

AMERICAN TOWER CORP /MA/
Form 10-K
February 27, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One):

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the fiscal year ended December 31, 2016

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the transition period from _____ to _____

Commission File Number: 001-14195

American Tower Corporation

(Exact name of registrant as specified in its charter)

Delaware 65-0723837

(State or other jurisdiction of (I.R.S. Employer

Incorporation or Organization) Identification No.)

116 Huntington Avenue

Boston, Massachusetts 02116

(Address of principal executive offices)

Telephone Number (617) 375-7500

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each Class

Name of exchange on
which registered

Common Stock, \$0.01 par value

New York Stock
Exchange

5.25% Mandatory Convertible Preferred Stock, Series A, \$0.01 par value

New York Stock
Exchange

Depository Shares, each representing a 1/10th ownership interest in a share of 5.50%

New York Stock
Exchange

Mandatory Convertible Preferred Stock, Series B, \$0.01 par value

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well known seasoned issuer, as defined in Rule 405 of the Securities

Act: Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the

Act: Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act): Yes No

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant as of June 30, 2016 was \$47.9 billion, based on the closing price of the registrant’s common stock as reported on the New York Stock Exchange as of the last business day of the registrant’s most recently completed second quarter. As of February 17, 2017, there were 427,195,037 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement (the “Definitive Proxy Statement”) to be filed with the Securities and Exchange Commission relative to the registrant’s 2017 Annual Meeting of Stockholders are incorporated by reference into Part III of this Report.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K (this “Annual Report”) contains statements about future events and expectations, or forward-looking statements, all of which are inherently uncertain. We have based those forward-looking statements on our current expectations and projections about future results. When we use words such as “anticipates,” “intends,” “plans,” “believes,” “estimates,” “expects” or similar expressions, we do so to identify forward-looking statements. Examples of forward-looking statements include, but are not limited to, statements we make regarding future prospects of growth in the communications site leasing industry, the level of future expenditures by companies in this industry and other trends in this industry, the effects of consolidation among companies in our industry and among our tenants and other competitive pressures, changes in zoning, tax and other laws and regulations, economic, political and other events, particularly those relating to our international operations, our future capital expenditure levels, our plans to fund our future liquidity needs, our substantial leverage and debt service obligations, our future financing transactions, our ability to maintain or increase our market share, our future operating results, our ability to remain qualified for taxation as a real estate investment trust (REIT), the amount and timing of any future distributions including those we are required to make as a REIT, our ability to protect our rights to the land under our towers and natural disasters and similar events. These statements are based on our management’s beliefs and assumptions, which in turn are based on currently available information. These assumptions could prove inaccurate. These forward-looking statements may be found under the captions “Business” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” as well as in this Annual Report generally.

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You should keep in mind that any forward-looking statement we make in this Annual Report or elsewhere speaks only as of the date on which we make it. New risks and uncertainties arise from time to time, and it is impossible for us to predict these events or how they may affect us. In any event, these and other important factors, including those set forth in Item 1A of this Annual Report under the caption “Risk Factors,” may cause actual results to differ materially from those indicated by our forward-looking statements. We have no duty, and do not intend, to update or revise the forward-looking statements we make in this Annual Report, except as may be required by law. In light of these risks and uncertainties, you should keep in mind that the future events or circumstances described in any forward-looking statement we make in this Annual Report or elsewhere might not occur. References in this Annual Report to “we,” “our” and the “Company” refer to American Tower Corporation and its predecessor, as applicable, individually and collectively with its subsidiaries as the context requires.

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PART I

ITEM 1. BUSINESS

Overview

We are one of the largest global real estate investment trusts and a leading independent owner, operator and developer of multitenant communications real estate. Our primary business is the leasing of space on communications sites to wireless service providers, radio and television broadcast companies, wireless data providers, government agencies and municipalities and tenants in a number of other industries. We refer to this business as our property operations, which accounted for 99% of our total revenues for the year ended December 31, 2016. We also offer tower-related services in the United States, including site acquisition, zoning and permitting and structural analysis, which primarily support our site leasing business, including the addition of new tenants and equipment on our sites. We refer to this business as our services operations.

Our portfolio primarily consists of towers that we own and towers that we operate pursuant to long-term lease arrangements, as well as distributed antenna system (“DAS”) networks, which provide seamless coverage solutions in certain in-building and outdoor wireless environments. In addition to the communications sites in our portfolio, we manage rooftop and tower sites for property owners under various contractual arrangements. We also hold other telecommunications infrastructure and property interests that we lease to communications service providers and third-party tower operators. Our communications real estate portfolio of 144,884 communications sites, as of December 31, 2016, included 40,414 communications sites in the U.S., 57,945 communications sites in Asia, 12,861 communications sites in Europe, Middle East and Africa (“EMEA”) and 33,664 communications sites in Latin America.

American Tower Corporation was originally created as a subsidiary of American Radio Systems Corporation in 1995 and was spun off into a free-standing public company in 1998. We are a holding company and conduct our operations through our directly and indirectly owned subsidiaries and joint ventures. Our principal domestic operating subsidiaries are American Towers LLC and SpectraSite Communications, LLC. We conduct our international operations primarily through our subsidiary, American Tower International, Inc., which in turn conducts operations through its various international holding and operating subsidiaries and joint ventures.

Since inception, we have grown our communications real estate portfolio through acquisitions, long-term lease arrangements and site development. In 2016, we significantly expanded our Asia segment portfolio by acquiring a 51% controlling ownership interest in Viom Networks Limited (“Viom”), a telecommunications infrastructure company that owns and operates approximately 42,000 wireless communications towers and 200 indoor DAS networks in India (the “Viom Acquisition”). Subsequent to the closing, Viom was renamed ATC Telecom Infrastructure Private Limited (“ATC TIPL”). In 2016, we launched operations in Argentina, a new market for us. In December 2016, our newly formed joint venture in Europe entered into a definitive agreement to acquire a tower company in France, which is also a new market for us. This acquisition closed in February 2017.

We operate as a real estate investment trust for U.S. federal income tax purposes (“REIT”). Accordingly, we generally are not subject to U.S. federal income taxes on income generated by our REIT operations, including the income derived from leasing space on our towers, as we receive a dividends paid deduction for distributions to stockholders that generally offsets our income and gains. However, we remain obligated to pay U.S. federal income taxes on earnings from our domestic taxable REIT subsidiaries (“TRSs”). In addition, our international assets and operations, regardless of their designation for U.S. tax purposes, continue to be subject to taxation in the foreign jurisdictions where those assets are held or those operations are conducted.

The use of TRSs enables us to continue to engage in certain businesses while complying with REIT qualification requirements. We may, from time to time, change the election of previously designated TRSs to be included as part of the REIT. As of December 31, 2016, our REIT qualified businesses included our U.S. tower leasing business, most of our operations in Costa Rica, Germany and Mexico and a majority of our services segment and indoor DAS networks

business.

We report our results in five segments – U.S. property (formerly referred to as “domestic rental and management”), Asia property, EMEA property, Latin America property (Asia property, EMEA property and Latin America property were formerly referred to as “international rental and management”) and services (formerly referred to as “network development services”).

For more information about our business segments, as well as financial information about the geographic areas in which we operate, see Item 7 of this Annual Report under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and note 20 to our consolidated financial statements included in this Annual Report.

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Products and Services

Property Operations

Our property operations accounted for 99%, 98% and 98% of our total revenues for each of the years ended December 31, 2016, 2015 and 2014, respectively. Our revenue is primarily generated from tenant leases. Our tenants lease space on our communications real estate, where they install and maintain their equipment. Rental payments vary considerably depending upon numerous factors, including, but not limited to, tower location, amount, type and position of tenant equipment on the tower, ground space required by the tenant and remaining tower capacity. Our costs typically include ground rent (which is primarily fixed, with annual cost escalations) and power and fuel costs, some or all of which may be passed through to our tenants, as well as property taxes and repairs and maintenance expenses. Our property operations have generated consistent incremental growth in revenue and typically have low cash flow volatility due to the following characteristics:

Long-term tenant leases with contractual rent escalations. In general, a tenant lease has an initial non-cancellable term of ten years with multiple renewal terms, with provisions that periodically increase the rent due under the lease, typically annually, based on a fixed escalation percentage (averaging approximately 3% in the United States) or an inflationary index in our international markets, or a combination of both. Based upon foreign currency exchange rates and the tenant leases in place as of December 31, 2016, we expect to generate over \$31 billion of non-cancellable tenant lease revenue over future periods, absent the impact of straight-line lease accounting.

Consistent demand for our sites. As a result of rapidly growing usage of wireless services and the corresponding wireless industry capital spending trends in the markets we serve, we anticipate consistent demand for our communications sites. We believe that our global asset base positions us well to benefit from the increasing proliferation of advanced wireless devices and the increasing usage of high bandwidth applications on those devices. We have the ability to add new tenants and new equipment for existing tenants on our sites, which typically results in incremental revenue and modest incremental costs. Our site portfolio and our established tenant base provide us with a solid platform for new business opportunities, which has historically resulted in consistent and predictable organic revenue growth.

High lease renewal rates. Our tenants tend to renew leases because suitable alternative sites may not exist or be available and repositioning a site in their network may be expensive and may adversely affect the quality of their network. Historically, churn has been approximately 1% to 2% of total property revenue per year. We define churn as revenue lost when a tenant cancels or does not renew its lease or, in limited circumstances, when the lease rates on existing leases are reduced. We derive our churn rate for a given year by dividing our revenue lost on this basis by our prior year property segment revenue.

High operating margins. Incremental operating costs associated with adding new tenants to an existing communications site are relatively minimal. Therefore, as tenants are added, the substantial majority of incremental revenue flows through to gross margin and operating profit. In addition, in many of our international markets certain expenses, such as ground rent or power and fuel costs, are reimbursed or shared by our tenant base.

Low maintenance capital expenditures. On average, we require relatively low amounts of annual capital expenditures to maintain our communications sites.

Our property business includes the operation of communications sites, managed networks, the leasing of property interests, fiber and the provision of backup power through shared generators. Our presence in a number of markets at different relative stages of wireless development provides us with significant diversification and long-term growth potential. Our property segments accounted for the following percentage of total revenue for the years ended December 31,:

	2016	2015	2014
U.S.	59%	66%	64%
Asia	14%	5%	6%
EMEA	9%	8%	8%
Latin America	17%	19%	20%

Communications Sites. Approximately 95% of revenue in our property segments was attributable to our communications sites for each of the years ended December 31, 2016, 2015 and 2014.

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We lease space on our communications sites to tenants providing a diverse range of communications services, including cellular voice and data, broadcasting, mobile video and a number of other applications. In addition, in many of our international markets, we receive additional pass-through revenue from our tenants to cover certain costs, including power and fuel costs and ground rent. Our top tenants by revenue for each region are as follows for the year ended December 31, 2016:

U.S.: AT&T, Verizon Wireless, Sprint and T-Mobile US accounted for an aggregate of 88% of U.S. property segment revenue.

Asia: TATA, Idea Cellular, Vodafone and Bharti Airtel Limited (“Airtel”) accounted for an aggregate of 66% of Asia property segment revenue.

EMEA: Airtel and MTN Group Limited accounted for an aggregate of 70% of EMEA property segment revenue.

Latin America: Telefónica, AT&T, Telecom Italia and Nextel International accounted for an aggregate of 71% of Latin America property segment revenue.

Accordingly, we are subject to certain risks, as set forth in Item 1A of this Annual Report under the caption “Risk Factors—A substantial portion of our revenue is derived from a small number of tenants, and we are sensitive to changes in the creditworthiness and financial strength of our tenants.” In addition, we are subject to risks related to our international operations, as set forth under the caption “Risk Factors—Our foreign operations are subject to economic, political and other risks that could materially and adversely affect our revenues or financial position, including risks associated with fluctuations in foreign currency exchange rates.”

Managed Networks, Property Interests, Fiber and Shared Generators. In addition to our communications sites, we also own and operate several types of managed network solutions, provide communications site management services to third parties, manage and lease property interests under carrier or other third-party communications sites, lease fiber and provide back-up power sources to tenants at our sites.

Managed Networks. We own and operate DAS networks in the United States and certain international markets. We obtain rights from property owners to install and operate in-building DAS networks, and we grant rights to wireless service providers to attach their equipment to our installations. We also offer outdoor DAS networks as a complementary shared infrastructure solution for our tenants in the United States and in certain international markets. Typically, we design, build and operate our outdoor DAS networks in areas in which zoning restrictions or other barriers may prevent or delay deployment of more traditional wireless communications sites. We also hold lease rights and easement interests on rooftops capable of hosting communications equipment in locations where towers are generally not a viable solution based on area characteristics. In addition, we provide management services to property owners in the United States who elect to retain full rights to their property while simultaneously marketing the rooftop for wireless communications equipment installation. As the demand for advanced wireless devices in urban markets evolves, we continue to evaluate a variety of infrastructure solutions, including small cells, that may support our tenants’ networks in these areas.

Property Interests. We own a portfolio of property interests in the United States under carrier or other third-party communications sites, which provides recurring cash flow under complementary leasing arrangements.

Fiber. We own and operate fiber in Argentina, which we currently lease to operators to support their urban telecommunications infrastructure and expect to lease to operators in the future for additional fourth generation (4G) and fifth generation (5G) deployments.

Shared Generators. We have contracts with certain of our tenants in the United States pursuant to which we provide access to shared backup power generators.

Services Operations

We offer tower-related services, including site acquisition, zoning and permitting and structural analysis services. Our services operations primarily support our site leasing business, including through the addition of new tenants and

equipment on our sites. This segment accounted for 1%, 2% and 2% of our total revenue for each of the years ended December 31, 2016, 2015 and 2014, respectively.

Site Acquisition, Zoning and Permitting. We engage in site acquisition services on our own behalf in connection with our tower development projects, as well as on behalf of our tenants. We typically work with our tenants' engineers to determine the geographic areas where new communications sites will best address the tenants' needs and meet their coverage objectives. Once a new site is identified, we acquire the rights to the land or structure on which the site will be constructed, and we manage the permitting process to ensure all necessary approvals are obtained to construct and operate the communications site.

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Structural Analysis. We offer structural analysis services to wireless carriers in connection with the installation of their communications equipment on our towers. Our team of engineers can evaluate whether a tower structure can support the additional burden of the new equipment or if an upgrade is needed, which enables our tenants to better assess potential sites before making an installation decision. Our structural analysis capabilities enable us to provide higher quality service to our existing tenants by, among other things, reducing the time required to achieve on-air readiness, while also providing opportunities to offer structural analysis services to third parties.

Strategy

Operational Strategy

Our operational strategy is to capitalize on the global growth in the use of wireless services and the evolution of advanced wireless handsets, tablets and other mobile devices, and the corresponding expansion of communications infrastructure required to deploy current and future generations of wireless communications technologies. To achieve this, our primary focus is to (i) increase the occupancy of our existing communications real estate portfolio, (ii) invest in and selectively grow our communications real estate portfolio, (iii) further improve upon our operational performance and (iv) maintain a strong balance sheet. We believe these efforts will further support and enhance our ability to capitalize on the growth in demand for wireless infrastructure. In addition, we expect to explore new and broader opportunities to enhance or extend our shared communications infrastructure businesses, including those that may make our assets incrementally more attractive to new tenants, or to existing tenants for additional uses, and those that increase our operational efficiency.

Increase the occupancy of our existing communications real estate portfolio. We believe that our highest returns will be achieved by leasing additional space on our existing communications sites. Increasing demand for wireless services in our served markets has resulted in significant capital spending by major wireless carriers. As a result, we anticipate consistent demand for our communications sites because they are attractively located for wireless service providers and typically have capacity available for additional tenants. In the United States, incremental carrier network activity is being driven primarily by the build-out and densification of 4G networks, while in our international markets, carriers are deploying a combination of second generation (2G), third generation (3G) and 4G networks, depending on the specific market. As of December 31, 2016, we had a global average of approximately 1.9 tenants per tower. We believe that the majority of our towers have capacity for additional tenants and that substantially all of our towers that are currently at or near full structural capacity can be upgraded or augmented to meet future tenant demand with relatively modest capital investment. Therefore, we will continue to target our sales and marketing activities to increase the utilization and return on investment of our existing communications sites.

Invest in and selectively grow our communications real estate portfolio. We seek opportunities to invest in and grow our operations through our capital expenditure program, new site construction and acquisitions. We believe we can achieve attractive risk-adjusted returns by pursuing such investments. In addition, we seek to secure property interests under our communications sites to improve operating margins as we reduce our cash operating expense related to ground leases. A significant portion of our inorganic growth has been focused on properties with lower initial tenancy because we believe that over time, we can significantly increase tenancy levels, and therefore, drive strong returns on those assets.

Further improve upon our operational performance and efficiency. We continue to seek opportunities to improve our operational performance throughout the organization. This includes investing in our systems and people as we strive to improve efficiency and provide superior service to our tenants. To achieve this, we intend to continue to focus on customer service, such as reducing cycle times for key functions, including lease processing and tower structural analysis.

Maintain a strong balance sheet. We remain committed to disciplined financial policies, which we believe result in our ability to maintain a strong balance sheet and will support our overall strategy and focus on asset growth and operational excellence. As a result of these policies, we currently have investment grade credit ratings. We continue to focus on maintaining a robust liquidity position and, as of December 31, 2016, had \$3.6 billion of available liquidity.

We believe that our investment grade credit ratings provide us consistent access to the capital markets and our liquidity provides us the ability to selectively invest in our portfolio.

Capital Allocation Strategy

The objective of our capital allocation strategy is to simultaneously increase adjusted funds from operations and our return on invested capital over the long term. To maintain our qualification for taxation as a REIT, we are required to distribute to our stockholders annually an amount equal to at least 90% of our REIT taxable income (determined before the deduction for

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distributed earnings and excluding any net capital gain). After complying with our REIT distribution requirements and paying dividends on our preferred stock, we plan to continue to allocate our available capital among investment alternatives that meet or exceed our return on investment criteria.

Capital expenditure program. We will continue to invest in and expand our existing communications real estate portfolio through our annual capital expenditure program. This includes capital expenditures associated with maintenance, increasing the capacity of our existing sites, and projects such as new site construction, land interest acquisitions and shared generator installations.

Acquisitions. We intend to pursue acquisitions of communications sites in our existing or new markets where we can meet or exceed our risk-adjusted return on investment criteria. Our risk-adjusted hurdle rates consider additional risks such as the country and counterparties involved, investment and economic climate, legal and regulatory conditions and industry risk.

Return excess capital to stockholders. If we have excess capital available after funding (i) our required distributions, (ii) capital expenditures and (iii) anticipated future investments, including acquisition opportunities, we will seek to return such excess capital to stockholders, including through our stock repurchase program.

International Growth Strategy

We believe that, in certain international markets, we can create substantial value by either establishing a new, or expanding our existing, communications real estate leasing business. Therefore, we expect we will continue to seek international growth opportunities where we believe our risk-adjusted return objectives can be achieved. We strive to maintain a diversified approach to our international growth strategy by operating in a geographically diverse array of markets in a variety of stages of wireless network development. Our international growth strategy includes a