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CBS Outdoor Americas, Inc. (CBSO)

Q1 2014 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Chris and I will be your conference operator today. At this time, I would like to welcome everyone to the CBS Outdoor First Quarter 2014 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

Gregory Lundberg, Senior Vice President of Investor Relations, you may begin your conference.

Gregory Lundberg
Senior Vice President of Investor Relations, CBS Outdoor Americas Inc.

Good morning, everyone. Thank you for joining our 2014 first quarter earnings call. On the call today are Jeremy Male, Chief Executive Officer; and Donald Shassian, Executive Vice President and Chief Financial Officer.

After today's prepared remarks, we'll open up the lines for a question-and-answer session. A slide presentation to accompany today's call can be found on the Investor Section of our website at cbsoutdoor.com along with the earnings release and an audio webcast of this call.

Let me now refer you to slide number two of the presentation which contains our Safe Harbor disclaimer and remind you that this conference call may include forward-looking statements that involve certain risks and uncertainties that could cause actual results to differ.

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In addition in this call, we'll refer to certain non-GAAP financial measures. Please refer to the appendix of the slide presentation and our earnings release for the reconciliations of non-GAAP financial measures to GAAP. Each of which can be found in the Investor Section of our website cbsoutdoor.com.

These documents also provide reconciliations of results on a comparable basis, which we believe present a more meaningful view of our business performance and progress by making certain adjustments to our reported 2013 results to exclude a significant net gain on disposition incurred in the first quarter of 2013, to include incremental standalone public company operating cost and interest expense at the same level incurred in the first quarter of 2014, and also to reflect a constant dollar basis.

So with that, I will now turn the call over to Jeremy.

Jeremy John Male

Chief Executive Officer & Director, CBS Outdoor Americas, Inc.

Thanks, Greg, and good morning everyone. We're really excited to be talking to you today as a newly public company. On this call, I'll quickly discuss our performance highlights of the quarter and then provide an overview of our business and the opportunity ahead. Then I'll hand over to Don to get into the results in more details, as well as review our balance sheet and cash flow. After that, I'll come and conclude with the key strategic drivers we're focusing on to create value.

So turning to slide 4, we're really pleased to have delivered good growth across all key metrics and geographies in the first quarter of 2014, total revenues increased 4.4% on a constant dollar basis. This was driven by several things including 4% U.S. revenue growth and 8% international growth led by strong performances from Canada and Mexico.

Billboard revenues, which were up 3%, were driven by a year-over-year improvement in revenue per display, what we call yield, and also from converting static boards to digital. A near 10% lift in transit revenues with stronger entertainment spending, as well as a new digital display network in New York City.

During the IPO roadshow, we talked a lot about how the transit business is a real differentiator of our business, a real strength to CBSO.

Total adjusted OIBDA was up 5.6% and we will continue to focus on our yield initiatives and cost control to drive improved adjusted OIBDA margins which were 26.3% for the quarter. We had a good conversion of adjusted OIBDA to adjusted funds from operations or AFFOs which is an important performance metric for a real estate investment trust. Our AFFO was up 7.4% this quarter.

As a REIT, we have to use this cash flow to distribute at least 90% of pre-tax income as dividends to our shareholders. And we plan to actually pay out 100% of it as dividends. Our Board of Directors has declared a quarterly dividend payable June 30th which we believe approximates that 90% annual payout. We plan to make the final payment to bring it to 100% early next year.

We think this will provide a very attractive yield to our shareholders. We're well down the road on our plans to become a REIT. On April 16th, we received a favorable private letter ruling from the IRS with respect to our plan to convert it to a REIT. We firmly believe this structure combined with the attractive growth dynamics of our company and the industry will create long-term value for our shareholders. So in aggregate our business is performing well and is progressing according to our plan.

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Turning to slide five, as many of you heard us say during our roadshow presentations, we're very excited about our market positioning and the opportunity ahead. It always has been and still is a great time to be an out-of-home and I'm especially excited to be in the U.S. market at this stage of the game. Outdoor's share of U.S. advertiser spending at around 4.5% is still well below the 8% spent in other countries, underscoring our long-term growth potential.

Let's take a look at three great points about our business in the industry. The first key point is that outdoor is increasingly impactful in the media landscape. Our audience is not only growing as the population expands and gravitates towards the cities and suburbs, that advertising dollars are following this urbanization.

With our top DMA focus, we think we're best placed to capitalize on this opportunity. As the media landscape evolves, particularly in the light of the growth in online and digital, our business is not seeing the disintermediation that's disrupting so many other business models. Outdoor is always on and increasingly engaging, which brings us to the second point.

Technology is a big opportunity for our business. Not only do digital boards give us four times the revenue of a static board, but our digital network is growing in strategic importance. With TV, the Internet, and mobile, we have become the fourth screen for advertisers to reach huge audiences with the click of a button.

Outdoor also enhances two other important areas of digital marketing, social and search. In social, our mass reach means that we can inspire online discussion and sharing of ads seen on our billboards. Regarding search, the act of seeing a billboard has been shown to drive consumers to learn more about a product by searching for it online.

This is particularly important with the trends towards mobile search and the connected consumer out-of-home. Both of these capabilities will be very important for our clients in the future.

The third point is the increasing reach and speed with which we can serve our advertisers. Not only do we get them national reach, we do it with local execution. And that execution is increasingly deployed on a very rapid basis.

In digital, we can get a campaign up in a matter of minutes. In static, technology and production have improved so much that we can get a campaign up in just a couple of days.

These factors have really influenced how advertisers buy outdoor. And we've seen a persistent shift over many years towards shorter lead times. Also when I ran Outdoor businesses in Europe, a typical buy might be 2,000 boards for two weeks. That's exactly the kind of strategic buying that we want to bring to the U.S., more flexibility, more immediacy, and more impact.

Now let me drill down into our unique position in the industry which is summarized on slide six. We have a superior real estate portfolio of billboards and transit with a significant presence in top metro markets. Once again, precisely where the audience is growing and where advertisers are spending. We believe our active mix of billboards and transit will continue to drive consistent revenue growth in revenues and cash flows. And we have multiple ways to enhance this growth in the future including digital deployment, yield management, transit franchises, and targeted acquisitions, all of which I'll talk to a little later in this call.

I'd also like to add that I'm personally very excited to be working with an extraordinary experienced team at CBS Outdoor and some exceptional people that we brought on Board in many key parts of the organization. And I can tell you that everyone here is extremely energized by our opportunity as a standalone company and our leadership

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role in the outdoor industry. Combined, this puts us in a great position to outperform and create long-term, sustainable value for shareholders.

I'd now like to hand the call over to Don Shassian, our Chief Financial Officer, who will walk you through the financial performance in the quarter in more detail. So Don over to you.

Donald R. Shassian

Chief Financial Officer & Executive Vice President, CBS Outdoor Americas, Inc.

Thank you, Jeremy and good morning everyone. On slide eight, you can see a little bit more color on our revenue and profitability performance during the quarter. Jeremy mentioned several of the factors that drove our solid 4.4% constant dollar revenue growth. I'd like to add that there has been some industry commentary around first quarter impacts from poor weather and from national advertising dollars shifting to other sectors for events like the Olympics. Despite this, we are pleased that both static and digital billboard revenue per display, or yield as we call it, were up year-over-year on a same board basis. This focus on the amount of revenue we generate per display also helps us keep our costs in line.

On the expense side, while there are some factors that affect comparability from the first quarter of 2013, including the incremental $3.8 million of standalone public company costs, we believe that our current first quarter 2014 expense levels give you a better run rate view of our underlying business.

Combined with our solid revenue growth, adjusted OIBDA was up 5.6% and our margins expanded to 26.3%. I want to point out that our adjusted OIBDA now excludes stock-based compensation expense to better align our financial reporting with our peers.

Turning to our segment results on slide nine. In the U.S., which is 89% of our total revenues, revenues grew 4% and adjusted OIBDA increased $1.9 million or 2.4%. This was driven by higher revenues offset by higher site related and compensation expenses.

On slide 10, our international revenues grew 7.9% on a constant dollar basis for the quarter. Canada and Mexico showed a turnaround, and we are pleased to see underlying positive performance. International adjusted OIBDA grew 57% to $1.1 million in first quarter, primarily due to the revenue increase, partially offset by higher operating costs associated with the revenue growth. International has clearly improved and we are pleased with the performance this quarter.

Turning to slide 11. Let me provide an overview of our capital expenditures. In the first quarter of 2014, total capital expenditures were $8.2 million or 2.8% of total revenues. This included $3 million of maintenance CapEx and $5.2 million of growth CapEx. There are two things I want to point out about CapEx this quarter.

First, as you compare our growth CapEx to the 43 digital billboards we added, please note that timing differences in construction can skew a per board analysis. Many of these digital billboards were in process at the end of last year.

When we look at digital growth CapEx, we are spending approximately $250,000 on a per digital board basis. This level is consistent with our average spend in 2013, which was 40% lower than our average cost back in 2009 and has allowed us to generate improving returns on these conversions.

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Secondly, despite the 43 added this quarter, we expect our total deployment in 2014 to be approximately 100. We'll deploy these prudently in our top markets and we continue to expect that our capital expenditures for 2014 will be approximately $65 million.

Slide 12 shows that we generate strong consistent funds from operations or FFO and adjusted FFO. You'll see that the view of the first quarter of 2013 reflects two items that we believe makes the year-over-year comparison more useful for your analysis.

These items are -- we have added $3.8 million in incremental standalone public company costs or $2.2 million after-tax to equal the level of these costs that were incurred in Q1 2014.

As we mentioned in connection with the IPO, we are incurring these incremental costs to build up our capabilities as a standalone public company.

Secondly, we have also added $12.4 million of interest expense, or $7 million after-tax, reflecting current $1.6 billion of debt in January 2014. These two adjustments to the Q1 2013, make that quarter's results much more comparable to the first quarter of 2014.

We are also showing you per-share figures on an adjusted basis for the 120 million shares issued and outstanding when the IPO closed on April 2, 2014. The table shows you FFO of $0.42 and AFFO of $0.34. We saw 5% growth in FFO, 7.4% growth in AFFO and 68% growth in net income.

The one item that these figures are not adjusted for is cash taxes which we expect to be reduced significantly when we become a REIT. Nevertheless, in our first quarter results you can see the strong conversion of revenue to adjusted OIBDA and into AFFO. This is one of the keys to our decision to becoming a REIT. This strong cash generation let us pay a sustainable and healthy dividend and with the REIT rules requiring a 90% payout and our commitment to payout 100% of the qualified REIT subsidiaries tax return taxable income, all potential growth in earnings will benefit shareholders through growth in dividends.

Slide 13 is our balance sheet as of year-end and March 31, 2014. And we believe that is strong and efficient with substantial financial flexibility. The most significant change is the January 2014 issuance of $1.6 billion of long-term debt which is comprised of an $800 million of senior secured term loans due 2021 and $800 million of senior unsecured notes split equally between 2022 and 2024. The term loan is a floating rate and the bonds are 5.25% and 5.58% respectively. The weighted average cost of debt was 4.2% and at March 31 our consolidated total leverage ratio was 3.8 times. Excluding cash on hand, the ratio was 3.6 times which is within our target leverage range up 3.5 to 4 times.

In terms of liquidity, we had an undrawn $425 million revolving credit facility and $114 million of cash on hand as of March 31. The IPO closed on April 2. Net proceeds from the IPO were $615 million of which $515 million were transferred to CBS as partial payment for the outdoor business and we retain the remaining $100 million.

When a split from CBS occurs and we are no longer a part of the CBS consolidated tax return, we intend to elect to be taxed as a REIT. We then will use that $100 million of residual IPO cash along with an estimated $400 million of stock as required one-time dividend to our shareholders in what is known as earnings and profit purge. We continue to expect this one-time distribution of cash and stock to be paid to our shareholders by January 31, 2015.

From the operating results that Jeremy discussed earlier, I think you can see that our company has strong and stable revenue growth. We expect that a continued focus on revenue yield, cost optimization through lease expense rationalization, and increased focus on operational efficiencies can improve our margins over time.

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As you've seen this translate into significant cash flow generation, that we expect to use for dividends and reinvestment in the business and we expect cash flow to improve even further when we elect to be taxed as a REIT. Combined with a strong and efficient balance sheet, we look forward to reporting back to you in coming quarters on growth in AFFO per share.

I'll now turn this back over to Jeremy.

Jeremy John Male

Chief Executive Officer & Director, CBS Outdoor Americas, Inc.

Thanks Don. What I'd like to do now is talk a little bit about the road ahead including the current state of the market and our strategy going forward.

Despite some of the headwinds you've been hearing about in terms of national advertising, we were pleased to deliver over 4% revenue growth in the first quarter. At this stage, we expect our second quarter revenues to grow in the low single-digit range and we're already seeing national advertising improving in the third quarter.

Overall, we remain very confident in our ability to execute on our growth plans. In addition, we have several key strategic initiatives that we believe will enhance our growth on top of the great out-of-home industry drivers.

As you can see on slide 15, the first of these is digital. We're rolling out technology in a disciplined way in our top locations. We added 43 billboards during the quarter bringing our total to 435.

Digital has numerous benefits, both for us and for our clients, and it'll be an important tool for attracting new advertisers to Outdoors. Our disciplined approach to digital also shows in our focus on managing the business by revenue yield or revenue per display.

We saw improved yield in the first quarter over the prior year. We're taking additional steps to drive this forward even more. A new sales management compensation plan we've recently put in place changes the focus to local market profitability.

We're also diving deeper into our data to better align media rates with audience demographics.

Transit franchises, as I mentioned, are very important part of our business and complementary to our overall presence in the market. As you can see, when you're in some of our major cities, we really are a must buy for an advertiser to reach a specific target urban audience. And towards that end we were pleased to bring you our Washington DC contract in Q1 with a new term of up to seven years.

Lastly, with 36% of the U.S. market held by independents, we see opportunistic tuck-in acquisitions in strategic markets as a way to enhance the organic growth of our underlying business.

There are three key benefits to these acquisitions. Firstly, we can enhance previous revenues by leveraging our national sales force. Secondly, we can achieve synergies by leveraging our existing infrastructure. And thirdly, we can enhance shareholder returns through our REIT structure.

So in summary, we had a good first quarter as a public company, both financially and with regards to our capabilities to operate as a standalone public REIT. I'm very pleased with the progress we've made, and I really

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believe that our top market focus, great mix of billboard and transit assets, our reenergized employees, and the growth drivers I've just described put us in an excellent position to drive shareholder value in the future.

With that, operator, let's open the lines for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Ben Swinburne from Morgan Stanley. Your line is open.

Benjamin D. Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Thanks. Good morning. Jeremy, can you talk a little bit more about why your footprint, particularly large markets and international SKU puts you in a good position to grow over time, and obviously we had Lamar results yesterday, but if you could sort of contrast your portfolio with theirs for us that would be helpful

And then Don, you sort of answered the question, I think in your prepared remarks on costs, but particularly as it relates to sort of your corporate and fixed cost line. Is what we saw in Q1 sort of a good run rate through the rest of this year and beyond? I know public company costs have come in, but the corporate costs were a little lower than we thought. Thank you.

Donald R. Shassian
Chief Financial Officer & Executive Vice President, CBS Outdoor Americas, Inc.

A

Okay. Thanks Ben. Taking your first question. Yeah, I mean, I guess when you look at ourselves and Lamar, the key difference is that around 20% of the revenues is driven by national advertisers and around 40% for us. Now, [indiscernible] (24:06) reported this quarter, it's fair to say that these national revenues can be lumpier than local revenues. But we firmly believe that when you look at the U.S. out-of-home industry with the sort of 4.5%, there actually the key driver in the future will be national advertisers because when you drill into the top 50 advertisers, they are only spending about 2% of their dollars on out-of-home.

So as I said we think the key driver is getting that percentage up will be national and we think that they are primarily going to be looking to spend their dollars in the top DMAs which are becoming increasingly important through lifestyle trends such as urbanization. If you look at the top DMAs already take a greater share of media, than absolutely relative to their population and we think that those DMAs are going to become increasingly important over time.

Jeremy John Male
Chief Executive Officer & Director, CBS Outdoor Americas, Inc.

A

Then on second question on costs. I expect our corporate and standalone corporate company costs to increase slightly over the next couple of quarters. Part of what happened this first quarter versus last year is our [indiscernible] (25:22) transaction costs, some of the underlying costs for filings to be a REIT and like which were quite heavy in first quarter of 2013, were less in 2014, but – and offsetting that obviously were hiring more people and increasing more capabilities. So I do expect our corporate costs, standalone costs, to increase a little bit more in second quarter, third quarter. We should be fully baked-in I think by early third quarter. So a little bit of an increase to get ourselves full scale.

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Benjamin D. Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Thanks for the color.

Donald R. Shassian
Chief Financial Officer & Executive Vice President, CBS Outdoor Americas, Inc.

A

Thank you.

Operator: Your next question comes from a line of Drew Borst from Goldman Sachs. Your line is open.

Drew M. Borst
Analyst, Goldman Sachs & Co.

Q

Thank you. I wanted to ask about a couple of the revenue trends from the first quarter. I think there were kind of two areas that were better than we expected. One of them was with the international and I guess the question there is whether you think the growth rate that we saw in the first quarter is kind of sustainable for the foreseeable quarters. And then I guess it's the same question because the Transit business was also another area of strength, and I guess the same question is it sustainable?

Donald R. Shassian
Chief Financial Officer & Executive Vice President, CBS Outdoor Americas, Inc.

A

Thanks Drew. I guess the first point is that, some of the revenues generally in our business can be quite lumpy depending on whether or not you had a particular large national advertiser [indiscernible] (26:52) in the second quarter, I think that's the first point.

I think we remain confident that we can show growth in our International business this year. But I wouldn't necessarily sort of pencil in that 7% or 8% that we saw in Q1. And similarly for our Transit business, you know, we speak a lot about this business because we honestly believe it is a great differentiator. Part of it is very much driven by revenues from the entertainment sector, they were pretty strong in Q1, and they're looking pretty good again in Q3. So I think that will bounce around a bit, but I think overall it will be a good driver of growth for us this year.

Drew M. Borst
Analyst, Goldman Sachs & Co.

Q

Thank you. And then maybe just a follow-up. Could you -- you keep mentioning the trends in 3Q are look pretty good which [indiscernible] (27:54) me to believe that maybe is 2Q not maybe pacing as well or is that not really the right conclusion?

Donald R. Shassian
Chief Financial Officer & Executive Vice President, CBS Outdoor Americas, Inc.

A

I think -- as we guided or as I guided in my remarks a little bit earlier on, you know, we're not going to be sort of giving out sort of absolute pacing numbers on a going forward basis. I think we made that clear during our IPO roadshow as well. At the moment, we're guiding to low single-digit growth in the second quarter. I wouldn't really want to comment more on that at the moment, Drew

Drew M. Borst
Analyst, Goldman Sachs & Co.

Q

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Fair enough. Thanks guys.

Jeremy John Male
Chief Executive Officer & Director, CBS Outdoor Americas, Inc.
A

Thank you.

Operator: Your next question comes from the line of Alexia Quadrani of JP Morgan. Your line is open.

Alexia S. Quadrani
Analyst, JPMorgan Securities LLC
Q

Hi, thank you. Just a question on the advertising contracts getting a little bit shorter in the billboard industry, I mean, I know that something has been going on for quite some time. Can you just talk to us about how that impacts? I guess where do you think it eventually goes in terms of where do you think the eventual length of the contracts will go and how that it might impact your profitability if at all?

Jeremy John Male
Chief Executive Officer & Director, CBS Outdoor Americas, Inc.
A

I think that when you look at how out-of-home is used and I'm principally here talking about national advertisers, I don't think that we see any particular change in terms of how local advertisers are using out-of-home, so in the 40% of our base that is being bought by national advertisers.

I think the way that our medium is used in the U.S. is more as a sort of sign pacing medium underlying other media across quite a large period of time. So I refer to my script to the fact that it's very usual in Europe for out-of-home to be one of the campaign mediums. So for example you were to have TV on for three weeks and then out-of-home on for two weeks and then radio on and then possibly two weeks. And it was very much seen as a campaign medium. Whereas in the U.S. at the moment, it's principally seen as just a general support sort of sign pasting branding medium.

I think that we can change the way that out-of-home is perceived by those national advertisers as we go forward. And I think part of that will be about shorter campaigns because actually the way out-of-home works is that you achieve your cover relatively quickly. So once – so after sort of two or three weeks, all you're achieving after that is increased frequency. So I think that it can be very efficient for advertisers to buy it in a greater number of – but shorter-term campaigns. From our point of view, we believe that shopping up our inventory into smaller slices will be incremental to profitability and yield.

Alexia S. Quadrani
Analyst, JPMorgan Securities LLC
Q

Okay. And just one more on digital if I may. When you convert a static board to digital board, how long does it typically take for you to see the demand – four to six times demand that you have at digital versus static? Is it immediate, is it kind of [indiscernible] (31:19) market, I guess how long is that ramp period?

Jeremy John Male
Chief Executive Officer & Director, CBS Outdoor Americas, Inc.
A

Obviously, slightly dependent on the individual market Alexia. But typically you would see that sort of revenue building up over the first sort of three months or so.

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Alexia S. Quadrani
Analyst, JPMorgan Securities LLC

Q

Okay. Thank you very much.

Operator: Your next question comes from the line of Tracy Young from Evercore. Your line is open.

Tracy Young
Analyst, Evercore Partners (Securities)

Q

Hi, two questions if I could. The first question relates to lease expense, I may have missed it, but could you give us some sense as to the growth or decline during the quarter.

And the second relates to international billboard timing, I know it's still a small percentage of your overall billboards, but it looked like there was a little bit of a spike in first quarter, could you talk about that?

Jeremy John Male
Chief Executive Officer & Director, CBS Outdoor Americas, Inc.

A

Lease expense is broken out in the information in the press release. We had a good management of the lease expenses both on the billboard side and on the transit side. A number of renegotiated contracts on the lease side gave us some good perspective on that. Overall, the increase on lease and site cost was nominal for the quarter versus last year, which was a pretty good situation for us. A lot of that has to do with renegotiating transit contracts again and we feel pretty good. We've got a good profits in place and staying in front of our leases that are being renegotiated and trying to renew them at well below CPI and good process with that.

Donald R. Shassian
Chief Financial Officer & Executive Vice President, CBS Outdoor Americas, Inc.

A

Tracy, can you just repeat your second question for me, I didn't quite catch it.

Tracy Young
Analyst, Evercore Partners (Securities)

Q

I'm sorry. It just looked like during the quarter that you had several new boards go up internationally, I know it's a small percentage. But is there – it was just a timing thing and as you mentioned there were some boards that were coming online from fourth quarter.

Donald R. Shassian
Chief Financial Officer & Executive Vice President, CBS Outdoor Americas, Inc.

A

Yeah, to be honest, Tracy, the vast, vast majority of the increase that you saw in international there was purely yield growth on our current boards. We put a couple of new digital boards, one or two up in Canada and our first board down in Mexico. But to say the vast majority of that growth was all about improvement in yield.

Jeremy John Male
Chief Executive Officer & Director, CBS Outdoor Americas, Inc.

A

Most of those digital installations were the back part of the quarter, so it was more organic on existing boards.

Tracy Young
Analyst, Evercore Partners (Securities)

Q

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Great. Thank you very much.

Operator: Your next question comes from the line of Jim Goss from Barrington.

James C. Goss
Analyst, Barrington Research Associates, Inc.
Q

Thanks. I've got a couple of them. First, I was wondering if you could please discuss your appetite for M&A activity which you refer to in your presentation. In the context of your shift to REIT status, specifically are there certain international markets there, especially attractive that you would want to further entrench your position via M&A and are there others you might want to be more likely to divest?

Donald R. Shassian
Chief Financial Officer & Executive Vice President, CBS Outdoor Americas, Inc.
A

Thanks for the question Jim. I think it's fair to say that we are pretty focused in terms of our M&A strategy towards our QRS qualifying REIT assets. So what that principally means is fixed assets in the U.S. So right now I think it's unlikely that we would be deploying significant capital to international markets.

You know when we look internationally, we've got a great business in Canada, we've got a big business in Mexico, I think it's fair to say that in South America we would either need to put on some weight there or take a different view in the future because while the good assets in fast-growing and potentially sort of fast-growing markets, if you take a longer-term view right now they're probably a little subscale.

James C. Goss
Analyst, Barrington Research Associates, Inc.
Q

Okay. I was also wondering what you might consider to be a sustainable top-line growth aspiration in your domestic markets given your urban focus and your platform X. And how you expect that number to be enhanced by digital growth or any of the other specific initiatives you would want to highlight.

Donald R. Shassian
Chief Financial Officer & Executive Vice President, CBS Outdoor Americas, Inc.
A

If you look over time. It's further say that out-of-home has had very consistent growth. We also know that to some extent or other out-of-home is a GDP plus medium or GDP is sort of naughts and ones. It's difficult to get much beyond that as soon as you start sort of driving GDP above that, you can then get to GDP plus.

I mean as we look forward, we believe that our platform relative to others that we should be able to get some enhanced growth compared to our competition. But we don't want to sort of guide to sort of a long-term growth rate right now.

James C. Goss
Analyst, Barrington Research Associates, Inc.
Q

Okay. And a last -- small thing. Continuing use of the CBS logo and branding in the future, does that come with the business, or would involve some payments one way or another on an ongoing basis?

Donald R. Shassian
Chief Financial Officer & Executive Vice President, CBS Outdoor Americas, Inc.
A

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The answer is that at some point, over the sort of coming months, we're obviously going to be a completely independent company. And at that point in time, CBS will own zero shares when out and we will not have continuing use of the CBS name. We'll obviously -- there will obviously be a time where we can keep using it. So we will be going through rebranding over the coming months.

As we see it, CBS is obviously a great brand, but it's principally a consumer brand. So we believe that we can actually create a new exciting fresh B2B brand if you like and we're looking forward to taking on that challenge and as you can imagine, we're going through that process right now Jim.

Jeremy John Male
Chief Executive Officer & Director, CBS Outdoor Americas, Inc.
A

If I may add on. It was filed with the S-11 as an agreement with CBS that within 90 days after the split is completed, we will need to change our name corporately. But we will have 18 months to change the logo on all of our structures, so name change within 90 days and 18 months full implementation and completion of the work.

James C. Goss
Analyst, Barrington Research Associates, Inc.
Q

All right. Thanks very much.

Jeremy John Male
Chief Executive Officer & Director, CBS Outdoor Americas, Inc.
A

Thank you.

Operator: Your next question comes from the line of Jason Bazinet from Citi. Your line is open.

Jason Boisvert Bazinet
Analyst, Citigroup Global Markets Inc. (Broker)
Q

Thanks so much. I just had two quick ones. I hope my team got this right. On the E&P purge, did you guys say $100 million of cash and $400 million of stock?

Jeremy John Male
Chief Executive Officer & Director, CBS Outdoor Americas, Inc.
A

Jason, I did say that. That was the estimate, I believe was in the S-11. That obviously the kind of firm number, I mean that is an estimate, when you get to the date of the split which is the termination of what the value is and our equity value compared to CBS' equity value is a key determinant on the amount of that purge. And the percentage between cash and stock also has a little bit of movement. But that was the estimate in the S-11 and that was the reason that when they did the IPO, they left what they thought was the estimated cash portion of that purge on our balance sheet. That number will be summed up and it will be a much more definitive number when we get to the split and then obviously very, very firm when the purges need to be made by no later than January of next year. Do that help?

Jason Boisvert Bazinet
Analyst, Citigroup Global Markets Inc. (Broker)
Q

Yeah, it does. And then on the overall ad market, I mean, a lot of the media companies have sort of put up, I would just say sort of squishy numbers, I mean would you say that the ad market was sort of squishy in Q1, softer than you would have thought 90 days ago.

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Donald R. Shassian
Chief Financial Officer & Executive Vice President, CBS Outdoor Americas, Inc.
A

I think generally if you look at the ad market and you know we've certainly been listening to the other commentators. I think the ad market probably was, yeah, overall a little lighter than everyone anticipated. Now whether or not that was kind of the weather impact particularly in the Northeast with retailers maybe sort of pulling back the spend. So, yeah, I think that's probably right, so it's I think probably a little lighter than we would have hoped.

Jason Boisvert Bazinet
Analyst, Citigroup Global Markets Inc. (Broker)
Q

Okay. All right. Thank you very much.

Jeremy John Male
Chief Executive Officer & Director, CBS Outdoor Americas, Inc.
A

Operator, I think we have time for one more question please.

Operator: Your last question comes from the line of Marci Ryvicker from Wells Fargo. Your line is open.

Marci L. Ryvicker
Analyst, Wells Fargo Securities LLC
Q

Thanks. I have two kind of separate questions. The first, can use just clarify Q2 low single digits, is that in constant dollars?

Jeremy John Male
Chief Executive Officer & Director, CBS Outdoor Americas, Inc.
A

Yes, that would be a constant dollar number Marci.

Marci L. Ryvicker
Analyst, Wells Fargo Securities LLC
Q

Okay. And then a follow-up to that is how much visibility do you have into the third quarter. Are you 50% booked at this point?

Donald R. Shassian
Chief Financial Officer & Executive Vice President, CBS Outdoor Americas, Inc.
A

Right now. That would be in the order of 50%, 55% booked, Marci, something like that.

Marci L. Ryvicker
Analyst, Wells Fargo Securities LLC
Q

Okay. And then the private letter ruling, we know from Lamars that I think they were surprised by the tax leakage. Was there anything surprising in your PLR, number one. And the number two, now that you have this is it possible that the split off from CBS Corp. could come sooner?

Jeremy John Male
Chief Executive Officer & Director, CBS Outdoor Americas, Inc.
A

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Marci. There was nothing surprising in the ruling received from the IRS. CBS' tax department was very responsive in all over this and working with the IRS and the regulators over a period of time and what we received we were -- I think CBS is very, very pleased about.

In terms of timing, as you know, there's a 180-day lockup period. The determination of when to do the split off is for you to ask CBS and their underwriters, it's not really a decision for us. So we're going to defer answering that question if you don't mind.

Marci L. Ryvicker
Analyst, Wells Fargo Securities LLC

Q

Okay. And then one last question. Just – you mention cost controls and your focus on cost controls, where can you actually cut costs here in the long-term?

Donald R. Shassian
Chief Financial Officer & Executive Vice President, CBS Outdoor Americas, Inc.

A

I don't think there's large opportunities. This is a very well-run business. There is not a lot of [indiscernible] (42:54). We do believe that in changing the focus from purely focusing on revenue to focusing on profitability and AFFO, but there are some things around the edges that we can do.

Hopefully, we'll be able to be smart with our increased standalone public company costs, but also really evaluating all the operational structures and looking at the least cost, maybe in different ways.

I think it's been done very, very well, but I think there are a couple of areas around it. We are trying to drive the thinking in the business down to profitability by market. I think as we talked about on the roadshow, our company has previously been very focused on revenue and has done a great job in servicing clients and developing great relations, both locally and nationally, but the focus has not been necessarily on a local market basis on profitability.

And so as Jeremy mentioned in his comments, we have changed our compensation structure, so that our regional managers, our general managers, people in the market are now focused on both revenue and local OIBDA, if you would. And I think that's a little bit different. It gets our sales people into the dialogue more on lease rationalization where in the past they may not have had much of the stake in wanting to do that because I can sell board, let me sell a board. I think there's a little bit uncertainty around that. I think we'll can get some opportunities to maybe make some – a little bit more smarter decisions. But it's not a wholesale cutting costs, it's working around the margins to be more profitable as a whole.

Marci L. Ryvicker
Analyst, Wells Fargo Securities LLC

Q

Got it. Thank you very much.

Donald R. Shassian
Chief Financial Officer & Executive Vice President, CBS Outdoor Americas, Inc.

Thank you. Marci and to all of you for your questions and your interest today. I hope that, this call has emphasized good financial and operational progress as we move towards separating from CBS and becoming a REIT.

We very much look forward to seeing you at some upcoming investor conferences and providing you with an update on our business in the second quarter. So thanks once again and have a good day everyone.

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Operator: This concludes today's conference call you may now disconnect.

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