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OUTFRONT Media, Inc. (OUT)

Q2 2016 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the OUTFRONT Media Second Quarter 2016 Earnings Conference Call.

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

Gregory Lundberg
Senior Vice President-Investor Relations

Good afternoon, everyone. Thanks for joining our 2016 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, we'll open up the lines up for question-and-answer session. A slide presentation for today's call can be found on the Investor Relations page of our website along with the earnings release and an audio webcast and replay of this call.

The 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 and in our SEC filings, including our 2015 Form 10-K.

We will refer to certain non-GAAP financial measures on this call. Any references to OIBDA made today will be on an adjusted basis and reconciliations of OIBDA and other non-GAAP financial measures are in the appendix of the slide presentation, the earnings release and on our website, outfrontmedia.com.

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

Jeremy John Male
Chairman & Chief Executive Officer

Thanks, Greg; good afternoon, everyone. We're happy to have you on today's call. We are now at the midpoint of the year, which seems like a good time to look at the fundamentals of our business and where we are in terms of execution in terms of our strategic goals. These goals have been consistent since our IPO and we did well against them this quarter.

Yield management. Our Billboard and Transit yields were up this quarter. National Advertising, up this quarter and improved from Q1. Cost optimization – good expense control while investing in sales and our future digital capabilities. Digital deployment on track with billboards and small screens. And asset mix – we sold Latin America and paid down some debt.

So turning to slide four, I'm pleased to report that we delivered total organic revenue growth of 4.3%, in line with revenue expectations that we gave you back in May. Reported growth in adjusted OIBDA was 3.3%, which was from somewhat further improved when looking at our current business without Latin America in both periods, as we sold this April 1.

AFFO grew a strong 13.4% this quarter, and year-to-date, our AFFO is up 7.5%, which keeps us right on track to deliver our target this year providing good support for our dividend. Outside of a disappointing quarter in Canada, we saw broad strength across our portfolio of US assets. We grew our Billboard revenues solidly during the quarter, organic Billboard revenue growth in the US improved 4.3% year-over-year.

A key factor was an increase in our billboard yields with, both static and digital seeing growth. Importantly on the static side, which is the majority of our business, we saw yield increases across the country. The advertising market is clearly valuing the effectiveness of out-of-home and more importantly OUTFRONT's highly-desirable locations.

Transit and Other delivered strong 6.7% organic growth, up from 2.6% last quarter. And more impressively, of the much higher base achieved last year when our entire Transit board business grew by 12.4%. This growth was across the US, not linked to any particular market, and certainly highlights the attractiveness of these assets to advertisers to reach the urban millennial audience.

We've also grown in other areas of our business. You may have seen a few press releases we put out this year for our Sports Marketing business; it is growing very well with attractive economics. It's another example of advertising dollars in the market flowing to our assets for the strong engagement we offer between consumers and brands.

So, that gives a bit of perspective on the quarter. The fundamentals of our core business have been solid through mid-year and our Board has declared the third quarter 2016 dividend of $0.34 a share, payable on September 30.

I'll give you more detail on our outlook for the third quarter later on this call, but I'll now turn over to Don for a more in-depth review of our financial results.

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Donald R. Shassian

Chief Financial Officer & Executive Vice President

Thank you, Jeremy, and afternoon everyone. Before we go into the results of the quarter, I'd like to spend a minute discussing a change in our segment reporting. In the past, we had presented details for two reporting segments: United States and International. International included our advertising businesses in Canada and Latin America. In light of the changes to our portfolio resulting from the sale of our Latin America business on April 1, 2016 and recent acquisitions. Effective April 1, 2016, we changed the segments that we use to review operating results and make decisions. We now have one public reporting segment: US Media, which contains our US Billboard and US Transit businesses in one segment, as it always has. But we have moved Sports Marketing and any other small business lines into Other, along with our Canadian international operations.

Our historical financial information by reportable segment has been recast to reflect the changes in segment reporting, with no impact obviously to previously reported consolidated financial results. Historical operating results for advertising business in Latin America are included in Other.

Please now turn to slide six, which shows a summary of the year-over-year performance of some of our key financial metrics for the quarter. As I mentioned, we closed the sale of our Latin America business on April 1, 2016. Therefore, Latin America is not reflected in our Q2 2016 reported results. But, it is included in 2015 and the six-month results for 2016. As you can see in the table, we are providing some of the key financial items relating specifically to Latin America to help your historical understanding and analysis.

On a reported basis, revenues were flat due primarily to the sale of Latin America. Organic revenues, which adjust for the April 1 divestiture of Latin America, among other items, grew 4.3%. Adjusted OIBDA grew 3.3% even with the Latin America headwind and you can see that this growth rate is higher if you factor in the impact of Latin America in both periods.

This expansion helped drive 13.0% growth in AFFO during the quarter and 7.5% year-to-date. So it's a solid quarter that highlights execution on many fronts, but we still see room for continued improvement.

Please turn to slide seven, we'll begin our revenues and discuss revenues for the quarter. Our total revenue growth was 0.2% on a reported basis and 4.3% on an organic basis. Leading this performance was our US Media business, which posted 4.9% organic growth. Importantly, the billboard organic growth rate in the US improved once again and was 4.3% for the quarter. This is the fourth straight quarter of improvement and the performance is a clear indication that we're taking the right steps.

Transit in US posted 6.7% organic growth in the quarter, a nice acceleration from the growth rate in Q1. This performance was broad based with good results in New York, Los Angeles, Atlanta, San Francisco and across our shelter and bike share businesses. In Other, organic revenues fell 3% largely due to lower performance in Canada, where we experienced some national softness. This was offset partially by growth in our Sports Marketing business.

Please turn to slide eight for an overview of expenses this quarter. We've altered our presentation of this expense view somewhat because Latin America is in our reported historical financials, but it's not in Q2 2016. Given the very different nature of the business in Latin America, a year-over-year comparison of our second quarter reporting would not have been meaningful.

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To help you understand what is happening in expenses, we did two things in this chart. First, we show you total Latin America expenses for last year's second quarter. Secondly, we break down the operating and SG&A pieces for the current quarter, which is a better indicator of our expense mix going forward.

Additionally, factoring in the sale of Latin America, we saw the combination of billboard lease expense and transit franchise expense improve slightly as a percentage of total revenues from Q2 2015 to Q2 2016. Similarly, we saw improvement in the level of our posting, maintenance and other expenses over the same period. These were offset, however, by increases in SG&A expenses.

Looking at SG&A, the increase was caused by a proactive increase in sales head count and other compensation-related expenses and is also due to higher professional fees that are related to our strategic business development activities.

You can see how our Q2 expenses impacted revenue flow through to adjusted OIBDA on slide nine. As we gave you the revenue expense charts, we have provided historical adjusted OIBDA for Latin America. Our adjusted OIBDA margin for Q2 2016 was 31.9%, compared to a reported margin of 31% in Q2 2015. This margin expansion of approximately 100 basis points was principally due to Latin America, which was a lower margin business, not being a part of Q2 2016 results.

Turning to slide 10, capital expenditures were $15.6 million during the quarter or 4% of total revenues. For the quarter, growth spending was 2.9% of total revenues and maintenance was 1.1%. We still expect 2016 capital expenditures to be between $65 million and $70 million, including $25 million to $30 million of maintenance.

In terms of growth investments during the quarter, we completed 11 digital conversions in US and one in Canada. Year-to-date, this brings our total to 52 new builds in the US and two in Canada, which is broadly in line with last year and our objective of around 100 new digital boards per year. We also continue to invest the new enhanced lighting fixtures for static boards, which makes the boards more marketable to new advertisers through significantly enhanced visual impact and also helps lower our electricity cost. Currently, we have upgraded approximately 10% of our lighting with LED fixtures and plan to have nearly 20% upgraded by year end, with the balance completed over the next couple of years.

Please turn now slide 11 for a look at AFFO. We had good growth of 13.4% during the quarter and 7.5% for the six months ended June 30. And looking at the key components of this change for the quarter, adjusted OIBDA was up $3.9 million, maintenance CapEx was down $2.3 million, current taxes were down $1.2 million, interest expense net of deferred financing cost was down $600,000, cash paid for lease acquisition costs was up $500,000, and Latin America's AFFO loss of $400,000 in Q2 2015 was no longer a factor.

For the remainder of the year, we expect that our revenue initiatives, combined with expense control and our disciplined investment approach, can continue to drive AFFO improvement and we are maintaining our full-year 2016 AFFO outlook of growth in the mid-to-high single-digit range.

Slide 12 shows where we stand on a trailing 12-month basis with AFFO of $276 million and free cash flow of $262 million. Both of these metrics provide good coverage of trailing 12-month dividends of $189 million. As you can see in this chart, there is a $73 million difference between the free cash flow we've generated and the dividend that we've paid to shareholders.

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We have used residual free cash flow to make $40 million in aggregate discretionary payments on our term loan this quarter. Our net leverage ratio as you can see on slide 13 is now 4.8 times, down from 5.0 times at the end of Q1. This was achieved through higher cash, lower debt and expanded OIBDA.

Our liquidity position was $455 million in the quarter, including $51 million of cash and $394 million of availability on our revolving credit facility. We remain focused on reducing our leverage to 3.5 times to 4.0 times through exactly what we've been demonstrating this year, growing OIBDA and the payment of debt through free cash flow. This target range has consistently been our goal and is at level that we feel would give us both financial and operational flexibility, while supporting an attractive dividend level for our shareholders.

Let me now turn to back over to Jeremy.

Jeremy John Male

Chairman & Chief Executive Officer

Thank you, Don. So looking forward on slide 15, at this point in time, we expect that third quarter revenue growth will be in the low-single digit range with broadly similar growth rates for our billboard and transit operations. This outlook only represents our view at this point in time and it's on a constant dollar basis for our international operations in Canada. It was positive to note in Q2 that our local was strong and national, after a flattish Q1, returned to growth. National obviously includes many established brands that have been the growth driver for this industry, but it's also great to see startups using out-of-home to establish their brand identity.

Out-of-home remains today's preeminent branding medium. For example, we've seen extensive use of out-of-home by high-growth brands like Snapchat and a great current example is Lyft. In a very short period of time, Lyft's ubiquitous pink logo and mustache have become immediately recognizable across the US.

Lyft has been the strong partner of OUTFRONT Media and has run simultaneous campaigns across our top US markets, utilizing the breadth of our assets from billboards to spectaculars to trains, subways and buses.

Kantar Media data shows that Lyft has put over half of its marketing spend into out-of-home since the beginning of 2015, which is interestingly greater than its allocation to online display. This is because our assets earn consumers' attention in specific locations and point them to Lyft service driving action and building brands. Lyft's campaign also highlights why we remain strategically focused on assets in the top DMAs, where urbanization and fragmentation and low consumption of other media are precisely the factors that bring an advertiser like Lyft together with OUTFRONT Media.

In closing, I think you'll agree that our Q2 results have us in a good position at the midyear. The fundamentals in Billboard are solid and we generated growth in Transit across our portfolio. While we push for cost optimization, but also continuing to invest in our business to position it for the future, particularly in terms of data and analytics. We believe these actions collectively have us on track to deliver increased value for our shareholders.

Finally, one other item I'll mention today is the New York City transit renewal. As I think most of you know, we submitted a response to the MTA's request for proposals on May 18 this year and we expect them to make a decision this coming fourth quarter. As with any such municipal process, there are many steps between the commencement of the process and conclusion, and for competitive reasons we will not be going into further detail on this call or in the Q&A.

So with that said – with that, operator, please can we open the lines for questions.

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QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question will come from Alexia Quadrani with JPMorgan.

Alexia S. Quadrani
JPMorgan Securities LLC

Q

Thank you. In light of the very impressive growth that we saw in this quarter, particularly in the Billboard business, in the higher yields and I guess in light of what we heard from CCO earlier today, I guess how should we think about the strength in the US Billboard business and the outlook for the rest of the year? And I guess, as sort of follow- on, I guess how much of the improvement in the results are really a result of the internal efforts you have been making versus sort of general industry strength?

Jeremy John Male
Chairman & Chief Executive Officer

A

Thanks, Alexia. I think firstly, maybe just to sort of – obviously CCO reported earlier today. I think it's very important that we don't sort of draw a line between exactly what we're saying – they obviously include South America in that business; they're in different segments of the market. So looking at our own business, I think the market has obviously been positive in Q2. I do think that if we look at some of the regions where we made some proactive change in around about this time last year, for the most part, all of those regions have come back well.

When we look at the sort of relativity between Q2 and Q3, yes, this time – on our last call, we said low-single to mid, now we're saying low single digits. I certainly don't think that there's a massive shift as we look forward for the balance of the year. I don't want to make comments obviously on Q4, but what I can say is that, we have over 90% of the revenues that we achieved last year, they're already on books for this year.

We had all of our regional managers up for the last couple of days, so spent a lot of time talking to them, and they feel pretty positive as we look forward. But, there's no doubt, you do get swings between quarters and Q3 won't show the same level of growth as we saw in Q2.

Alexia S. Quadrani
JPMorgan Securities LLC

Q

And then in terms of the sort of the internal efforts versus sort of industry strength?

Jeremy John Male
Chairman & Chief Executive Officer

A

I mean it's a little bit hard to say, the industry hasn't reported yet. So it's hard to comment for the industry as a whole, it is the same, and I do think that out-of-home generally I'd say it does seem to be in good health. That said, I'm certainly pleased with the performance in those markets that we've been focusing on over the last 12 months. And we're also pleased today on the strength of what we can see in our business of reaffirming our AFFO guidance for the year.

Donald R. Shassian
Chief Financial Officer & Executive Vice President

A

If I may just add, our sales, our marketing, our operations, our real estate, there's a lot of things that we have underway to continue to improve this business. And we certainly believe that we're gaining traction on a lot of

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these initiatives and it is starting to show up in our results, which is great. So, we feel pretty good about all the things we're doing, but we have more room to continue to improve.

Alexia S. Quadrani
JPMorgan Securities LLC

Q

All right, well, thank you and congratulations on great results.

Jeremy John Male
Chairman & Chief Executive Officer

A

Thank you.

Donald R. Shassian
Chief Financial Officer & Executive Vice President

A

Thank you, Alexia.

Operator: And our next question is from Ben Swinburne with Morgan Stanley.

Benjamin Daniel Swinburne
Morgan Stanley & Co. LLC

Q

Thank you. Good afternoon. Jeremy, when you look at the back half, and you've mentioned before you don't expect the same kind of growth in the third quarter versus the second, are you seeing any bigger deceleration in local versus national, or any regional or vertical highlights you'd call out? We've certainly seen a little bit of a deceleration across a lot of ad platforms through the back half. I'm just curious if you could add any color to what you're seeing.

And then, Don, how should we think about the way you're thinking about the M&A landscape? I don't know if you could comment at least qualitatively on the pipeline and also how you think about OUTFRONT's capacity and interest in doing accretive M&A, which you've done in the past with a lot of success. Just maybe you can help put into context what the opportunity set looks like and how you're thinking about it?

Jeremy John Male
Chairman & Chief Executive Officer

A

Thanks, Ben. Yeah, just on that first point, I think it's fair to say that in our local business, the highs and lows tend to be smoother as compared to our national business that tends to bounce around a bit, because you can have significant lumps of money coming in and out. So, I think where we're sat right now, it's likely that our national business may not be quite as strong in Q3. But I think it's important to say that, it's early days here. We've still got a lot of business that we hope to write.

Benjamin Daniel Swinburne
Morgan Stanley & Co. LLC

Q

Understand.

Donald R. Shassian
Chief Financial Officer & Executive Vice President

A

And Ben, on the M&A side, I don't think it's a change from where we've been for the past several quarters, smart and selective I think has been the phrase we've used. We continue to look at things and we'll be opportunistic

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where it make sense, where it meets our qualitative and quantitative criteria, but we're not looking to do M&A for the sake of M&A.

Balance sheet, we want to continue to lower the debt level and we want to continue to lower the leverage, give ourselves more flexibility as opportunities come up. But, we don't think it constraints us today. But, in all honesty, we haven't seen anything of size to date that we want to lean into. But, we continue to look and we'll be smart and selective.

Benjamin Daniel Swinburne
Morgan Stanley & Co. LLC

Q

Thank you both.

Operator: [Operator Instructions] And next from Wells Fargo, we'll hear from Marci Ryvicker.

Marci L. Ryvicker
Wells Fargo Securities LLC

Q

Thanks. Just more color on the second quarter. Just want to confirm there was probably no political in there and I just wanted to know how some of your new initiatives are impacting revenue, if at all, such as small cell?

Donald R. Shassian
Chief Financial Officer & Executive Vice President

A

Political is almost de minimis. We do not have a lot of political advertising in the quarter.

Jeremy John Male
Chairman & Chief Executive Officer

A

I think was like 0.0%, 0.1%. When we look at the new initiatives, for example, on small cell, what I can tell you is that we are making some good progress in Small Cell. It's fair to say, right now, that the income that's hitting our revenue numbers is somewhat de minimis. But, we're working with multiple tenants on master license agreements with both the big national wireless carriers and cable WiFi tenants.

These are complex documents. We have made some very, very good progress and we would expect that over the next few weeks we will be giving a little bit of further color in terms of who those MLAs or master license agreements are with. And we continue to believe that this will be an interesting revenue stream for owners of out-of-home assets here in the US.

Marci L. Ryvicker
Wells Fargo Securities LLC

Q

And along the lines of Ben's questions, are you seeing any change in ad category from Q2 to Q3, for example, has auto weakened at all?

Jeremy John Male
Chairman & Chief Executive Officer

A

I mean just talking of maybe just sort of talk about categories. We're always a little bit reticent as we've said before, Marci, to think about categories in terms of a quarter, because you can get one-offs that really sort of skew. And I certainly wouldn't want to be talking about categories there for Q3, frankly, before we finish the quarter because we've still got a little way to go there.

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When we look at Q2 and just looking at it on a quarterly basis, I'd say – which I always think should carry a bit of a health warning but, in terms of dollars, up, food and beverage was strong for us in Q2, also was strong for us in Q2 and entertainment. And on the down three, those were our top-three categories by dollar change and thinking about our bottom three categories by dollar change, they were retail, TV and education in the quarter.

Marci L. Ryvicker
Wells Fargo Securities LLC

Q

Okay.

Donald R. Shassian
Chief Financial Officer & Executive Vice President

A

Actually not only for the quarter, same three categories was up and down for the six months. It's also the three-month, six-month period as well.

Marci L. Ryvicker
Wells Fargo Securities LLC

Q

And then the last question is, is the gating factor of a dividend increase really just getting through the MTA contract? And figure out what comes up with that?

Jeremy John Male
Chairman & Chief Executive Officer

A

Marci, I'm not sure I would say that's a getting factor. We've made a decision – we made a recommendation to the Board at the beginning of the year to keep it flat based on where the stock price was, not being rewarded for that. And I think obviously we talk to the Board at every quarter for continuing dividend decisions. And I think right now, we want them to keep it flat and continue the processes of investing in the business in digital conversions and various growth initiatives and debt reduction.

And it still is a primary thesis for us is to grow this business, its revenue, the OIBDA, the cash flows and to grow that dividend. Hopefully, we will get to that point. I'm not sure I'd say whether we'd be making that recommendation next quarter or one after, but it's certainly on an annual basis something that we want to certainly look at and that certainly is our goal.

Marci L. Ryvicker
Wells Fargo Securities LLC

Q

All right. Thank you so much.

Operator: Our next question comes from James Dix with Wedbush Securities.

James G. Dix
Wedbush Securities, Inc.

Q

Good afternoon, gentlemen. Two questions, over time, would you expect the organic growth of transit advertising to be more or less variable than that of your billboard plans? Certainly over the past year, especially with the huge acceleration you saw in transit, I mean that would be one conclusion you could draw. But, I was just curious based on your longer-term perspective on the two asset classes, how you see the volatility of their growth?

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And then secondly, just on digital display conversions, is there any geographic skew which you would call out over the next year or so, in terms of markets where you would expect to do more or less either for regulatory reasons or just reasons based on the recommendations you've had from your market managers? Any negative or positive outliers you might call out there in terms of the upside in terms of adding digital displays. Thanks.

Jeremy John Male
Chairman & Chief Executive Officer
A

Thanks, James. So just thinking about the organic growth in transit, I mean one feature of transit and particularly our transit business is that it is really focused on the top urban centers. And I think a cities continue to grow, I think that will be a driver for transit businesses. In general, passenger ridership continues to grow. So therefore, as eyeballs increase, we can get better rates.

And I think in the transit business in particular and we've certainly seen it, it's not a category that we're in, but if we look at other transit hubs like airport, I think that the propensity to digitize in these environments will also be further growth drivers.

So, I think that transit could increase at a higher rate than the overall out-of-home business, if you like, as we look forward. In terms of sort of digital conversions, yes, I mean there is always the limiting factor in terms of zoning. There are places where quite simply we're not able to build. There are other areas where we choose not to build because of – the sort of what we believe to be the revenue, likely revenue demands over the coming years within a particular market.

And as we look forward to the balance of the year, I can't really call out any particular change in terms of where we're going to be building out. And also, there is a mildly sort of competitive aspect to that as well, James, so probably not something we'd particularly want to talk about.

James G. Dix
Wedbush Securities, Inc.
Q

Great. Just one follow-up on the transit versus the billboards. So, just in terms of the volatility kind of month-to-month of the growth, I mean, would you expect there to be more variability for transit? I mean, is it bought on a shorter basis sometimes? My sense is that the mix of local/national is not dramatically different, so that wouldn't be a driver. But, it sounds like you think it could grow faster. I'm just wondering whether you think there's going to be any more variability to the growth.

Jeremy John Male
Chairman & Chief Executive Officer
A

Yes. And it is slightly more disposed to national. It's certainly – it's more – it's less broadly based than our billboard business in terms of the markets that we operate in. And to that extent, yes, the numbers on a monthly basis do tend to bounce around a bit more, James.

James G. Dix
Wedbush Securities, Inc.
Q

Thanks very much.

Operator: And our next question is from Jason Bazinet with Citibank.

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

Q

Thanks so much. I was sort of intrigued by slide 12 in your deck that showed this $73 million gap between free cash flow and the dividend. It seems like you guys have built up quite a significant cushion relative to where you were at the year end of 2015 where it seemed like there was more risk of a dividend cut if you lost the transit contract.

So I just wanted to confirm. I mean, that seems like very big piece of good news that you didn't highlight. And I guess the question embedded in that is, is there anything that we know of a priori that would sort of cause the year-over-year free cash flow numbers to diminish as we move through the back half of 2016? Thanks.

Donald R. Shassian
Chief Financial Officer & Executive Vice President

A

Thank you for the question. You do see a higher delta. Part of that higher delta is due to the timing of some payments. The MTA contract in 2015, we paid a very large sum for the full year upfront in January. With this year, as the bid is now out, we do not have that magnitude of upfront payment. So, that flows through that cash flow statement and gives a little bit of an improvement to this, because of that – we didn't have that huge payment upfront. Notwithstanding that statement, it is a good balance and we do think it gives us very good coverage for our dividend.

And obviously, we're going to be using that for paying down our debt this year. So I think it's a good observation; I appreciate it. But the improvement part of it is that timing of that payment changed with the MTA.

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

Q

Understood. Thank you very much.

Operator: Next, we'll hear from Tracy Young with Evercore ISI.

Tracy Young
Evercore ISI

Q

Yeah, hi, two questions today. So the first question, could you just give us Billboard yield performance in 2Q?

Donald R. Shassian
Chief Financial Officer & Executive Vice President

A

Sorry Tracy, Billboard what?

Tracy Young
Evercore ISI

Q

Yield in 2Q or just say…

Donald R. Shassian
Chief Financial Officer & Executive Vice President

A

We have never given out the percentages. I'll tell you, it was up nicely for the quarter.

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Tracy Young
Evercore ISI

Q

Okay, thank you. And since you're not talking more about the Sports Marketing business and we have to model that out, could you spend a moment talking about that, please?

Donald R. Shassian
Chief Financial Officer & Executive Vice President

A

Sports Marketing business is licensed sponsorships for many schools from LSU, University of Virginia and a whole slew down the line that are multiyear contracts that usually are about 10-year contracts or 10-year plus. They have a revenue share component to them. And we spend a lot of time advertising for them as a part of their athletic department, marketing their rights and sponsorships.

Solid business, very steady. As those sports franchises grow in exposure and our facilities grow as they put more and more assets in and around their facilities, that also helps grow the business. But, it's not just advertising on signs, it is selling rights as well. The margins for that business, it looks a lot like Transit in terms of the nature of it. You're giving a very sizable percentage to the school, so therefore it really feels and looks a lot like Transit.

Tracy Young
Evercore ISI

Q

Okay. Thank you very much.

Operator: [Operator Instructions] And next, we'll hear from Jim Goss with Barrington Research.

James Charles Goss
Barrington Research Associates, Inc.

Q

Thanks. I thought the case study you discussed earlier about Lyft was interesting. It seemed like it was sort of a comprehensive consulting arrangement that would benefit them and you. Is this a template you might use in – with a number of other advertisers? Are you trying to go after this sort of thing?

Jeremy John Male
Chairman & Chief Executive Officer

A

I mean, I guess, the answer to that is, yes, Jim. I mean we do enjoy a good relationship with Lyft; we enjoy a good relationship with number of our key advertisers in the US. And it's fair to say that, as a general rule, we think it's a good thing for us to be going upstream and talking directly with advertisers, so that they can understand fully the benefits of out-of-home.

We think it's a good thing to do to the media and to strategic media buying agencies as well rather than just spending all of our time, if you like, within the world of the out-of-home buyers. So yes, I mean it's certainly something that we'd like our sales guys and we encourage our sales guys to do increasingly more of.

James Charles Goss
Barrington Research Associates, Inc.

Q

Does that sort of relationship get priced differently, in some sort of a package deal where it would probably incentivize them and benefit you, or how would that work?

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Jeremy John Male
Chairman & Chief Executive Officer
A

Yes. I mean I think when – we can't talk about trading arrangements with individual clients, Jim, to be honest.

James Charles Goss
Barrington Research Associates, Inc.
Q

Okay. But, it's not the only one like that that you are likely to engage in?

Jeremy John Male
Chairman & Chief Executive Officer
A

Well, as I said, we have great relationships with a lot of clients, Jim, across the US and it's great relationships that we want to get greater.

James Charles Goss
Barrington Research Associates, Inc.
Q

Okay. And it has – is there any trend in the changes in the duration of billboard displays and what impact on pricing that might have, now in either static or digital boards that you might talk about?

Jeremy John Male
Chairman & Chief Executive Officer
A

Yes. I think it's fair to say – fair to say that when we look at our business in general, the contract lengths have been pretty standard for the last couple of years. If we go back many years ago, a much larger proportion of our business was in, what we call, permanent holdings where advertisers are taking them for the year. That number now as a percentage of our billboard businesses is down to about 20%, but that 20% has been pretty consistent actually for the last couple of years and outside of that, most national buys are for one month and that continues to be the case.

James Charles Goss
Barrington Research Associates, Inc.
Q

Okay. And one last one, I think last call you were talking a little bit about blending digital boards into some new categories, creating new business lines, if you will. Is there anything more that has developed that you can talk about?

Jeremy John Male
Chairman & Chief Executive Officer
A

When we look at sort of – I'm going to answer that question like this, Jim. So when we look at our digital business, it continues to grow at a faster pace than our business as a whole. Yields are up and we are building out more signage. And we've also started our small screen efforts with the likes of Washington, Minneapolis and Turnstyle, so what – we're starting to generate revenues and most importantly we're testing our great new hardware and software platform that we believe will be one of the key pieces of our growth story, as we look at the coming years.

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

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Testing logistics of a rollout to be able to prepare ourselves for even larger deployments in the near future. So we're all moving forward as we've talked about before.

James Charles Goss
Barrington Research Associates, Inc.

Q

I appreciate that. Thanks very much.

Donald R. Shassian
Chief Financial Officer & Executive Vice President

A

Thanks, Jim.

Operator: As there are no further questions, we'll turn it back over to the speakers for closing remarks.

Jeremy John Male
Chairman & Chief Executive Officer

Fine, well, thanks very much everyone for your questions and your time today. We really hope you enjoy the rest of your summer. Look forward to seeing many of you over the coming weeks at our investor events in September. Thank you very much indeed.

Operator: That concludes today's conference call and thank you for joining.

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