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CBS Outdoor Americas, Inc. (CBSO)

Acquisition of Certain Premium Outdoor Assets of Van Wagner Communications LLC by CBS Outdoor Americ

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Lindsay and I will be your conference operator today. At this time, I would like to welcome everyone to the CBS Outdoor Investor Update 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.

Mr. Greg Lundberg, 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 us second time. We would like to apologize for the problems everyone experienced on the 8:30 call using the domestic dial-in instructions. While we don't know the specifics, the conference call service provider was not able to open up the domestic lines while the international lines did work. We apologize but would now like to explain to you the transaction and give you an opportunity to a sk questions.

On the call today are Jeremy Male, Chief Executive Officer; and Don 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 the call is on the Investor Section of our website at cbsoutdoor.com along with a press release and an audio webcast as you're listening right now.

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So let me 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. In addition, in this call, we will refer to certain non-GAAP financial measures. Please refer to the presentation for a reconciliation of non-GAAP financial measures.

I'll now turn the call over to Jeremy.

Jeremy John Male

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

Thanks, Greg and good morning, everyone. And once again apologies for the earlier technological glitch. It's a very exciting day for everyone here at CBS Outdoor. As you know, earlier today we announced the definitive agreement on all-cash acquisition of some unique and very high quality outdoor assets from Van Wagner. An acquisition like this is something that we've talked about as a key part of our growth strategy, and I'd like to take a few minutes along with our CFO Don Shassian, to walk you through why we think that this is such a great transaction for shareholders and a particularly important platform for our future growth.

Let's begin by turning to slide four. In this transaction we're acquiring the largest U.S. private portfolio of outdoor assets. Opportunities like this rarely become available, and our familiarity with the business placed it right at the top of our strategic priorities. First of all, this acquisition is perfectly aligned with our focus on top DMAs. 10 of the 11 areas we're buying are top 25. And in fact, over 90% of the revenue is in just the top 10. Not only are the assets we're acquiring really at the top of our pyramid of quality, many of them really truly iconic locations.

Reflecting their location and quality, 90% of the revenue is from national advertisers. As you know from what we've said previously, out-of-home in the U.S. is a hugely strong local medium, and that's a very, very important part of our business and will remain so. But we believe out-of-home's great opportunity is to increase its share of national advertiser spending over time, and these are exactly the kind of locations they're buying and will do so increasingly, in our view.

Another really important part of this transaction is the fact that we already operate in every one of the 11 DMAs. So this is highly complementary from an operational perspective. This translates into excellent economies of scale on the expense side, and we will be able to quickly and efficiently integrate the assets into our business. This cost efficiency, as well as the positive overall financial impact of the transaction, will result in it being immediately accretive to AFFO per share in the mid-single-digit range.

But lastly, virtually all of the assets are able to go into our qualified REIT subsidiary for tax purposes, so investors get the benefit of our stated strategy to focus on acquisitions of QRS assets that will grow our REIT dividends over the long-term.

As you can see on slide five, there're some really outstanding locations. From New York City to Los Angeles, these assets are all about location, location, location, delivering huge reach, high frequency and strong audience demographics. The locations are highly strategic: Times Square, Sunset Strip, tunnel exits, [ph] sea (5:13) highway interchanges, retail districts, and other high-traffic areas. As I mentioned earlier, it's an important part of our strategy to be where the measurable audience is growing, and that's in top DMAs where national advertisers can reach young, urban and affluent consumers.

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Now, let's look in more detail on slide six. Overall, we're acquiring just under 1,100 billboards and walls to generate 80% of the acquired revenues. This includes only 16 digital boards, so a very similar percentage of digital boards to our existing business. This is relatively low, and we believe will provide a growth opportunity for us as we move forward. As with our current business, we'll continue to take a measured approach, but we do think there's upside from converting the right boards.

In addition to the billboards, we're also acquiring over 8,000 other displays comprising street furniture, [ph] bus (6:18) and displays associated with city bike programs. These are some great businesses, and represent around 20% of the acquired revenues and will complement our existing significant transit and displays business, and benefit from our sales breadth.

Long and short, this deal really enhances our portfolio.

Now let's turn to slide seven, and Don's going to walk you through some of the more detailed parts of the financial transaction.

Donald R. Shassian

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

Thank you, Jeremy, and good morning, everyone. Let's start with the structure of this transaction. We are not acquiring the entire company. We are acquiring the vast majority of Van Wagner's outdoor businesses, including all of their billboards, wallscapes, street furniture, plus advertising and displays associated with city bike programs.

Importantly, we are not acquiring Van Wagner's corporate overhead or certain other businesses, including their sports, aerial and experience-based events, which is where Mr. Schaps and his team will be focused the appropriate non-compete related to the business we have purchased. We're also delighted to have the opportunity to hire additional Van Wagner personnel to help us sell, service, and grow the portfolio.

The purchase price for the assets is $690 million. This represents a 2013 pro forma adjusted OIBDA multiple of 10.8 times of the acquired assets. Adjusted OIBDA represents the full revenues and lease and operating costs of the acquired the assets, minus the incremental SG&A costs that we will incur to run the assets. This purchase multiple reflects the quality and location of the assets, which frankly are unique in today's out-of-home industry.

We plan to finance the purchase with cash and additional long-term borrowings, on a combined basis, we estimate gross leverage of 4.9 times based on 2013 pro forma adjusted OIBDA. Importantly, CBSO will recognize a full tax basis in the acquired assets. We therefore expect residual free cash flow to reduce leverage to our target range of 3.5 times to 4 times in approximately 24 months from closing.

We do not expect any change to our anticipated 2014 dividend levels, either the recurring portion or the annual top-up, and there's no impact from this transaction on the timing, amount or composition of our earnings and profits purge which we expect to be paid later this year. In terms of timing, we anticipate closing in early 2015 as the transaction is subject to customary regulatory review and closing conditions. Once closed, we expect to see a very quick integration of the assets into our existing business.

Slide eight shows 2013 financials for CBS Outdoor in the first column, adjusted to reflect the incremental cost that we need to run CBS Outdoor as a standalone public company. The second column reflects the revenue and expenses as reflected in the carve-out audited financial statements of certain outdoor advertising businesses of

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Van Wagner Communications LLC. There are number of expenses that we are not assuming in this transaction. But the third column reflects those wage and non-wage costs that are excluded from the contractual framework.

We have added $10 million representing the incremental wage and non-wage costs we believe are necessary to sell and service the assets, build and maintain landlord relationships, and enhance our corporate support functions to handle this increased business. Please note that the $10 million reflect our accounting policy to capitalize commissions. The amount capitalized is denoted at the bottom of the table.

In the fourth column, you can see the incremental OIBDA of $64 million that we see using 2013 numbers and making the necessary adjustments I described. As you can see, in terms of adjusted OIBDA profitability, the business has looked very similar in total. Van Wagner's lower gross margins from the higher lease and operating expenses in top DMAs is offset by lower SG&A levels due to leveraging our existing organization.

Now, please turn to slide nine which lays out the sources and uses for the transaction as well as the capitalization based on the adjusted OIBDA numbers I just discussed. To finance the purchase price and estimated fees and expenses, we have obtained a financing commitment and intend to use $640 million of additional long-term debt and $75 million of cash on hand. The capitalization table at the bottom shows our existing outstanding debt of $1.6 billion and total gross leverage of 4.1 using 2013 pro forma adjusted OIBDA. The right-hand column reflects the addition of $640 million in new indebtedness from the transaction, bringing total outstanding debt to $2.2 billion and total gross leverage to 4.9 times.

The initiatives that Jeremy talked about, plus the strong conversion of OIBDA to free cash flow and AFFO that this business generates gives us confidence that we can reduce this leverage back into our target range of 3.5 times to 4 times in approximately 24 months.

Based on our due diligence review, we believe that the assets are in very good condition. We expect maintenance capital expenditures to be only around $5 million per year. And we believe we can achieve this de-leveraging while continuing to pay healthy REIT dividend that can grow over time with increased financial flexibility. Jeremy?

Jeremy John Male

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

Thanks, Don.

Turning to slide 10, and I've got to say that it's been a very busy few months. What we set out last year as a division of CBS Corporation, we had a lot of work ahead of us with an aggressive timeline of goals that we needed to meet in order to become an independent company. We also expect many of you about the consolidation potential to 36% of the market that is still fragmented.

As you can see here, we've literally checked the box on everything we said we were going to do. Prior to the IPO, we raised $1.6 billion of debt in the capital markets. We completed the successful IPO in late March. The REIT private letter ruling was received in April. In May, we delivered a solid Q1 earnings report and declared our first dividend for June.

In July, we completed the third largest split-off transaction ever, and it was successfully received by the market, making us fully independent and welcoming a large number of new investors. And finally, last week, we announced that we're operating to be taxed as a REIT, which brings us to today. We knew the Van Wagner assets well and we're very fortunate to be in a position to execute quickly if such a rare opportunity came up. This

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acquisition is of sufficient scale, quality and depth, and it will have a meaningful impact on our future operations. It's an important addition to our growth platform. We look forward to closing on the transaction, welcoming aboard members of the Van Wagner team, and moving forward with our plans.

So before we turn to questions, slide 11 is a quick summary, the key reasons why this transaction aligns perfectly with our growth strategy and creates value for shareholders. It's an acquisition of a portfolio of top 25 DMA assets that fit hand in glove with our existing network of displays.

The acquisition is of select assets and not an entire cooperation, which allows us to leverage our existing expense infrastructure. This operational and financial leverage allows the acquisition to be immediately accretive to AFFO per share. And most importantly, the opportunity to enhance our offering to national advertisers through both static and digital displays positions us very well for future growth and equity returns.

So with that, operator, let's turn the line open for questions.

QUESTION AND ANSWER SECTION

Operator: Certainly. [Operator Instructions] And your first question comes from the line of Benjamin Swinburne with Morgan Stanley. Your line is now open.

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

Q

Thanks. Good morning. It's Ben Swinburne. Jeremy, one for you and then I've a follow-up for Don. You laid out the case for this deal in the deck and it's pretty clear. I'm wondering, when you think about putting these two portfolios together, particularly in markets like New York and L.A., how much it changes your position in terms of market share, pricing power, relationship with agencies? I guess what I'm trying to get is, are there top-line synergies maybe over time that you can realize, particularly in those markets?

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

A

I think – what I'd like to think about today is just how generally complementary it is to our business, not from the operating side rather than from the revenue side, Ben. When you look specifically at some of the numbers, we've actually got a great business in New York. But a lot of that business is in transit rather than billboard. So in the billboard business in New York, we're less than a couple of hundred. And in fact, they're a bit north of that, with 200 to 300 billboards. So obviously it's additive. I think the location's patently iconic, when you go out and walk the streets of New York and other markets, as I've been doing over the last few weeks as part of this process. So I think, generally, a great fit for our business, Ben, but I think that fit that we're thinking about today out of the gate is from an operational expense point of view.

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

Q

Got it. And then, Don, does this – with the leverage pro forma where it is take you out of a large cash deal in the next couple of years, in other words, are you pretty focused in de-levering from here? And on the tax front, what is the benefit, if there is any, of the full basis? It would seem like it creates a shield for you. But as a REIT, I'm not sure that shield actually means a whole lot. So maybe you can help us think about that, if it's important.

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

A

Yeah. Thanks, Ben. On the leverage, the 4.9 times, first of all, is using 2013 numbers. So when you think about the fact that transaction is not going to close until early 2015, our business growth in 2014, their business growth in 2014, I'm expecting that leverage to decline before we get to closing. It's going to get a lot lower. We will get back into the zone within about two years.

In terms of restrictions and looking at other transactions, as Jeremy mentioned, this is a unique opportunity, large set of assets, really fits our strategy very well. There're number of smaller tuck-in acquisitions that we continue to look at. And I think that we will continue to look at those and we think we'll have the financial flexibility to do those. And obviously, if there's any other transactions that were to come up that really hit our strategy, I mean, first and foremost we want to integrate this and we want to do it well. But if other transaction come up, we'll look at our structure; we'll look at whether there's any equity to be issued but our primary focus is integrating these. Our primary focus is focusing on tuck-ins.

If any other unique opportunities come up, we'd certainly look at it, be cautious about our capital structure, and if something was really out of the box, we'd certainly consider using some equity. But it's really not an area of emphasis. We want to focus on this deal and just tuck-ins.

On the tax front, what it does do is it does shield in terms of – on the QRS side, the QRS taxable income. So it does free up cash that's able to be spent additional freedom on terms of availability for utilization of residual free cash flow for paying down debt so the tax shield does impact the QRS taxable income, does not impact our dividends. Our dividend policy is the same, but it does free up cash for enabling us to de-lever through this transaction.

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

Q

Okay. Thank you.

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

Tracy Young
Analyst, Evercore Partners (Securities)

Q

Hi, two questions if I could. The first is related to your comment that substantially all the assets are REIT qualified. Could you give us a percentage that you believe is REIT qualified? And then also Ben just talked about New York and Los Angeles. You announced a deal with Windsor Outdoor in June in Chicago and this company also has billboards in Chicago. I don't believe you have any digital boards through this transaction, but could you talk a little bit about both of those and what you think is expansion strategy there? Thanks.

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

A

Tracy, on the QRS side, can't give you an actual percentage. I would say it's north of 90%. The calculation needs to be done on a fair market value basis; a little bit more complex but it is substantially all of the assets, north of 90%. We're very excited about that. It is very consistent with where our focus was going to be.

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

A

With regards to the second part of your question, certainly, when you look at these assets, it is quite askew towards New York and L.A., which works for us extremely well. Yes, there are also assets that come to us that are in Chicago. If sort of thinking about – back to the Windsor acquisition, I would say that Windsor was a small deal. It was a tuck-in deal, small but perfectly formed. It's one of those deals where by taking it on we can leverage our national sales force to sell more on to the boards, we can sort of take some expenses out and also they are QRS assets. So then just to frame that, there were around – just around about 40 locations in the Windsor deal. In Chicago now, through this we take on another 47 billboards. And then we've got a number of other displays in that market associated with the free bike program there.

Tracy Young
Analyst, Evercore Partners (Securities)

Q

Okay. Thank you.

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

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

Q

Hi. Just had a few quick questions. Maybe I had it wrong in my notes, but I had that you guys were sort of targeting a max leverage of 4.5 times. Do we interpret this as just a one-off exception, or is there sort of a new max leverage that we should be thinking about even though you've communicated you're going to be de-levering over the next two years?

And then my second question is, in terms of timing of close I think you said early 2015. For modeling purposes, would you suggest we start to think about 2Q? Is that reasonable or is it later on in 2015 then 2Q? Thanks.

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

A

Jason we – on the leverage, we were out – we talked about 4.5-ish times for the late transaction. This is 4.9 times on 2013.

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

Q

Yeah.

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

A

By the time this deal closes, I would expect that it is no longer 4.9 times. It is always substantially below that. And I think it will get back into the zone we sort of talked about on the previous roadshows.

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

Q

Okay.

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

So it is a unique set of assets. It is the exact sort of thing we were referring to when we talked about taking leverage off for the right set of assets, but only if we could de-lever back down on the zone very, very quickly which we're very pleased about. In terms of modeling perspective, we're saying early 2015 regulatory purposes. I don't think it's – I think during Q2 of 2015 is probably a good time to build into your models. But we're not going to poke a regulator in the chest and say when they're going to get it done, but we think early 2015 would be good. I think modeling perspective, beginning of second quarter for 2015 is appropriate.

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

Thank you.

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

Thank you.

Operator: Your next question comes from the line of Aaron Watts from Deutsche Bank. Your line is now open.

Aaron L. Watts
Analyst, Deutsche Bank Securities, Inc.
Q

Hey, guys. Thanks for all the detail. Just one question from me. Any non-conforming boards in the portfolio that will be impacted by the transfer of ownership?

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

Aaron, there's not a lot really here, for the most part. These are much more – these are new boards. These are things that Mr. Schaps and his team have built and created over the past 14 years. Very little is in the non-conforming side.

Aaron L. Watts
Analyst, Deutsche Bank Securities, Inc.
Q

Perfect. All right. Thank you very much.

Operator: Your next question comes from the line of Davis Hebert with Wells Fargo Securities. Your line is now open.

Davis s Hebert
Analyst, Wells Fargo Securities LLC
Q

Good morning, everyone. Just a couple of quick ones for me. Any idea what the EBITDA would look like net of capitalized commissions on this, or would it be the same?

And second question, on the de-leveraging, would you anticipate de-leveraging via free cash flow and paying down bank debt, or EBITDA growth, or a mix thereof? And would it be a fairly steady de-leveraging?

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

Davis, first question, on slide eight of the deck that we posted on our website, there is a number at the bottom of the column that shows you the amount of capitalized commissions. So you would you take the $64 million, and to expense commissions, you reduce it by $6 million to get to $58 million. Hopefully that helps you.

Davis s Hebert
Analyst, Wells Fargo Securities LLC Q

Yes, it does. Thank you.

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

And the second question, I'm sorry. In terms of [indiscernible] (25:03).

Davis s Hebert
Analyst, Wells Fargo Securities LLC Q

The second question is just around – yeah, just around de-leveraging through paying down debt, or is it through EBITDA growth or a mix thereof?

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

It's only a mix thereof. But primarily it is in paying down debt. I mean we're going to be – we're generating residual free cash flow now on our existing business. This will increase the amount of residual free cash flow that we will use to pay down debt. And obviously, OIBDA growth will continue to enable that, but it will be paying down debt, flat-out cash paydown of debt, primarily focused on the Term Loan B.

Davis s Hebert
Analyst, Wells Fargo Securities LLC Q

Great. Thank you.

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

Thank you, Davis.

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

Stephan E. Bisson
Analyst, Wells Fargo Securities LLC Q

Hi. Yes. This is Stephan Bisson actually on for Marci. With regards to the acquisition, was this a bidding process or privately negotiated?

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

Yep, this was a bidding process. It was run on an auction basis.

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Stephan E. Bisson
Analyst, Wells Fargo Securities LLC

Q

Okay. And then, just secondly, do you foresee needing to potentially spin off any assets in any of these markets for regulatory concerns or...?

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

A

I think certainly, from where we're sat, we're very comfortable that, while obviously it will require review, and I wouldn't want to second guess regulatory authorities, we're actually very comfortable that there won't be any requirement for divestiture. When you look at how the assets work together, we remain confident on that.

Stephan E. Bisson
Analyst, Wells Fargo Securities LLC

Q

Great. Thanks so much.

Operator: And your next question comes from the line of Dennis Leibowitz with Act II Partners. Your line is now open.

Dennis H. Leibowitz
Chief Investment Officer, Act II Partners LP

Q

Yes. I was wondering, you're implying that 2014 and presumably 2015 will be up. I wanted to ask you about that. And also, when you talk about mid-single-digit accretion, what year are you referring to?

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

A

Mid-single-digit is the first year that we closed. If we're going to close this, obviously, in early 2015, we're expecting AFFO accretion. So when you think about the number on page eight in the deck of $64 million of OIBDA using 2013 numbers, you subtract interest on about $640 million. You can put any number like you put on that $30 million to $32 million, let's say, and increased maintenance CapEx of $5 million. So right there you've got, on 2013 numbers, AFFO accretion.

Dennis H. Leibowitz
Chief Investment Officer, Act II Partners LP

Q

Right.

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

A

Does that help?

Dennis H. Leibowitz
Chief Investment Officer, Act II Partners LP

Q

It seems to me, though, that would be more than mid-single-digits.

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

On accretion, we said mid-single-digits.

Dennis H. Leibowitz
Chief Investment Officer, Act II Partners LP
Q

Right. Okay. Thank you.

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

Thank you.

Operator: [Operator Instructions] And your next question comes from the line of Jim Goss with Barrington Research. Your line is open.

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

All right. Thank you. I have a couple. First, I was wondering where are these 16 digital boards located.

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

They are in New York and L.A. predominantly.

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

Okay. And it seemed like L.A. was being a particular problem in terms of some of the regulatory challenges to usage. Do the ones you're acquiring face those same challenges and are there any other markets where that may be the case?

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

Yeah. It's the city of L.A. specifically where the digital billboards are facing challenges rather than, if you like, the greater L.A. area which is predominantly what we're talking about here. And at the moment, there are no other cities that are, if you like, in that same regulatory or that have the same regulatory issues with digital billboards right now.

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

Jim, did you have other questions?

Operator: There're no further questions at this time.

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Jeremy John Male

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

Okay. Well, in that case, operator, thank you very much. Once again, apologies that we had that technical issue earlier on today. Thank you very much for your thoughtful questions. And I think they highlight what a great opportunity this is for CBS Outdoor. So I'm looking forward to talking to you again if not before, on our earnings call of August 7. Thank you very much, indeed.

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

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