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LMRK - Q2 2015 Landmark Infrastructure Partners LP Earnings Call

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CONFERENCE CALL PARTICIPANTS

Ric Prentiss *Raymond James & Associates - 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 Second Quarter 2015 Earnings Conference Call

(Operator Instructions)

As a reminder, this conference call is being recorded. I would like to turn the conference over to Marcelo Choi, Vice President, Investor Relations. You may begin.

Marcelo Choi - *Landmark Infrastructure Partners LP - Vice President, Investor Relations*

Thank you and good morning. We'd like to welcome you to Landmark Infrastructure Partners Second Quarter Earnings Call. Today we will share an operating and financial overview of the business and we will 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 partnerships 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.

Arthur Brazy - *Landmark Infrastructure Partners LP - CEO*

Thank you Marcelo. First I'd like to welcome everyone and thank you all for joining us today as we present and talk about our second quarter results. For the second consecutive quarter, Landmark delivered strong financial and operating results with sequential quarter to quarter growth driven by several dropdown acquisitions.

George will provide more detail about the specific financial results of the quarter a bit later in the call but overall we're extremely happy with our performance and what we delivered in Q2, especially as it relates to the continued execution of our dropdown strategy. We're tracking to the guidance we previously provided and really see significant opportunities for growth ahead.



Today I would like to give you a little more background on our dropdowns and touch briefly on our acquisition activity including the activity of Landmark Dividend, our sponsor. The latest dropdown acquisition was completed two weeks ago on July 21st. That dropdown, the third one so far in 2015, was comprised of a 100 tenant sites for total consideration of \$35.7 million.

Similar to the prior dropdowns, this acquisition did not include any of the assets held at our sponsor's private funds where LMRK has right of first offer. Instead, the assets were originated as part of our sponsor's ongoing daily acquisition activity.

This dropdown is immediately accretive to distributable cash flow and the assets have the same attractive characteristics as our existing portfolio including a 100% occupancy rate, contractual lease escalators across 90% of the portfolio, strong diversification across the wireless, outdoor advertising and renewable energy industries, a high percentage of tier 1 tenants, long-term remaining real property interest term of approximately 83 years and lease term of approximately 20 years and a very broad geographic mix with the 100 tenant sites located in 28 states.

Since the IPO in November of last year, we've acquired 254 tenant sites, a 36% increase through three dropdown acquisitions. The total consideration paid was approximately \$83 million and these acquisitions are expected to contribute annual rents of approximately \$5 million.

Going forward, we expect continued growth from additional dropdowns and acquisitions. The dropdown activity is expected to accelerate in the second half of this year and into the beginning of 2016 consistent with the guidance we previously provided and driven by strong acquisition activity at Landmark Infrastructure as well as the dropdown of assets from our sponsor's private fund that are subject to our right of first offer.

As I mentioned a moment ago, we haven't acquired any ROFO assets yet and the ROFO assets have grown to over a thousand sites today, a 20% increase since the IPO and more than the entire portfolio currently owned by the partnership. In fact, these ROFO assets represent approximately \$20 million in annual rent which is approximately \$4 million more than the ROFO asset rent in place at the time of the IPO. We believe that is a significant opportunity for accretive dropdown growth at LMRK.

The partnership also continues to explore opportunities to acquire assets directly with either cash or limited partnership units as consideration which we expect will continue to increase our acquisition volume. Altogether we believe that puts the partnership in a very strong position to deliver future growth to both the dropdown of private fund assets as well as assets acquired from our sponsor and source directly.

Our sponsor Landmark Dividend continues to acquire assets that would be eligible for dropdown acquisition by LMRK. Over the last 12 months, it is increased its origination staff by 15% including several high-level management hires and seasoned industry veterans. The majority of increase staff are focus on domestic acquisitions in the wireless and outdoor advertising industries with a growing focus in the renewable energy sectors in wind and solar power.

Domestic market continues to be attractive with a long runway of assets available for acquisition and in connection and in connection with this growth, our sponsor opening new offices in Midtown Manhattan and San Diego and expanding its back office capabilities to support those origination efforts. Along with that expansion in the U.S., our sponsor has also started to move into international markets recently opening an office in Sydney, Australia.

Overall, we are very pleased with the results of the acquisitions we completed so far this year and we're confident that we can deliver the \$15 to \$18 million in annual rent dropdowns and the 10% to 15% distribution growth we previously communicated in our guidance given the heightened activity we expect for the remainder of this year and into 2016. We're also very excited about the developments of Landmark Dividend, our sponsor, as it continues to grow the Landmark infrastructure acquisition pipeline and expand the overall Landmark business.

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

George Doyle - *Landmark Infrastructure Partners LP - CFO*

Thank you Tim. As I review the second quarter, keep in mind that on April 8, 2015, the partnership completed its acquisition of 73 tenant sites and related real property interest from Landmark. Similar to last quarter, the assets acquired are recorded at the historical cost of Landmark as the transaction is between entities under common control.

The financials of the partnership are adjusted retroactively as if the transaction occurred on the earliest date during which the assets were under common control. The reconciliation in our press release separately presents our results of operations from those of the acquired assets for the period prior to April 8. 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 April 8.

We generated revenue for the second quarter of 2015 of \$4.4 million which is an increase of 15% from last quarter. Revenue was favorably impacted by two dropdown acquisitions completed in March and April which contributed approximately \$660,000 in revenue for the quarter. G&A expenses for the quarter were \$651,000 before the reimbursement from our sponsor of \$481,000.

As expected, G&A expenses were lower sequentially as expenses from the first quarter included higher expenses associated with our year-end audit and tax preparation fees. As we have discussed on prior calls, the G&A reimbursement from our sponsor is reflected as a capital contribution rather than as a direct reduction to our G&A expense.

Adjusted EBITDA for the second quarter was \$4 million which exclude several non-cash items including impairments and unrealized gains on derivatives, an increase 17% sequentially from the first quarter of 2015. We ended the quarter with 831 leased tenant sites out of the total of 849 available tenant sites and the occupancy rate for the quarter was 98%.

As we discussed last quarter, the decrease in the occupancy rate is primarily due to the termination notices related to the Metro PCS real property interest. We continue to believe that occupancy rate guidance of approximately 97% adequately takes into consideration the Metro PCS decommissionings and potential decommissionings from other tenants.

On July 21st, the partnership announced its second quarter cash distribution of 30.75 cents per unit or a 1.23 per unit on an annualized basis. Distribution is 7% higher than the MQD and represents a 3.4% increase over the first quarter distribution of 29.75 cents per unit. It also marked the second consecutive quarter that the partnership has increased 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 unit outstanding during the quarter was 1.05 times. As we have mentioned on prior calls, we are targeting a distribution coverage ratio of 1.05 times. We believe we are heading into the second half of the year well-capitalized with significant dry powder to pursue our dropdown acquisition strategy.

On May 20th, we closed the secondary offering for 3 million units which was upsized from our planned raise due to strong demand. As a result to the equity raise, we ended the quarter below our targeted leverage range of 6 to 8 times adjusted EBITDA. We finished the quarter with \$72.2 million of outstanding borrowings under our revolving line of credit.

In June 3rd, the partnership expanded its revolving credit facility by \$60 million to \$250 million with additional borrowing capacity creating financing flexibility and liquidity to fund future dropdown acquisitions. With the third dropdown acquisition, our borrowings under the revolving credit facility totaled approximately \$108 million leaving us with an additional \$142 million in borrowing capacity subject to certain borrowing limitations.

After the closing of the third dropdown acquisition, our leverage ratio is at approximately six times adjusted EBITDA and approximately 90% of the \$108 million in borrowings are fixed at a rate of 3.96%. As of the end of the second quarter, we were in compliance with all of our debt covenants.

Today we are reiterating the guidance that we have previously provided. We continue to expect significant growth from a series of dropdown acquisitions. The partnership's sponsor Landmark Dividend has previously expressed its intent to offer the right to purchase assets with annual rents of approximately \$15 to \$18 million over a 12-month period beginning February 26, 2015.

Our expected growth through dropdowns when combined with organic portfolio growth expected through contractual rent escalators, leasing activity and revenue sharing arrangements is expected to drive distribution growth at 10% to 15% over the minimum quarterly distribution of 28.75 cents per unit by the end of 2015.

In closing, we are pleased with the operating and financial results. We remained focus on achieving the growth targets that we have announced in [generating] value for our unit holders. We will now take your questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). Our first question comes from the line of Ric Prentiss of Raymond James. Your line is now open.

Ric Prentiss - *Raymond James & Associates - Analyst*

Hi, good morning or afternoon guys. Can you hear me okay?

Arthur Brazy - *Landmark Infrastructure Partners LP - CEO*

Yes, good morning.

Ric Prentiss - *Raymond James & Associates - Analyst*

Hey, the question I got for you guys, if you think about sponsor level and the ROFO assets that are up there, how do you determine the timing as far as wanting to drop those and versus the kind of the pipeline?

George Doyle - *Landmark Infrastructure Partners LP - CFO*

Sure, so there's a number of factors that go into the timing of the ROFO asset dropdowns. These assets sit in the remaining private funds that Landmark controls. These funds were set up at various times over the last two to three years. It had different expected liquidation dates.

And so we tend to drop or the sponsor will tend to present this opportunity for dropdown close to the expected liquidation date for those funds and the liquidation dates will range from the latter part of this year through 2017 -- oh the first part of 2017. And so that's generally when those will be presented as a dropdown opportunity.

Ric Prentiss - *Raymond James & Associates - Analyst*

Okay and then also you guys have mentioned in the past that you might be chasing [somewhat] what we called the chunky acquisitions. Can you update us as far as what the supply out there for many larger chunky ones outside of the ROFO or the normal pipelines ones maybe?

George Doyle - *Landmark Infrastructure Partners LP - CFO*

Sure, we are seeing some what would I call chunkier opportunities out there and we are, you know, looking at pursuing them but we don't have anything specific that we can really talk about at this point but it is part of our strategy to pursue those acquisitions and we're -- predict that we will be able to line some of those up in the -- in the near future.



Ric Prentiss - *Raymond James & Associates - Analyst*

And final question from me, as you think about the environment we're in right now, clearly the feds had some discussion what they might do with rates. Can you see any change in kind of the M&A activity in the pipeline as far as investor interest in selling or pricing?

George Doyle - *Landmark Infrastructure Partners LP - CFO*

I would say so far this year the acquisition pricing in interest of selling these assets has been pretty steady. There really hasn't been too much change.

Arthur Brazzy - *Landmark Infrastructure Partners LP - CEO*

In (inaudible) that has not -- that has not been the case, it's been steady [kind] of thing, all different types of interest rate environments going back 10 or 15 years.

Ric Prentiss - *Raymond James & Associates - Analyst*

Great, that help a lot. Thanks guys.

Arthur Brazzy - *Landmark Infrastructure Partners LP - CEO*

Okay.

Operator

Thank you. Our next question comes from the line of Jonathan Atkin of RBC Capital Markets. Your line is open.

Jonathan Atkin - *RBC Capital Markets - Analyst*

Thank you. I was interested in kind of what (inaudible) are we in for kind of Metro PCS decom from you -- from where you sit affecting principally I guess your rooftop business as well as [WiMAX] and Leap, are we in the beginning phases of maybe the [latter] two or how would you kind of characterize those projects?

George Doyle - *Landmark Infrastructure Partners LP - CFO*

Sure. So as far as Metro PCS, we think we're very much done with those. I would say we're probably in the ninth inning, if not game already over there. And we didn't see any terminations, Metro PCS termination this quarter, those all hit us in the first quarter.

As far as other potential terminations, as far as kind of like potential Cricket or Clearwire, we really don't have much exposure associated with those tenants. And I would say those are probably more in the earlier stages right now, early or to mid-stage as far as the tenants terminating their lease arrangements but we really don't have too much exposure to them.



Jonathan Atkin - RBC Capital Markets - Analyst

And then I'm interested in kind of the comments about international and Australia and if you could provide a little bit of context? It would be interesting to hear about what portion of property interests are owned by the mobile carriers or [telcos] or [around] these aggregators versus the original owners, if you could provide a little bit of perspective on that as well as perhaps what escalators typically looked like in that market for ground leases?

George Doyle - Landmark Infrastructure Partners LP - CFO

Sure we -- in Australia I think it's fairly similar to the U.S. We don't really see that much of the market being owned yet by either the tower companies, the carriers, the billboard companies. So, it's a pretty good market for us to pursue and Australia has a bit higher escalators than what we see in the U.S. There are a lot of assets in the 4% and 5% annual escalator range, so overall we think it's a very attractive market to pursue our strategy in.

Arthur Brazzy - Landmark Infrastructure Partners LP - CEO

Yes, a couple of additional comments, most of the population is the -- in three major cities. So, there's a significant level of density there in Australia, so we got a lot of assets of -- a [big] amount of geography that makes it very efficient for us to go out and source assets.

And as George mentioned, the escalators are a bit higher, the deals are a little bit larger and the -- I say that the tenants are very engage in the process, something that you see in the market where this is a quote-unquote relatively new concept of the ground lease (inaudible) [buyout] business has been active in the U.S. for over 15 years. That's not nearly the case in Australia or other -- other areas.

Jonathan Atkin - RBC Capital Markets - Analyst

Any other -- other international markets that might be on your sponsor's game board?

George Doyle - Landmark Infrastructure Partners LP - CFO

Nothing that I would say that's imminent. I mean there's a lot of market that we're starting to look at but nothing that I would say were close to originating assets in but there are a lot of attractive markets across the -- across the world that we think would make sense to continue to pursue the strategy in.

Arthur Brazzy - Landmark Infrastructure Partners LP - CEO

But with the market in the U.S. so large and continuing to grow, it's -- there's so much to do here domestically. You know, it will be very selective what we look at in other markets internationally.

Jonathan Atkin - RBC Capital Markets - Analyst

Thank you.

Operator

Thank you. And again ladies and gentlemen, if you have a question at this time, please press star and then the one key on your touch tone telephone.

Our next question come from the line of Dave Rodgers of Baird. Your line is now open.



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

Yes, good morning guys. George, maybe a question for you, can you kind of remind us of your leverage target for the company and have those have changed since the IPO at all, just to kind of give them the weakness in the unit pricing. And I guess the second part to that is you talked about availability with leverage and the equity offering that you had done but can you talk about kind of the -- the [all in] availability you think to deploy capital today?

George Doyle - *Landmark Infrastructure Partners LP - CFO*

Sure. So our range of leverage we expect, bounce around between six to eight times. As we get closer to eight times, that's the point we potentially look to raise some more capital. So being today at closer to six times, we're -- we got a lot of runway into the third and fourth quarter to do accretive acquisitions. And when they're -- when they're all debt acquisitions, they tend to be as you would expect very accretive relative to when we issue the equity and inequity offering like we did.

And I'm sorry, the second part of that question Dave?

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

(inaudible) total availability today before you have to come back to the market for more capital.

George Doyle - *Landmark Infrastructure Partners LP - CFO*

Right, so assuming -- well I guess I should clarify one thing, when we looked at the -- the guidance that we provided at 15 to 18 million worth of annual rent dropdowns, some of those maybe down in exchange for units. And so -- but they're likely not all done in the form of cash because we think that's an attractive way to issue more units rather than going through the secondary offering process to see if [she] does -- do some of the private funds.

And then, that allows -- also allows the private fund investors to roll over their interest on a tax-deferred basis into the public company. So as far as our runway, this gives us room for close to a couple of quarters what I would call the organic dropdowns, so the ones that are the ongoing acquisitions by the sponsor. We have enough capacity for a couple of quarters with those.

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

Okay, that's helpful. It sounds like you are expecting additional dropdowns in the third quarter. Can you talk about [what] kind of timing or how do you expect those to come in and any sizing that you're expecting for the remainder of this quarter?

George Doyle - *Landmark Infrastructure Partners LP - CFO*

Sure. So yes, our guidance is a little, at this point, a little bit second half loaded. As far as when they specifically come in during the quarter, that -- we're -- I wouldn't want to commit to that today. They're most likely going to come in over a lot in the fourth quarter and then probably some towards the end of the third quarter but it's going to be a little fluid.

It's going to depend on a number of factors as it relates to the ROFO asset dropdown. As I mentioned previously, we have to be prepared to recast historical financial statements at the partnership, so we want to make sure all the -- all that, those types of activities are lined up before one of those are presented. So, definitely it's back half loaded but there will be a series of dropdowns that will take place over the, what I'll probably call the -- the latter part of the quarter and then heavily into the fourth quarter.



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

Okay, that's helpful and then maybe a question on the impairments. I guess have you talked to the sponsor about maybe a lookback provision on the acquisitions either organic or the dropdown in terms of maybe assets that you bring into the portfolio that don't perform in a certain period of time and I can't remember the [fifth]. We talked about that [before], have you thought about it or commented on it but I'd be curious to know any thoughts around that.

George Doyle - *Landmark Infrastructure Partners LP - CFO*

Sure. So there are certain reps and warranties in the purchase agreement and so if there's an issue with the asset, then at the point we're off -- we drop the asset down, then we would have to live up to those reps and warranties. As far as dropping assets down and subsequently having one be terminated, that is the kind of the risk that go along with the dropdowns.

On the other hand, sometimes we drop assets down that immediately result in lease amendments which offset any potential impairment. We also look at our longer term forecast and look at how our assets our performing and kind of manage the pricing that we're going to pay for the assets to factor this type of things in.

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

Okay, that's helpful, thank you.

Operator

Thank you. (Operator Instructions).

Our next question comes from the line of Ric Prentiss of Raymond James. Your line is now open.

Ric Prentiss - *Raymond James & Associates - Analyst*

Hey, followup question. George, you mentioned that some of the future dropdowns might be unit exchange versus cash for the cash-deferred basis, would there be any lockup associated with that, those shares for those units?

George Doyle - *Landmark Infrastructure Partners LP - CFO*

Yes, there would be to the extent we issue on, they would potentially be unregistered unit, and so it would take at least six months before those units could be traded.

Ric Prentiss - *Raymond James & Associates - Analyst*

Great, that was the [only] question I have for you, thanks.

George Doyle - *Landmark Infrastructure Partners LP - CFO*

Okay.

Operator

Thank you. I'm showing no further questions at this time. I'll hand the call back over to Mr. Tim Brazy for any closing remarks.

Arthur Brazy - Landmark Infrastructure Partners LP - CEO

Great, well first thank you again for joining us on the call. As you heard, we're very pleased with the results this quarter and we're confident that we will continue to meet our stated goals for the year. So, have a good day everyone and we look forward to speaking with you next quarter.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program. You may all disconnect. Have a great day everyone.

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