THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

LMRK - Q4 2014 Landmark Infrastructure Partners LP Earnings Call

EVENT DATE/TIME: FEBRUARY 26, 2015 / 5:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Marcelo Choi *Landmark Infrastructure Partners*

Tim Brazy *Landmark Infrastructure Partners - CEO*

George Doyle *Landmark Infrastructure Partners - CFO*

Keith Drucker *Landmark Infrastructure Partners - SVP - Investments*

CONFERENCE CALL PARTICIPANTS

Rick Prentiss *Raymond James - Analyst*

Jonathan Atkin *RBC Capital Markets - Analyst*

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

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Landmark Infrastructure Partners fourth quarter 2014 earnings conference call.

At this time, all participants are in a listen only mode. Later, we will conduct a question and answer session and instructions will follow at that time.

(Operator Instructions)

As a reminder, this conference is being recorded.

I will not turn the call over to your host, [Marcelo Choi]. Please go ahead.

Marcelo Choi - *Landmark Infrastructure Partners*

Thank you, and good morning.

We'd like to welcome you to Landmark Infrastructure Partners quarterly earnings call. Today we will share an operating and financial overview of the business, and we'll also take your questions following a 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. 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 earning release and documents on file with the FCC.

Additionally, we may refer to non-GAAP measure such as EBITDA, adjusted EBITDA, and distributable cash flow during the call. Please refer to the earnings release in our public filings for definitions and reconciliations of these non gap 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, everyone and thank you for joining us today. Very happy to be here and excited to discuss the initial quarterly results for Landmark Infrastructure Partners.

As you know, we successfully completed our IPO in November 2014. Our business performed very well in the fourth quarter and we're extremely pleased with the results. Financial and operating measures, including revenue, adjusted EBITDA, and distributable cash flow, as well as key asset operating metrics all met or exceeded the forecast in our perspectives.

For those of you who are less familiar with our partnership, I'd like to take a moment and share a few thoughts on why we think we have a compelling story here at Landmark.

First, our cash flows are stable and highly predictable. Our portfolio is significantly diversified, consisting of a very high quality mix of major tenants across 695 tenant sites.

The real property interests and related leases we buy are long-term in nature. The average real property interest term exceeds 74 years with a portfolio, and the average remaining term of our leases, including renewal options, is over 18 years.

Occupancy and renewal rates are also extremely high, resulting in very stable and predictable revenue. Our current occupancy rate is over 99%, and historically over 99% of our leases have renewed.

Given the essential nature of the infrastructure assets at our tenant sites and the key strategic locations of our real property interests, we believe high tenant retention and occupancy rates will continue.

Second, we generate very high margins. Most of our leases are effectively triple met, which means we generally incur property level operating expenses, including property taxes, insurance, and maintenance CAPEX.

And third, we're confident the partnership can sustainably grow distributable cash flow.

Growth is expected from a number of different sources, including the organic growth we expect from our existing portfolio. 95% of our leases have contractual rent escalators which average approximately 2.6% per year. The portfolio is also expected to achieve revenue growth from ongoing lease modifications and renewals, as well as additional revenue sharing arrangements.

We also expect to generate a significant amount of growth from the following three areas, the origination in drop down activity from our sponsor, Landmark Dividend, the drop downs related to the specific ROFO assets, and direct additional third party acquisitions.

In particular, we believe drop downs from Landmark Dividend are a real opportunity for growth. Landmark Dividend continues to increase its business, which we believe will present us with recurring opportunities to buy assets. As of the end of the fourth quarter, the partnership had a wider first offer on 918 available tenant sites, which would alone more than double the size of the current portfolio.

As a result, we're confident the partnership will continue to generate consistent, predictable, and growing distributable cash flow for our unit holders.

And with that, I'll hand the call over to George for a financial review of the quarter and some brief comments on 2015.

George Doyle - *Landmark Infrastructure Partners - CFO*

Thank you, Tim.

As I review the fourth quarter, keep in mind that the full quarter results include the operations of our accounting predecessor for the period prior to completion of the IPO.

The results of operations for the post IPO period, from November 19th, 2014, through December 31st, 2014, reflects only the partnership.

We generated revenue for the three months ended December 31st, 2014, of$ 3.6 million. And for the post IPO period, we generated revenue of $1.7 million. Revenue for both periods was higher than our forecasts and our perspectives due to higher occupancy levels in the portfolio.

Included in revenue for the quarter and post IPO period was approximately $162,000 and $78,000 respectively on non cash revenue associated with straight line rental adjustment, an amortization of above and below market lease intangibles.

We continue to maintain high margins during the quarter with property operating expenses representing less than 1% of revenue. We expect it to continue looking forward since substantially all of our leasing arrangements are effectively triple net lease structures.

For the quarter, we generated net loss of three million and EBITDA of negative $0.6 million. That income in EBITDA include the write off of our predecessor's unamortized balance of differed load costs in connection with the IPO of $2.9 million with $0.37 per unit. We disclosed this write off in our IPO perspectives.

These unamortized differed loan costs were associated with our predecessor's credit facilities that were re financed a ton of our IPO with our new $190 million five year revolving credit facility. Adjusted EBITDA, which excludes the write off and other non cash items, was $3.2 million for the quarter.

For the post IPO period, we generated a net loss of $2.7 million, or $0.34 per unit and EBITDA of negative $1.9 million. Adjusted EBITDA and distributable cash flow, which excludes the write off of our predecessor's differed loan costs and other non cash items, was $1.5 million and $1.2 million respectively for the post IPO period.

We ended the quarter with 695 leased tenant sites out of a totally of 400 -- sorry, 701 available tenant sites which result in a 99% occupancy rate.

During the quarter, we received one decommision notice for a metro PCS site that became vacant on January 31st, 2015. In our IPO perspectives, we assumed in our forecast that occupancy would decline from 99% historically to 97% as a result of expected decommissions from our tenants that experience consolidation in the past.

In connections with that decommissioning, we recorded a non cash impairment charge of 250,000.

Based on what we're seeing today in the market, we believe that our forecasted occupancy level and our perspectives of 97% adequately takes into consideration potential decommissionings from metro PCS and others.

We believe that the consolidation in the wireless industry is mostly behind us, and we will continue to experience high occupancy levels.

On January 26th, Landmark Infrastructure Partners declared its first distribution of 0.1344 per unit. This distribution was prorated for the 43 day period following the IPO, and was not a full quarter's distribution.

This first distribution corresponds to the minimum quarterly distribution of 0.2875 per unit, or $1.15 per unit annually. Our distribution coverage ratio, which is defined as distributable cash flow divided by the current distributions, was $1.12 during the post IPO period.

This compares favorably to our forecast and our perspectives of $1.05.

We finished the fourth quarter with $0.3 million of cash and repaid $1 million in borrowings under our revolving credit facility, leaving us with an additional $116 million in borrowing capacity subject to compliance with certain covenants.

Our revolving credit facility also contains an accordion feature to increase the size of the facility by an addition $200 million.

In December, we executed a four year interest rate swap contract at 1.52% which effectively fixes our floating interest rate in $70 million of borrowings on our revolving credit facility at 4.02% per annum.

This swap rate is approximately 50 basis points lower than our forecast in our IPO perspectives.

Additionally, earlier this month we executed another four year interest rate swap contract on a two month forward basis at 1.29% which effectively fixes our floating interest rate on an additional $25 million of borrowings under our revolving credit facility at 3.79% per annum.

With these interest rate hedging arrangements, we have fixed 100% of our outstanding borrowings compared to our expectations of approximately 60% at the time of the IPO. Additionally, we have fixed 50% of our total borrowing capacity under our revolving credit facility.

Not only have we hedged a greater portion of our floating interest rate exposure under our revolving credit facility, we have hedged it at over 50 basis points lower than our forecast.

As of the end of the quarter, we were in compliance with all of our covenants.

Before we take your questions, I want to make a few comments on our expectations for the next 12 months.

We expect to grow significantly from a series of drop downs and acquisitions. The partnership sponsor, Landmark Dividend, has expressed its intent to offer us the right to purchase assets with annual rents of approximately $15 million to $18 million over the next 12 months.

Keep in mind that the actual rental revenue realized from these drop downs will total $15 million to 18 million only after all the assets are included in our results for a full year.

These drop downs, if completed, 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, these drop downs 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.

In closing, we are extremely pleased with the results from our initial quarter following the IPO. We think 2015 will be a great year for Landmark as we execute our growth plan and create value for our unit holders.

We will now open it up for questions.

QUESTIONS AND ANSWERS

Operator

Thank you, ladies and gentlemen. (Operator Instructions)

Our first question comes from Rick Prentiss with Raymond James. Your line is open.

Rick Prentiss - *Raymond James - Analyst*

Thanks. Good morning, guys. Welcome to your first public earnings call.

Tim Brazy - *Landmark Infrastructure Partners - CEO*

Thank you.

Rick Prentiss - *Raymond James - Analyst*

A couple questions for you. First, on the potential dropdowns, the $15 million to $18 million over the next 12 years of annualized revenue. You mentioned a series of dropdowns. What are you thoughts about how often the dropdowns might occur? Is there some minimum size of annual run rate, rather you want to do it in a drop-down. I'm just trying to think logically of how often and kind of how chunky they'd be.

George Doyle - *Landmark Infrastructure Partners - CFO*

Sure. We're thinking of dropping them during each of the quarters. So the size may vary a little bit, depending on the particular assets that we're dropping down. So if we drop some of the ROFO assets down, that may vary in size, based on the size of the fund. Once we get in the rhythm of doing the dropdowns, we think they're going to be pretty similar in size, at least from the organic originations from the Landmark dividend size. We think those will, over time, kind of average out over the year.

Rick Prentiss - *Raymond James - Analyst*

Okay. Great. And the first one, when you say each quarter, are you thinking of doing it beginning of quarter, end of quarter. Just trying to think through is this something we should look for like in the April timeframe? Is it something we'd look for in the June timeframe?

George Doyle - *Landmark Infrastructure Partners - CFO*

Yeah. I think the beginning of the quarter is, most likely, when they're going to happen. But that timing will fluctuate a little bit, just depending on the availability assets and the -- how long it takes to get through the Conflicts Committee process.

Rick Prentiss - *Raymond James - Analyst*

Sure. That makes sense. And then one other question, recently, the tower companies have obviously been pretty aggressive on going after land under their own towers and elsewhere. Crown Castle bought Tri-Star, one of the aggregators out there. What does your pipeline look like at the sponsor level, if we can ask questions kind of back to that side of things?

George Doyle - *Landmark Infrastructure Partners - CFO*

Sure. Well, we can talk about the sponsor to a certain extent. We don't want to get into too much detail about the acquisition volume that's going on at Landmark Dividend. The activity there is really robust. We're confident that we'll be able to deliver the $15 million to $18 million worth of annual rent dropdowns.

THOMSON REUTERS

The tower companies have always had an interest in acquiring or controlling the real estate under their site. So what we're seeing today is not all that different from what we've seen in the past. So we expect our acquisition activity to be very strong and, you know, be able to weather that $15 million to $18 million worth of annual rent dropdowns.

Rick Prentiss - *Raymond James - Analyst*

So pretty steady pipeline?

George Doyle - *Landmark Infrastructure Partners - CFO*

Exactly, yeah.

Rick Prentiss - *Raymond James - Analyst*

Great. Thanks, guys.

Operator

Our next question comes from Jonathan Atkin with RBC Capital Markets. Your line is open.

Jonathan Atkin - *RBC Capital Markets - Analyst*

Yes. So I do have a follow-up on that question. You know, in particular, you know, what's changed since your recent financing [advance into] Verizon towers, having gone to a tower co that, presumably is going to be more motivated around purchasing that land. So if you could maybe provide a little bit more perspective on what gives you confidence in the pace of acquisitions at the sponsor level.

And then, to the extent that you've got revenue growth that isn't strictly escalator-based, I'm thinking about the billboard business, the rooftop business. Can you talk a little bit about the moving parts that you're seeing there, in terms of demand trends and possibly even de-commissioning events that are happening at three of the wireless carriers, as they turn down some of the gear that perhaps is on your rooftop assets. Thanks.

George Doyle - *Landmark Infrastructure Partners - CFO*

Sure. I'll take part of that question there. I might hand it over to Keith to talk a little bit about the Verizon transaction and what that means. Our -- you know, the spectrum of sites available to us to acquire is very diverse. There's a lot of assets out there to go after. So even with the Verizon portfolio being sold, we still think that we're going to have very robust acquisition activity. We don't really see that impacting our acquisition volume too much.

Keith, do you have any thoughts beyond that?

Keith Drucker - *Landmark Infrastructure Partners - SVP - Investments*

No, I don't. You know, we have been working with American Tower in the past and don't anticipate any changes and the ability to acquire assets under the Verizon towers as we've done with Verizon, as the owner and operator of the towers.

George Doyle - *Landmark Infrastructure Partners - CFO*

And then, to address your comment about or question about some of the de-commissionings that we're seeing now in the marketplace, as I mentioned, we have historically had 99% occupancy, when we put our forecast together for the IPO prospectus, we looked that portfolio and looked at potential de-commissionings.

And we had estimated that our occupancy level would potentially decline to 97% occupancy. And everything we're seeing today still leads us to that same forecast of 97% and that's across a number of different, you know, tenets. Across the entire portfolio, we think that we'll still be able to achieve the 97% occupancy level.

Jonathan Atkin - *RBC Capital Markets - Analyst*

Thank you very much.

Operator

Our next question comes from Dave Rodgers with Baird. Your line is open.

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

Yeah, Tim, George, good morning out there. First, on the acquisitions, just wanted to talk about your yield a little bit, any potential mix in those acquisitions, but trying to get a better sense for what the yields or the returns are going to be on the acquisitions for 2015, and as you see them today.

George Doyle - *Landmark Infrastructure Partners - CFO*

Sure. So as far as the mix of assets that we expect to acquire, it's going to be pretty similar to what you see in the ROFO portfolio. We are acquiring, roughly, I would say about 70% wireless related assets these days and about 30% outdoor advertising. And then, you know, a little bit of alternative energy. So the initial portfolio was a little bit more concentrated in wireless. But we'll expect to see that change a little bit over time. And you'll see a little bit more concentration in the outdoor advertising area.

As far as the yields, we are still able to acquire assets at an attractive price such that we can drop them down and create, you know, a nice amount of accretion for the MLP. And so we think that they would be dropped down in the -- you know, roughly, the six-cap rate range.

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

Okay. That's helpful. Can you talk a little bit about the impairments that you took in the quarter? I think it was $250,000. I assume that was kind of near your end. I don't know if that was related to Metro PCS or separate. And I didn't remember that from the IPO. If you could just kind of touch on that and any impacts that has on the business going forward?

George Doyle - *Landmark Infrastructure Partners - CFO*

Sure. So the -- one asset we impaired was a Metro PCS asset. And we received a decommission notice during the quarter, so it went dark in -- you know, basically at the end of January. And so, based on that notice, we impaired that asset. And we may impair other assets, as we have decommission notices as well.

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

Okay. And going back to the timing and earlier question, it sounds like earlier in the quarter makes more sense, but do you expect to include any in the first quarter or are we really waiting until the early part of the second quarter, before we expect to see that?

George Doyle - *Landmark Infrastructure Partners - CFO*

Now we don't want to provide too much specific guidance on the timing of the dropdowns because it has to go through the Conflicts Committee and get approved by the board. But we are comfortable that at the beginning of the second quarter, that we would have a dropdown by that time.

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

Okay, that's fair. And then on the $116 million of availability on the facility, is that all available today or does it become incrementally available as you kind of bring more cashflow into the country such that you would have full access to that in time?

George Doyle - *Landmark Infrastructure Partners - CFO*

Yeah, there's certain leverage levels that we have to adhere to. So it's not fully available today. And the amount that's available will depend on the amount of cashflow and the entity and in the partnership in its quarterly test. So a fair amount of that is available today, but not quite the full amount.

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

Okay. And then, I don't know if you've kind of addressed this or not, but with regard to the acquisitions in the pipeline, how much of that is part of the ROFO and how much would be kind of new acquisition volume? Do you have any visibility into that?

George Doyle - *Landmark Infrastructure Partners - CFO*

Yeah, we don't want to give too much -- be too specific on that because the timing of the ROFO asset dropdowns is going to depend on a number of factors. I mean, we're comfortable that we'll be able to deliver a lot of organic acquisitions from the Landmark dividend level. And in a combination between the Landmark dividend, organic acquisitions and the ROFO assets, it will be in that $15 million to $18 million range.

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

Okay, great. Thanks, guys.

Operator

Our next question is a follow-up from Rick Prentiss with Raymond James. Your line is open.

Rick Prentiss - *Raymond James - Analyst*

Thanks. Yeah. Piggyback on the question, assuming a six-cap rate on the dropdowns, what are you thinking about leverage? And given the availability you talked about, where are you comfortable taking leverage to and would you look to then hedge out some more of the draw -- the financing of the drawdowns?

George Doyle - *Landmark Infrastructure Partners - CFO*

Sure. Our credit facility allows us to go up to 8.5 times leverage. We are comfortable at the 8-times leverage, based on the predictability and stability of the cashflows that are generated from our portfolio.

As far as future hedging, most likely, we will, you know, focus on fixed-rate debt. Looking, you know, forward our assets are -- because they're very stable and predictable cashflows, we think matching that up with fixed-rate debt makes the most sense. As far as a specific floating versus fixed ratio, we don't have a specific target to give you. But we do intend to do a lot of fixed-hedging or fixed-rate borrowing respectively.

Rick Prentiss - *Raymond James - Analyst*

And what kind of tenor do you think -- is it 5, 7, 10?

George Doyle - *Landmark Infrastructure Partners - CFO*

Well, as we grow the portfolio, we'll have more opportunities to look at different types of debt. I would think in that 7 to 10 year range would make sense for future issuances of debt.

Rick Prentiss - *Raymond James - Analyst*

Yes. Okay, thanks.

Operator

Thank you. I'm showing no further questions. I'll now turn the call back over to Tim Brazy for closing remarks.

Tim Brazy - *Landmark Infrastructure Partners - CEO*

Thank you. I'd like to thank everybody for joining us this morning. We're very happy with our performance this quarter and look forward, as George mentioned, to strong results in the year ahead.

And I appreciate your time and look forward to speaking with you next quarter.

Thank you, operator.

Operator

Thank you. Ladies and gentleman, that does conclude today's conference. You may all disconnect and everyone have a great day.