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OUTFRONT Media, Inc. (OUT)

Morgan Stanley Technology, Media and Telecom Conference

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CORPORATE PARTICIPANTS

Donald R. Shassian
Chief Financial Officer & Executive Vice President

OTHER PARTICIPANTS

Benjamin Daniel Swinburne
Morgan Stanley & Co. LLC

MANAGEMENT DISCUSSION SECTION

Benjamin Daniel Swinburne
Morgan Stanley & Co. LLC

Okay. We're going to get started. Good morning, everybody. Please note that important disclosures, including my personal holdings disclosures and Morgan Stanley disclosures, all appear at the handout available on the registration area and on the Morgan Stanley public website.

I'm Ben Swinburne, Morgan Stanley's Media and Cable and Advertising Analyst. And I'm really happy to welcome back to the conference OUTFRONT Media. To my left, Don Shassian, EVP and CFO.

For those of you who may not be aware, OUTFRONT is one of the largest out-of-home media companies in the U.S., with international assets in Canada, Mexico, and South America. Don came to then CBS Outdoor Americas in November of 2013 and helped lead the company's IPO and REIT conversion.

Don, thanks for coming back.

Donald R. Shassian
Chief Financial Officer & Executive Vice President

Thank you, Ben. Glad to be here. Good morning.

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QUESTION AND ANSWER SECTION

Benjamin Daniel Swinburne
Morgan Stanley & Co. LLC

Q

Maybe we can start on, you guys just wrapped up 2015 reported results, was a busy year for you, guys. Maybe you can reflect back on the performance of the business and some of the strategic decisions you've made with the portfolio.

Donald R. Shassian
Chief Financial Officer & Executive Vice President

A

Thank you, and really a pleasure to be here. 2015, like 2014, was a pretty eventful year, had a lot of things going on. Announced the sale of our Latin America business, which we're hoping to close in the first half of this year; extended the MTA contract as we're waiting for that RFP to come out; entered into a transaction with Diamond Communications to help us lease our billboards for cell-type leasing; and we've launched a platform we called ON Smart Media, which is a platform for new products. All that stuff is public; the things behind the scenes that we did during the year, which are pretty amazing.

We hired – operationally, we hired new sales people; we rolled out new tools for our sales people; new training course for our sales people; new tools for operations people to make them more efficient; converted over 100 boards to digital in the U.S., about 24 internationally. Some things I'm driving – is trying to drive the P&L accountability to each one of our local GMs and really make them accountable. Had some unbelievable growth in transit, which is great. And a number of initiatives has been kicked off to really go after the OpEx and CapEx.

But there's not a lot of opportunities for cost reduction. There are some that are significant, and we've got some initiatives to go after those. So, a lot of macro items still in the press. And we had good results, I believe, pretty strong results, reflecting the business. But we've got a lot of underpinning items to really push this business forward for the next number of years.

Benjamin Daniel Swinburne
Morgan Stanley & Co. LLC

Q

I want to dive into a lot of those topics during our conversation, but maybe you can just give us a sense for how you and Jeremy and the team think about the major growth drivers of the company kind of over the longer term.

Donald R. Shassian
Chief Financial Officer & Executive Vice President

A

Well, we – one is focusing on yield, is growing yield, combination of action rate, but it's really driving yield on every one of our boards. Last year, transit was up double digit, I mean – and that was all yield, because we didn't increase any of our sites. And it's just tremendous amount of growth in transit. Billboard was not as strong as we need, and we must have, because this business is with a fixed-cost structure, that's where the operating leverage comes from.

So one is – number one, number two and number three is focusing on yield. Operational cost savings and CapEx, we're very mindful of that, very important, and smart and selective acquisitions are sort of the three things to look at operationally. Execution-wise, a lot of things around that in terms of getting the right people, the right incentives, and managing all those.

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Benjamin Daniel Swinburne
Morgan Stanley & Co. LLC

Q

Yeah.

Donald R. Shassian
Chief Financial Officer & Executive Vice President

A

Longer term, we have this ON Smart platform, which is really looking at a number of new products, looking for revenue growth in years three, four and five and out. We've launched this mobile product, OUTFRONT Mobile, which is geo-fencing product that pushes the advertisement to your mobile phone. We've rolled that out, we're getting some pretty good success on that. It's Mobile we had announced, but it's a different sales proposition for our sales people, really important.

The second item is cell leasing in terms of leasing space on the boards. The one we've probably had the most fans here, and I'm going to talk about it is new digital displays.

Benjamin Daniel Swinburne
Morgan Stanley & Co. LLC

Q

Yeah.

Donald R. Shassian
Chief Financial Officer & Executive Vice President

A

Right. And we talked about this sort of arrangement with a company called [ph] Dari (04:19) over a year ago. And my best way of explaining this one, that we really think this is a very, very large opportunity, is that if you're an [ph] established systems (04:28) around this country, you do not see digital signs underground. We just don't see it. Where it is, it's very, very thick. It's encased in something very, very expensive, and it's cost-prohibitive.

We are developing, in partnership with somebody, a digital display technology that can be deployed, great resolution, but most importantly, the content management system that is easy to deploy and can be very effective at targeting, and you really can make some very big strides that can enable, in a subway system, for digital, motion picture videos to be coming to digital displays in a place that doesn't exist today. So, advertisers will see this as it gets deployed, and it will bring more dollars into that venue which is very, very important.

And the last platform, which is really the longer term, we sell today based on location. We need to enable our customers to buy by location or to buy by audience. And so, we are building a real-time dynamic data management platform that can enable our customers to target customers that they want to go after by display, by location but based on real-time audience data. And that we really think also drives that revenue.

Benjamin Daniel Swinburne
Morgan Stanley & Co. LLC

Q

A lot of interesting technology initiatives there. Maybe just going back to the one you mentioned, I think, first, on small cell. Explain to us how that works and maybe the timing of revenue and any kind of materiality you can think about.

Donald R. Shassian
Chief Financial Officer & Executive Vice President

A

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Small cell, it's – imagine, you're a tower business. We've got structures, 25,000 structures, and we're leasing space on our structures to cellular carriers, right? So, small cell technology, they are looking for more and more locations around the country. Technology for small cells enable these antennas to be very, very small. We have an arrangement with a company called Diamond Communications to essentially, since we're not the experts in that, to be able to market our structures to fiber-based players, to the large cellular carriers, to IoTs.

So, 25,000 structures. How many can we get done? How many players could be on that? It's a pretty sizeable revenue opportunity. We need to get a couple of contracts done and announced to be able to get after. We'll have definitely revenue booked in this year. I'm not sure if it's going to be significant enough. But this is an opportunity where the technologies enabled our structures to be relevant and important, and the whole industry to be relevant and important. So, it's a good opportunity, [ph] haven't heard any dollars out there've been (06:53), but if you can do the math yourself, mind you in saying, can you get 10% of 25,000 done? Can you get three players on average on those? Price points, depend on – pricing is still being determined as you get through this.

Benjamin Daniel Swinburne
Morgan Stanley & Co. LLC

Q

Yeah.

Donald R. Shassian
Chief Financial Officer & Executive Vice President

A

Margins are clearly in excess of 50%, a little bit of margins. So, it's a nice single, double [indiscernible] (07:15), it's a homerun, but it's a nice single, double revenue add and a nice contributor to EBITDA.

Benjamin Daniel Swinburne
Morgan Stanley & Co. LLC

Q

And tell us a little bit more about ON Smart Media, what you guys are doing there, and what the size of the opportunity, how we should think about that.

Donald R. Shassian
Chief Financial Officer & Executive Vice President

A

ON Smart Media, it's really – it's an umbrella that covers all these new product initiatives. That cellular leasing is really a part of the ON Smart team. The geo-fencing, we're doing as part of the ON Smart team. The digital display, the content management is a part of the ON Smart team as is good management. This is really looking at saying, this industry, our world is changing.

Benjamin Daniel Swinburne
Morgan Stanley & Co. LLC

Q

Yeah.

Donald R. Shassian
Chief Financial Officer & Executive Vice President

A

And this industry needs to change with it, so we are making investments. We've called it out and pulled people to strategic development expenses, because we are spending real dollars on wage and non-wage to build these new product capabilities for today, tomorrow and the future, so that our industry, our business becomes much more mainstream, much more relevant, much more important.

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Advertisers today are really important to be able to look at click action, secondary action, click rates, secondary action rates and to be able to really look at data analytics to target. That's how our world is going today. We have great assets that are always are on 24/7. There's a way to target audiences to allocations with real-time data that makes us look like any other social media accounts that we can think of.

Benjamin Daniel Swinburne
Morgan Stanley & Co. LLC

Q

Yeah.

Donald R. Shassian
Chief Financial Officer & Executive Vice President

A

So, we really think it's imperative that this industry move this way. We are kind of the lead with that. We're putting some dollars behind it. It is not something that is – it's new. It's being done by others. We're trying to build it ourselves. That can make it a really valuable proposition for us going forward. More dollars to this industry, to our assets, based on targeting for national advertisers, we think, is absolutely critical.

Benjamin Daniel Swinburne
Morgan Stanley & Co. LLC

Q

When your business was part of CBS, digital boards was not a major focus for them, it was relative to some of the other bigger players in the marketplace. Maybe just here we are a number of years later, tell us about your and Jeremy's philosophy on deploying digital, and how you make sure your ROIs are maximized in that business?

Donald R. Shassian
Chief Financial Officer & Executive Vice President

A

Ben, it – CBS made calls on how to invest on digital. A part of that, I think, was the fact they thought that the structures themselves originally were very, very cost-prohibitive. The ROIs weren't right. And they want a little more slower pace, more steady pace, more rational pace. And we looked at and said we're going to analyze every single one of these conversions on its own business case. And we looked at them. We used market intelligence to what the revenue is going to be. We know what the costs are going to be. We look at what it's going to do and commoditizing, enable other static boards in the area. And we look at the underlying lease of that without terminal value. And it's going to be way north of 20% returns.

We've got a postmortem on all conversions in 2012, 2013, and 2014. And every one of those conversions has delivered returns well in excess of 20%, which have been great. It gave me some intelligence, because I was able to figure out which markets are more aggressive on [indiscernible] (10:31) versus others. So, I'm able to now figure out who do I want to bet on more, and who do I want to play the numbers a little bit, so I can get there.

But we continue to see these opportunities. We'll continue to be smart about it. We did 100 in the U.S. last year, about 24 overseas. We continue to target ballpark of 100 and being smart about it. There are certain markets where market share penetration on digital is not that robust. We're going to continue to focus in certain areas, but we think there's good opportunities. And they're all unique identifiers. Can we get the right terms? And so far, we've been getting them.

Benjamin Daniel Swinburne
Morgan Stanley & Co. LLC

Q

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We were talking with Sean Reilly on the stage a couple of days ago about the trend on cost in boards and digital. Are you guys seeing savings in the boards today are cheaper than a year ago? And is that going to be cheaper a year from now or...

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

Ben, I saw the transcript of that discussion with Sean. And the costs on converting the board from static to digital, it's still about $250,000. It's been in that zone for past several years. We don't see it coming down that much. We've got a great relationship with one vendor, [indiscernible] (11:37) who does all of our boards. And cost structures are pretty good. On the maintenance side, it appeared that he was implying that maintenance costs were coming down because of longer lives on digital. I'm not sure I fully understood that.

Benjamin Daniel Swinburne
Morgan Stanley & Co. LLC
Q

Yeah.

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

The extension of a life on digital does not have an impact on maintenance. We didn't do a lot of the early builds as you asked the question upfront.

Benjamin Daniel Swinburne
Morgan Stanley & Co. LLC
Q

Yeah.

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

We don't have a lot of boards we have to replace, but of word is, it was supposed to be up for 10 years, 15 years, and it's been there for 20 years. It's not driving lower maintenance. Maintenance is pretty clear. [indiscernible] (12:10) are steel structures and that wouldn't – maybe a difference between us. So, we're not seeing the maintenance costs come down to that.

Benjamin Daniel Swinburne
Morgan Stanley & Co. LLC
Q

Let me ask you about out-of-home's sort of position with the advertisers and thinking about competing with – in this world that you talk about, which is rapidly changing. What's your view of out-of-home's sort of reputation and position with the advertisers, and what are you guys doing, particularly, on the national side, which is a big business for you to sort of make that even more important as a media?

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

We – Since we split off from CBS, we've talked a lot about national. We've got 45% national, 55% local. It is our belief that growth in this industry is going to come from national. Local is steady Eddie. It's location-based. And the hardware store, the pharmacy, the insurance company, they need – utilizes medium on a local basis that'll happen. National, however, utilizes this medium a lot and is going to continue to utilize it, and we are seeing its use in tandem with social media is extremely strong.

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And so we're spending a lot of time – Jeremy has spent a lot of time working with the agency, trying to move the dialogue up the food chain at agencies, where we've simply been dealing with the buyers of outdoor in an agency, going up the chains of the creative folks. And people are really making decisions about how to allocate dollars. And we're seeing some really good headway with that, I think, for the whole industry.

And then this whole data management platform I mentioned earlier is really an integral part of helping them look at the value of outdoor, the targeting that we're going to be able to do for audiences to increase the pie of dollars going to out-of-home. I think it's good for the whole industry. It's not just unique to us. So, the efforts we are – the German team are putting forward and really going after up the food chain and with agencies to better understand this medium, and demonstrating and talking to them and showing them what we're doing with these investments and how those can help us better target audiences for them. They love it, they understand it, they can't wait for it, I think it's going to help the entire industry.

Benjamin Daniel Swinburne
Morgan Stanley & Co. LLC

Q

So, you're talking a lot about data management and measurement and targetability. What about on the buying side? Is automation an opportunity for the industry to help just make it easier if we're going to closer to-date basically?

Donald R. Shassian
Chief Financial Officer & Executive Vice President

A

It's buying – there's programmatic buying, automated buying, if you use that sort of term. I think there's definitely automation. We've rolled out tools to make it easier for our salespeople. We've got to continue to roll out tools to make it easier for the advertisers and the agencies themselves to buy. That is an integral part of this whole DMP that we are building. We believe once we're able to sell by other location or audience, however, you want it, they can utilize the sales force, they can utilize an automated platform and do it themselves or online. That's part of the investment we're putting into this.

Benjamin Daniel Swinburne
Morgan Stanley & Co. LLC

Q

Yeah. Let me turn to the MTA contract in New York, which won't surprise you that I would like you talk to you about that. But maybe taking the less obvious angle here, which is everyone focuses on the renewal, but assuming you guys continue as a partner with them, what might this business look like going forward? In other words, you've talked a lot about digital. You've done some interesting things in New York in sort of test cases. But would – what is that relationship and sort of the technology piece is going to look like in your vision? I realized the contract has to get redone, but give us a sense for what your expectations or our expectations might be for how that business looks over time?

Donald R. Shassian
Chief Financial Officer & Executive Vice President

A

The MTA contract is – it's a great business. We've had this contract for long years, and we've been waiting for this RFP to come out for months. And we're very anxious for it to come out. We think we are the best-positioned. We got the knowledge, best experience, we know all the assets and we've got great technology. Where this goes is – this whole ON Smart discussion we've been talking about, this display technology.

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Again, if you think about the existing business, and we've increased the revenues for that contract by more than 10% in 2015, right? That's great. Well, now, how do we increase it and double it, right? Our belief is technology is moving so you can now move these digital type of displays to a subway system, inside of a bus, train platforms, where you can all of a sudden be deploying digital so that advertisers can now, not just have a static display, they could have a digital display.

They can be showing advertisements for the debate tonight. They can be showing a trailer. Warner Brothers can do a trailer from a movie that's coming up. You've got a captive audience, whether on a platform or on a subway, that you could see something and be entranced and really engaged. And that, we believe, over time – not going to happen overnight – brings much more dollars into that. It increases revenues, increases the payments [indiscernible] (17:11), economically it's more advantageous for them.

But also, probably really important, it improves the experience of the ridership, right? The MTA, if you think about it, they've done a wonderful job, I think, over the past number of years in increasing the experience in New York City. Ridership is up. And they did it safer, more secure parking of our cars, made a whole variety of things, just making a better experience.

And what we're going to do is help them improve that experience even further, which is – that is a good goal for them, good for the entire city and whole economic engine of the whole city.

Benjamin Daniel Swinburne
Morgan Stanley & Co. LLC

Q

Maybe you can spend a little bit of time in talking about why OUTFRONT is so well-positioned to win the contract. I mean, what is the value of incumbency, I guess, is the way to think about it?

Donald R. Shassian
Chief Financial Officer & Executive Vice President

A

Experience and history and knowledge. It's a logistical challenge. Changing copy on those advertisements, on buses, is pretty easy, because it's done on a yard at night when nothing is in operation. Subways is done when they're in operation, right. So you've got to be able to do things without disrupting the ridership. And you've got to be able to meet some obligations. And so, it's a logistical challenge. We've been doing it for years, and we know how to do it.

And we've got a sales force who know how to sell. And they can bring the sales force efforts to this in various showings. It's history, it's experience, it's demonstrated proof. And it's not just what have you done for me lately. We've done a lot for them lately this past year. And we're investing in the future to be able to take this to the next level. So, it's a combination of things.

The contract is going to have a lot of pieces. We haven't seen the RFP, so anything I say right now is conjecture. But RFPs come out, and they got a whole bunch of criteria that they evaluate. It's like a point system. Economics is certainly going to be a piece of this thing. Balance sheet component to stand behind a guaranteed payment's going to be important, right, history and experience and references. But the plan for deploying the future and to be able to grow that revenue and improve that experience will be an important part of this thing.

And we have been spending a lot of time not just thinking, but doing. We've deployed this new digital display technology in Hudson Yards, new station there by Jacob Javits. It's pretty neat. It's a first generation that – you can see the digital, you can see a play on it. And it gives an advertiser real-time ability to change copy very quickly.

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They could dominate all the stations in New York City. If you think about all this digital space [indiscernible] (19:37) city, an advertiser could dominate everywhere, every Tuesday and Thursday morning, right?

Benjamin Daniel Swinburne
Morgan Stanley & Co. LLC

Q

Right.

Donald R. Shassian
Chief Financial Officer & Executive Vice President

A

Or they could do whatever – afternoon or anything. And they can – the content management really – can really give an advertiser a different medium and different way to target.

Benjamin Daniel Swinburne
Morgan Stanley & Co. LLC

Q

So there may be additional CapEx associated with this win, but you negotiated that into the revenue and the share and all that.

Donald R. Shassian
Chief Financial Officer & Executive Vice President

A

That's as I said the RFP is, that's the play. It's our CapEx. If we spend the dollars, then it changes [indiscernible] (20:04), or do they want to fund it, which case we've done differently. How do you to post the win-win out of that? The end goal is to be able to improve that ridership, improve the whole experience, grow the revenues for them and for us.

Benjamin Daniel Swinburne
Morgan Stanley & Co. LLC

Q

Maybe you can keep subway fares from going up every six months.

Donald R. Shassian
Chief Financial Officer & Executive Vice President

A

Got it. On the list.

Benjamin Daniel Swinburne
Morgan Stanley & Co. LLC

Q

Good luck on the RFP. Let me ask you about M&A, both acquisitions, divestitures. You talked about smart and selective, maybe – where do you think the company goes from here? Do you have the appetite to do more? Any particular regions you're looking at? And then you're selling in Latin America, any comment on whether the Canadian business is sort of – you view that as an asset you might want to pair?

Donald R. Shassian
Chief Financial Officer & Executive Vice President

A

I'll start with the last, Ben. We do like Canada. We think it's a core asset. From an M&A perspective, our focus is U.S. where rate, the returns to our shareholders and the like, it's U.S.-focused. Never saying never that we would not buy something in Canada, but it is not number one in the priority list. Our focus is in U.S. It is billboard-fixed structure readable assets. We have a qualitative and quantitative criteria. Literally, there's a sheet of paper, and if things dried down, it's everything up against. It's got a whole variety of items from, are they readable, is it marked

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– is it top 25, is it good assets, what kind of shape are they in, is it accretive to AFFO out of the gate, what's the regulatory environment there, can we improve the revenue or not, can we get expense savings or not?

And those criteria, as every company looks at an asset to buy, people evaluate an asset differently. And that's why you have horse racing, right? People look at an asset to buy and some people value it differently, because they can do more for it or get more from it than others can. We are – I think we look at everything that's out there. And we're thoughtful about where we want to spend our dollars. That criteria, by itself, eliminates certain assets pretty quickly. And that's important to us, so, therefore, we're focused on things we want to focus on. The Reynolds acquisition in Dallas, top 25, it meets all our criteria, and we continue to look at others.

So, we don't feel constrained by our balance sheet. We do feel that we need to be cautious about that. We need to be thoughtful. We do want to lower that leverage, but we are continuing to look at acquisitions that make sense, and we'll do things and do things if it's a must-have asset.

Benjamin Daniel Swinburne
Morgan Stanley & Co. LLC

Q

Yeah.

Donald R. Shassian
Chief Financial Officer & Executive Vice President

A

If it's a nice-to-have, no. There was something we bid on a number of months ago. We didn't think it was that important to us. We've put in a value that was – we didn't think it was going to get anywhere. And two months later, we get a phone call, and they come back to us to talk about it, but we're still saying, you know what, it's a nice-to-have. It still has something – putting x dollars into that nice-to-have, I'd rather have those dollars into a must-have...

Benjamin Daniel Swinburne
Morgan Stanley & Co. LLC

Q

Yeah.

Donald R. Shassian
Chief Financial Officer & Executive Vice President

A

... maybe coming out in the next 6 months, 12 months or whatever. So, I don't feel constrained. We don't feel constrained. We're trying to be thoughtful. But the right place is the right place. It's got to be meet all those criteria for us.

Benjamin Daniel Swinburne
Morgan Stanley & Co. LLC

Q

Let me just follow up and tie that to the balance sheet. As you mentioned, you don't feel constrained. So, a leverage, I think, end of the year around 5 times. You've got a 3.5 times to 4 times target, but it sounds like if you see something really compelling, you could use your room to go up if it was out there. Is there a ny upper range we should be thinking about in the range of possibility or don't want to go there?

Donald R. Shassian
Chief Financial Officer & Executive Vice President

A

Well, net leverage, end of the year is 4.8 times. We do want to get it 3.5 times to 4 times. We believe that's the right zone to be in for this type of the business. Asset transactions come up that are must-have. I will take the

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other job a little bit, right? And actually, there's an upper bound, and I don't want to talk about that, I really don't want to go higher than we are. But assets come up in this industry very rarely. And if they're must-haves, we're going to find a way to do it.

Personally, I'm hoping that the overhang on our stock with the MTA lifts when we win it, right? And you get a better stock price as a result. We thought about doing ATMs, right, which REITs in this country do all the time, that at the right price level, they do some ATMs. That's a means of funding things as well, and they will help get leverage down.

So, there's a number of different pieces to look at and be smart about. But we don't want to be wild. We don't want to be reckless with our balance sheet whatsoever. That's not how I like to do things and we'll be prudent about it. So, thoughtful – we challenge ourselves on these things.

Benjamin Daniel Swinburne
Morgan Stanley & Co. LLC
Q

Yeah. Let me ask you about the – in the minutes we have left, make sure I get the guidance you laid out for 2016 on AFFO. I think it implies revenue growth which you and Jeremy talked about kind of low-single-digit organic in the first quarter will accelerate through the year. What are the assumptions, and what are you seeing that sort of built in and gives you confidence that, that's the right way to think about 2016 today?

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

Well, the low-single digits in Q1, as I've mentioned on the earnings call as bluntly as I could, was last year's Q1, it was a heck of a comp. The MBL's game was in New York City. So, the New York results in Q1 of 2015 were really, really strong. That came at the garden and at Barclays, huge advertising in transit system. We've estimated about $5 million, a truly incremental revenue. Incremental came in through that. So, you take that out that lowers us pretty much

Benjamin Daniel Swinburne
Morgan Stanley & Co. LLC
Q

Yeah. You didn't forget we have professional basketball...

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

It's amazing. So, to get to those – the mid- and high-single-digit AFFO growth, you're actually right, revenue is to accelerate. We feel very good about what we've been doing in the billboard side and on transit. We've got about 60% of last year's revenue book to date, obviously a ton more in first quarter and then...

Benjamin Daniel Swinburne
Morgan Stanley & Co. LLC
Q

Right.

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

...it trails. So you see – but we're seeing good improvements on the billboard side, and it's not just timing issues. We analyze now our pacings on a weekly basis, looking at rate volumes, so analyzing that the increase or decrease

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in the revenue on a market, on a same board basis. Is it coming from occupancy, which can typically be timing, or is it coming from rate, and we're driving rate.

We're trying to drive the rate value on these boards which was not a period of emphasis in this business or for th is company for many, many years. So, we forget about progress. That's where we think we're going to drive this business, and it does require greater revenue growth in first quarter, which is hampered by last year's good comp.

Benjamin Daniel Swinburne
Morgan Stanley & Co. LLC

Q

Let me ask you one more, and then I'll see if the audience has any questions. Please wait for the microphone, so it gets on the webcast. But last year, one of the big discussions we were having all year was transit versus billboard growth and its impact on margins and free cash flow. Maybe just talk about that, and what's your base case for 2016 between those two revenue pies.

Donald R. Shassian
Chief Financial Officer & Executive Vice President

A

Billboard OIBDA growth is you can get OIBDA margins that could be about 40%. Transit macro OIBDA margins are about 20%, right? So, we have double-digit growth in transit. It was – they did a wonderful job, not just in New York City but all of our transit contracts across the country, and that's great. I'm glad we have those assets, because advertisers want to use that medium. We've got it. That's great.

But our ability to grow value in this business is growing billboard. Those with fixed cost structure we wanted to drive. So, we believe that the growth rates, those are going to come much – a lot closer in 2016. Transit, double-digit, we don't see that happening again. I think that was a knockout year, and it's [indiscernible] (27:49) huge comp now to be able to meet. So, I think the growth rate of transit's going to come way down and be much more comparable to a growth that you're going to see on billboard. And our sales teams are doing a nice job so far, on both of those.

Benjamin Daniel Swinburne
Morgan Stanley & Co. LLC

Q

Okay. We can probably squeeze one in if there is one in the audience. Any questions for Don? Yeah, front row. Can you – thank you.

Q

Maybe you could just talk about the press release you guys put out today regarding xAd and kind of how you think that, that kind of location-based target marketing is going to help you guys drive both either measurement or higher yields through being able to push out a more targeted audience for advertisers?

Donald R. Shassian
Chief Financial Officer & Executive Vice President

A

Yeah. This is a product – it's one of the four products on the ON Smart Media platform, it's geo-fencing. So, as your advertiser buys a board and they geo-fence that board, anyone who goes through that geo-fence, if you would, with your cell phone, and you got an app open, we're pushing the ad to your app and we open the app up, you'll see the advertiser. What you saw on the board, you'll see on your phone. And it's an add-on percentage to billboard. So, we sell the billboard for x dollars, had on about 15%. We've been selling these for now several

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months. We've gotten great leverage on this. Our sales people are trained on it. We've got every sales person, every local market is going to target and we're seeing some really good success on this happening.

The xAd that we've been using, it's been location-only. What xAd's coming out, and what we're doing – the press release is about was a beta, where they're going to have some more audience data. So, there's going to be more targeting to go with that.

So, that is, if you think about that discussion of targeting we're having earlier, it's very similar to the data management platform that we're building en masse with the rest of the business. So, they're doing beta that's both location and audience-based. We want to play with them. And we see how that's going to phase and are meshing quite well with what we're doing in a broader business on a data management audience targeting basis. So, we're very excited about it.

Benjamin Daniel Swinburne
Morgan Stanley & Co. LLC

Great. A lot of good stuff going on, Don. Thanks for coming.

Donald R. Shassian
Chief Financial Officer & Executive Vice President

Thanks.

Benjamin Daniel Swinburne
Morgan Stanley & Co. LLC

Thanks, everybody.

Donald R. Shassian
Chief Financial Officer & Executive Vice President

Thank you.

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