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OUTFRONT Media, Inc. (OUT)

Q4 2014 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the OUTFRONT Media 2014 Fourth Quarter Conference Call. At this time, I would like to turn the conference over to Gregory Lundberg. Please go ahead.

Gregory Lundberg
Senior Vice President of Investor Relations

Good afternoon, everyone. Thanks for joining our 2014 fourth quarter and full year earnings call.

On the call today are Jeremy Male, Chairman and 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 in the Investor Relations section of our website at outfrontmedia.com, along with the earnings release and an audio webcast of the call.

This conference call may include forward-looking statements and relevant factors that could cause actual results to differ materially from those forward-looking statements and they're listed in our earnings release in slide number two of the presentation and in our SEC filings.

In addition, on this call, we will refer to certain non-GAAP financial measures and when we say OIBDA, we're referring to adjusted OIBDA. Please refer to the appendix of the slide presentation and our earnings release for the reconciliations of this and other non-GAAP financial measures to GAAP financial measures, each of which can be found in the Investor Relations section of our Web site.

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

Jeremy John Male
Chairman & Chief Executive Officer

Thanks, Greg, and good afternoon, everyone. Let's begin on slide four of the presentation, which are the key highlights for the quarter.

We're pleased to report that fourth quarter organic revenue was in line with our expectations. I'm also very pleased to report that we also successfully integrated the Van Wagner acquisition into our business, lifting our reporting revenues 15% which is right where we expected to be when we announced the transaction back in July. Our performance during the second half has allowed our board to authorize a special top-up dividend of $0.06 per share that represents our 100% payout of distributable REIT income in 2014 that we laid out during our IPO process.

And as we look at prospects for 2015, we're off to a good start and we're confident that our business is poised for continued growth. Reflecting the underlying strength of our operations, I'm pleased to report that our board has authorized a 4.6% increase in our regular quarterly cash dividend.

2015 is an exciting year for us with the business in the process of executing on several of our growth strategies that we discussed with you during the IPO. Importantly, this includes significant development on the digital side of the business. In the future, when we say the word digital, we mean something very different from simply digitizing roadside billboards. As you've seen in some of our recent announcements, we're developing new technology platforms to connect, transact and interact with both consumers and our advertising clients. This means that digital will become an increasingly integral part of our day-to-day operations on the backend and we'll also start appearing to you as consumers in our markets as we move forward.

One of the first places you're likely to see this is in our transit systems, where we'll be bringing dynamic content to our audiences on state-of-the-art new screens. Transit remains a strategic part of our business as it allows us to deliver young, urban, affluent audiences to advertisers. And with this in mind, we were pleased to announce the recent renewals of our transit contracts in both Miami and Atlanta.

We believe our digital strategy will be significant additive to our transit relationships as we bring advertising and communication to new dynamic levels. Advances in digital will also help our company and indeed the out-of-home industry benefit increasingly from advertising dollars currently flowing to online media. We continue to believe that we can shift advertising dollars to out-of-home.

Before I come back on and talk about this in a bit more detail, I'd like to turn this call over to Don, who will take you through our fourth quarter and full year financials.

Donald R. Shassian
Chief Financial Officer & Executive Vice President

Thank you, Jeremy, and good afternoon, everyone. Please turn to slide six, which shows a summary of our year-over-year performance of net income, EPS, funds from operations or FFO and adjusted funds from operations or AFFO for the quarter. As you will recall, we began operating as a REIT on July 17, 2014 and we're closing the acquisition of Van Wagner on October 1 of last year. This table adjusts for one-time expenses, such as restructuring charges and Van Wagner acquisition costs as well as what the taxes would have been during the year if we were a REIT for the entire year.

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As you can see, our REIT-comparable results were net income of $34.2 million, diluted EPS of $0.28, FFO of $82.1 million and AFFO of $79.1 million. Those metrics are then compared to 2013 on a REIT-comparable basis, reflecting improvements in every category year-over-year in particular AFFO which was up 13.5%.

Now let's turn to slide seven for our consolidated revenue and OIBDA. Revenues were exactly in line with the expectation we communicated to you back in November which was for flattish performance in the fourth quarter, excluding the Van Wagner acquisition. Including acquisitions, reported revenues were up 14.9%.

Please note that we're introducing the term organic revenue in our reporting this quarter. Organic revenues exclude revenues associated with significant acquisitions and divestitures, business lines we no longer operate and the impact of foreign currency exchange rates. So organic revenues in the fourth quarter, therefore, exclude the Van Wagner acquired business, exclude the impact from other significant acquisitions, reflect the 2013 on a constant dollar basis and also removes the Los Angeles street furniture business that we sold in November 2013 and GameStop, which is a business that we exited in April 2014. On an organic basis, consolidated billboard revenues were up 1% in the fourth quarter, while transit was essentially flat. We'll discuss these in more detail when we look at the segments in a moment.

Before I turn to bottom chart and talk about OIBDA, I'd like to comment on expenses. Total expenses including operating expenses, SG&A and corporate were up $35 million in the fourth quarter relative to the prior year, excluding stock-based compensation expense. Included in the quarter are expenses related to the Van Wagner businesses of $38.9 million as well as incremental stand-alone expenses of $5.4 million. The building up of our organization as a stand-alone company is now complete.

OIBDA on a REIT-comparable basis increased 15.1% and margins was 30.5%. These amounts include $16.3 million from the Van Wagner acquisition and exclude $5.4 million of incremental stand-alone costs that did not occur last year. Excluding Van Wagner and the incremental stand-alone costs, OIBDA in the quarter was essentially flat.

Please note that we will continue to report organic revenues on a quarterly basis that will give you a view to the inherent strength of our underlying revenue streams as well as isolating revenues related to acquisitions and divestitures. We will not, however, be providing OIBDA specific to acquisitions like Van Wagner on a quarterly basis. Once an entity like Van Wagner has been fully integrated, we're no longer able to isolate and identify specific expenses related to acquisition and, as Jeremy mentioned earlier, Van Wagner is fully integrated now and accordingly, separate reporting of OIBDA related to that set of assets is no longer possible.

Our U.S. segment results, which were 90% of our revenues during the quarter on slide eight. Total U.S. revenues were up 17.8% on a reported basis reflecting acquisitions and were up 0.5% on an organic basis in the quarter. In billboards, fourth quarter same-board yields were up slightly, with static same-board yields essentially flat and digital same-board yields up low single digits. Positive yield growth remains an important driver for us and we're working to maximize the revenue of each and every display and make sure the displays delivering the best audiences are marketed accordingly.

In terms of revenue mix, local advertising performed well but was offset by continued softness in national. This was seen particularly in transit and other, which was down slightly in total. OIBDA growth in the U.S. of 18.9% on a reported basis reflects the $16.3 million of OIBDA from Van Wagner I just mentioned, which is consistent with the level we communicated to you last summer, when we announced the acquisition and also reflects $2.6 million of incremental stand-alone costs. Excluding Van Wagner and these incremental stand-alone costs, OIBDA was up 3.2%.

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On slide nine, you can see that the reported international revenues were down 6.8% due to foreign exchange rates. Organically, they were up 2.4% with billboards up 1.3% and transit and other up 6.7%. Looking at the regions in detail on a constant dollar basis, Canada, which is about half of the business, was up over 1% South America, while a small part of our business, was again up strongly while Mexico was down just slightly. The better international revenue improvement was offset by both geographic and business segment mix, resulting in lower margins and OIBDA growth.

Turning to slide 10, capital expenditures. Our spending in the quarter was $20.6 million, including $7.9 million of maintenance CapEx and $12.7 million of growth CapEx. During the quarter, we added 26 digital boards in total including two internationally. This brings us to 139 new builds for the year. As of December 31, 2014, we had 559 digital boards in total with 511 in U.S and 48 international. For the year, our total capital expenditures were $ 64.2 million right in line with our guidance of $65 million. 2014 total maintenance CapEx of $23.3 million was 1.7% of consolidated revenues and growth CapEx of $40.9 million was 3%. International CapEx was $5.1 million for the year.

Our 2015 guidance for total capital expenditures is $70 million, including $30 million of maintenance and $40 million of growth. This includes our assumption of approximately 100 new digital billboards as well as investments in smaller-scale digital displays, office upgrades and information technology enhancements.

Please turn now to slide 11 for a further analysis of our FFO and AFFO for the fourth quarter or full year. This slides shows both FFO and AFFO on a REIT-comparable basis to equalize a number of items: the impact of incremental stand-alone costs, the impact of interest expense related to our January 2014 debt offerings, the impact of one-time transaction and financing costs, the impact of restructuring charges related to severance, the impact of our non-cash deferred tax reversal, and the impact of taxes that we would not have incurred if we had been operating as a REIT for all periods presented.

Adjusting for these items, REIT-comparable FFO was up 7.6% compared to last year's fourth quarter and REIT-comparable AFFO was up 13.5% for the same period. On a full year basis, 2014 FFO and AFFO on a REIT-comparable basis were up 3.2% and 2.2%, respectively, over 2013. With the high flow-through of OIBDA to AFFO, we expect improvement in AFFO per share as our revenue initiatives drive top line results.

Please turn to slide 12 on dividends. As Jeremy mentioned earlier, we're very pleased to announce two dividends today. First, the special top-up dividend of $8.2 million or $0.06 per share. And secondly, a new quarterly dividend of $46.4 million or $0.34 per share. In light of the stock purge dividend last December, I think it's important for me to walk you through these dividends in more detail by focusing on four separate items.

The first important data point is the E&P purging special dividend on December 31 of last year. The stock portion resulted in 16.5 million new shares being issued, in addition to our 120.1 million outstanding.

Second, in terms of the 2014 top-up, let me refresh you what this is. Pre-IPO we set $44.4 million as our quarterly dividend level that will provide a competitive market return and also represent the bulk of our 2014 QRS distributable income. As we concluded 2014, the variations in the advertising market and, therefore, how dollars flowed into our QRS and TRS businesses, all have an impact on the final calculation of QRS tax return taxable income, with the approximate six-month period that we're a REIT in the latter half of 2014. The $0.06 per share dividend we declared today represents the balance of that income and represents a 100% distribution of all QRS tax return taxable income for the period July 17 through December 31 of last year.

Clearly, there's no way to know at this time what our payout would look like precisely in 2015 and if any might be paid in early 2016 as a 2015 top-up. So please keep in mind, as we talked about on the Van Wagner call and last

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earnings call, that Van Wagner lowers our overall QRS taxable income due to tax depreciation and interest expense related to transaction, which offsets the incremental OIBDA.

Having total dividends paid in excess of 100% of QRS tax return taxable income is absolutely fine in our view, as long as total cash dividends paid are on a reasonable payout ratio of AFFO and free cash flow – appropriately reward shareholders and still give us ample opportunity to de-lever the balance sheet through debt paydowns.

We mentioned earlier we paid a regular quarterly dividend of $44.4 million last year. This amount is being increased by 4.6% for Q1 2015 to $46.4 million. On a per share basis, that is $0.34 per share or a 4.6% increase over the proposed purge 2014 quarterly dividend rate of $0.0325 per share. As you can see in the chart, our regular dividend payments in 2014 were $44.4 million per quarter for Q2 through Q4. In terms of payout ratio, our 2014 quarterly level of $44.4 million on an annualized basis would have equated to 63% of REIT-comparable AFFO in 2014.

OUTFRONT Media will always be a shareholder-friendly company and as such, we believe that this new level is sustainable and allows us to balance the cyclicality of our business with our goals of de-levering the balance sheet to our target range of 3.5 to 4 times by the end of 2016, as we previously indicated.

You can see our balance sheet profile on slide 13 as of December 31. At quarter end, our weighted average cost of debt was 4.6% and our consolidated total leverage ratio, as defined in our credit agreements, was 4.7 times. Our liquidity position was $433 million at the end of the year, including an undrawn $404 million revolving credit facility, net of $21 million of letters of credit outstanding. I will note that we used a portion of this facility in the first quarter for upfront municipal payments and for normal seasonal cash management purposes. Overall, we are very comfortable with our balance strength and liquidity and expect to further de-lever into our target range through a combination of increased OIBDA and debt pay down while maintaining a healthy and growing dividend.

Now let me turn this back over to Jeremy.

Jeremy John Male
Chairman & Chief Executive Officer

Thanks, Don, and please now turn to slide 15. Firstly, let me take a moment on our business outlook for the first quarter. At this point, national trends in Q1 look somewhat improved and our current total revenue growth expectation for Q1 is to be up in the mid-single-digit range. As usual, this outlook only represents our view at this point in time and is on a constant dollar basis. Please note that it also includes revenues attributable to the Van Wagner assets for both periods and these assets are performing well, having revenues that are primarily driven by national advertising.

So we're off to a good start and we're having some productive conversations with clients and agencies and continue to feel better about 2015 relative to 2014 in terms of attracting more revenues and new advertisers to our company. Talking to advertisers, it's worth acknowledging that there's still a bit of economic and political uncertainty out there, which may make them more cautious this year in how and when they lay down their marketing budgets. That said, it's very good to see Q1 in positive territory.

Thinking about the rest of 2015, it's worth noting that 2014 was an unusual year for out-of-home in the U.S. Over the long term, there's been a strong correlation between GDP and out-of-home spending with our industry generally performing around 2 points above GDP growth. In 2014, this relationship didn't hold up. The U.S. out-of-home industry will likely post 2014 growth of around 1% compared to U.S. GDP of 2.4%. Now some would question whether this is a secular trend change driven by online, but we don't think so.

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Going back to 2004, out-of-home had a 3.5% share of U.S. media spending and online, 6.2%. According to MAGNA GLOBAL, in 2014, they estimate out-of-home market share at 3.9% and online at 30%. But out-of-home has still steady grown its share despite seismic change in the media mix. As I'll discuss in a moment, there are many advantages that our out-of-home brings over Web and mobile advertising that we think bodes well for out-of-home's future.

Given the dislocated performance in 2014, however, there's a mixed view on 2015 amongst some industry observers. For example, ZenithOptimedia began this year with a 3.8% growth projection for U.S. out-of-home while MAGNA GLOBAL was looking for out-of-home growing at 3.6% and all media growing around 3%. As you may have seen last week, MAGNA maintained its total media market view but reallocated the mix with out-of-home now projected to grow at around 1%. Obviously, time will tell but it seems on the basis of our first quarter outlook and on the basis of company reporting so far, industry growth is doing somewhat better than this.

I now want to take a moment to give you a bit more color on our digital strategy and plan for this year. This is not something I want you to model in as significant in 2015 revenues, but we believe our digital investment in new technologies is truly going to change how we operate and how we help clients. First of all, we've got a great underlying business in static displays. It's the bedrock of what we do and will continue to be a hugely important medium for advertisers for many reasons. It's low cost, ubiquitous and highly effective. As I've said before, you can't flick through, [indiscernible] (22:08), turn the page or turn off our billboards.

However, there's an undeniable shift of advertising dollars to online and we, as an industry and certainly as a company, need to position for that. To do so, we're looking hard in enhancing our medium through more advanced digital out-of-home displays. We're able to do this now because of technology improvements, such as cloud-based content, app-driven displays, wireless addressability and high quality, low cost hardware. This will allow us to design and build dynamic and scaled out-of-home networks from end-to-end. Advertisers will be able to buy these displays as easily as they buy a mobile screen or webpage and they will do so with a single set of audience criteria around a specific campaign target.

OUTFRONT Media is already taking the steps to realize this goal. We announced a technology partnership at the end of last year to bring new display hardware to market, with an intelligent data analytics engine and dynamic software architecture. By the end of this year, we'll be starting to deploy this new technology and also enhance the content distribution to our existing digital displays. We believe that this ultimately will drive incremental industry growth in the future and open up the possibility of entirely new out-of-home market opportunities for the benefit of our shareholders.

In summary, 2014 was a momentous year for our company, including the IPO, the CBS split-off, REIT conversion and significant M&A. We're confident that we're executing on all the right steps to grow and enhance our business to the benefit of both our clients and our shareholders. So, with that, operator, let's open up the line for questions.

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QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] We'll go first to Ben Swinburne with Morgan Stanley.

Benjamin Daniel Swinburne
Morgan Stanley & Co. LLC

Q

Good afternoon. I have two questions. First, Jeremy, can you talk a little bit more about the acceleration in the first quarter, maybe if it's U.S.-led, billboard, transit, any sort of color? I know the movie business is a big vertical for you and the box office is off to a good start this year, so are you seeing any tailwind in that category in particular? And I have a follow-up for Don.

Jeremy John Male
Chairman & Chief Executive Officer

A

So, as we look at – it's pretty much across the board, across all of our properties. Transit's doing particularly well in Q1. As I intonated on the call, national advertising is looking good. Last year, actually movies was one of our poorer performing categories and we certainly expect that looking at the slate this year that it's going to bounce back for us so that's definitely good news. So, I guess the answer is pretty much across the board, national back, transit doing particularly well.

Benjamin Daniel Swinburne
Morgan Stanley & Co. LLC

Q

Great. That's great to hear and then, Don, can you give us a little more on the AFFO outlook? I don't know if you can give us some expectations you have in terms of growth rates or per share, any of the sort of other cash items. I think you gave us CapEx but if you have any color on things like cash taxes and any other cash items to keep in mind as we think about AFFO growth.

Donald R. Shassian
Chief Financial Officer & Executive Vice President

A

Okay. Thanks, Ben. And at this point, we're not giving AFFO guidance. We're most comfortable providing with the revenue outlook for the coming quarter and we do understand AFFO is very important. It's a very important measure for us. Our management compensation has annual targets set off against that, so we obviously know what we got to shoot for. And later in the year, we may revisit providing a view of annual AFFO expectations.

CapEx guidance, we've given you total CapEx and we've given you maintenance. Cash taxes range I think we've – folks have modeled in the past is anywhere approximately about $20 million. And I think that's probably the only piece is the interest you can probably pick off pretty easily and the other piece for us is commissions, the capitalization commissions you can see that picked off of our income statement. So I think with those pieces, you might be able to build that yourself.

Most importantly, I'll also point you to the earnings release, to the schedule in the back and the back of our presentation where we've done a reconciliation of OIBDA to AFFO that I think will – I think it's an easier way to think about the build-up versus doing it from net income and I think with those pieces that are available and what we've just communicated, you can probably get there.

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Benjamin Daniel Swinburne
Morgan Stanley & Co. LLC

Q

Okay. Thank you.

Operator: We'll hear next from Marci Ryvicker with Wells Fargo.

Marci L. Ryvicker
Wells Fargo Securities LLC

Q

Thanks. I just want to dig deeper into national. I know you said transit is looking better. Is national actually up on transit and billboards in the first quarter? That's my first question and, secondly, how focused are you on the other REIT indices that you may not yet be a part of? Thank you.

Jeremy John Male
Chairman & Chief Executive Officer

A

Thanks, Marci, so I'll take the first question. Yes, national is up when you look across our transit and billboards and businesses. It's probably worth making the point as well that with the Van Wagner assets, as we told you at the time, they were much disposed towards national. So, originally, pre-Van Wagner we were around 40% national. Now that's sort of moved up to 45% so that's definitely a good thing for us.

If we start – in terms of sort of looking at the trends, I prefer not to sort of comment a little bit early. I don't think we get too much when we start looking at the verticals on a quarterly basis. So simple answer is, Marci, yes, it's up in transport and billboard.

Donald R. Shassian
Chief Financial Officer & Executive Vice President

A

And, Marci, your question about the NAREIT indices, we are [indiscernible] (28:50) and another out-of-home company also is in and we continue to have a great dialogue with REIT investors. What happens with getting to the [indiscernible] (29:03) is I think time's going to tell. I think there's a continual education, but we continue to have a very strong interest. We continue to have a great dialogue, education, get them familiar with our business, the stability of our business, the predictability of our business. We'll see how things play out but I think it may take a little time for that one to happen. But we're very encouraged by the continued dialogue and strength of interest that we have.

Marci L. Ryvicker
Wells Fargo Securities LLC

Q

Great. Thank you.

Operator: [Operator Instructions] We'll go next to Alexia Quadrani with JPMorgan.

Alexia S. Quadrani
JPMorgan Securities LLC

Q

Hi. Thank you. Jeremy, just looking back to some of the comments you made earlier about the potential share shift to out-of-home from maybe perhaps from TV. I guess any more color where you may be seeing this, certain verticals more receptive to making that leap versus others that are holding back. And I guess still staying along those lines, I mean obviously this looks like more of a national share shift then a local share shift. I guess taking it

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a bit further, any further color in why you [indiscernible] (30:08) saw a reversal or [inaudible] (30:10) sluggish national last year versus local and why that necessarily is reversing now this year.

Jeremy John Male
Chairman & Chief Executive Officer

A

Well, I guess there's a couple of points there. I mean I think if we look at generally advertising last year, I don't think it was as strong for most media. And I think we caught the tailwind of that. I think what's really interesting now when you sort of look around at our boards and you see Apple there and you see Google and you see YouTube and you see Snapchat, you're seeing some great brands that are realizing what out-of-home can do for it.

If we think on a sort of trailing 12-month basis and sort of think about it in terms of dollars, last year, our categories that were up so they're starting at the top of kind of healthcare, TV, retail was up and real estate was also strong. Last year, in terms of the main categories, were down. We were down in beer and liquor. Th at was a difficult category for us last year. And we're down in telephone utilities and to be fair, that was – I think we will know that was principally driven by change of strategy by one particular advertisers and then movies were down. So that's the sort of shape of what's being going on a 12-month basis.

I honestly believe that 2014 was a one-off. I think there's longer – the longer-term trend that I talked about on the call is really what we need to focus on. I see absolutely no reason why out-of-home can't continue to grow its share in the U.S market. We're remembering again that at around 4% is significantly lower than the international share that out-of-home has. Internationally, it's sort of up close towards 7%. So I think there's a significant opp ortunity there and I believe that we're well-placed and we've got the right strategy in order to be the leader driving that change in U.S out-of-home.

Alexia S. Quadrani
JPMorgan Securities LLC

Q

And who is the decision-maker there? Is it one vertical that has to make that move to make it notable? Is it the ad agencies that maybe aren't necessarily making those decisions, giving advice to [ph] your (32:55) clients or is it just a broad-based kind of move?

Jeremy John Male
Chairman & Chief Executive Officer

A

Well, I think one of the strengths of our business, strengths of out-of-home is just how broadly based our medium is. We're not over-reliant on one category and when you drill into it, you've got around 90% of the top 100 advertisers using out-of-home. It's just when you drill into the top 100, it's really just – the shares really bounce around a bit. The top 100 spend on average about 2% of their dollars on out-of-home as against 4%. So, actually, they're underrepresented. Within that, you've got some advertisers, such as Apple, spending over 10% of their advertising dollars in out-of-home.

I do think that part of it is actually getting out and having real media conversations with clients and agencies backed up by good data, which the industry now has. I don't think that as an industry, we've been as effective as that as we should've been in the past, and it's certainly something that were trying to change in terms of how we're structuring our sales force.

I think just going on from some of the other comments I made when we were talking, some of the benefits from that, one benefit from, if you like, making our out-of-home easier to buy when we were talking about that sort of the possibilities to have a much more seamless trading of our media will be the fact that, actually, it will release

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our sales teams to be spending more time with agencies and clients. So I think that'll be an important piece of it and that's certainly what we'll be working hard on this year.

Alexia S. Quadrani
JPMorgan Securities LLC

Q

Thank you.

Operator: We'll hear next from Tracy Young with Evercore.

Tracy Beth Young
Evercore Partners, Inc. (Broker)

Q

I just wanted to say thank you for providing this non-GAAP reconciliation from OIBDA to AFFO as a media analyst. Besides that, I have two questions. One is related to the digital business, when you talked about the growth, can you talk about whether you saw the increase related to occupancy rate? And then also, can you provide an effective tax rate for 2015? Thank you.

Donald R. Shassian
Chief Financial Officer & Executive Vice President

A

Digital business, we do not manage this business by occupancy versus rate. We are trying to maximize the yield, which is a combination of the two. So our digital revenues have grown because we've had conversions of static to digital but, most importantly, our yield on digital board's same board in fourth quarter of 2013 and fourth quarter of 2014, the same digital boards, that average yield is up, which is great, which means that we're being judicious about our deployment, we're being very smart about our pricing and our utilization of those boards and I think that's great, and we're trying to be careful.

As you know, our deployment of digital boards is not as significant maybe as some others in our industry. We've been a lot more judicious in placement of those and that we'll continue to be very smart about our placement because you don't want to commoditize the rest of your boards in the area. So we feel pretty good about that – of what we've been doing and continue to be very judicious about it.

Effective tax rate, Tracy, I think the best scenario – the way I – by giving you a perspective of cash taxes, it could be approximately $20 million. I think that's the best guidance I'm going to give you because when you go through the effective tax rate, that's a very, very low effective tax rate and I think that's probably the best scenario to work off of.

Tracy Beth Young
Evercore Partners, Inc. (Broker)

Q

Okay. Thank you.

Donald R. Shassian
Chief Financial Officer & Executive Vice President

A

And excuse me, Tracy. One reason is when you think about the non-REIT-able aspect of our business, there's not a lot of deferred taxes. There's not a lot of assets that have deferred taxes in the TRS side of the business, so effective tax rate should be pretty close with the cash. The current tax rate should be the same with the effective rate, very, very close.

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Tracy Beth Young
Evercore Partners, Inc. (Broker)

Q

Got it. Thank you very much.

Operator: We'll hear next from Jason Bazinet with Citi

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

Q

Just had a quick question on the long-term de-leveraging target, that 3.5 times to 4 times net debt, is it fair to assume that the bulk of that is emanating from your expectation of [ph] EBITDA (37:32) growing or is there some non-QRS cash flow that will be used to de-lever? Thanks.

Donald R. Shassian
Chief Financial Officer & Executive Vice President

A

Jason, it's a combination of OIBDA and debt paydown. It is primarily growth and OIBDA but it is debt paydown. Our targeting of what we'll be paying on dividends is a healthy percentage of our free cash flow but not all of it. And so we're expecting that the excess, the residual free cash flow after dividends, we will be paying down debt and that's not an insignificant amount in the next couple of years, but it is primarily a growth on OIBDA to make that happen. Anything on M&A we're going to do is totally superfluous to that.

[ph] If we were going to (38:20) do something else on transactions, we may have some other debt, but that's [indiscernible] (38:25) I look at our business today and how we continue to grow this business now organically, we will grow the [ph] EBITDA (38:31) and use excess cash to pay down that debt to get there and it's a not a huge lump. It's a dollar amount that'll be paid the latter part of 2015 and a dollar amount to be paid the latter part of 2016, but it's not insignificant either.

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

Q

Okay. Very helpful. Thank you.

Donald R. Shassian
Chief Financial Officer & Executive Vice President

A

Thank you.

Operator: [Operator Instructions] We'll go next to Jim Goss with Barrington Research.

James C. Goss
Barrington Research Associates, Inc.

Q

Thanks. I was just wondering if you would frame your expected role of M&A in both sides in 2015 and 2016 in terms of contributing to growth and also contributing to a shift to more REIT-qualified assets as a share of total. Are you more likely to be buying or selling or is it some combination you're envisioning?

Jeremy John Male
Chairman & Chief Executive Officer

A

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Thanks, Jim. Since the IPO, we've sort of been talking about our general M&A strategy as being principally focused on our REIT assets. So what that typically means would be billboard-type assets and principally – and in the U.S. So that's where we're sort of looking for tuck-ins. We're not targeting a particular sort of growth rate through these transactions where – we'll be opportunistic and, look, where there's smart deals to be done, we will do so. If as part of that, there are some swaps or some possible disposals along the way, we'll consider that also, but there isn't – we don't actually have a kind of target sort of rate of growth that we expect from M&A.

James C. Goss
Barrington Research Associates, Inc.

Q

Okay, and just one other thing, you mentioned how the film business had an off-year and that that was a category that was important. If it comes back, and maybe there are other examples of this, will there be some competitive issue that will help rates in certain targeted areas with sort of renewed emphasis in that industry or some others that are important clients?

Jeremy John Male
Chairman & Chief Executive Officer

A

Yeah. If you look at the sort of TV, entertainment and movie category and sort of combine those, it's a significant part of our business. It's 19% of our revenues. To be honest, rate is all about demand from which ever category it might be. So, as we get incremental demand, it gets us to a place where we can start looking at getting rates up.

Interestingly, if we think about the transit side of our business and sort of thinking about rate, obviously, a lot of that's about eyeballs and, actually, passenger usage – now, eyeballs in most of our transit systems are getting to all-time highs and that's certainly going to be something that we'll be talking about with advertisers because, quite simply, you're getting more bang for your buck. So that's where we'll be looking to see reasonably how we can start driving rates in hopefully a stronger demand market.

James C. Goss
Barrington Research Associates, Inc.

Q

One final thing, when you changed your name, I think one of the benefits you thought was that it might be easier to avoid any issues with a sort of a media company name as you're dealing with media company clients. Have you found that to be actually the case in practice?

Jeremy John Male
Chairman & Chief Executive Officer

A

I think probably the biggest benefit we get from the name change is that – look, CBS is tremendous brand and they're a great company but for us, just to have absolute control over our brand. So what we say about OUTFRONT is what people hear, and I think that's probably the biggest benefit, Jim, and we think the new brand looks great. We got out of the box very quickly in terms of getting the new brand up on all of our assets. I hope you've seen it when you're out on the road or on the subway or whatever happens to be and, yeah, as I say, we feel very good about OUTFRONT Media as a name.

James C. Goss
Barrington Research Associates, Inc.

Q

All right. Thanks very much.

Operator: At this time, there are no additional questions in the queue. I would like to turn the conference back over to our speakers for any additional or closing remarks.

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Jeremy John Male

Chairman & Chief Executive Officer

So, I'd just like to say, look, thank you very much for your questions today. We look forward to seeing many of you next week at an investor conference in San Francisco. Once again, thank you very much for your time and attention.

Operator: That does conclude today's conference. Thank you for your participation.

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