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OUTFRONT Media, Inc. (OUT)

Q1 2015 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the OUTFRONT Media First Quarter 2015 Earnings Conference Call.

At this time, I'd like to turn the conference over to Mr. Greg Lundberg. Please go ahead, sir.

Gregory Lundberg
Senior Vice President of Investor Relations

Good afternoon and thank you for joining our 2015 first quarter 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.

I'd like to note that this presentation includes a new disclosure of historical quarterly revenues for our acquired Van Wagner assets as well as a slight revenue and expense reclassification which Don discussed in a moment.

This conference call may include forward-looking statements; relevant factors that could cause actual results to differ materially from these forward-looking statements are listed in our earnings materials and in our SEC filings.

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In addition, on this call, we'll 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 on our website for reconciliations of this and other non-GAAP financial measures to GAAP financial measures.

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

Jeremy John Male
Chairman & Chief Executive Officer

Thanks, Greg, and good afternoon everyone. I'm pleased to be able to give you an update on our business today. While I only spoke to a couple a few weeks back when we reported our annual results, I'm delighted to report that we fully delivered on our expectations communicated to you at that time.

As you can see on slide four, our total revenues were up 4.9% on an organic basis, right in line with our expectations. This was driven by organic revenue growth of 12.8% in our Transit and Other business and 1.7% in Billboards. Our Transit business turned in a particularly robust performance in the quarter, especially on the national side as many advertisers utilized our displays to engage with their target audiences in our key urban centers.

In terms of revenue growth, we saw positive contributions from both local and national. You will recall that our overall US revenue mix is now around 45% national and 55% local, which we feel positions us very well for the future.

I do want to point out and as many of you know, our Transit business has a lower margin profile than Billboards. Don will go into these figures in more detail but the shift in the revenue mix this quarter did result in our adjusted OIBDA being a little lower than it would have been had more of the ad dollars gone on to our Billboard assets.

That said, our AFFO was nicely up and this 14% increase illustrates why our Board raised our regular quarterly dividend for the first quarter of 2015 by 4.6%. Last week, the Board declared the June 30 quarterly payment of $0.34 a share, the same level as in quarter one.

Speaking of the second quarter which I will discuss later on this call, our sales team are working hard, our brand is resonating and we're seeing some great new advertisers come into our space.

But before we get into this further, I would like to first turn the call back over to Don, who will take you through the first quarter financials.

Donald R. Shassian
Chief Financial Officer & Executive Vice President

Thank you, Jeremy and good afternoon, everyone. Before I turn to this quarter's financials, I want to bring your attention to a reclassification in our presentation this quarter. Specifically we have reclassified our Sports Media business from our Billboard revenue category of reporting to the Other [ph] cap (04:08) component of our Transit and Other revenue category. And we have reclassified Billboard production and installation revenue from Other to Billboard.

As we considered 2015 reporting, we believe these changes enable you to see a more accurate picture of the underlying performance of our primary Billboard business. In terms of magnitude, these changes are not significant to any quarter or the year.

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Please turn to slide six which shows a summary of our year-over-year performance of adjusted OIBDA, 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 closed on the acquisition of Van Wagner on October 1, 2014. This table adjusts for one-time expenses such as restructuring charges and dispositions in 2015.

As you can see, our Q1 2015 REIT comparable results were net income of $1.3 million, diluted EPS of $0.01, FFO of $50.4 million, and AFFO of $49.5 million. Those metrics are then compared to 2014 on a REIT comparable basis adjusted for gains on dispositions, incremental standalone costs, incremental interest expense arising from the formation borrowing and the taxes during 2014 as if we were a REIT for the entire year.

As you can see, all of the metrics are up over the prior year with the exception of net income, which primarily reflects increased depreciation and amortization in 2015 from acquisitions and increased interest expense on the acquisition related debt.

Now, let's turn to slide seven for our consolidated revenue and OIBDA. Revenues were up 19.5% to $343.9 million. When we exclude revenues associated with significant acquisitions and divestitures, revenues associated with business lines we no longer operate and the impact of foreign currency exchange rates, our organic revenues for the quarter were up 4.9%, a nice acceleration from our fourth quarter growth rate.

As you can see in the sidebar, while we had a nearly 2% lift in Billboards, our Transit and Other performance was very strong, up nearly 13%. Adjusted OIBDA increased 20.5% and our margins increased slightly to 25.3%.

Please note the following. First, is our strong Transit performance. As you know, Transit franchise expenses have a much higher cost as a percentage of revenue than the Billboard business. So, while we are pleased with our revenue growth, the stronger mix on the Transit side produced less OIBDA than an equal amount on Billboard.

Secondly, incremental standalone costs were $3.4 million compared to the first quarter of last year, bringing our total standalone costs for the quarter to $8.4 million. While this is slightly up from last quarter, it is a temporary increase related to audit costs. Going forward, as I said last call, we expect these costs to remain flat at approximately $8 million per quarter.

Lastly, we're giving some color on our strategic business development costs, which are included in our expenses and our OIBDA. These expenses represent investments we are making in people, processes and technologies that are expected to drive future revenue growth.

Over the past few earnings calls, you have heard us talk about many of the activities behind these costs, such as improving our sales tools, enhancing our marketing capabilities, and developing a new cloud-based content management display system, and our new low-cost small-screen digital technology. In the first quarter of 2015, these costs totaled $2.5 million and we present them between US and corporate. We're isolating them so you can better analyze the underlying performance of our core business.

Please turn now to slide eight, which is our US segment results which were 91% of our revenues during the quarter. Total US revenues were up to 23.1% on a reported basis, again reflecting the acquisition we made last year. On an organic basis, revenues were up 5%, with Billboard up 1.4%, and Transit and Other up 13.3%, primarily reflecting the strength of national advertisers in our Transit business. This reverses the national trend that we saw for most of last year.

As Jeremy mentioned, on a total company basis, our revenues were approximately 45% national and 55% local in Q1 2015.

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We're very pleased with the first quarter performance related to the Van Wagner business, which was up 9.8% excluding kiosks, clearly demonstrating the success of our integration process and the strength of the assets in the hands of the new combined sales force.

During our year end earnings call and in our 2014 10-K, we disclosed that we had acquired Van Wagner's phone kiosk business in New York City and that we were not successful in our bid to renew this contract. In Q1 2015, we had $1.6 million in kiosk revenue that will be zero in Q2 2015. For your information, our supplemental schedules break out five quarters of historical revenues for Van Wagner, including a line item for phone kiosks.

Another revenue item I would like to mention and where we still have room for improvement is in our legacy US Billboards excluding Van Wagner, where first quarter static yields were essentially flat and digital yields were down slightly.

We're continuing to closely manage on both occupancy and rate, making sure that we're using our data and analytics to price each board correctly and enhancing our sales process to bring more advertising demand on to our supply of boards. Yield is one of the most important metrics we focus on and we expect overall yield to grow over time.

Looking at the bottom of this page, US OIBDA grew 18.3% on a reported basis. We are pleased with this result, especially given the outperformance in Transit. It also reflects the fact that Van Wagner business is performing right in line with our expectations. Our OIBDA growth was partially offset by $0.5 million of incremental standalone costs and $0.5 million of strategic development costs I mentioned earlier.

Let's turn now to international operations on slide nine. As you have seen with other companies reporting this season, the strong dollar created currency headwinds in the quarter, driving our reported revenues down 8.8%.

However on an organic basis, which adjusts for foreign exchange, we saw an increase of 3.4%, which included Billboards up 3.6% and Transit and Other up 2.4%. Both Canada and Mexico demonstrated solid growth.

The better overall international revenue improvement was offset by both geographic and business segment mix with higher levels of OpEx and SG&A year-over-year, resulting in lower margins and OIBDA growth.

Turning to slide 10, capital expenditures, our spending in the quarter was $13.1 million, including $6.5 million of maintenance CapEx and $6.6 million of growth CapEx. During the quarter, we added 23 digital boards in total, including seven internationally.

As of March 31, 2015, we had 582 digital boards in total, with 527 in the US and 55 internationally. Our 2015 guidance for total capital expenditures remain $70 million, including $30 million of maintenance and $40 million of growth. This includes an assumption of approximately 100 new digital billboards as well as investments in small-scale digital displays, office upgrades and information technology enhancements.

Please turn now to slide 11 for our cash flow for the fourth quarter. This slide shows both FFO and AFFO on a REIT comparable basis to equalize a number of items. The impact of incremental standalone costs, the impact of interest expense related to our January 2014 debt offerings and the impact of restructuring charges relating to severance for key executives that were not replaced. The impact of taxes that we would not have occurred if we had been operating as a REIT for all periods presented is also adjusted.

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When adjusting for these items, REIT-comparable FFO for the quarter was up 3.9% compared to last year's first quarter, and REIT-comparable AFFO was up 14.1% for the same period. You will note that the first quarter is seasonally our lightest of the year in terms of dollars of cash flow.

Not only is media spending the lightest in the first quarter, thereby impacting OIBDA, but we have seasonally negative working capital as payments are made for employee bonuses as well as a significant upfront payment on our revenue share with New York City Transit contracts. As is typical, working capital will improve throughout the year and be a source of cash in future quarters.

Please turn to slide 12 on dividends. As you can see, our regular cash dividend payments increased 5% in the first quarter of 2015. Last week, our Board declared another $0.34 per share dividend payable June 30, 2015. I would like to note that because of the seasonality I just mentioned, our Q1 regular cash dividend was a very high percentage of AFFO, but this will reverse as we move throughout the year.

In addition to the regular cash dividends you see here, we paid an additional special cash dividend in the first quarter of 2015, an amount of $8.2 million resulted in our paying out 100% of our 2014 REIT-distributable income.

Lastly on slide 13, presents an overview of our balance sheet. At quarter end, the weighted average cost of debt was 4.7%. Our liquidity position was approximately $450 million at the end of the quarter, including $56 million of cash and an undrawn $395 million revolving credit facility, net of $30 million of letters of credit outstanding.

I will note that we used a portion of this revolver facility in the first quarter for upfront municipal payments and for normal seasonal cash management purposes. As of March 31, the drawdown was paid-off completely and the balance drawn on this revolver is zero and remains so today.

Our net leverage was 4.9 times as of March 31, up from 4.7 at year end. This increase is temporary, reflecting the seasonal nature of our cash flows, combined with the additional $100 million borrowing from our 5.625% senior notes due 2024. Our target range for net leverage is unchanged.

We are committed and expect to be 3.5 to 4.0 times by the end of 2016 as previously indicated. Overall, we're very comfortable with our balance sheet strength and liquidity, and expect to further delever into our target range to a combination of growth in OIBDA and debt paydown, while maintaining a healthy and growing dividend for our shareholders.

I will now turn it back over to Jeremy.

Jeremy John Male
Chairman & Chief Executive Officer

Thank you, Don, and please now turn to slide 15. Firstly, let me take a moment on our business outlook for the second quarter. At this point, our current total revenue growth expectation is that Q2 is likely to be in the low single-digit range with continued outperformance in transit relative to Billboard.

As usual, this outlook only represents our view at this point in time and it's on a constant dollar basis. Please note that it also includes revenues attributable to the Van Wagner assets for both periods but excludes revenue that were parts of the New York City kiosk business.

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So as we look forward, we're still seeing nice trends in national and we're certainly pleased with our Transit business, but we would like to see a bit more growth in our Billboard business where we benefit from the higher operating leverage that this segment enjoys.

I spent time on our last earnings call outlining our digital strategy in some detail. I want you to know that we are also moving along as planned. This includes technology enhancements for how we transact business with our customers, new sales tools and technologies for our salespeople and new digital technologies that will led our advertising customers engage with people in dynamic new ways.

You'll see and hear more about all of these as we progress through the rest of this year. I've been saying for the last 20 years that it's a very exciting time to be in out-of-home and you know what, it still is, particularly in the US market where there are exciting new technologies and analytics that will make our proposition even more impactful for brands as we go forward.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And we go first to Alexia Quadrani, JPMorgan.

Julia Yue
JPMorgan Securities LLC

Q

Hey, this is Julia Yue on for Alexia. First off, it's great to see improvements in your revenue trends in national advertising. Could you just give me color on how relationships with media buyers and planners are changing in terms of how you're educating them to use Outdoor more effectively? And are they asking for any capabilities in particular that may convince advertisers to shift some other budgets to Outdoor? And then I have a follow-up.

Jeremy John Male
Chairman & Chief Executive Officer

A

I will take that. So, I guess the first thing is to say that we're trying to reorientate our sales team, our national sales team in particular, more towards the media planners, the media strategies, and to clients. And in fact, we've had a sort of sales force reorganization that is specifically directing people, if you like, away from, if you like, the classic trading environment of our national media, which is typically with the out-of-home buyers towards those other categories higher up the food chain.

I think whenever you start talking to advertisers now, what people want is increasing information about audience, so exactly who are you going to reach at a particular point in time and to whatever extent you can to be able to show, okay, what is going to be my return on investment for any given dollar that we're spending. It's really that area where we're spending a lot of time, if you like, working on our data analytics that are going to enable those advertisers to better make those intra-media decisions.

I've said before that I continue to believe that when you look at US out-of-home and you compare it to other markets, it's really that national sector where we have most upside. It's a fact that the top 100 advertisers are still spending less than 2% of their ad dollars on out-of-home against national average of closer to 5%.

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And if you compare it to other key markets around the world, they're probably about 25% less disposed towards out-of-home than we believe they could be. So, we're going to keep working on it. It's not a question of flicking a switch. I think some of our data developments later in the year will help the process and that's where we 're putting a lot of our time.

Gregory Lundberg
Senior Vice President of Investor Relations

A

Julia, you had a follow up?

Julia Yue
JPMorgan Securities LLC

Q

Yes, thanks. And then also, as you convert more digital boards and start using more technology based transaction assets to sell ad space, how do you think this will affect the visibility into the business and perhaps volatility as the length of contracts are likely to be shorter and advertisers may start buying ad space closer to the laun ch of their campaign?

Jeremy John Male
Chairman & Chief Executive Officer

A

To be honest, I think that's actually a good thing, Julia. What it does is it gives us a lot more flexibility as we go forward to be able to react to advertiser demand. It's a fact at the moment that a lot of people consider that out-of-home, it's just a little bit too difficult because you have to lay down too early, it's difficult to get signs.

We can now be far more reactive through our digital assets than we've ever been abl e to before and that really just suit – fits very well with clients' advertising spend patterns. So I think as we become more adept, as we increasingly smooth what is – I've talked before I've used the words – a somewhat clunky buying process. I think as we smooth that out in the future, that will actually work for us rather than against us. And it's just a fact that dollars come later in today's media market.

Julia Yue
JPMorgan Securities LLC

Q

Great. That's very helpful. Thank you.

Gregory Lundberg
Senior Vice President of Investor Relations

A

Thanks.

Operator: And we go now to Marci Ryvicker with Wells Fargo.

Marci L. Ryvicker
Wells Fargo Securities LLC

Q

Thanks. I have two questions. The first, your increase in national as a percent of revenue to 45%, is that driven just by the growth that you're seeing or is that a function of the Van Wagner being added to the mix? And then the second question is, is there any update on the RFP for the New York City Transit contract? Thank you.

Jeremy John Male
Chairman & Chief Executive Officer

A

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Thanks, Marci. I'll take both of those. The principal reason for the shift – we were previously around 60/40 and now it's 55/45 – is principally down to Van Wagner whose assets were far more disposed towards national advertisers, in that they were very dominant in New York and LA which is where national advertisers want to be. And that's one of the reasons that we were – we obviously believe that Van Wagner married so well with our legacy business.

With regards to the MTA, you'll probably remember on the last call, I think we said we expect it to see something from them in April. That didn't happen. Unfortunately, this is one of those things where we don't control the timing. I guess we'll probably see it in the second quarter. But I guess the important point is that whenever it comes, we're ready.

We've been spending a lot of time, as you can imagine, working on the response from what we presume the anticipated RFP is going to request and without wishing to sound arrogant for a second, we remain confident that we are well placed in order to respond to that RFP when it does come out.

Marci L. Ryvicker
Wells Fargo Securities LLC

Q

I would imagine that the later it is the better it is for you, given that it would take somebody else coming in quite a bit of time to actually put up the structures that they need to.

Jeremy John Male
Chairman & Chief Executive Officer

A

Well, I think from the point of view of the absolute structures, I think a lot of the RFP may well be about developing new structures if you like, particularly or guessing with a more digital thrust, so that from when the new contract period starts. But let's put it this way, all the while that we haven't had it, it's fine. As I say, whenever it comes, we're ready.

Marci L. Ryvicker
Wells Fargo Securities LLC

Q

Got it. Thank you very much.

Operator: And we go now to Aaron Watts with Deutsche Bank.

Aaron L. Watts
Deutsche Bank Securities, Inc.

Q

Afternoon guys. Curious on the growth you're experiencing on the Billboard side of the house, is it your sense it's more money coming to the space overall, you taking some share, a blend of the two, just any thoughts there?

Jeremy John Male
Chairman & Chief Executive Officer

A

Thanks, Aaron. I guess there is a couple of points. When you look at the growth that we enjoyed in the first quarter of towards 5%, I suppose the first point is that it's a little bit early to talk about whether or not we're taking share because we haven't seen the numbers for the out-of-home market as a whole and indeed not all companies report it. So, I don't think that's something I can particularly comment on.

When we look at our business, there's no doubt at all that Transit has been strong, as we said on the call. We would actually like to see a little bit more strength in our Billboards business.

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I think it's also maybe, but making the point that we said that we'll continue to give separate information for Van Wagner and we will continue to do so. But increasingly when clients and agencies look at our business, they do really see it now as one business and that's certainly how we're reviewing our overall performance in the Billboard market.

Aaron L. Watts
Deutsche Bank Securities, Inc.

Q

Okay, that's helpful. And then I guess separately, thinking about M&A opportunities, I know those opportunities come across your desk all the time. Can you maybe just talk about the scale of the opportunities you're looking at, what's the kind of spread between the bid ask is at the moment on multiples and how high a hurdle that's setting for getting something more done? And then also, are you at all limited to the fact that your leverage is a little bit elevated coming out of the Van Wagner deal? Does that preclude you from maybe taking advantage of some of those opportunities?

Jeremy John Male
Chairman & Chief Executive Officer

A

I guess there's a couple of things there. I mean, the first is that I believe one of the key successes for our business last year was acquiring what we felt was the best set of independent assets that were out there in terms of the Van Wagner assets when they became available.

When we look around now, we're probably at any one time looking at four or five deals. Some of them can be quite small. They can be whatever it is, 6 to 10 boards and some of them might get up into the, whatever 40, 50 board and, therefore into the sort of handful of millions of dollars category.

I don't think we particularly feel hampered by our current leverage. One thing we are finding and I think it's fair to say is that, there have been some operators who have seen some of the multiples that have been out there in the market and not just our multiples over the last six months and automatically sort of assumed that their assets may – would carry – have a higher carrying value than certainly we would place on them.

We've said more than once to operators who are interested in selling their business that there was only one Van Wagner.

Donald R. Shassian
Chief Financial Officer & Executive Vice President

A

And Aaron, if I may add, we spent $9.9 million for small acquisitions in the first quarter and we will continue to look at those acquisitions that meet our qualitative and quantitative.

Your second question about, do we have any limited flexibility on larger transactions because of leverage, I am going to say, I don't believe that we are limited. I think, now our transactions have to be without a percent of debt that could be with pieces of equity.

The real key for us is finding the right qualitative and quantitative transactions that are going to grow and be accretive to AFFO per share. And so, I think that we've got a solid balance sheet. We've got a path to be able to delever. I don't think there is a lot of very large transactions out there, but we will be quite mindful about how to finance, but it doesn't take us out of the market for looking at things, whatsoever.

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Aaron L. Watts
Deutsche Bank Securities, Inc.

Q

Great. Appreciate the thoughts. Thank you.

Donald R. Shassian
Chief Financial Officer & Executive Vice President

A

Thanks.

Operator: [Operator Instructions] We now go to Tracy Young with Evercore ISI.

Tracy Beth Young
Evercore Group LLC

Q

I have two questions. The first relates to the yield per board on the digital side. Is there any way for us to think about it, is it really to inventory or is about education of the sales force? Anything you could help us with that would be great.

And then in terms of national, are there any categories that you saw improve in the quarter year-over-year? Thanks.

Jeremy John Male
Chairman & Chief Executive Officer

A

Yield is – sort of first time we've really seen a dip on the digital side. I'm not sure one quarter is a trend as of yet. We're really trying to educate all of our sales people on the value of our boards and spending a lot of time in analyzing and understanding, getting them to really price these appropriately. So I don't think it's a pricing issue necessarily. It could be a little bit of occupancy that sort of built into that, but we really think there is still an inherent organic growth in the business by really focusing on the value of these boards, digital specifically. And the question earlier about things being sold at shorter flight times, if you would, we think that creates more value for these boards and more pricing perspective for us, they can give us more leverage.

Donald R. Shassian
Chief Financial Officer & Executive Vice President

A

And in terms of the second part of that question, Tracy, we really prefer to comment on category trends over time. We think a trailing 12 is probably a better way of looking at it because to be honest you can get some spikes going on just dependent upon what a particular advertiser objective might have been in terms of new product launches or whatever in a particular quarter. But just to give a little bit of color, on Transit which was obviously the main growth driver of the business in the first quarter, three sort of prime movers for us were financial services and telecom utilities and professional services. If we look at the business as a whole, the three most significantly growing categories where computers internet, financial services again, and also retail.

Tracy Beth Young
Evercore Group LLC

Q

Thank you very much.

Donald R. Shassian
Chief Financial Officer & Executive Vice President

A

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Both analyses are looking at the legacy business only, if you would, which is the most accurate data to be able to give you that perspective.

Tracy Beth Young
Evercore Group LLC

Q

Okay. Thank you.

Operator: And we'll go now to Jason Bazinet with Citi.

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

Q

Thanks. A question for Mr. Male, I think when I have asked you this in the past, you sort of said it was an irrelevant metric and so maybe that's still true, maybe you can educate us as to why it's irrelevant. But in terms of miles driven, those numbers have gone downed for years and now they seem to have rebounded a bit. Can you just explain why that doesn't ultimately manifest itself in sort of revenue tailwinds for you?

Jeremy John Male
Chairman & Chief Executive Officer

A

I guess, for a number of reasons really. I mean, I guess the first point is that actually 30%-ish of our business is actually directed at public transit, where actually public transit audiences, for example, are growing.

So, in that area, it's very demonstrable where you can say audiences are up, therefore number of eyeballs up, therefore we believe that we should be able to command higher rates.

In terms of total miles driven, it's just one metric. I mean a lot of our inventories, pedestrian-oriented in a number of these markets. It's also the speed of those – the speed of travel can be very important, so in other words actually what dwell time are you getting with our board. So, I guess I'm not saying it's irrelevant. I wouldn't go as far as to say that. But I'd just say it's one piece of – it's just one metric in a range of metrics that we'd be talking to our clients about.

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

Q

Can you remind us what – I assume there's some sort of auditing or mechanism or something that tells a buyer how many cars travel by a billboard or something to the extent it's not transit. Can you just remind us of the delay or the mechanism by which that ultimately manifests itself in the pricing for a board?

Jeremy John Male
Chairman & Chief Executive Officer

A

So, every board across the country, be it ours or others, there is an audience measurement system that comes through the TAB, which is a jointly funded organization by the media owners and the media and the buy side.

And what that tells you is, who and how many people pass our boards on a weekly basis. So we can actually give a rating for any board across the country, as I say, taking into account the demograph that they want to hit.

And we use that information when we sell. I think we could probably use it better, to be honest. When I look at our business around the country and I've been to most of our offices now, I think a number – I think a lot of our

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pricing is actually based on legacy – it's based on what the board has always been priced at in the past rather than necessarily, if you like, the quality of the demograph and numbers of people we are achieving.

When Don was making some comments earlier in terms of yield, I think it's one area that we flagged up right at the start when we were on our IPO road show as being an area of opportunity for the business. You know what? It's still mostly opportunity because actually it's that piece that I think we need to do quite a bit more work on as we go forward.

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

Q

Thank you.

Operator: And we go now to Davis Hebert with Wells Fargo Securities.

Davis s Hebert
Wells Fargo Securities LLC

Q

Good afternoon. Thanks for taking the questions. Just wanted to start with Van Wagner, up almost 10% year-over-year. Just wondered if you could drill down on that a little bit, is that an easy comp year-over-year? Is it execution under the Outfront umbrella? Just wondered if you can provide any color on that?

Jeremy John Male
Chairman & Chief Executive Officer

A

Yes, I don't think it's a particularly easy comp; that's not as we see it. We put the businesses together in the final quarter of last year. We reorganized our sales force, so that pretty much from January this year, we had one sales force marketing both sets of assets. And as I said a little bit earlier, I think we have to be a bit careful now when we look at how – at that business versus the legacy business because our clients aren't really thinking about it like that. They're thinking I'm buying from Outfront.

Part of it is obviously geographic. When you look at it, actually our New York business and our LA business generally were pretty strong in Q1. And so, part of it will just be that their assets also were in those geographies that performed well, if that helps at all, Davis.

Davis s Hebert
Wells Fargo Securities LLC

Q

That helps very much. And then on cannibalization, your Transit result is very strong. Are you seeing any dollars shift out of static billboards and similar to digital, I mean, are you seeing any digital dollars taking share from the static side?

Jeremy John Male
Chairman & Chief Executive Officer

A

Let me take the second piece first. I think one of the strengths of our portfolio of assets when you compare it to other portfolios in the market is that we've got this great Transit business. So in a way, whatever your objectives are, I mean our message is that we've got the best media for your client needs. It is a fact that there have been a couple of advertisers who this year have been more disposed towards – in the first quarter anyway – more disposed to Transit than Billboards. We have seen a bit of money shift over and I guess the fact that we – as I say, we've got those assets is – it is very much benefit to us.

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In terms of digital versus analog, we've been very cautious and we've said right the way along that we want to have a very measured build-out on digital to minimize any cannibalization or attrition from our analog boards.

In any given market, when we look at investing in digital, we will take into account the fact that, A, you're going to lose an analog board in order to convert, but also you will be taking a small portion of revenues from those other boards in the area. And we build that in when we do our IRR calculations to make that investment decision.

Davis s Hebert
Wells Fargo Securities LLC

Q

Okay, helpful. And then last one from me. Clear Channel Outdoor mentioned having some hope around resolution in the digital board situation in Los Angeles and I know it's a smaller part of the pie for you, but just curious if you are expecting anything positive on that front?

Jeremy John Male
Chairman & Chief Executive Officer

A

As you rightly say it, it was a much smaller piece of our business. Within our legacy business, we had 12 boards in LA, whereas Clear Channel were sort of 80+. So, it's relatively a bigger piece for them and we were very quick out of the gate in fact in converting those digital assets to static, so that we would start taking revenues on those boards early after that decision was first made. I think it is very hard to be specific in terms of when we are likely to see a resolution to that. I think it would be fair to say that we're not banking on seeing anything within the next six months or so for sure.

Davis s Hebert
Wells Fargo Securities LLC

Q

Okay. Thank you very much.

Operator: And we'll go now to Bryan Goldberg with Bank of America.

Bryan Goldberg
Bank of America Merrill Lynch

Q

Hi, thanks. Just a quick one for Jeremy. Thanks for the color on second quarter trends. I was just wondering, how would you characterize your level of visibility right now on a low single-digit performance playing out and sort of what are the bigger swing factors we should be thinking about as we enter the summer period in the end of June?

Jeremy John Male
Chairman & Chief Executive Officer

A

I guess, the first point is that, and we do reiterate – we do reiterate this, we are giving some color if you like at a particular point in time and it's fair to say that we are now in week five of a 13-week quarter.

So I guess that's one point. I think it's also worth saying that increasingly, as we discussed a little bit earlier on this call, money does come late and I think we need to take that into account.

So, when we look at it, one category that actually wasn't that strong for us in Q1 that we think is going to come back, we think movies going to start with the slate they have. We think that's likely to be an increasing category as we go through the year. But, beyond that Bryan, that's probably all I would like to say right now.

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Bryan Goldberg
Bank of America Merrill Lynch

Q

Okay. Thank you very much.

Operator: And there are no further questions in queue at this time.

Jeremy John Male
Chairman & Chief Executive Officer

Okay. Everyone, well, I would like to thank you very much for your questions today and we look forward very much to seeing many of you at our Investor Conference on May 19 in Boston. Thank you once again everyone.

Operator: This concludes our conference. Thank you for your participation.

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