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LMRK - Q1 2020 Landmark Infrastructure Partners LP Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the First Quarter Landmark Infrastructure Partners LP Earnings Call. (Operator Instructions) As a reminder, today's conference is being recorded. (Operator Instructions) I would now like to introduce your host for today's conference call Mr. Marcelo Choi, Vice President, Investor Relations.

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

Thank you, and good morning. We'd like to welcome you to Landmark Infrastructure Partners' first quarter earnings call. Today, we'll 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 FFO, AFFO, EBITDA and adjusted EBITDA 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 & Director of Landmark Infrastructure Partners GP LLC*

Marcelo, thank you. And good morning, everyone. Given the challenges we face these days, I'm especially grateful for the opportunity to speak with you this morning and wish all of you the best. Before we discuss our first quarter financial and operating results, I'd like to provide you with an overview of the COVID-19 impact on our employees as well as our tenants and our overall business. As the impact from the pandemic intensified in February, our management team executed contingency plans that allowed us to quickly transition to a remote workplace environment with minimal disruptions. Our sponsor has over 170 employees, who've been working from home since early to mid-March, and they've done a phenomenal job supporting their markets and their customers. I'm extremely proud of our team and how they've responded to an unprecedented situation. In terms of our tenants, based on what we've seen so far, we're confident that the COVID pandemic will not significantly impact our wireless communication or renewable power generation portfolio. Wireless communication fundamentals remain extremely favorable through this 5G upgrade cycle and the deployment of additional spectrum. While there will be some permitting and workforce delays due to the health crisis, we expect the wireless carriers to continue to progress the deployment of their 5G networks. The industry has performed well in previous economic downturns, and we've all seen for ourselves in the last few months how critical the services are and how essential they are for the



end-consumer. Given the shelter-in-place orders throughout the country, and the staged restarting of the U.S. economy, we believe wireless communication services and connectivity solutions will become even more essential as consumers stay at home for longer periods of time.

In the same way, we believe the renewable power generation industry will perform well despite the health crisis and economic downturn. The power produced is generally sold to investment-grade utilities, and our rental payments are ultimately backed by long-term contractual power purchase agreements. The utility counterparties are well positioned in the current market environment and should not experience as much of a financial impact in economic downturns as other companies since the power they purchase is essential for their customers. With regard to outdoor advertising, our tenants in this sector are experiencing some challenges. State and local, social distancing and stay-at-home orders, along with other COVID safety recommendations over the past couple of months have created an unprecedented scenario for outdoor advertising companies. The economic impact of the pandemic, resulting in fewer drivers on the road and consumers spending more time at home, has created a challenging market for outdoor advertising tenants. Advertisers have reduced their spending on outdoor advertising in the near term, and outdoor advertising companies have been taking preventive measures as a result of this downturn. They've raised cash through drawdowns of their revolving credit facilities. Some have selectively sold assets, and others have directly raised capital, enhancing their balance sheets and financial flexibility. In our portfolio, we've received a number of abatements and requests for rent relief and rent reductions from our outdoor advertising tenants, as they look to manage their liquidity given their near-term lower revenue outlook.

Now it's important to note a few things. First of all, it's still much too early to quantify the full extent and impact of the COVID pandemic on our outdoor advertising tenants and in turn, our own business. Second, we're confident that the industry will rebound, but we don't know the exact timing. Third, our first quarter results were strong. We had minimal impact from the pandemic, demonstrating the strong cash flow profile of our portfolio, and we expect to benefit from the favorable long-term trends driving our industries. And finally, while we cannot control things that are beyond our reach, we've taken and will continue to take measures that we believe will position LMRK to withstand these challenges and take advantage of market opportunities as we move forward. In the first quarter, we delivered strong operating and financial results, with solid revenue and AFFO growth year-over-year. Our portfolio continues to generate stable cash flows with the occupancy rate at 95% as of the end of the quarter, while contractual rent escalators, rent modifications and select-accretive acquisitions in the past 12 months have all contributed to increasing cash flows.

In terms of our general business strategy, our focus has been on our higher return development projects. We did not make any significant acquisitions in the first quarter. Given that, we've deliberately slowed the pace of our acquisitions and will continue to be selective given the health crisis and the changing economic environment. We'll continue to work to preserve our liquidity and flexibility, advance our development initiatives and position us to take advantage of attractive acquisition opportunities should they arise.

With regard to our development initiatives, we continue to make progress on several fronts. Landmark Vertex, our stealth wireless infrastructure smart pole and DART, our existing program with the Dallas Area Rapid Transit system are both moving ahead. As you would expect, the pandemic has led to some delays in our development projects, this will result in some asset deployments shifting a quarter or 2, but we're encouraged by the progress that we've made so far, and we expect further progress and deployments throughout this year.

Before turning the call over to George, I'd like to briefly touch on the announcement of the distribution reduction we made a few weeks ago. It certainly was not an easy decision to make, but we're managing through an unprecedented event and an extraordinary market environment. Although our overall long-term strategy hasn't changed, our near-term focus is to enhance our financial flexibility to address the potential impact of the pandemic. We believe the recent reduction in our distribution will give us the ability to navigate these markets with greater flexibility, allowing us to reduce our leverage, maintain our liquidity and look for potential market opportunities. And as we said, we'll reevaluate our distribution levels once business conditions normalize.

And with that, I'll turn the call over to George who will provide us with a more detailed financial review of the quarter. George?

George P. Doyle - Landmark Infrastructure Partners LP - CFO & Treasurer of Landmark Infrastructure Partners GP LLC

Thank you, Tim. As Tim mentioned in his remarks, the assets in our portfolio continue to perform well through the first quarter of 2020. In the first quarter of 2020, rental revenue was \$15.7 million, which was 9% higher year-over-year. The strong year-over-year growth is attributable to a number



of lease amendments that commenced at the beginning of the fourth quarter as well as the customary contractual lease escalators and the impact from accretive acquisitions completed within the last 12 months, partially offset by the impact from asset sales completed in the second quarter of 2019.

Turning to FFO and AFFO. FFO per diluted unit was \$0.01 this quarter compared to \$0.12 in the first quarter of last year. As we have discussed in prior calls, FFO can fluctuate quarter-to-quarter, depending on the change in the fair value of our interest rate hedges as well as various other items, including a loss on early extinguishment of debt, this quarter, due to the securitization refinancing transaction in January. AFFO, which excludes these unrealized gains and losses on our interest rate hedges and other items, was \$0.33 per diluted unit this quarter compared to \$0.32 in the first quarter of last year, a year-over-year increase of 5%.

Now turning to our balance sheet. We ended the first quarter with approximately \$178 million of outstanding borrowings under our revolving credit facility. 100% of our outstanding debt is either fixed rate debt or borrowings that have been fixed through interest rate swaps. Despite the recent turmoil on the debt markets, we continue to see attractive financing rates for our asset classes. With that said, we have no scheduled maturities until November 2022. In terms of liquidity, we ended the quarter with approximately \$14 million in cash and \$272 million of undrawn borrowing capacity under our revolving credit facility, subject to compliance with certain covenants. Our debt to adjusted EBITDA ratio on a revolving credit facility was approximately 6x as of the end of the quarter, which is below our covenant requirements of 8x.

Regarding our distribution, as Tim outlined earlier in the call, we are in an unprecedented and challenging market environment, and we believe the decision to preserve liquidity and enhance our financial flexibility by reducing the distribution was the appropriate response. Based on the distribution declared of \$0.20 per unit, our distribution coverage ratio in the first quarter of 2020 was 1.65x. With the distribution coverage ratio at 1.65x in the first quarter, we believe this positions us well during this environment. In summary, we had a great first quarter as our portfolio produced strong organic growth from contractual escalators and lease modifications, and we also benefited from the accretive acquisitions made in the second half of 2019. In addition, we continue to make progress with our development projects as more assets were placed into service in the first quarter, and additional development assets are expected to be placed into service throughout 2020.

We will now take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Dave Rogers with Baird.

David Bryan Rodgers - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Can you give a little more color on the deferrals and abatements that you did give? It sounded like most of it or all of it was in outdoor advertising, but can you kind of dive into what the amount of requests were? What you've granted to date? And maybe just talk also about kind of the length of the lease duration there and outdoor advertising and what might come back to you this year, if anything?

George P. Doyle - *Landmark Infrastructure Partners LP - CFO & Treasurer of Landmark Infrastructure Partners GP LLC*

Sure. This has been, what I would say is an ongoing process. We're still working through it with a lot of the tenants. From what we're seeing there's a fair number of requests have come in, and we're evaluating them and looking at the merits of each request. We're not granting really large percentage of those requests. We are looking at them to see if there's essentially a problem with the site heading into this downturn. As far as the impact, we're still quantifying that, this is still, I would say, a bit early on in the process. So it's hard to give a lot of guidance on that front. We do expect it to hit Q2 results, and ultimately, it's going to depend on how long this downturn lasts and the stay-at-home orders last. We think that essentially after people become mobile again and the economy starts to rebound, you will see advertising levels return on the billboards, the type

of billboards that we invest in. We typically don't invest in transit or street furniture. Most of ours are going to be the larger format billboards alongside major roads. So as soon as consumers become mobile again and advertise, start spending, we expect the industry to start rebound.

David Bryan Rodgers - Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst

Maybe ask a little bit differently, George, what percentage of your April rent that you billed did you collect?

George P. Doyle - Landmark Infrastructure Partners LP - CFO & Treasurer of Landmark Infrastructure Partners GP LLC

I'd say almost all of it we collected.

David Bryan Rodgers - Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst

So more prospective than what you've seen so far?

George P. Doyle - Landmark Infrastructure Partners LP - CFO & Treasurer of Landmark Infrastructure Partners GP LLC

Exactly. Yes. So Q1 was -- there was almost no impact. So far, April was just the beginning of the downturn. In May, we're still seeing strong collections, but it's going to take at least the full quarter or the third quarter as well to really assess the impact of this.

David Bryan Rodgers - Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst

Okay. Shift to development, if you would. I know -- Tim, I think you mentioned development delays, just with everything that's going on with the smart pole and the DART. But I think this was kind of the quarter where you guys were going to lay out much more about the development pipeline and kind of give us much more color on kind of the path of what's going on there. So what can you tell us about development and how that's tracking and the least percentage of your sites that you've deployed to this point? And can you talk about the revenues you're collecting off of the development pipeline today and how that's going to shape up in 2020?

George P. Doyle - Landmark Infrastructure Partners LP - CFO & Treasurer of Landmark Infrastructure Partners GP LLC

Yes. So the developments are still progressing, albeit at a slower pace. Things, I would say, delayed probably about a quarter as a result of this shutdown. We've had limited ability to travel, permitting has been challenging because you have a lot of offices closed, and then we can't always get construction crews mobilized. Things are, I would say, still progressing well, and we're expecting to have sites that are deployed in all our different projects here over the course of the next 3 quarters. But I would say we're probably out one more quarter from when we can provide a little bit more detail on some of these projects, just given the impact from the shutdowns here.

David Bryan Rodgers - Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst

Okay. Last one for me. It looked like you did some common unit issuance on the ATM in the quarter. What was the -- it was a small amount, I realize, but what was the price there that you guys were comfortable going to market?

George P. Doyle - Landmark Infrastructure Partners LP - CFO & Treasurer of Landmark Infrastructure Partners GP LLC

It was in the \$16, \$17 range.

Operator

Our next question comes from Liam Burke with B. Riley FBR.

Liam Dalton Burke - *B. Riley FBR, Inc., Research Division - Analyst*

George, have you seen any measurable disruption outside of outdoor advertisements on the rental side?

George P. Doyle - *Landmark Infrastructure Partners LP - CFO & Treasurer of Landmark Infrastructure Partners GP LLC*

No, not at all. Our tenants, when you look at the wireless and renewables, are pretty healthy, and they haven't seen a lot of disruption in their businesses. So no, we haven't seen any sort of challenges with collecting rent. And we also haven't been approached with request for abatements or rent reductions.

Liam Dalton Burke - *B. Riley FBR, Inc., Research Division - Analyst*

And I know you have some outdoor advertising presence in the U.K., as -- have you seen any sorts of requests for abatement on U.K.? Or has it been any different than the U.S.?

George P. Doyle - *Landmark Infrastructure Partners LP - CFO & Treasurer of Landmark Infrastructure Partners GP LLC*

Yes. We've seen some in the U.K. as well. The U.K. market is a little bit different than the domestic market in that they're typically stronger lease terms, longer leases. The challenge with the U.K. market is the stay-at-home orders were stronger than what they were in the U.S. So the downturn in outdoor advertising spend in Europe was much more impactful than it was in the U.S. So hopefully, they start to open up again here at the end of the second quarter or start to get back to some level of mobility in the second and third quarter, and we see that advertising revenue pick back up. Overall, our portfolio in Europe, I would say, is pretty strong. We're not seeing quite as much impact on the revenue as we may see in the U.S.

Operator

(Operator Instructions) Our next question comes from Bora Lee with RBC Capital Markets.

Bora Lee - *RBC Capital Markets, Research Division - Assistant VP*

Two questions. I guess, first of all, with Sprint-T-Mobile having closed, are you seeing any early indications of activity, in the Sprint or T-Mobile portfolios or from Dish?

George P. Doyle - *Landmark Infrastructure Partners LP - CFO & Treasurer of Landmark Infrastructure Partners GP LLC*

Not yet, on our Sprint and T-Mobile sites. It's still relatively short period of time since that merger closed. So no, nothing yet.

Bora Lee - *RBC Capital Markets, Research Division - Assistant VP*

Okay. And then with regard to bad debt expense, can you -- I wasn't able to find it in the 10-Q. Can you tell me how that's been trending this -- the amount in the first quarter and how that is relative to prior quarters if you increase the provision for it?

George P. Doyle - Landmark Infrastructure Partners LP - CFO & Treasurer of Landmark Infrastructure Partners GP LLC

Sure. We did put a small provision on this quarter, and it was related to an outdoor advertising tenant that had some challenges, and it was approximately \$80,000 this quarter. Historically, we periodically will have some small charges for bad debt. We haven't had a lot historically. I wouldn't expect that trend changes too much. I would expect there'd be a little bit more going forward, but a lot of the impact from the downturn here would either be in the form of abatements, potentially deferrals or rent reductions, not quite as much in the form of bad debt. Since our tenants still generally need to pay their rent, it's just a question of what's the -- what amount of rent are we going to be able to charge them or we're entitled to charge them or what are we going to negotiate during this downturn.

Operator

And I'm not showing any further questions at this time. I'd like to turn the call back over to Tim.

Tim Brazy - Landmark Infrastructure Partners LP - CEO & Director of Landmark Infrastructure Partners GP LLC

Thank you, operator, and thank you all for joining us this morning. We are certainly in uncharted territory here. But as George and I have said, we've taken the steps we believe will position the company to withstand the challenges and also take advantage of market opportunities as we move forward. We believe we're well positioned for this year, and our strategy really hasn't changed. But our near-term focus is and should be on flexibility to address the potential impact of the health crisis and the market disruption. We believe the fundamentals of our business are strong, and although it will take some time for aspects of the economy to recover. We're confident in the future of our industries and LMRK. So with that, we wish you and your families well. Please take care and stay safe, and we will talk to you next quarter.

Operator

Well, ladies and gentlemen, this does conclude today's presentation. You may now disconnect, and have a wonderful day.

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