06-Aug-2015

OUTFRONT Media, Inc. (OUT)

Q2 2015 Earnings Call

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MANAGEMENT DISCUSSION SECTION

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

I would now like to turn the conference over to Mr. Greg Lundberg.

Gregory Lundberg
Head-Investor Relations

Good afternoon, everyone. Thank you for joining our 2015 second 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 a discussion of our financial results and a strategic update, 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 along with the earnings release and an audio webcast of the call.

This conference 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, in our SEC filings, including the 2014 Form 10-K.

In addition, on this call, we'll refer to certain non-GAAP financial measures. Any references to OIBDA and AFFO made today will be on an adjusted and REIT-comparable basis, respectively, both of which are reconciled along

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with other non-GAAP financial measures in the appendix of the slide presentation, the earnings release and on our website, outfrontmedia.com.

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 that you could take the time with us today. There are a lot of exciting things happening at OUTFRONT Media. First and foremost, our second quarter revenues came in as we laid out for you in May, up 2.8% organically. Within this figure was once again very robust double digit growth in our transit business, while our billboard results were slightly down. Transit is nearly 1/3 of our total company revenues and is now a $400 million business annually. And I think you'd all agree that any media business growing over 10% in the current market is doing extremely well. However, our billboard results as I mentioned last quarter are not performing as we would like. We have certain markets that are hitting the ball well, but there are some of the markets who are not performing to our expectation or what we see is their full potential.

We've taken some proactive measures to address this. As usual, we'll give the third full quarter outlook at the end of this call, but the good news I want to share with you upfront is that our billboard pacing is showing improvements into the second half of this year and we're confident that this business is trending positively and moving back to growth in the third quarter.

I'm sure you all saw our release on July 23 regarding the MTA. Let me say that we're pleased to have extended our New York City subway advertising contract for up to an additional year. As we discussed, we always faced an either/or scenario. Either the MTA puts up an RFP this year that brings the 2016 bus and rail contract forward, or the MTA pushes the 2015 subway contract out to the end of next year to co-terminate with the bus and rail contract.

It's this latter scenario that is unfolded. Let me also say, we've been ready to bid this contract since Thanksgiving 2014 when we first thought we might receive an RFP. We feel very confident in our ability to renew this contract whenever its bid. As you can see, our transit result is spectacular right now and this of course includes New York City. The MTA directly benefits from this success and we've been doing a good job for them for nearly 75 years.

Our success has been a combination of a fantastic sales force, strong client relationships and operational knowhow. We know how to sell to the MTA and when you add this to our transformational new technology platform, which I'm going to discuss very shortly, I will say again, this puts us in an excellent position to win this bid. You'll be able to see this technology for yourself with our initial deployments in the new 34th Street, Hudson Yards Subway Station at 11th Avenue, which is expected to open earlier this fall. This deployment begins to demonstrate some of the features of our platform such as radical new hardware and new software platforms including cloud-based content delivery. This technology and the proprietary data management platform that we're building with new data analytics for our clients will better position us to share from the stream of advertising dollars currently flowing to online and mobile.

I'd also like to mention another recent announcement that highlights our constant focus on maximizing the value of our assets. We're entering the business of leasing physical space on our billboard structures to wireless carriers to locate transmission equipment for their cellular networks. We've announced a marketing and management agreement with Diamond Communications to market our portfolio of over 25,000 sites to the wireless carriers. This is not something that you should model for 2015, but we expect to see deployments in 2016 and we believe it will generate a nice lift to future shareholder returns. Last but certainly not least, I'm pleased to report that our

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board has declared third quarter 2015 dividend at $0.34 a share, payable September 30. The board increased the cash dividend level by 4.6% in the first quarter of this year and you should take away from this increase that we view growing dividend income as a critical part of our investment thesis.

Before I come back on and talk about our third quarter outlook, I'll now turn the call over to Don for a more in-depth look at our second quarter results.

Donald R. Shassian

Chief Financial Officer & Executive Vice President

Thank you, Jeremy, and good afternoon, everyone. Please turn to slide six, which shows the summary of the year-over-year performance of some of our key financial metrics for the quarter and year-to-date.

This table is not a pro forma view. It presents the results of the acquired Van Wagner assets only from their date of acquisition on October 1, 2014. The primary difference between the two periods in addition to the acquired operations is that Q2 2015 reflects the addition of interest expense incurred on the acquisition debt and tack-on financing, and Q2 2014 is adjusted on the tax line to show the level we would have paid, had we been operating as a REIT in the second quarter of last year.

As you can see, while revenue and OBIDA are up, we experienced a decline in net income FFO and AFFO during the period. I would like to go into the drivers of this beginning with revenues on slide seven. Our revenue growth was 15% on a reported basis and 2.8% on an organic basis. As you can see on the slide, if you factor in non-organic items like the acquisition of Van Wagner's billboard and transit assets and the $5.6 million of foreign exchange headwind, our year-over-year growth was also low single digits.

In the U.S., organic revenues, which we move among other things the impact of significant acquisitions and dispositions were also up 2.8%. This reflects very strong 13.8% growth in transit and other, where we continue to see very strong growth in both local and national revenues across the country in our various transit markets as advertisers increasingly start to reach an urban audience. Importantly, our asset base is very comparable to last year. Therefore, this increase is all about incremental yield.

Strength in U.S. transit was offset by a 1.7% decline in organic billboard revenues. Billboard yields were down at both static and digital during the quarter. While we had some markets in various geographies with very good growth, our overall revenues were impacted by some organizational changes in certain other markets. This was a proactive decision on our part as we continue to recalibrate the business as a standalone company and position our sales resources to be best capable of driving future growth.

While we are certainly not satisfied with this quarter's billboard results, we are confident that we are making the right decisions and we are already seeing improvements in billboard in Q3. Internationally, organic revenues were up 2.4%, driven by Latin America. I will note that this is our fifth quarter of positive growth out of international since our IPO.

Now, let's turn to expenses on slide eight. I'd like to start off by saying that our expenses are in a good place. As you know, since we have a high fixed cost level of over 70%, after a certain point, revenues go straight to cash flow. It is therefore very important to keep a lid on expense growth and even more importantly drive expenses down whenever possible. By doing this, we're positioning ourselves for OIBDA expansion that we expect to come from future revenues, driven by continued excellent performance in transit and improvement in our billboard business and revenues from new initiatives that you do not even see yet in our financial results.

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As you can see on slight eight, the majority of the year-over-year increase in the quarter was driven by having added Van Wagner billboards to our business. While we don't break them out, if you were to look simply at our legacy operating costs, billboard lease costs were down low single digits and posting, maintenance and other expenses were down mid-single digits.

Turning to slide nine, you can see a further breakdown of our operating expenses in the three categories to the bottom of the chart, which include our billboard lease and franchise payments as well as posting, maintenance and other expenses. The overall lease expense as a percentage of revenue was up slightly, reflecting the top market concentration of Van Wagner's billboards. But as I just mentioned, our U.S. legacy billboard lease costs were down low single digits year-over-year.

Transit franchise expense, which is a revenue share business, was up along with a very strong increase in transit revenues. We had a very strong $14.4 million revenue growth in this business. Since these franchises are based on revenue share, our expenses went up, but only by $7.8 million, so we were able to generate a profit exactly in line with how this business operates.

Posting, maintenance and other expenses were down almost two points due to cost efficiencies and also by lower billboard activity and our U.S legacy posting and maintenance costs were down mid-single digits year-over-year.

We also saw a nice reduction in SG&A expenses from 14% of revenues to 12.9% due to operating improvements. Corporate expenses were up $3.8 million due specifically to two items. The incremental standalone costs of becoming a public company were up $1.5 million from last year, these costs are actually down sequentially and are at the run rate we communicated to you. The other item is $1.6 million of strategic business development expenses this quarter that did not occur last year.

I'll note that $600,000 of additional strategic development expenses were booked in our U.S. segment which gets to you a $2.2 million in total business development expenses for the quarter. So I feel good about where our cost structure is right now. There are number of areas that we continue to work on for additional improvement, we are currently well-positioned to benefit from billboard growth and development of new revenue streams.

You can see how these expenses and our revenues translate into OIBDA on slide 10. Our total OIBDA of $119.1 million was up $8.8 million over last year. The OIBDA margin for the quarter was 31%. Our strategic spending of $2.2 million in the quarter represented 60 basis points of this margin.

Turning to slide 11; capital expenditures were $14.6 million in the quarter, including $6.6 million in maintenance CapEx and $8 million of growth CapEx. During the quarter we added 30 digital billboards in total including eight internationally in Canada. Our 2015 guidance for total capital expenditures remains $70 million, including $30 million of maintenance and $40 million of growth. This includes an assumption of approximately 100 new digital billboards. We have done 53 to date, so we're on track as well as investments in smaller scale digital displays, office upgrades and information technology enhancements.

Please turn now to slide 12 for our cash flow for the quarter. This slide shows AFFO on a REIT-comparable basis to equalize a number of items that you can see in the schedule on our press release; the largest of which are REIT taxes and interest expense on our formation borrowings. Please note that Q2 and Q3 of 2014 AFFO is not pro forma for the Van Wagner acquisition. The chart will include Van Wagner as well as the interest expense related to the acquisition debt and tack-on financing as of Q4 2014.

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AFFO declined $6.3 million year-over-year. As stated earlier, OIBDA was up $8.8 million year-over-year due to the addition of Van Wagner, which is performing as planned and also due to our strong transit results. This was offset by weaker U.S. billboard results.

Despite this overall lift in OIBDA, AFFO was negatively impacted due primarily to three things; $10.2 million of incremental expense on the Van Wagner initial acquisition financing and our tack-on financing this past March, $3.7 million of incremental taxes due to higher pre-tax earnings in the transit era side of the business, $1.9 million of higher maintenance capital expenditures in the quarter.

In this quarter, AFFO was 60% of OIBDA compared to 70% in Q2 2014. Based on many of the factors I've discussed today, we expect future flow-through of revenue into OIBDA to also increase AFFO levels. That said, our AFFO level provides good support of our dividends, which you can see on slide 13. Dividends were 66% of AFFO in the quarter and 68% using the current dividend at an annualized rate and comparing it to a trailing 12-month reported AFFO. This level is aligned with our plan we laid out in the IPO process. Our board recently declared another $0.34 per share dividend for Q3.

Lastly, on slide 14 presents an overview of our balance sheet. At quarter end, the weighted average cost of debt was 4.7%. Our liquidity position was approximately $463 million at the end of the quarter including $68 million of cash and an undrawn $394 million revolving credit facility that is net of $31 million of letter of credit outstanding. Our net leverage was 4.9 times as of June 30. Our target range for net leverage is unchanged.

And we are committed to drive our capital structure to 3.5 times to 4 times, which we believe is the appropriate leverage for this business. Overall, we're very comfortable with our balance sheet strength and liquidity and expect to further de-lever into our target range through a combination of growth in OIBDA and debt pay-down, while maintaining a competitive dividend.

I will now turn this back over to Jeremy.

Jeremy John Male

Chairman & Chief Executive Officer

Thanks very much, Don, and please now turn to slide 16. Before we talk about our third quarter outlook, let me make some comments about the broader market. Once again, we and the other large U.S. out-of-home companies reported positive organic revenue growth and we are all – we know from their reporting collectively, tracking positively in the third quarter. Based on public company reporting to date and looking at published industry models, only two sectors are growing in the U.S. media market; the digital mobile online piece and out-of-home. The out-of-home industry is clearly healthy and providing tangible benefits to our advertising clients.

Our industry has grown our share, but the online segment has taken nearly 1/3 of total advertising dollars in the market. Advances in our industry and that our company, in particular, are positioning us to potentially take an even greater share going forward.

Now, let's turn to the coming fiscal quarter. At this point, our total revenue growth expectation is that Q3 will be in the low single digit range with continued outperformance in transit relative to billboard, but with billboard showing positive growth.

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 billboard and transit assets for both periods.

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A broad portfolio of transit and billboard for the top 25 market focus have always been the key strengths and differentiators of our company. As we said and obvious this quarter, advertising dollars flowed heavily to transit, which posted outstanding growth. And we're not standing still. Firstly, we'll be actively deploying our transformative digital platform to bring mobile and online advertising dollars to our company.

Secondly, we're exploring new ways to generate cash flow from our assets, such as the example I gave you earlier leasing space to cellular carriers for transmitting equipment. And thirdly, we'll continue to drive growth in our core business, which remains incredibly effective in the current media landscape and which we continue to believe has room for significant growth.

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

QUESTION AND ANSWER SECTION

Operator: Yes. Thank you. [Operator Instructions] And our first question comes from Marci Ryvicker with Wells Fargo.

Marci L. Ryvicker
Wells Fargo Securities LLC

Q

Thanks. I have a couple; and the first with the billboards, you had mentioned [indiscernible] (20:16) down, you were down in specific markets. It sounds very much like this is a company-specific issue in those markets and therefore the growth you're seeing in Q3 is more in your control and something that you have a lot more visibility into for now and the future?

The second question I have is Lamar reported this morning also digital yields were down, they suggested that there's just too much capacity. So just wanted to know your thoughts on that comment as it relates to OUTFRONT?

And then the third question I know you said not to incorporate anything in our models in 2015 for leasing space for wireless, but can you frame up what the potential market could it be or any type of financials could be for you in 2016 or eventually going forward? Thanks.

Jeremy John Male
Chairman & Chief Executive Officer

A

Okay. I'll take those, Marci. In terms of the first question, in regard to sort of the company specifics; yes, I think it is. We've got a number of markets that have been doing incredibly well, East Coast and West Coast have been great for us. There have been three or four markets that really didn't perform for us over the last few months and it's those markets that specific to [indiscernible] (21:43), I think, well we've taken now some measures to improve our performance. We're starting to see some improvement and that's why are one of the reasons certainly that we can be more positive in our pacing indications for billboard in the third quarter.

With regards to digital, I guess the first point is that our digital business in terms of number of boards is smaller than our competitors. So they're not directly comparable. When we look at how we're deploying billboards right now, we're very comfortable opening out 100 boards a year. We're still getting that sort of forex increase that we would expect.

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Digital yields, in general, in our billboard business were impacted a little bit by some of the issues that I mentioned just previously. But overall, we continue to feel good about digital, it was nicely up for using total for our business during the second quarter and then your third point in terms of thinking about incremental income from carriers; I guess the first point is that it's a little bit early for us to give guidance and as it starts to become more material, we're going to be very happy to quantify that for you.

What I would like to say is that we really like the economics and returns in this model. It's a new cash flow stream, no CapEx and we expect the revenues to be QRS. We've got a universe of 25,000 locations and it's possible that you could have up to potentially three carriers per location. But, I would stress that these, it's very early days. We've got to grab in market these locations and that's why we signed up with Diamond. We need then to sort of look at any zoning that maybe associated with those locations, and we then got to deploy and we then have to sort of work how the revenue model with the landlord in terms of how we cut the piece of the pie. But, in general as I say, I think it's an interesting development for us and as soon as we can we'll give more color on that, Marci.

Marci L. Ryvicker
Wells Fargo Securities LLC

Q

Great. Thank you so much.

Operator: And we'll go next to Ben Swinburne with Morgan Stanley.

Benjamin Swinburne
Morgan Stanley & Co. LLC

Q

Thank you. Good afternoon. A couple of questions; first, on the MTA, Jeremy, do you have any insights that you can share with us as to why the bids haven't been put out, and the MTA seems to be extending this all to next year. Do you think they're waiting for the Decaux, [indiscernible] (24:37) situation to get more clear or anything you've learned that you could help us think about sort of what the thought process is there would be great. That's my first question.

Jeremy John Male
Chairman & Chief Executive Officer

A

Okay. So, I guess, so it's a little bit hard, when we're being asked to speak on behalf of transit authorities because ultimately, obviously it's entirely within their scope to make these decisions as we've said they had two options and they chose one of those. And I would suggest the – actually it's in my opinion I don't think it has a lot to do with the JCDecaux and [indiscernible] (25:20) situation. And I think it has more to do with the fact that they are interested in thinking about more broadly how media and the general communications could come closer together particularly given that what all fairly clear that while we haven't obviously seen the bid document or the RFP document. There'd slightly be quite a significance to the digital piece to this. So I think they're just trying to figure that out. That's certainly really more the feedback that we've been given, Ben, rather than it being anything to do with the competitive landscape right now.

Benjamin Swinburne
Morgan Stanley & Co. LLC

Q

Okay. That's it, that's helpful. And then, if you missed it – if you said and I missed it, I apologize. Been a long week as I'm sure you can imagine, but any color on national versus local trends in your business in the quarter?

Jeremy John Male
Chairman & Chief Executive Officer

A

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In terms of color, if you think about the overall organic growth rate of 2.8%, national was ahead of that and local was behind that. And on national/local split at the moment is round about 45% national and 55% local. So that gives an indication, so national north of the 2.8% and local, south.

Benjamin Swinburne
Morgan Stanley & Co. LLC
Q

Okay. And then one last one just for Don; on cost, the strategic sort of how you describe it, strategic development, strategic business development expenses in the quarter of $1.6 million; is that something we should expect that continue to be in the business in the back half. Does that grow from here; any color you can give us on that would be helpful.

Donald R. Shassian
Chief Financial Officer & Executive Vice President
A

Yes, Ben, first its $1.6 million that was reflected in the corporate segment, another $600,000 in the U.S segments, in total actually its $2.2 million. I would anticipate that we're going to continue to have those, we're continuing to make investments in people and another resources to continue to go after new revenue streams. We're trying to manage it very tightly, and not make any big bets here. But, I do think you should anticipate that there will be some continued spending in that regard, into the second half of the year. But I would not go much far than north of that, until we make some commitments and statements of things we're really going to be really ramping up.

Benjamin Swinburne
Morgan Stanley & Co. LLC
Q

Okay. Thank a lot, everybody.

Jeremy John Male
Chairman & Chief Executive Officer
A

Thank you, Ben.

Operator: And we'll go next to Alexia Quadrani.

Julia Yue
JPMorgan Securities LLC
Q

Hi, this is Julia Yue on for Alexia. I just have two questions. The first can you talk about some of the digital initiatives that you're working on for the MTA transit system and if you were to win the contract with the longer-term revenue and profitability upside could be of the market in particular and then trends to advertising in general as they shift more to digital?

Jeremy John Male
Chairman & Chief Executive Officer
A

We made an announcement going back to December last year, Julia, with regards to our new platform, which is based around low cost hardware, based around new software cloud-based, and cloud content delivery. And the ability for these touch screens if you like to behave more like smartphones rather than if you like a dumb termini as we go forward.

Speaking more generally, I think that digital does have the ability to keep transit revenues growing nicely. And if you look at our transit business, it's done particularly well in the first half of this year, I think, part of that is about

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the fact that it's a very urban medium, I think it has been a – we've seen a lot of support from national advertiser on our transit media, who are looking to sort of target that Millennial audience and urban audience. So yes look we feel good about our platform and we feel good about its ability to drive revenue right away across our transit business.

So relative in just the MTA and the final piece of the – of our digital program if you like is we're working hard at the moment to build a data management platform. So significantly enhanced data so that media planners will be able to make decisions about how they deploy their dollars towards that medium, in a much more equivalent way to that which they're currently thinking about how they apply dollars to the online mobile piece and that's quite exciting. We're spending and going back to the sort of strategic development costs that Don was talking about it's those sorts of areas where we're putting our focus.

Julia Yue
JPMorgan Securities LLC

Q

Okay, that's helpful. And then along those same lines given the increasingly digital transit and billboard businesses that you have in a drastically short in time or higher to change that. So I know, if you're trying to sell more advertising buys across both transit and billboard assets and if you're seeing any advertiser demand for that?

Jeremy John Male
Chairman & Chief Executive Officer

A

When you drill down into our advertiser base, there is a number of significant advertisers buying across both of our platforms and I think, as time goes forward, the way that we're going to be sort of thinking about ourselves and I believe that the outdoor medium is going to be positioning itself; it's that a screen is a screen is a screen. So depending on your audience, why wouldn't an advertiser deploy their ad on in a subway station as against above ground if you like on the digital screen. So I do think that we'll be seeing more of that, Julia, as we go forward.

Julia Yue
JPMorgan Securities LLC

Q

Okay. Thank you.

Jeremy John Male
Chairman & Chief Executive Officer

A

Thanks, Julia.

Operator: And our next question comes from Bryan Goldberg with Bank of America Merrill Lynch.

Bryan Goldberg
Bank of America Merrill Lynch

Q

Oh, thanks. I had two quick ones. First with respect to the color on the third quarter, how would you characterize your level of visibility right now on a low single digit performance playing out as we kind of move towards fall, what are the bigger swing factors we should be thinking about from here on out? And then what expectation is embedded for the international business in that comment?

Jeremy John Male
Chairman & Chief Executive Officer

A

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We've tended not to split out international when we give guidance color at this stage, Bryan. So I'll avoid that one for now, I'll just say potentially no great surprises there may be would be how I might characterize that. And then the anything you do need to bear in mind obviously is forex, you have to – because we're always talking about this instead of constant dollars. So that's something worth keeping an eye on. In the terms of sort of incremental color on Q3, we do stress that it is at a particular point in time and we don't have absolute clarity, but we've got a significant percentage of those dollars already laid down. So from that point of view, as I say, we feel comfortable with the words that we've given, but I wouldn't really want to give anything more than that right now.

Bryan Goldberg
Bank of America Merrill Lynch

Q

Okay. Fair enough. And then on the U.S., the legacy billboard lease cost being down, is this, I mean, how much of a trend is this, how much of this should we expect to continue as we look out the next couple of quarters, particularly with the billboard business, sounds like it's accelerating a little bit on the top line?

Donald R. Shassian
Chief Financial Officer & Executive Vice President

A

Well, I think, our folks have done a really nice job in renegotiating leases, our people have done a nice job in swapping out underperforming leases, we have still more to go. And I think we've seen some of the benefit of that. We have very little rev share, our billboard business in legacy and I'm not sure, I'm anticipating too much continued reduction, but if we can hold this to a flat and a minor increase, I'd be very, very happy, but our people continue to make good progress. I don't think, there is a lot of great low-hanging fruit to continue reducing those billboard costs, but they keep going after where they can and will make some sense and most importantly getting rid of the leases that are really underperforming.

Bryan Goldberg
Bank of America Merrill Lynch

Q

Great. Thank you very much.

Gregory Lundberg
Head-Investor Relations

A

All right. Thank you.

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

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

Q

Thanks. I have two. One, I think is easier one, one maybe more difficult. The easy one is, in the past, I never remember seeing as much of a dichotomy in the growth rate regarding transit versus billboard. And I was just wondering would you characterize this as sort of a – there is just one particular client that sort of came in and sort of caused the revenues to grow up, increase more than normal or do you see this really as the beginning of something that has legs in terms of reaching Millennials or whatever other dynamics are going on?

Jeremy John Male
Chairman & Chief Executive Officer

A

I think, it's fair to say that the transit growth that we're seeing has been right away across the U.S. which is obviously very positive and we had a couple of advertisers that for their own sort of business reasons that is

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switched out of billboard and into transit, but really that was very, very small. If I sort of look around and think back to some of my prior years, transit generally has been growing nicely across the world. So I think that we're probably sort of seeing some of those similar trends, but if I was looking forward, I wouldn't expect the same rate of divergence on a going forward basis, but if you do look back to the last few years, actually our transit business had been growing at a slightly higher rate than our billboard business, when we first talk to you when we're back on the IPO roadshow last March.

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

Q

Okay. And then maybe the one that's a little bit out of scope. On the leasing capacity to wireless carriers, is it fair to assume that any wireless carrier that uses your space for wireless equipment has to also get fiber backhaul to that site as well? And the only reason I ask is, I'm just trying to get a sense of if this works, how quickly could it potentially ramp?

Donald R. Shassian
Chief Financial Officer & Executive Vice President

A

Jason, it really depends on the location and what they have. I got to believe that you need to have big pipes for what they're going to do, but this is primarily getting to small cell technology. I'm going to leave that technology solution to them, but we do expect that there may be more pipes that are going to have to be deployed to these structures and obviously to the extent we can take advantage of the use of some of those pipes for the data analytics information we want to gather, it would be good for us as well.

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

Q

Okay. Thank you.

Donald R. Shassian
Chief Financial Officer & Executive Vice President

A

But your question does lead to, this is not. This is something that they take a lot of time to analyze...

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

Q

Right.

Donald R. Shassian
Chief Financial Officer & Executive Vice President

A

...their network and their propagation...

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

Q

Yes.

Donald R. Shassian
Chief Financial Officer & Executive Vice President

A

...and they continue to [indiscernible] (37:48) more sites to get to. I think we end up being a very interesting solution for them, which can be very, very helpful. Conduits do exist to just about all of our structures, we think

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that we're going to go to. So hopefully there is somewhat easier way for them to get bigger pipes there, but a big part of their process is making all that happen. You're absolutely correct.

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

Q

Okay. All right. Thank you very much.

Operator: And we'll go next to Tracy Young with Evercore ISI.

Tracy Beth Young
Evercore ISI

Q

Hi, two questions if I could. The MTA contract with the extension, are you extending that as same terms as your prior contract or as a contract before the extension? And then just as a case study, maybe it will be helpful, to the extent you can to talk about the rollout in the Atlantic Yards and sort of who pays for what as far as that plot is concerned. That would be great.

Jeremy John Male
Chairman & Chief Executive Officer

A

So the first point in terms of the MTA extension. I don't want to talk specifically, but no huge change to the way the current shape of the contract. With regards to Hudson Yards, it's a relatively small amount. In terms of who is paying or the shape of that investment and the returns I mean all I would say is that look when we deploy CapEx, we look for a return on that investments and we're confident that we're going to be able to achieve that.

Donald R. Shassian
Chief Financial Officer & Executive Vice President

A

This was actually really unique opportunity for us as they were looking to open up the station, the technology that we've been developing with our partner was really looking for a good example to be able to deploy. So, it's really a nice confluence of events and a nice coincidence to really try to take advantage of this.

Tracy Beth Young
Evercore ISI

Q

Okay. Thank you.

Operator: We'll go next to Drew Borst with Goldman Sachs.

Drew M. Borst
Goldman Sachs & Co.

Q

Thank you. Dovetailing off at one of the earlier questions about the performance of transit versus billboard, I was wondering if you guys had off hand, how your billboards performed in the quarter in the markets where you own transit and I guess so like New York and L.A., guess I was just trying to understand if there is some sort of, kind of shift going on in those markets or maybe all those markets are just very vibrant in total, but I didn't know if you had any of that data in hand?

Jeremy John Male
Chairman & Chief Executive Officer

A

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What I tend to say is just because it's kind of very much top of mind, Drew, is that we have very big transit businesses in New York and L.A. and both of those billboard markets actually are performing very well. So, I think part of that is the vibrancy just generally in those two markets, but as I said it's certainly not – it's not the case that why transit is [indiscernible] (41:07) putting like that.

Drew M. Borst
Goldman Sachs & Co.
Q

Okay. And then one other question, I was looking at the Van Wagner results and even adjusting for the kiosks business that has been [indiscernible] (41:20), looked like the growth had slowed quite a bit like it was down about 1% year-on-year in the second quarter. In the first quarter, the core business was up 10%. I was wondering what's kind of going on there?

Jeremy John Male
Chairman & Chief Executive Officer
A

I think as we said on the last quarter, frankly it's already – we're already viewed by the market as one business. What [indiscernible] (41:46) OUTFRONT on all of our assets, we traded OUTFRONT on all of those assets and clients and agencies I'm thinking I'll spend [indiscernible] (41:55) but this I mean on the OUTFRONT legacy billboard, they really think of it as one business. So frankly the VW business was more reflective about the billboard business as a whole. So what is worth right now included in the positive pacing for Q3 billboard is a positive pacing in the VW business.

Donald R. Shassian
Chief Financial Officer & Executive Vice President
A

The client drew that you alluded to in terms of the growth rate in Q2 is not indicative of what we think those boards are going to be doing in Q3 and going forward. We feel very good about what we're seeing from those assets.

Drew M. Borst
Goldman Sachs & Co.
Q

Sure. The organic numbers that you present to us, those headline numbers, are you putting into the base period year, the Van Wagner numbers and then calculating the pro forma growth or is it...

Donald R. Shassian
Chief Financial Officer & Executive Vice President
A

No, that organic revenue number excludes Van Wagner in both periods. So we've excluded significant acquisitions and disposition. So 2.8% is addressed on a legacy only. So, when we look at the forward-looking numbers that Jeremy alluded to on the low single digit; that is including Van Wagner in both periods. Historically, when we reported organic, I just wanted to clarify is just legacy, Jeremy's comments forward-looking on low single digit is Van Wagner in both periods.

Drew M. Borst
Goldman Sachs & Co.
Q

Okay. Thank you for that. I appreciate it.

Donald R. Shassian
Chief Financial Officer & Executive Vice President
A

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All right. Yep.

Operator: I'd now like to turn the call back to the company.

Jeremy John Male

Chairman & Chief Executive Officer

Thanks very much, and thank you for all of your questions today. We hope you have an enjoyable rest of summer and look forward to seeing many of you at an Investor Conference in September in New York City if not before hand. Many thanks again.

Operator: And this concludes today's call. Have a wonderful day.

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