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LMRK - Q4 2015 Landmark Infrastructure Partners LP Earnings Call

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Ric Prentiss *Raymond James - Analyst*

Dave Rodgers *Robert W. Baird - Analyst*

Jonathan Atkin *RBC Capital Markets - Analyst*

Mike Gyure *Janney Montgomery Scott - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Landmark Infrastructure Partners' Fourth Quarter 2015 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 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 of Investor Relations. Please go ahead.

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

Thank you and good morning. We'd 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 the 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 thank you all for joining us today as we present and discuss our fourth quarter results. But before I get into the specifics of the fourth quarter, I'd like to take a moment to talk about what we've accomplished this past year. In our first full year as a public partnership, we've achieved several milestones.



We've more than doubled the size of the Partnership in terms of assets and annual rents, and we've delivered on the guidance previously provided in terms of performance and distribution growth, including four consecutive quarters that we've raised our (technical difficulty) cash distributions since our initial public offering in November 2014.

Through eight separate acquisitions, totaling approximately \$268 million, our asset portfolio has grown from just over 700 tenant sites, to more than 1,450 tenant sites today. Our asset performance has been quite strong this past year with organic growth through contractual lease escalators and lease modifications, as well as continued high occupancy.

In total, the assets we've acquired have added approximately \$16 million in annual rents to the portfolio, meeting our guidance range of \$15 million to \$18 million and more than doubling the annual rent from the approximately \$13.3 million run rate at the end of last year to over \$29 million today.

Distribution growth was also very strong. In 2015, we raised our quarterly cash distribution four consecutive quarters and the Q4 distribution of \$32.5 per unit represents a 13% increase over the distribution a year ago, and is in line with our initial guidance of 10% to 15% growth.

Looking specifically at the fourth quarter, Landmark delivered another strong quarter of financial and operating results with growth driven by the three dropdown acquisitions completed during the quarter, as well as the full quarter impact from the three dropdowns completed in Q3.

Our fourth quarter was particularly busy. We completed three dropdowns, including two separate dropdowns of our sponsor's ROFO assets, those assets that are subject to our right of first offer.

In November, we completed dropdown six and seven, which together consisted of 208 tenant sites from two private fund affiliates of our sponsor, Landmark Dividend, for total consideration of \$74 million. Those acquisitions were funded with approximately \$2.1 million LMRK units, valued at \$31.7 million plus cash of \$42.3 million.

In December, we completed dropdown number eight, which consisted of 41 tenant sites, for total consideration of \$24.2 million in cash. In total, fourth quarter acquisitions were comprised of 189 wireless communication sites, 58 outdoor advertising sites, and two renewable power generation sites for total consideration of approximately \$98 million.

And similar to our prior dropdowns, the three dropdown acquisitions in Q4 were immediately accretive to distributable cash flow. The dropdown assets added to the already attractive characteristics of our existing portfolio and featured a 100% occupancy rate, contractual lease escalators across more than 90% of the dropdown assets, very strong diversification across the wireless outdoor advertising and renewable power generation industries, approximately 90% tier 1 tenancy, an aggregate remaining real property interest term of about 80 years and a lease term of about 20 years, and a very broad geographic mix, with the 249 tenant sites located in 40 states.

The dropdowns we completed last year really drove substantial growth for the Partnership. In total, we acquired 761 tenant sites in 2015 through the eight separate dropdown acquisitions representing 109% increase in assets and a 120% increase in annual rents since the initial public offering.

And while growth continues at the Partnership, acquisition activity at our sponsor remains very strong. For the second quarter in a row, our sponsor again achieved its best quarter ever in terms of signed acquisition contracts, and we expect the record level of acquisitions at the sponsor to drive considerable opportunity for higher acquisition activity at LMRK.

Sponsor activity was notably strong within the renewable power generation segment, and its origination efforts in Australia continued to increase as well. In addition, we've seen some real benefits from the current market dislocation. Landlords are more engaged, and acquisition pricing and structure are more favorable at times, which we believe will enhance LMRK's ability to complete accretive dropdown acquisitions.

Overall, our sponsor continues to increase activity in its core markets, expand its operations, add personnel, and explore new opportunities; including new asset classes in our existing industries and additional international markets. Its ROFO portfolio currently includes more than 730 tenant sites as of the end of last year, which represents more than \$14 million of annual rents.



At LMRK, we continue to focus on implementing the previously discussed Unit Exchange Program, or UEP, which will allow the Partnership to acquire assets directly with units as an alternative currency and provide sellers with multiple benefits.

We're gaining traction with that program and we're confident that it will provide greater acquisition opportunities without the need to raise equity through traditional capital markets' channels, simply another tool that we have to raise capital more efficiently.

Driven by all this activity, our sponsor Landmark Dividend has expressed its intent to offer us the right to purchase assets in the range of \$200 million to \$300 million this year, further enabling LMRK to manage its pace of acquisitions.

As we enter 2016, even with some of the challenges in the financial markets, we're confident that LMRK is well positioned for the future. We believe our strategy and the underlying characteristics of our target markets will allow us to continue to acquire and consolidate real property interest assets from a large number of individual property owners, driving distribution growth and delivering strong operating and financial results.

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

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

Thank you, Tim. As I review the fourth quarter, keep in mind that during the quarter the Partnership completed three separate acquisitions from Landmark and its affiliates.

Similar to last quarter, the assets required are recorded at the historical cost of Landmark as the transactions are between entities under common control. The financials of the Partnership are adjusted retroactively as if the transaction occurred of 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 acquired assets prior to our ownership.

I will focus my comments on the results in the column labeled Landmark Infrastructure Partners LP in the reconciliation, which excludes the results of the acquired assets prior to the date of the three acquisitions.

We generated revenue of the fourth quarter of 2015 of \$6.8 million, which is an increase of 24% from last quarter. Revenue was favorably impacted by the three dropdown acquisitions completed during the fourth quarter, which contributed approximately \$0.6 million in revenue for the quarter.

G&A expenses for the quarter were \$816,000 before the reimbursement from our sponsor of \$645,000, which was in line with our expectations. As we have discussed on prior calls, the G&A reimbursement from our sponsor is reflected as capital contribution rather than as a direct reduction to our G&A expense.

Adjusted EBITDA for the fourth quarter was \$6.4 million, an increase of 28% from the third quarter of 2015. We ended the quarter with 1,423 leased tenant sites out of a total of 1,456 available tenant sites and the occupancy rate for the quarter was 98%, which remains unchanged from the third quarter.

On January 28th, Landmark Infrastructure Partners announced its fourth quarter cash distribution of \$0.325 per unit, or \$1.30 per unit on an annualized basis. This distribution is 13% higher than the annualized minimum quarterly distribution and represents a 2.4% increase over the third quarter distribution of \$0.3175 per unit. It also marks the fourth consecutive quarter that the Partnership has raised its quarterly cash distribution since it first went public in November 2014.

Our coverage ratio, which is defined as distributable cash flow divided by distributions declared on the weighted average units outstanding during the quarter, was 1.02 times. As our cash flows are very stable and not subject to commodity prices, we are confident that our targeted coverage ratio of 1.05 times is sufficient coverage for LMRK's distributions.

We finished the quarter with \$233 million of outstanding borrowings under our revolving credit facility, leaving us with an additional \$17 million in borrowing capacity, subject to certain borrowing limitations.

Our leverage ratio is at approximately eight times adjusted EBITDA and approximately 60% of the \$233 million in borrowings are fixed through interest rate swaps. As of the end of the fourth quarter, we were in compliance with all of our debt covenants.

Today we are introducing our guidance for 2016. As Tim previously mentioned, our sponsor continues to achieve record acquisition activity and has expressed its intent to provide dropdown acquisitions, ranging between \$200 million and \$300 million. These dropdowns are expected to be at cap rates ranging from a low six to mid six cap rate. These dropdowns are expected to be primarily from organic acquisition activity at the sponsor.

From this guidance, we think it is evident that our sponsor remains committed to the growth of LMRK. In regards to financing the acquisition growth in our 2016 guidance, the plan is to selectively and prudently raise capital. We plan to access the capital markets on an opportunistic basis.

We filed an acquisition registration statement with the SEC for our Unit Exchange Program for direct acquisitions. We believe issuing units for direct acquisitions is an attractive way to grow the portfolio and raise additional equity capital. The acquisition registration statement can also be used to issue units to our sponsor as consideration for dropdowns.

This morning we also filed our prospectus supplement to our already effective shelf registration to initiate an at-the-market offering program. Looking forward, when the markets are more attractive, the ATM program provides us an alternative mean of raising equity capital outside of our traditional offering.

On the debt side, we have various options for raising capital at attractive terms. We are planning to refinance a significant portion of the balance under the revolving credit facility through a securitization sometime in the first half of 2016. We continue to believe we will be in a low interest rate environment in 2016, which will benefit our overall cost of capital.

In addition to our acquisition activity, we also expect strong organic growth from our portfolio in the form of the contractual rent escalators and higher rents from lease amendments. Collectively, our growth from acquisitions and organic growth is expected to drive distribution growth of 10% to 15% over the fourth quarter 2015 distribution of \$0.325 per unit. While some of our MLP peers have maintained, reduced or even eliminated their distributions, we are guiding to 10% to 15% distribution growth by Q4 of 2016. We believe this points to not only the stability and growth of our cash flows, but also the sponsor's commitment to growing distributions per unit.

In closing, we are pleased with the solid operating and financial results, and we believe that the guidance that we have issued today is further proof that our distributions are secure and growing. Ultimately, our goal remains 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 - Analyst

A couple of questions, if I could. First on the guidance; George, I think I heard you say that of the \$200 million to \$300 million thoughts as far as what might be dropped -- contributed from the sponsor this year, most of that was going to not be the ROFO, is that what I heard?



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

Yes. Most of that is going to be just organic acquisition activity that we plan to dropdown.

Ric Prentiss - *Raymond James - Analyst*

And as far as the 730 sites that are left at the ROFO, what are the thoughts on \$14 million revenue? What are the thoughts on what would trigger that dropping down and what are they watching?

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

Those sites are predominantly in two funds that have reached kind of their end of their term, I would say, towards the end of 2016 and into the beginning of 2014 (sic). So that's roughly the timeframe what we're going to look to determine what's the right avenue for the liquidation of those funds.

Ric Prentiss - *Raymond James - Analyst*

And you said 2014, do you mean 2017?

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

Yes. Sorry. 2017.

Ric Prentiss - *Raymond James - Analyst*

Okay. And then if I think - I heard you guys also mentioned the activities from new asset classes and new international markets; any extra color on what type of asset classes or markets you might be interested in?

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

Not on the asset classes, but I can tell you on the markets we are very focused on the Australia-New Zealand general market area. We're also at the sponsor level taking a look at some selected areas in Western Europe. And then we've been operating as well for a while in Canada, and that's principally where we're focusing our efforts right now.

Ric Prentiss - *Raymond James - Analyst*

So, not really any emerging market concerns there?

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

No, no, we're not focused on emerging markets at this time.

Ric Prentiss - *Raymond James - Analyst*

Okay, good. Thanks.

Operator

Thank you. Our next question comes from the line of Dave Rodgers from Baird. Your question, please.

Dave Rodgers - *Robert W. Baird - Analyst*

Yes. Good morning, guys. George, one question for you on the wireless write offs, obviously they're pretty small, but I've heard more and more chatter from some of the telco companies about putting more pressure on the infrastructure. Are you seeing any of that and do you anticipate any meaningful level of write-off in 2016?

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

We haven't seen any pressure there from the -- what I just call it the major wireless companies, or infrastructure companies, which is predominantly where our portfolio sits.

So for 2016, we don't really see a whole lot of write-offs. We think most of that is behind us. We think that our portfolio is in pretty good shape at this point.

Dave Rodgers - *Robert W. Baird - Analyst*

That's helpful. And then one avenue of growth that you did talk about, I think it's under the IPO and census, has been some of the add-ons associated particularly with the towers. What kind of growth is that contributing now? Are you seeing add-ons or is that pretty stable?

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

Yes. We do see equipment add-ons predominantly on the rooftop side of the business, not so much on the tower side. Typically, the tower companies are the beneficiary of any sort of additional equipment add-ons.

But on the rooftop side, we do see a fair amount of those that go on over the course of the year, and as we look towards the next upgrade cycle that's when we expect to see a fair amount. I would say that activity adds upwards of 1% revenue growth during the course of the year, and included in that I'll also say is the lease-up of some of our now vacant sites.

Dave Rodgers - *Robert W. Baird - Analyst*

Okay. That's helpful. I guess with regard to the dropdowns, in the fourth quarter, what were the yields that you dropped in at or you acquired at? And I guess maybe the second question is when you're using the units as an acquisition currency, is there a lock-up on those units?

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

So, the fourth quarter dropdown pricing was approximately a six cap rate, and as far as the units that were issued, they're not registered units, so there is the 144 restrictions that go along with those. So, they'll be tradable starting in approximately six months from the date of the dropdowns, but they won't be -- they're tradable with some restrictions. But it's up to a year before the units can actually be transferred to individual broker accounts and fully tradable at that point.

Dave Rodgers - *Robert W. Baird - Analyst*

Okay. Last question for me, have you applied for -- had any initial discussions with the IRS about any type of REIT status?

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

We have not.

Operator

Thank you. (Operator instructions). Our next question comes from the line of Jonathan Atkin from RBC. Your question, please.

Jonathan Atkin - *RBC Capital Markets - Analyst*

Yes. I have two questions. So, one is you mentioned in your prepared remarks about sponsor origination being a little bit more indexed towards renewable energy owners. If you can kind of provide a little bit more context around that and that opportunity relative to other types of property interests.

And then secondly, just to any sort of updates on the chief operating officer role and how that's being filled or whether you're looking for somebody. Thank you.

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

Sure. Yes. Renewables is very much a growing segment by virtue of the investment that's going on in this country relative to predominantly solar projects.

We see a ton of development activity, especially with the investment tax credit being extended out a number of years. So, there's a lot of projects that are coming to market where we have the opportunity to go in and either acquire the land under the project or these are easement and assignment of rents structure.

We're seeing that all over the United States, more in certain markets than others, but it's just such a growing area that is starting to impact our acquisition volume a bit, starting to get a little bit more renewables than we had in the past.

On the wind side, not quite as much. Wind, the investment tax credit expired a number of years back and only the projects that are economically viable without the tax credit are the ones that you see really going in today. So, that's much lower percentage of overall renewable development.

As far as the chief operating officer replacement, Tim, would you like to comment on that?

Tim Brazy - *Landmark Infrastructure Partners LP - CEO*

Sure. Dan Parsons, who is our CIO, the sponsor, has taken on the dual role of Chief Operations Officer as well as CIO. Dan is extremely experienced in systems, obviously, and operations, and so he's taken on responsibility for bringing the processes and elements that he has developed for the architecture at the sponsor to the back office operations as well. So, Dan has taken on that set of responsibilities.

Operator

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



Mike Gyure - *Janney Montgomery Scott - Analyst*

Yes. Good morning, guys. Quick question on, I guess, 2016 and I think you mentioned the potential to refinance the revolver with a securitization. Do you kind of have a goal for kind of leverage metrics or what you're kind of looking for as you move to 2016, or maybe touch a little bit about kind of what you're up against as far as covenants, where you stand today?

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

So, we generally plan to operate in the six to eight times EBITDA range as far as leverage. Securitization can give us a little bit more leverage if we elect to go that path, but still, overall we do want to keep in that six to eight times range.

As far as our covenants, we have an 8.5 times covenant limit for borrowings. There isn't exception that would allow us to go higher than that, but practically speaking, it's roughly 8.5 times our EBITDA is where our borrowing limit is at.

Operator

Thank you. Our next question is a follow-up from the line of Ric Prentiss from Raymond James. Your question, please.

Ric Prentiss - *Raymond James - Analyst*

Yes. Thanks. I want to follow up on a couple of things, the securitization. You mentioned you might try and get something in first half 2016, any thoughts on what the rates you're looking at out there, and I guess you would be probably the first asset class to go into securitization with the land lease, is that correct?

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

There's actually been a number of securitizations that have been done in the past, both on the wireless side for ground leases and then also on the renewables side.

I think there's also been a little bit on the outdoor advertising side as well. We think those rates are going to roughly be where we've been able to swap our revolver, so say on a five- to seven-year type securitization that would be roughly around 4%, maybe low fours.

Ric Prentiss - *Raymond James - Analyst*

Okay. And I assumed that's baked on the guidance on the growth rate?

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

Yes. It is.

Ric Prentiss - *Raymond James - Analyst*

Okay. And then second question on the follow-up is on the multiples for the \$200 million to \$300 million, you mentioned kind of low-six to mid-six, so that's a little higher cap rate than what you've been seeing. Is that the renewable segments coming in at a higher cap rate or what's kind of causing those multiples to move from six to low-six to mid-six?



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

Yes. We're being a little bit more selective on the acquisitions that we're doing at this point. That's one of the things that we started, I would say, towards the end of last year so trying to bring up the cap rate on what we're buying.

Secondly, renewables, you're right; we certainly have a little bit higher cap rate than the wireless side, and that's predominantly because that's usually a little bit lower growth type assets. The wireless has a much stronger annual escalator than the renewables, but we still believe that on a blended portfolio basis that you are still going to have attractive escalators in the portfolio.

Ric Prentiss - *Raymond James - Analyst*

What type of escalators do the renewable energy come with?

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

They're generating to 1% to 2% range.

Operator

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

Tim Brazy - *Landmark Infrastructure Partners LP - CEO*

Well, if there are no further questions, I'd first like to thank everyone for joining us today. In what can certainly be described as a challenging market, we are extremely pleased with the performance of this quarter and the past year having delivered the guidance we've provided.

As George said, we're confident about our growth prospects. We're confident we can meet the targets that we set out and we're committed to building long-term value.

Thank you again for joining us today and we 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.



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