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LMRK - Q3 2016 Landmark Infrastructure Partners LP Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Third Quarter 2016 Landmark Infrastructure Partners Earnings Conference Call. (Operator Instructions) As a reminder, today's program is being recorded.

I would now like to introduce your host for today's program, Mr. Marcelo Choi, Vice President, Investor Relations. Please go ahead.

Marcelo Choi - *Landmark Infrastructure Partners LP - 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 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. By 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'll turn the call over to Tim.

Tim Brazy - *Landmark Infrastructure Partners LP - CEO*

Thank you, Marcelo, and good morning, everyone. We appreciate you all joining us today as we present and discuss our results for the third quarter and update you on the operating activities at the Partnership and our sponsor, Landmark Dividend.

Overall, we're very pleased with this quarter's operating and financial results. Growth in this quarter has been strong and was driven primarily by the various acquisitions we completed within the last 12 months and the organic growth from the current assets in the portfolio. To position the Partnership for future acquisitions, we've continued to selectively access the capital markets successfully completing two preferred unit offerings and a securitization transaction earlier in the year and a recent common unit offering that closed in October.

The third in particular was very busy for the Partnership. We raised capital to deploy in a number of accretive acquisitions we've already completed and to better position the Partnership to execute our growth strategy as our sponsor continues to build an attractive pipeline of assets for future drop-down transactions and direct third party acquisitions.

In August, we close our second preferred unit offering issuing 7.9% Series B preferred units resulting in gross proceeds of approximately $46 million including the full exercise of the underwriters over-allotment option.

Similar to the earlier preferred unit offering in April, the Series B issuance in August increased our financial flexibility and our capacity for additional drop-down acquisitions. In October, we completed the public offering of common units raising gross proceeds of approximately $56 million, and as the market allows, we continue to opportunistically raise capital through our common unit and Series A preferred unit ATM Programs. The capital raised through these programs has helped finance our acquisition activity and put our balance sheet in a better position to take advantage of many opportunities we see in our market.

In terms of acquisitions during the quarter, we announced three separate drop-down acquisitions, including the largest ROFO drop-down acquisition to date, and we also acquired a handful of assets in direct third party acquisitions. These combined acquisitions were comprised with 519 assets for total consideration of $125 million in cash and $65 million in common units issued in private placements.

In total, we acquired 285 wireless communication assets, 181 outdoor advertising assets, and 53 renewable power generation assets. As in all prior acquisitions, these acquisitions were also immediately accretive to distributable cash flow, and these acquired assets are similar to and complement the already attractive characteristics of our existing portfolio featuring 100% occupancy rate and average contractual lease escalator of approximately 2.5%, Tier 1 tenancy of approximately 85%, and aggregate remaining real property interest term of 80 years and a lease term of 20 years, and a very broad geographic mix.

In addition to the more traditional drop-down transactions, we're also seeing more direct acquisition opportunities including the recurrent transaction which we closed at the end of October. The recurrent transaction was a significant milestone for the Partnership. It was our largest direct third party acquisition to date and more importantly was our largest solar transaction indicative of our ongoing commitment to the renewable power generation industry.

As we've discussed in the past, the renewable power generation segment is an important area of growth for the Partnership and the assets we target here are very attractive. These are large utility scale solar projects with stable rental income derived from long-term power purchase agreements from high-grade utility off-takers.

The projects themselves and the related infrastructure, which includes transmission lines and interconnects are major projects requiring significant capital investments. We believe our assets represent an essential value component of the overall project and benefit greatly from an extremely favorable rental income to project revenue ratio of typically 10% or less, an indispensable but relative small component of the renewables projects provides us with a highly stable and consistent source of rental income.

With regard to the ongoing market opportunity for the Partnership, renewable power generation is the smallest segment of our business at approximately 15% with the number of solar tenant sites available to us anticipated to grow significantly over time. Solar power is expected to be one of the fastest growing sources of energy over the next 25 years. As the Energy Information Administration forecast solar electricity generation capacity to increase by more than 10 times from 2015 to 2040, the recurrent transaction was one of several acquisitions that the Partnership completed in 2016.

Year-to-date, we've acquired 531 assets, representing an increase of 36% over that period for total consideration of approximately $271 million. These acquisitions are expected to contribute annual rents of approximately $16.8 million, increasing total rents to over $45 million, and these acquisitions include both organic and ROFO drop-downs, as well as direct third party acquisitions including the recently announced recurrent transaction and assets acquired under the Unit Exchange Program.

In terms of sponsor as a result of continued improvements made in back office resource allocation and process enhancements, acquisition activity remains extremely strong and at near record levels. Signed acquisition contract volume by the sponsor increased by almost 80% in the first nine months of 2016 versus last year. These acquisitions at the sponsor are expected to drive considerable opportunity for higher acquisition activity at LMRK. The sponsor's acquisition activity has been very strong within the renewables segment, as well as internationally with the primary focus in Australia. International acquisition opportunities both for the sponsor and the Partnership represent an area of growth for LMRK and we expect to see much more activity over the next several quarters as part of our long-term strategy of acquiring third party and international assets directly at the Partnership level.

Landmark Dividend remains focus on acquiring assets with higher cap rates and other characteristics that make for attractive and accretive drop-down opportunities for the Partnership.

As the sponsor continues to acquire assets at near record levels, the ROFO asset portfolio plus additional assets under management remains very healthy and currently has more than 600 tenant sites as of September 30, 2016, even after the Landmark Fund G ROFO drop-down acquisition of 391 assets at the end of August. These tenant sites under management at the sponsor represent approximately $14 million in annual rents, which would represent an increase of approximately 30% over the Partnerships current total revenue run rate if the entire portfolio of assets were drop-down.

Overall, our strong results this quarter are consistent with our expectations. Our portfolio continues to perform as anticipated producing stable escalating cash flows that help drive our growth. With our capital capacity and flexibility, we believe we can take advantage of the strong asset originations and our sponsor as well as direct third party asset acquisition opportunities both domestically and internationally.

With the focus on our core long-term strategy, we're confident we can take advantage of these significant opportunities available to the Partnership and drive value for our unit holders.

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

George Doyle - *Landmark Infrastructure Partners LP - CFO*

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

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 drop-down 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 drop-down assets predecessor prior to the date of acquisition.

We generated revenue for the third quarter of $8.8 million, which was an increase of 59% year-over-year. The growth is primarily due to the incremental drop-down transactions that have completed since the third quarter of last year into a lesser extent organic growth from the portfolio. The three drop-downs announced in the third quarter contributed approximately $1.1 million in revenue.

G&A expenses for the quarter were $632,000 before the reimbursement from our sponsor of $415,000. 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 Q3 2015 as a results of higher tax preparation and consulting fees.

Adjusted EBITDA, which excludes several non-cash items was $8.3 million for the quarter, the increase of 65% year-over-year.

We ended the quarter with 1,900 leased tenant sites out of a total of 1,958 available tenant sites and the occupancy rate for the quarter was 97% which is in line with our expectations.

We finished the quarter with $179 million of outstanding borrowings under our revolving credit facility. The increase during the quarter was primarily due to the two organic drop-down acquisitions and the cash portion of the ROFO drop-down acquisition upset partially by the proceeds of the Series B preferred offering in August.

In October, we amended our revolving credit facility increasing its capacity by $32 million to $282 million. As of September 30, our leverage ratio under our revolving credit facility was at approximately 6.5 times adjusted EBITDA. The Partnership-wide leverage ratio was approximately 7.5 times adjusted EBITDA and approximately 90% of our total borrowings were fixed or fixed through interest rate swaps as of September 30.

In regard to our ATM Programs during the third quarter, we issued 274,000 common units with net proceeds of approximately $4.7 million and 64,000 Series A preferred units with net proceeds of approximately $1.6 million.

On October 26, the Partnership announced its third quarter cash distribution of $0.3375 per common unit or $1.35 per common unit on an annualized basis. This distribution is 17.4% higher than the annualized minimum quarterly distribution and represents a 1.5% increase over the second quarter 2016 distribution of $0.3325 per common unit. This quarter's distribution also marked the seventh 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 and the weighted average common and subordinated units outstanding during the quarter was 0.82 times in the third quarter.

Our coverage ratio for the quarter was temporarily impacted by the securitization transaction in June in the Series B preferred offering in August. As a result of the securitization, we entered the quarter with over 100% of our debt either fixed or fixed through interest rate swaps, which is well above our target fixed rate debt level of approximately 70%. Additionally, the proceeds from the Series B preferred offering were not fully deployed during the quarter, the end of the quarter at 7.5 times adjusted EBITDA. After the closing of the common offering in the recurrent acquisition, our leverage level is at approximately 7.2 times adjusted EBITDA, which gives us significant drive power heading into the fourth quarter in the first half of 2017.

Today, we are announcing our initial guidance for 2017. The sponsor has expressed its intent to offer us the right to purchase 200 million of assets. These acquisitions combined with organic portfolio growth are expected to drive distribution growth of 10% over the fourth quarter 2016 distribution by the fourth quarter 2017.

We are also updating our 2016 guidance. The sponsor previously expressed its intent to offer us the right to purchase assets in the range of $200 million to $300 million in 2016. Through October 31, we have completed acquisitions totaling $271 million. We are updating our guidance to reflect the acquisitions close to date and our expectations for the remainder of the year.

Our sponsor has now expressed its intent to offer us between $300 million and $310 million in drop-down in third party acquisitions in 2016. As a result of the near-term impact from the large common unit capital raise we completed on October 19, we are updating our distribution growth guidance for 2016 to 7% to 10% over the fourth quarter of 2015 distribution of $0.325 per common unit. Due to the timing of the common unit offering, we do not expect to fully deploy the capital raise on October 19 and complete our financing plans until the first half of 2017.

As we head into the remainder of the year in the first half of 2017, we believe that we are well positioned for acquisition opportunities. We expect acquisition opportunities for the remainder of 2016 to come from one organic drop-down acquisition and direct third party acquisitions. As Tim mentioned, the pipeline of assets available to the Partnership at the sponsor level for future drop-downs continues to grow.

In summary, the Partnership delivered another quarter of stable cash flow and strong year-over-year growth that we are well positioned for future growth. Acquisition activity remained strong at the sponsor and we have secured the necessary capital to make further accretive acquisitions. Our focus remains the same to create value for all of our unit holders.

We will now take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Our first question comes from the line of Ric Prentiss from Raymond James. Your question, please.

Ric Prentiss - *Raymond James and Associates - Analyst*

A couple of questions, some math questions, if I could. So, given the updated guidance for the 4Q 2016 over 4Q 2015 distribution, so 7% to 10%, so we should say $0.325 and they're ready to be 7% or 10% higher, so $0.348 or $0.355 of distribution per unit, is that the correct math?

George Doyle - *Landmark Infrastructure Partners LP - CFO*

Yes, that's right.

Ric Prentiss - *Raymond James and Associates - Analyst*

Okay. And what would cause given where we're at in this time of the year to vary between the high and the low? What's kind of variable that would move it between those?

George Doyle - *Landmark Infrastructure Partners LP - CFO*

I would say it's really acquisition opportunities what we see in the fourth quarter, what's potentially going to close at the beginning of the first quarter. That's really the big driver.

Ric Prentiss - *Raymond James and Associates - Analyst*

And then I think you mentioned there was one more drop-down that you're anticipating in 2016?

George Doyle - *Landmark Infrastructure Partners LP - CFO*

That's right. Yes. We're starting to do a few more direct acquisitions compared to what we used to do historically, but we do see one let's say, drop-down that's probably more around the size of some of the other ones we've done this year, a little bit on the smaller side.

Ric Prentiss - *Raymond James and Associates - Analyst*

Yes. Okay. And then the 2017 guidance and so we should assume that if the -- if the 4Q 2016 is $0.348 to $0.355, the target then would be 10% above either those numbers depending which one you pay. So, maybe $0.383 to $0.391?

George Doyle - *Landmark Infrastructure Partners LP - CFO*

Yes. That's right.

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Ric Prentiss - *Raymond James and Associates - Analyst*

Okay. I just want to make sure I've got it right as we calculated it out. Then your coverage ratio obviously is somewhat concerning then because you did go down below 1. Typically, I think you like to have it more 1 or maybe 1.05. You mentioned the timing impact, we get it financial flexibility, you've done the offerings, what sort of timelines should we look at for you getting back to coverage north of 1, is it still your target to be in that kind of 1.05 range?

George Doyle - *Landmark Infrastructure Partners LP - CFO*

Yes. It's still our target to be in the 1.05 range. It will probably take us into the later part of the first quarter or beginning part of the second quarter to reach that point. We're hopeful in the second quarter of next year, the fourth quarter results would show us covering.

The distribution, I would expect by the time we get there, we've had a couple of distribution increases as well. This quarter was just a very busy quarter within the span of 90 days. We did the preferred offering. We did a common offering. We just had an awful lot going on in our coverage ratio for the quarter just doesn't necessarily reflect where the portfolio and the Partnership is as of at this point in time. So, we'll work through the excess capital and, like I said, probably end of Q1, beginning of Q2 time frame.

Ric Prentiss - *Raymond James and Associates - Analyst*

Another kind of all interrelated questions here, on the 2017 target of 10%, that's implicit then in that $200 million of acquisitions. It also mentions organic portfolio growth. Is that implying organic rent growth or is that further like third party acquisitions?

George Doyle - *Landmark Infrastructure Partners LP - CFO*

That's the organic rent growth. So we think that will drive a portion of that 10% growth.

Ric Prentiss - *Raymond James and Associates - Analyst*

Yes. So, it's not portfolio growth meaning that the portfolio is going to have more assets in it, but it's growth of the rent on the existing portfolio?

George Doyle - *Landmark Infrastructure Partners LP - CFO*

Exactly, yes.

Operator

Thank you. Our next question comes from the line of Richard Schiller from Baird. Your question, please.

Richard Schiller - *Robert W. Baird and Company - Analyst*

I have a couples one here. What led to the reduction in DPU growth estimates this year and what led you to be on the low end on the range for next year?

George Doyle - *Landmark Infrastructure Partners LP - CFO*

Sure. So for this year, it was really reflection of the large capital raise we did. The timing of the capital raise is -- didn't match perfectly with the deployment of the assets. So, rather than raise the distribution somewhere in that 10% to 15% range, we thought it was a little bit more prudent to finish deploying all that capital before we increase the distribution within that range.

The acquisition opportunities in front of us as far as what we can see at this point for 2017 are really what's driving the 2017 guidance. As we get further into the end of the year and to beginning of 2017, we'll have more clarity as to what the acquisition opportunities are we'll provide updates to that guidance as we move forward.

Richard Schiller - *Robert W. Baird and Company - Analyst*

Okay. Great. Thanks. And similar question, was it the timing or what was the mindset in not lowering the guidance when you guys did the offering a couple of weeks back.

George Doyle - *Landmark Infrastructure Partners LP - CFO*

It was the size of the offering that we ultimately went with that decided the change in guidance.

Richard Schiller - *Robert W. Baird and Company - Analyst*

Okay. For your 2016 acquisition expectations, does that include only drop-downs or also the third party product you're purchasing?

George Doyle - *Landmark Infrastructure Partners LP - CFO*

I'm sorry. Can you repeat that? I didn't hear that clearly.

Richard Schiller - *Robert W. Baird and Company - Analyst*

Yes. Sure. For the 2016 acquisition expectations, does that include only drop-downs or also the third party product you're purchasing?

George Doyle - *Landmark Infrastructure Partners LP - CFO*

It would include both. We expect there would be some direct third party acquisitions, I would say on the smaller side. This won't be big the third party acquisitions, but there will be some. And then as I mentioned, one drop-down from the sponsor is expected.

Richard Schiller - *Robert W. Baird and Company - Analyst*

Okay. Great. Why is the sponsor offering less product next year into the MLP?

George Doyle - *Landmark Infrastructure Partners LP - CFO*

I would say it's a combination of a couple of factors. This year you had one fund at the sponsor that was reaching its end of life and so that was a relatively large fund, which created sizable acquisition opportunity for the Partnership.

As we look into 2017, there aren't as many ROFO assets in funds that are reaching their liquidation period. So, it's really the matter of what ROFO assets are available for drop-down. As I mentioned, we'll have a little bit more visibility as what some of the acquisitions opportunities will be as we start to get into the beginning of 2017.

Operator

Thank you. Our next question comes from the line of Mike Gyure from Janney. Your question, please.

Michael Gyure - *Janney Montgomery Scott LLC - Analyst*

Can you talk a little bit about I guess your expectation maybe for 2017 of overseas expansion or kind of growing the portfolio outside of U.S., what you're looking at there and maybe compared to where you are today?

George Doyle - *Landmark Infrastructure Partners LP - CFO*

Sure. So, our international -- the international side of our portfolio today is still relatively small. We have a number of assets outside the U.S. predominantly in Australia. As we look out over 2017, we do continue to see Australia acquisition opportunities, potentially some Canadian opportunities. We are still evaluating Western Europe. And I would say those are principally for the wireless and outdoor segments, and then beyond that, I think it will -- that will probably be the extent of what we see in 2017 for international acquisitions. I mean I think there's other markets potentially down the road further that are attractive markets to enter, but I don't think for 2017.

Michael Gyure - *Janney Montgomery Scott LLC - Analyst*

Okay. And then on the -- specifically on the third quarter, you guys took an impairment charge. Can you talk a little bit about that and maybe your expectations for the rest of the year?

George Doyle - *Landmark Infrastructure Partners LP - CFO*

Sure. We did get a couple of termination notices on sites in these -- so I've mentioned on prior calls, they periodically come in. So, we had a little bit of churn during the quarter. There were a couple of very small billboards that were taken out. These are sites that frequently have annual rents in the $5,000 to maybe $7,000 range, so pretty small assets.

On the wireless side, they were a couple of towers that were taken down. The tower, tenant had lost their -- the wireless carriers on the tower and ultimately determined to takedown the towers. That's a relatively infrequent thing that happens on the tower side. Sometimes, it's regulatory driven, some jurisdictions don't allow and they get towers to stay up so other tower companies are forced to take the tower down and that happened for one of these situations.

So, we will periodically see impairments but I don't imagine that they're going to amount to too much beyond what you've seen this quarter and what you've seen historically.

Operator

Thank you. (Operator Instructions). Our next question comes from the line of Liam Burke from Wunderlich. Your question, please.

Liam Burke - *Wunderlich Securities - Analyst*

Tim, on the solar, it's a smaller part of your business, you mentioned the highlights of the predictability of the alternative energy, but is there any offset in terms of growth rates or growth of the asset?

Tim Brazy - *Landmark Infrastructure Partners LP - CEO*

In terms of the rental stream --

Liam Burke - *Wunderlich Securities - Analyst*

Yes.

Tim Brazy - *Landmark Infrastructure Partners LP - CEO*

-- or just the market in general?

Liam Burke - *Wunderlich Securities - Analyst*

No. Just in the rental stream.

Tim Brazy - *Landmark Infrastructure Partners LP - CEO*

Generally speaking relative to the other industry segments where we focus, the growth rates are a bit lower. These are long-term power purchase agreements with those credit-rated off-takers. So, the quid pro quo generally speaking is a slightly lower growth rate and that really speaks to the long-term degradation of the electricity generating capacity of the panels. So, at the -- at a certain point in time, you really don't want the rental income or the rental payment to grow beyond what's reasonable given the power generating capacity of the actual project itself. And so these are longer term projects. You'll see repowering of the projects at a certain point in time most likely with more cost efficient, more technologically efficient panels out in the 15 to 20 or even longer time frame.

Liam Burke - *Wunderlich Securities - Analyst*

Okay. And on the third party acquisitions, are you -- the pipeline is building. So, I'm presuming you don't see a significant amount of competition for the quality assets?

Tim Brazy - *Landmark Infrastructure Partners LP - CEO*

Competition has been stable, really no significant changes since our last call. We're really (inaudible - microphone inaccessible) this year and the market continues to be -- I would say as robust as it always has. In fact, we've seen some competition reduce their activity in various segments and more opportunities to engage with property owners. So, we expect to see real activity going forward.

Operator

Thank you. And this does conclude the question-and-answer session of today's program. I'd like to hand the program back to Tim Brazy, CEO.

Tim Brazy - *Landmark Infrastructure Partners LP - CEO*

Great. Thanks very much. We appreciate you joining us today and look forward to speaking with you, again, 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.
