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LMRK - Q2 2016 Landmark Infrastructure Partners LP Earnings Call

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Mike Gyure *Janney Montgomery Scott - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Landmark Infrastructure Partners second-quarter 2016 earnings conference call. (Operator Instructions) As reminder, this conference call is being recorded.

I would now like to turn the conference over to Marcelo Choi, VP Investor Relations. Please go ahead.

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

Thank you and good morning. We would 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 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 in our public filings for definitions and reconciliations of these non-GAAP measures to their most comparable GAAP measures.

And with that, I will turn the call over to Tim.

Tim Brazy *- Landmark Infrastructure Partners LP - CEO*

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

In the second quarter of 2016, the Partnership delivered another quarter of strong financial and operating results. Growth in the first half of 2016 was driven primarily by our acquisitions last year and continued strong organic asset performance. Following the eight dropdown acquisitions completed in 2015, we positioned the Partnership with additional capital capacity and a significant acquisition pipeline, which we expect to contribute to our being able to meet our guidance for this year.

We were very active in the second quarter and really focused on the right-hand side of the balance sheet, putting the Partnership in a better position to execute our strategy for growth. In April, we closed our preferred unit offering, issuing 8% preferred units with gross proceeds of $20 million.

The preferred offering gave us added financial flexibility related to the subsequent securitization we completed in Q2 and capacity for additional dropdown acquisitions.

In June, we closed our first securitization transaction, creating over $100 million of additional capacity from our revolving credit facility for future dropdowns. In addition in June, we also initiated an at-the-market program for our preferred units, which allows the Partnership to sell up to $40 million of preferred units in the open market.

The preferred ATM is a great complement to the $50 million ATM program we launched in February of this year for our common units. All together, these successful efforts continued to be part of the combined toolset we put in place to help manage our ongoing capital-raising activities that George will specifically talk about a bit later in the call.

In terms of acquisitions, we completed our 10th dropdown acquisition yesterday, which was comprised of 59 tenant sites for total consideration $24.4 million in cash and includes 37 wireless communication sites, 4 outdoor advertising sites, and 18 renewable power generation sites. Similar to our prior dropdowns, the acquisition was 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 of approximately 2.1%, Tier 1 tenancy of approximately 93%, an aggregate remaining real property interest term of 69 years and a lease terms of 27 years, and a broad geographic mix with the 59 tenant sites located in 21 states.

Year to date, we have acquired 62 assets through two dropdown acquisitions for total consideration of $30.7 million, which are expected to contribute annual rents of approximately $2.1 million.

In terms of our sponsor, acquisition activity has been extremely strong and continues at record levels. In the second quarter, signed acquisition contract volume at our sponsor, Landmark Dividend, more than doubled from the first quarter and increased by more than 250% year over year. Signed acquisition contract volume increased by greater than 150% in the first half of 2016 versus last year.

These acquisitions at the sponsor are expected to drive considerable opportunity for higher acquisition activity at LMRK. In particular, our sponsor has continued to increase its efforts in the renewable power generation segment, which has resulted in notably strong activity. And strategically, Landmark Dividend remains focused on acquiring assets with higher cap rates and other characteristics that make for very attractive and accretive dropdown opportunities for the Partnership.

As the sponsor continues to acquire assets at record levels, the ROFO asset portfolio, plus additional assets under management, continues to increase and currently has more than 930 tenant sites as of June 30, 2016, equal to 62% of the current Partnership portfolio. These specific assets represent approximately $21 million in annual rents and would represent an increase of more than 65% in the Partnership's total revenue if the entire portfolio were dropped down, further strengthening LMRK's position and its opportunity and visibility for growth going forward.

Our sponsor also continues to grow its international footprint and evaluate additional asset classes. Landmark Dividend is currently active in Australia, Canada, and New Zealand and is evaluating other international markets as well.

Operating in Australia since 2013, our sponsor opened its Sydney office in March of last year and anticipates growing its headcount to more than a dozen employees as it takes full advantage of the significant opportunities in that market. But in addition to our sponsor continuing to accumulate assets in Australia, the Partnership itself is now seeing some direct international acquisition opportunities and recently acquired two Australian assets directly from third parties at the end of the second quarter as part of our long-term strategy of acquiring third-party and international assets directly at the Partnership level.

Looking ahead to the second half of 2016, we're confident that the Partnership is well situated to deliver consistent and growing distributable cash flow through its stable and growing portfolio of assets. The assets in our current portfolio continue to perform as expected, generating the stable escalating cash flows that help drive our growth.

Due to the added flexibility from the preferred offering and recent securitization, we believe we can take advantage of our sponsor's record acquisition pace and will continue to target direct acquisition opportunities from third-party sources, both domestically and internationally. In addition, we will continue to focus on the growing pipeline of additional transactions under our unit exchange program and expanding in those international markets that best fit our business.

Overall, we are very pleased with our second-quarter results, the progress that we continue to make at the sponsor level and LMRK, and we're confident that we can deliver on 2016 acquisition guidance and grow distributable cash flow per unit throughout the remainder of the year.

And with that, I will hand the call 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 second quarter, keep in mind that during quarter, the Partnership completed an acquisition from Landmark and its affiliates. Similar to previous quarters, 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 dropdown asset's predecessor prior to our ownership.

I will focus my comments on the results in the column labeled Landmark Infrastructure Partners LP in the reconciliation, which excludes the results of the dropdown asset's predecessor prior to the date of the acquisition.

We generated revenue for the second quarter of $7.8 million, which was an increase of 77% year over year. The growth is primarily due to the nine dropdown transactions that we have completed through the end of the quarter, and to a lesser extent, organic growth from the portfolio.

G&A expenses for the quarter were $1 million before the reimbursement from our sponsor of $819,000. The G&A reimbursement from our sponsor is reflected as a capital contribution rather than as a direct reduction to our G&A expenses.

Our G&A expenses were higher than Q2 2015 as a result of increased state tax return filing fees and a shift in the timing of the 2016 audit expenses. We expect our G&A expenses to decline significantly in Q3. Adjusted EBITDA for the second quarter is $7.2 million, which excludes several non-cash items, including an unrealized loss on derivatives and increased 81% year over year.

We ended the quarter with 1,405 leased tenant sites out of a total of 1,450 available tenant sites. And the occupancy rate for the quarter was 97%, which is in line with our expectations. We finished the quarter with $106 million of outstanding borrowings under our revolving credit, as we paid down approximately $130 million at the facility, with proceeds from the preferred offering and our securitization transaction.

As of June 30, our leverage ratio at our revolving credit facility is at approximately 6 times adjusted EBITDA. And 100% of our total borrowings are fixed through interest rate swaps. The Partnership-wide leverage ratio is currently at approximately 7.5 times adjusted EBITDA as of June 30.

As we discussed at the beginning of the year, our plan for 2016 was to prudently and opportunistically raise capital during the year. In February this year, we launched our ATM program on our common units, and in June, we launched an ATM program on our preferred units. We believe these programs will allow the Partnership to selectively raise capital without incurring operating expenses in unit price discounts associated with traditional offerings.

During the second quarter, we issued approximately 130,000 common units from our common unit ATM program with net proceeds of approximately $2.1 million. We did not issue any preferred units from our preferred unit ATM program in the second quarter.

When combined with the ATM issuances made in July, since inception, we have issued a total of 220,000 common units with net proceeds of approximately $3.6 million, and 64,000 preferred units with net proceeds of approximately $1.6 million.

On July 27, the Partnership announced its second-quarter cash distribution of $0.3325 per common unit or $1.33 per common unit on an annualized basis. This distribution is 15.7% higher than the annualized minimum quarterly distribution and represents a 0.8% increase over the first-quarter 2016 distribution of $0.33 per common unit. This quarter's distribution also marked the sixth consecutive quarter that the Partnership has increased its quarterly distribution since its initial public offering in November 2014.

Our coverage ratio, which is defined as distributable cash flow divided by distributions declared on the weighted average common subordinated units outstanding during the quarter, was 0.94 times in the second quarter. Our coverage ratio for the quarter was temporarily impacted by the deferred offering in April. The proceeds from the preferred offering provided us flexibility in completing the securitization and acquisition capital that was partially deployed in the dropdown that closed yesterday, which offset the impact of that capital raise.

Today, we are reaffirming our guidance for 2016. The sponsor has expressed its intent to provide dropdown acquisitions ranging between $200 million and $300 million in 2016. These dropdown opportunities are expected to come from both organic acquisition activity and ROFO asset dropdowns, including one or both of Landmark's two private funds that are reaching the end of their three-year terms in Q3 of 2016 and Q1 of 2017.

The first major step required before completing further dropdown acquisitions was achieved in the second quarter by completing the securitization and creating additional financing capacity under our revolving line of credit.

As Tim mentioned, acquisition activity remains high at the sponsor level, with assets available for dropdowns increasing. In addition, the Partnership continues to pursue direct acquisition opportunities and successfully completed its first UEP transactions.

We continue to expect the combination of acquisition activity and strong organic growth through contractual escalators, and higher rents from lease amendments and renewals are expected to drive distribution growth of 10% to 15% over the fourth-quarter 2015 distribution of $0.325 per common unit. Similar to last year, we expect the Partnership's acquisition activity and distribution growth to accelerate in the back half of 2016.

In closing, in Q2, we hit a number of significant milestones for the Partnership. And with our securitization completed, we are well positioned for the second half of the year.

We will now take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Ric Prentiss, Raymond James.

Ric Prentiss - *Raymond James & Associates, Inc. - Analyst*

Two questions, if I could. One, obviously you've done a nice job describing the pipeline and that it looks pretty full. Talk to us a little bit about the pacing and maybe what's the size of those two funds that are coming up on end of life 3Q 2016 and 2017.

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

Sure. They are both pretty large funds out of our private fund group. The number of assets, I would say, ranges in the 300 to 400 asset range for each of the funds, so they are pretty good size.

Ric Prentiss - *Raymond James & Associates, Inc. - Analyst*

And as far as annual revenue in each of them, can you give us that kind of scale?

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

Yes. It's roughly -- I would say on the larger one, it would be approximately $9 million in annual revenue. And for the smaller one, it would be approximately, say, around $7 million.

Ric Prentiss - *Raymond James & Associates, Inc. - Analyst*

Okay. And then my other question is it looked like wireless churn was up a little bit this quarter. Remind us again about is that happening on rooftops or actually at towers. And what you're thinking as far as wireless churn for the short and medium term.

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

Sure. I think we've seen most of the churn already. There was a little bit of activity related to Metro PCS and a couple other tenants that where the notices were given, say, at the end of last year, maybe a little bit in the first quarter, and now finally some of those sites have become vacant.

As far as what we're seeing today, we are seeing very little. We only saw one. So I would expect churn to be pretty low for the year; it might even be under maybe 50 basis points for the year. I don't expect to see much out of the portfolio really looking forward.

Ric Prentiss - *Raymond James & Associates, Inc. - Analyst*

Okay, thanks, guys.

Operator

Dave Rodgers, Baird.

Dave Rodgers - *Robert W. Baird & Company, Inc. - Analyst*

George, maybe just run through the numbers real quick. I think you had said $21 million of annual rents in the 900-plus tenant sites in the ROFO portfolio. I think you just quoted the $9 million and the $7 million. So that leaves another $5 million or so of annualized rents. Are those assets fully available today, or are they being marketed into a different fund within the sponsor?

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

Yes, the remaining assets are in funds that don't mature for another, I would say from this point, 12 to 24 months from now. So there's -- the two funds that are coming due are a good chunk of the total ROFO assets.

We are still marketing one fund at this point. We always tend to have one fund outstanding where we are raising capital and placing assets into that fund. But we do expect that a lot of the acquisition volume that is going on at Landmark level, the sponsor level, is going to end up as dropdown opportunities.

Dave Rodgers - *Robert W. Baird & Company, Inc. - Analyst*

Okay, that's fair. So I guess that extra $5 million would still be available over the next 24 months?

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

Yes, roughly, yes.

Dave Rodgers - *Robert W. Baird & Company, Inc. - Analyst*

Okay. And any new acquisitions we should think about in the same way?

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

At the private fund level, yes. So to the extent the ROFO assets increase over the next quarter or two, then yes, they would be available in that time frame.

Dave Rodgers - *Robert W. Baird & Company, Inc. - Analyst*

Okay. That sounds good. You did talk about the coverage dropping in the second quarter. Do you anticipate getting coverage back up to kind of a 1.05 coverage for the full year in the aggregate?

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

Yes, when you get down towards the end of the year, once we finish the dropdowns of the funds and all the different activities necessary to get the Partnership at the right balance between debt and equity levels, then yes, we would expect to be around that 1.05 coverage level.

Dave Rodgers - *Robert W. Baird & Company, Inc. - Analyst*

For the full year or just for the end of the fourth quarter?

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

Oh, for the end of the fourth quarter, yes.

Dave Rodgers - *Robert W. Baird & Company, Inc. - Analyst*

Sorry, another question. The $2.1 million of revenue that you quoted, I just wanted to make sure I was thinking about that right. Is that on the $30 million roughly of total acquisitions this year or was that just one specific piece of that?

Tim Brazy - *Landmark Infrastructure Partners LP - CEO*

That was for all of the acquisitions done to date.

Dave Rodgers - *Robert W. Baird & Company, Inc. - Analyst*

Just this year, you mean?

Tim Brazy - *Landmark Infrastructure Partners LP - CEO*

Yes.

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

Yes, yes.

Dave Rodgers - *Robert W. Baird & Company, Inc. - Analyst*

Okay. So year to date through the July acquisition. Okay, that -- and August acquisition. Let's see if I had anything else for you. In the 10-Q, it talked about you buying some assets in Australia, which you referenced, as well as buying some others. It mentioned HoldCo as a company. Is that a related party to you or Landmark? You just called it out specifically in the 10-Q, so I was curious.

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

Yes, it's a (technical difficulty) related entity to us.

Dave Rodgers - *Robert W. Baird & Company, Inc. - Analyst*

Okay. Part of the funds? Separate?

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

Under Landmark. Yes, it's not part of the funds.

Dave Rodgers - *Robert W. Baird & Company, Inc. - Analyst*

Okay. Fair enough. All right, great. Thanks, guys.

Operator

(Operator Instructions) Mike Gyure, Janney.

Mike Gyure - *Janney Montgomery Scott - Analyst*

Can you talk a little bit, I guess, maybe, George, on the long-term debt coverage you are looking for?

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

I'm not sure I entirely understand the question. Are you talking as far as the multiple --

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Mike Gyure - *Janney Montgomery Scott - Analyst*

Yes.

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

-- The EBITDA that we -- okay. Yes, so on a long-term basis, we plan to operate around that 6 to 8 times, and it will depend on the capital that we have raised at any point in time. It will also depend on how much preferred that we end up having in our capital stack as well. But generally in that range, 6 to 8 times.

Mike Gyure - *Janney Montgomery Scott - Analyst*

Okay. So that pretty much hasn't changed from before. And then also on the -- I assume the multiple on the dropdown cap rate is roughly the same as the prior dropdowns?

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

It's within our guidance range, this one was, which is the, call it, 6.25 to 6.5 cap rate range.

Operator

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

Tim Brazy - *Landmark Infrastructure Partners LP - CEO*

Great. Thanks, everybody, for joining us today. We've had a good start to the year, which we think puts us in a terrific position to take advantage of the market opportunities we have. And we believe the strategies, and more importantly the ability to execute at both sponsor and the Partnership, will help us achieve our goals in 2016. So thanks again for your time and we look forward to speaking with you again next quarter.

Operator

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