier for us to find a replacement tenant or replace that revenue on a rooftop than it is in a tower situation if the tower comes down.

Dave Rodgers - *Robert W. Baird & Co. - Analyst*

In the impairment on the quarter, was that all on IPO assets?

George Doyle - *Landmark Infrastructure Partners, LP - CFO and Treasurer*

That's correct.

Dave Rodgers - *Robert W. Baird & Co. - Analyst*

Okay. Last accounting question, I think. The gain on sale of real property interest, maybe it correlates to what we've been talking about [that's often with] that in the quarter. Can you talk about that as well?

George Doyle - *Landmark Infrastructure Partners, LP - CFO and Treasurer*

Sure. Periodically, assets that we have in the portfolio will be subject to a road widening. And when that happens, then we negotiate basically the sale of the real property interest to whatever government entity is doing the road widening. And in this case, we negotiated pretty attractive sales price and resulted in gain when we sold the asset.

That happens periodically. They'll show up on occasion. It's not a common thing. I wouldn't expect to see it every quarter, but they'll periodically show up.

Dave Rodgers - *Robert W. Baird & Co. - Analyst*

Okay. Last question for you, Tim, more strategy, can you talk about more competition out there from the sponsor point of view in terms of going of going out and trying to acquire these three major business lines and where do you feel like they're having the most success today?

Tim Brazy - *Landmark Infrastructure Partners, LP - CEO*

I think on the wireless side, we haven't seen any specific increase in competition and there are competitors in the market. It's a very large opportunity set, though. So with over 360,000 locations, there's a lot for us to look at and to acquire. There are few substantial competitors, but they've been in the market for a number of years, so we don't see a lot of money flowing into that area right now.

On the outer advertising side, we're the only competitor or sponsors with a national footprint. And there's only one competitor really on the renewable side. But the market is so large. We continue to see good transactions, high volume transactions. A lot of what we do is high touch customer engagement. So it's a matter of continuing to maintain the discussion with the property owners.

Dave Rodgers - *Robert W. Baird & Co. - Analyst*

Okay, great. Thanks for all the color, guys.

Operator

(Operator Instructions) And this does conclude the question-and-answer session of today's program. I'd like to hand the program back for any further remarks.

Tim Brazy - *Landmark Infrastructure Partners, LP - CEO*

Well, if there are no more questions. I'd like to thank you all for joining us today. This is an exciting time for Landmark. And we're confident that we'll continue to meet our stated goals for the year. We appreciate your attending and look forward to speaking with you next quarter.

Operator

Thank you, ladies and gentlemen, for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.
