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OUTFRONT Media, Inc. (OUT)

Goldman Sachs Communacopia Conference

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CORPORATE PARTICIPANTS

Jeremy John Male
Chairman & Chief Executive Officer, OUTFRONT Media, Inc.

OTHER PARTICIPANTS

Drew Borst
Analyst, Goldman Sachs & Co.

MANAGEMENT DISCUSSION SECTION

Drew Borst
Analyst, Goldman Sachs & Co.

So I'm pleased to welcome to the stage Jeremy Male. He is the CEO of OUTFRONT Media, which a position he has held since 2013. Prior to joining OUTFRONT, Jeremy worked at JCDecaux where he ran their UK and Northern Europe and Australian operations.

Thank you for being here Jeremy.

Jeremy John Male
Chairman & Chief Executive Officer, OUTFRONT Media, Inc.

Good to be here. Thank you, Drew.

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QUESTION AND ANSWER SECTION

Drew Borst
Analyst, Goldman Sachs & Co.

Q

So you've been CEO of OUTFRONT now for three years, it's been a busy three years. At that, you completed the separation from CBS Corporation, completed the reconversion, you've restructured your sales operations, and repositioned the asset portfolio with the acquisition of Van Wagner and the sale of your Latin American business. So that's a lot. I'm exhausted just saying it all. But what is next, what are you focused on for the next couple of years? What are your strategic priorities?

Jeremy John Male
Chairman & Chief Executive Officer, OUTFRONT Media, Inc.

A

So good to be here, everyone. And you're right, you missed out one piece, though, we actually rebranded the company as well.

Drew Borst
Analyst, Goldman Sachs & Co.

Q

I forget.

Jeremy John Male
Chairman & Chief Executive Officer, OUTFRONT Media, Inc.

A

[indiscernible] (01:02) did that and we rebranded as OUTFRONT Media, which was also quite a big piece. So as we look forward, I think a number of the original pieces that we talked about on the IPO road show is still valid. So we're still out there busy converting assets to digital, we're still out there looking at how we can improve yield, improve pricing. We're still in the market looking at tuck-in acquisitions where they make sense. I think we're pretty smart, pretty selective, but that still is a priority for us.

And I guess the last piece would be, how to put it, I think we need to really start getting out of home into the digital age, and here I'm not really talking about just deploying digital hardware, I'm talking about a philosophy of being digital by nature, being having tech stacks that allow us to play in the same media sandpit as digital, for example. And that is something that we're putting a lot of emphasis on right now, so in terms of our data management platform, in terms of our content management, in terms of a far more programmatic way of trading our media. So that's probably what takes up a lot of our time and thought and attention right now.

Drew Borst
Analyst, Goldman Sachs & Co.

Q

Maybe we'll hit on some sort of current events, I mean, it's actually been, over the past two weeks you guys have announced some new wins in the transit space. Actually, one of them today up in Boston. Another one was announced last week out in Long Beach, Orange County. Maybe you could talk a little bit about what you're seeing in sort of the transit space, and then maybe touch on what's going on with sort of the New York MTA, which is obviously, something everybody is focused on. But maybe start with kind of the recent wins and what sort of brought those about.

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Jeremy John Male
Chairman & Chief Executive Officer, OUTFRONT Media, Inc.

A

Okay. So I'm just going to – in terms of the wins in California, just if we go back about a year, we announced that we've won a bus fleet in Orange County. We already have the principle bus fleets in LA. So what that did was, and the reason we won it was we were able to leverage the strength of our business in bus advertising in the LA and surrounds, which is why we could put a deal for the work for Orange County. What that did was, leave one of our competitors, a company called Intersection, with two very small fleets in the area, Long Beach and City of Los Angeles, and those fleets became somewhat untenable for them, so they asked if we would take over those contracts on their behalf. So that was the recent changes in California.

Boston, a little bit different there. They went out to RFP, Intersection where the incumbent. We bid and another local competitor. And we're pleased to be awarded that at the board meeting yesterday. So it's a great contract. It looks, and feels, and smells very like a sort of mini MTA, in that it's buses, it's light rail, and it's buses, rail and subway. The contract has the potential to go for a 15-year term in sort of five-year, five-year and five-year contract, round about $30 million of revenue. And the basis of their decision making we feel will be similar to that which we would imagine the MTA would be thinking, which is, look, is this a company that it's going to be able to maximize my advertising dollars for me over the next X years, are they the company that has the mousetrap that we want to utilize in terms of how we become more digital in terms of our own operations, in terms of digital deployment through, for example, the subway or rail system. And it's great to have that decision go for us, because I think it's just – and it's another – we think it's a nice proof point to have out there.

I know we're going to talk about the MTA, so let's talk about the MTA now and get it done. I'm going to be so pleased when I don't have to talk about the MTA. I'll tell you, it's driven me nuts over the last couple of years. Bear in mind that we were anticipating the original bid document to come out for the MTA in Thanksgiving 2014, and here we are approaching Thanksgiving 2016, and it's still not being put to bed. So the MTA process continues. It's a little bit hard to talk about absolute timing at one stage, here we thought it was likely to be more October-ish. I think it's likely to get pushed back in terms of firm decision. We feel great about our position in there, we're great about our bid, we're not arrogant, there's a long way to go. The process is slower than we would have liked, but it is in process. So one way or other, this will get, we think, sorted out over the next few weeks and months, and it'll be great to have it behind us and move on.

Drew Borst
Analyst, Goldman Sachs & Co.

Q

Yeah. Presumably, it has to be sorted out before end of the calendar year. I mean, the current contract expires at year-end. Correct?

Jeremy John Male
Chairman & Chief Executive Officer, OUTFRONT Media, Inc.

A

The current contract does expire at year-end. It would be quite feasible for them to extend it for a couple of months if it wasn't completely contiguous, whatever. So yeah, I mean, that could happen, but we're not sure right now. It really does depend on how quickly the process goes from here.

Drew Borst
Analyst, Goldman Sachs & Co.

Q

Okay. You mentioned the new Boston contract, about $30 million annually. The Orange County must be relatively small, because it's just as geographically much sort of smaller, the bus contract in Orange Country and LA?

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Jeremy John Male
Chairman & Chief Executive Officer, OUTFRONT Media, Inc.

A

Yeah. Absolutely. They were relatively small, Orange County we announced last year, and that the LA pieces are really quite tiny. But meaningful to us, but in the overall scheme of things not going to move the needle. Boston at $30 million is needle-moving. And that contract is likely to start within the next two months or three months, and still going to be – the actual start date is still to be finalized. But to all intents and purposes, in terms of modeling or whatever, it's a 2017 event.

Drew Borst
Analyst, Goldman Sachs & Co.

Q

And are there any sort of CapEx requirements in terms of Boston, either initially or throughout the life in terms of – I don't know what the status is of the existing infrastructure in terms of digital deployment and those types of things?

Jeremy John Male
Chairman & Chief Executive Officer, OUTFRONT Media, Inc.

A

There are some digital screens in there. We're going to be building out some more digital screens, but our typical CapEx growth and maintenance annually is sort of $70 million, $75 million, and this doesn't move that needle for next year. That's sort of all achievable within our normal CapEx guidance range.

Drew Borst
Analyst, Goldman Sachs & Co.

Q

Okay. Maybe we could talk a little bit about what you're seeing in terms of the current advertising market. We actually had Lamar earlier today, and they were saying that they saw the market firm up a little bit, 3Q firmed up a little bit relative to their initial expectations. And so I'm curious, what you're sort of seeing in the market?

Jeremy John Male
Chairman & Chief Executive Officer, OUTFRONT Media, Inc.

A

So a couple of things there. I guess, I'll talk about their market in a little while, but maybe I think it's important when we look at the two businesses, we've very different businesses with different things going on. So I do a third of my business between New York and LA. And if you think about Sean's business, they would be dramatically different than that. Sean's largest advertiser is Cracker Barrel, so it's quite often and ours is Apple. So they are just different businesses, they are great businesses, just nuances of difference. And so what that means is that you can't – it's always tempting two companies or three companies with CCO, to sort of try and draw a line between us, but I would urge caution when it's tempting to do that.

So as we look at it right now, we don't change, we've guided for Q3, so I'm not going to update that guidance today. We don't update mid-quarter. What I can say is that when you – if you think of Q2 which was sort of low to mid, and we've guided low single-digit for Q3, I wouldn't draw a line downwards and start connecting the dots for Q4. I think, as we look out, we feel that the environment remains actually pretty healthy. When we guided to Q3, we also reaffirmed our AFFO guidance for the year. So if you sort of back into that and sort of math it out, you'll see that we're expecting sort of business-as-usual for the balance of this year.

Drew Borst
Analyst, Goldman Sachs & Co.

Q

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And I don't know if there's anything you could say in terms of your exposure to political. One of the other local advertising company, Sinclair, this morning, lowered their outlook. And I appreciate that there's differences obviously with television stations versus outdoor, but I don't know, how big is political for you? Is it meaningful? Anything you can say on the current tracking or pacing of it?

Jeremy John Male
Chairman & Chief Executive Officer, OUTFRONT Media, Inc.
A

Well, I wish political was a bigger event for us. We can't carry any political in our Transit business. We carry very little in our Billboard business, and the amount of political advertising in Q2 was 10 basis points.

Drew Borst
Analyst, Goldman Sachs & Co.
Q

Okay.

Jeremy John Male
Chairman & Chief Executive Officer, OUTFRONT Media, Inc.
A

So it's actually – that's not something we have to worry about.

Drew Borst
Analyst, Goldman Sachs & Co.
Q

Is there anything else you can say about some of the other big verticals? I'm thinking of two in particular; one is retail where we've seen some weak earnings, especially out of some of the lower-end consumer exposed retailers; and the other one which you guys have called out from time-to-time is movies, entertainment. I don't know if there's anything you can add in terms of what you're seeing from those two verticals.

Jeremy John Male
Chairman & Chief Executive Officer, OUTFRONT Media, Inc.
A

So if we just sort of think about movies for us now, yeah, some of it is just which movie house is it, what slate they have, and where they tend to market their movies. So some of the houses have more of a sort of top three or top five DMA approach, others basically just buy New York and LA. So one of our main trading partners who're very New York and LA focused, haven't had a great slate this year, so we felt that.

In terms of retail, retail has been a little bit down for us as well, as a category in the first half. If we look at retail compared to where it's been over the years, it's not too far off, but it's just a little bit down in the first half.

Categories that were strong for us, autos has been strong in the first half, and the beer sector has been good for us, technology remains good for us, and it looks like it'll be quite strong in the second half as well. So taken as a whole, we always have ups and downs. And with some of the key national advertisers, it's worth remembering that if they come into us in a reasonably big way in a quarter it could be $2 million or $3 million. So you can have, the best part of whatever it is, between 0.5 point and 1 point of change, you know what I mean, to our growth, just on the basis of one advertiser being in or out within a quarter. So you do get a bit of quarter fluctuation. We prefer to think about categories more in the trailing 12-month because it's a bit more meaningful, to be honest.

Drew Borst
Analyst, Goldman Sachs & Co.
Q

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Yeah. To smooth out sort of the quarterly lumpiness of it. Okay. Let's talk about some of your growth initiatives. One of them is the ON Smart technology platform to help clients manage their ad campaigns. Can you talk about how that rollout is going, and sort of what the feedback has been from clients?

Jeremy John Male
Chairman & Chief Executive Officer, OUTFRONT Media, Inc.

A

The ON Smart sort of platform is kind of end-to-end. So one end of it screens, small screens, or just screens, if you like. And then, so if we talk about that, we had a number of small screen deployments in Washington and Minneapolis, in Hudson Yards, and it's going to be a key part of our initiative in Boston, and would certainly be a key part of our initiative with regards to the MTA. So, that's the sort of screens piece.

Now, if we come back from that, in order to get to those screens, we utilize the cloud. So, basically, any screen that we have, we can put a card behind it and it then becomes cloud connected. When it becomes cloud connected, then it also allows us to put apps onto what we call Liveboards then, and they go from being dumb screens to sort of live screens because we can put our technology onto them. So we ran as a test the other day a great app, on a billboard in Times Square. That we're showing for JetBlue.

So, in real time, it was saying how long it would take the people viewing the board in Times Square to get to Cancun, for example. Real time, literally, real time. How long does it take you to go from there whatever there is going on at FDR and go down the Van Wyck, so all this in real time. So, suddenly your boards, you know what I mean, rather than being fed information because they got out, they're drawing information in. So they can draw – they can do things based on weather – weather triggers. They can do things based on whether the market hits, whatever it is, 18,000 today or tomorrow.

And so, suddenly the boards go from being smart. We're then going to be – it's then how you deploy messaging to those boards. So it's by the cloud and we want that space to be bought in a much more programmatic way. So we want people to have decisions that are fueled by data and insight, and we're building our own data management platform. So you'll be able to go in to it through an API. You'll be able to say, I want to target whatever it is, 30-year-old to 40-year-old Hispanic females that live in the Bronx that have visited the Target website twice in the last month.

And you'd be able to be that specific and definitive in terms of your audience search. And you'll get then a number of different ways you can reach them. So you'll be able to reach them with these websites, you'll be able to with these channels and you'll be able to reach them with these billboards.

And then, having said, okay, well, these digital boards, then you'll be able to buy that. And eventually, you'll be able to sort of put the content straight to the board by obviously a filter to make sure that the right content is going out from the right board. So, actually, when we talked about ON Smart, it's a very big piece. And in my introductory comments, talking about what I'm concentrating on right now, that's a very big piece of it now. We are in build mode at the moment. We're starting to wireframe. We're starting to develop user interfaces. We'll be in test in 2017 – in the early part of 2017. And we believe that we'll be sort of leading the industry in what I hope will be a way of capturing some of the dollars that are all flowing towards digital right now.

Drew Borst
Analyst, Goldman Sachs & Co.

Q

And so, this is – you're building this all yourself like internally?

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Jeremy John Male
Chairman & Chief Executive Officer, OUTFRONT Media, Inc.

A

Yeah. I mean, we have – yeah, I mean some pieces of it obviously come from elsewhere, but for the most part, yeah, we're doing the assembly, yeah.

Drew Borst
Analyst, Goldman Sachs & Co.

Q

Yeah. And is it exclusively for the smaller screens because when you're describing it...

Jeremy John Male
Chairman & Chief Executive Officer, OUTFRONT Media, Inc.

A

No...

Drew Borst
Analyst, Goldman Sachs & Co.

Q

Transit deployment, mostly?

Jeremy John Male
Chairman & Chief Executive Officer, OUTFRONT Media, Inc.

A

Any screen. So, all of our digital billboards will suddenly become smart boards.

Drew Borst
Analyst, Goldman Sachs & Co.

Q

But you started, I guess, with some of these beta tests that you mentioned or maybe not really beta tests, but they're real live tests?

Jeremy John Male
Chairman & Chief Executive Officer, OUTFRONT Media, Inc.

A

In terms of the billboards, we have around 600 digital billboards right now. And in the next six months, we're hoping to have converted those to smart boards or live boards just by, as I say, changing the media player out and putting a new card behind that.

Drew Borst
Analyst, Goldman Sachs & Co.

Q

So, the example you mentioned, which is very creative, the JetBlue example, but I assume some advertisers are maybe using it different than that in terms of maybe trying to change copy, more day-parting, if it's a restaurant, sort of...

Jeremy John Male
Chairman & Chief Executive Officer, OUTFRONT Media, Inc.

A

Yeah.

Drew Borst
Analyst, Goldman Sachs & Co.

Q

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...breakfast food in the morning or maybe trying to respond on the fly weekly, monthly. I mean is that kind of the vision that it's one of the benefits of digital you can change copy, change creative more frequently with really no additional cost?

Jeremy John Male
Chairman & Chief Executive Officer, OUTFRONT Media, Inc.
A

If we think of small screens in transit environments and Times Square, you can obviously do sorts of smart funky things, you can have full movement, et cetera. If you think of a digital billboard on the side of a highway, you can't have movement effectively. So it's more to do with the other things that you're suggesting, which in terms of smarter content change for shorter periods of time dependent upon a real-time audience that is going to be seeing that board. That's right.

Drew Borst
Analyst, Goldman Sachs & Co.
Q

Yeah. Like if there's a billboard out on the way, leaving the Meadowlands like Giants Stadium, you could put up copy like, hey, if you're at the game where the Giants just won, come by, you have ticket stub, we'll give you a discount, things like that, right? Like that's kind of where you are going.

Jeremy John Male
Chairman & Chief Executive Officer, OUTFRONT Media, Inc.
A

Absolutely. And I can assure you that the value-add when you can do that is huge.

Drew Borst
Analyst, Goldman Sachs & Co.
Q

Yeah.

Jeremy John Male
Chairman & Chief Executive Officer, OUTFRONT Media, Inc.
A

It's transformative.

Drew Borst
Analyst, Goldman Sachs & Co.
Q

Yeah. What are you seeing first? I mean, is this helping you drive better CPMs, drive pricing? Or is it helping you get some folks that just weren't really spending much on billboards or is it some of both?

Jeremy John Male
Chairman & Chief Executive Officer, OUTFRONT Media, Inc.
A

I think they're bit of both. I think if you can go out and just show how creative advertisers can now be and with the opportunity to provide them, ad agencies love – they love creativity, they love anything that's going to get talkability. Just using social, if you like, to promote – I mean, to promote some of the smart stuff we've been doing on our medium, it gives them a huge sort of earned, do you know what I mean, earned revenue as well or earned media...

Drew Borst
Analyst, Goldman Sachs & Co.
Q

That can amplify the...

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Jeremy John Male
Chairman & Chief Executive Officer, OUTFRONT Media, Inc.

A

So, yeah, absolutely. I mean, a little bit of both, Drew.

Drew Borst
Analyst, Goldman Sachs & Co.

Q

So, do you have to have this creative capability in-house because we've seen examples of some other media companies like New York Times comes to mind where they've almost built a mini-ad agency or a mini-creative effort to sort of help push ideas for some of their digital products and probably cross-sell with some of their legacy print. Is that something that you guys do, or are you still more leveraging the ad agencies?

Jeremy John Male
Chairman & Chief Executive Officer, OUTFRONT Media, Inc.

A

Look, the vast, vast majority of our dollars are going to come through ad agencies, with ads that have been created, do you know what I mean, by the ad agencies, but we do have our own creative studios. We launched it about nine months ago. And we actually do quite a bit of creative. For the most part at the moment, it's directed towards local advertisers. So, we'll create and copy for local advertisers. So we're completely comfortable with the concept of creative, but being realistic, most of the ad agencies will continue to, do you know what I mean, provide creative to us.

Drew Borst
Analyst, Goldman Sachs & Co.

Q

And can you talk a little bit about the geo-fencing initiative within this, which I guess is sort of a component of this. But how far along are you in sort of deploying that capability?

Jeremy John Male
Chairman & Chief Executive Officer, OUTFRONT Media, Inc.

A

So, yeah, geo-fencing is – we have a product called OUTFRONT Mobile and it's sort of – that's the kind of ON Smart platform. This is kind of over here. And what that is, is it's an offer that we make to mainly local advertisers, some national advertisers whereby we say, look, for a 15% upweight to your billboard campaign, we will offer you mobile impressions, okay? So when you – so we'll have a billboard that could be that billboard. And when your device breaks a particular geo-fence that could be around that, if it's a billboard, or it could be a local store or your competitor's store, whatever happens to be, you'll get an in-app message to your phone, or your device – your smart device.

And what that in-app message will reflect is probably the copy that is on the board. That could be a car dealer up there, and here it would say, whatever it is, Joe's car dealer offering test drive on this car, call now. And what we found is that the click through rate on the in-app ads on the device is about two times when you merge it with out-of-home. So all of our local advertisers are getting smarter. Gone are the days when local a advertiser would buy yellow pages. These guys are all very smart. They're experimenting with mobile. They're experimenting with social. And we're now in there, having that conversation with them.

So we've sold getting on 400 campaigns, where we've had a mobile piece to our out-of-home buy. At the moment, in terms of dollars, it's sort of low-single digits millions of dollars, but we think it could certainly grow. When you think that now, 40% of all online advertising is viewed on a mobile platform, we think that the connectivity between

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out-of-home and mobile in the future is going to continue to get stronger and stronger, and we are right on that and excited by the opportunity as we go forward.

Drew Borst
Analyst, Goldman Sachs & Co.
Q

So, the people that are going to get that message, have they opted into that? Like where did you get the list of people or how does that work?

Jeremy John Male
Chairman & Chief Executive Officer, OUTFRONT Media, Inc.
A

So, every time you sign up for an app, and you say, tick this box, you're just saying that give me everything. That's what you're saying every time effectively. When you – and it's all in-app messaging. So, yeah, unless you're going to go through all sorts of different settings you're going to get those ads when you open that up.

Drew Borst
Analyst, Goldman Sachs & Co.
Q

Got you. So you don't – and so, is that – I guess you're doing that in partnership with the mobile app, is that the operator?

Jeremy John Male
Chairman & Chief Executive Officer, OUTFRONT Media, Inc.
A

Yeah. We're working with a company called xAd who – and so, effectively it's like a white label of their product.

Drew Borst
Analyst, Goldman Sachs & Co.
Q

Okay. One of the other initiatives that you guys have been working on is, back in July of 2015, you announced a deal with Diamond Communications regarding the small cell wireless antennas. Can you give us an update on where you are with that initiative?

Jeremy John Male
Chairman & Chief Executive Officer, OUTFRONT Media, Inc.
A

Yeah. For sure. Yeah, I mean we along with others in the space, I mean, CCO has appointed somebody in a similar way to which we did. And I know from my time at JCD that they're quite entering in this space as well and have done a bit with Vodafone in Europe.

So, where we are, we've appointed Diamond. We have a space now where we're either have signed or in the process of getting signed master license agreements with those that you would expect, the main carriers and others. We continue to be – we continue to feel this could be an interesting revenue stream for us. It's taken over – there are nuances that we have to get over. I mean, for example, the primary purpose of one of our poles where we're going to potentially stick one of these is advertising. So, if the board becomes uneconomic, what happens if I don't want to have it as an advertising board, but we'd let it out to the cell co, do you know what I mean, to one of the carriers or whatever.

But there's been some pieces that we have to work out and go through to get agreements in place, but we are now there. And we have specifically steered well clear from trying to quantify it. The answer is that right now, the

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dollars are relatively small, the interest is relatively high. And as we go forward and we learn more, we'll try to size the opportunity. But for now, we'd prefer to say not to put hard numbers on it.

Drew Borst
Analyst, Goldman Sachs & Co.

Q

So I mean, have you – I guess it doesn't sound like you have any – because I know that once you get sort of a contract or agreement in place with a carrier to install it, there's kind of a mini construction project that sort of goes along with it, right? You sort of have to wire the fiber to the antenna and sort of work on for the backhaul and all that sort of stuff, and that can take some time. But sounds like you haven't gotten to that point yet where you've indentified – you have somebody who committed to install. You're not quite there yet.

Jeremy John Male
Chairman & Chief Executive Officer, OUTFRONT Media, Inc.

A

I mean we have a number of boards that have that – where we have sent our equipment on them. But at the moment, it's like sub a million bucks a year. So it's a relatively small number. In terms of going forward, you're right. There is that sort of CapEx piece that's being borne by the carrier by the way. Most of our boards are in places where actually there's ready access to fiber. So we don't – it's not a huge capital expense.

In some situations, we may need some sort of zoning permission. So, that's there. And in some cases, we may – in some instances, we may also have a negotiation with our landlords because they may want a piece of the revenue. But the way we see it is that we've got around about 25,000 structures where we think there is a potential for them to be utilized. By the time we – assuming that the others are paying for the capital, we then need to pay Diamond a piece and we then need to pay a piece potentially to the landlord. So, we see it – once it gets moving, it's possibly a sort of 50% EBITDA business. As I say, that over time hopefully will scale. But we'd like to get a little bit more experience with that. And I think maybe in six-month to nine-month time, we'll have a better feel for how that could look.

Drew Borst
Analyst, Goldman Sachs & Co.

Q

Yeah. I want to ask about the yields on your boards. In the most recent quarter, they were up in both static and digital, which kind of a turnaround from last year was a little bit tough sledding last year where the yields were down. I guess could you provide some color on what's changed like what are you doing differently internally to sort of cause that turnaround?

Jeremy John Male
Chairman & Chief Executive Officer, OUTFRONT Media, Inc.

A

Well, I guess there's a couple of things. One, at this item – I think it's Q2 last year, we had a difficult quarter and we made some changes to sales force and sales management structure there I think have paid off.

We are really pushing the pricing on our boards, making sure that – it's an industry that has not been very volatile. Quite often you'll find, particularly in the local markets, you'll have the same advertiser on the same board for many, many years. And actually, getting the sales guy they'll say, well, look, we can't increase our guys rate, he's has been with us for years. And we'll say, yeah, that's exactly what you need to increase the damn rate, because he has been with us for years. So, getting that sort of – getting that philosophy through to our sales force, it does take time. I think we're seeing the benefit of that.

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For the most part, the growth that we're seeing this year, for the most part because our inventory is pretty much the same. We've added a few digital boards, we've lost a few standard boards, we won Orange County in transit, but for the most part, our inventory is the same. So, the growth that we're seeing pretty much is rate, actually, there's a little bit of what you can see, but for the most part, most part is rate. And that's good news, that's good news. We're certainly starting to see the benefits of our concentration on project.

Drew Borst
Analyst, Goldman Sachs & Co.

Q

And I guess it sounds like occupancy is sort of at kind of normalized levels. It's...

Jeremy John Male
Chairman & Chief Executive Officer, OUTFRONT Media, Inc.

A

Yeah. I'd just say kind of normalized levels. I mean we tend not to think about price and occupancy to do some things, we tend to get our guys to think about yield which is the combination of them both.

Drew Borst
Analyst, Goldman Sachs & Co.

Q

Yeah. In terms of your plans for the digital conversions, digital deployment, I think you've historically been targeting about 100 per annum. Is this still – what you kind of see here or saw anything that's impacting your thinking as you look out over the next couple of years?

Jeremy John Male
Chairman & Chief Executive Officer, OUTFRONT Media, Inc.

A

In terms of digital billboards, I think it's likely to be in that range. I guess what changes that over time is does the cost of hardware decrease significantly or once they become smart boards, can we actually start generating higher yields from them that would make other locations – give other locations that we wouldn't invest in now actually achieve the right IRRs to become right for investment. So, that could change things in the future. And I'd stress that this is just digital billboards we're talking about. We deployed last month 30 digital screens in Washington subway. And I'd say, yeah, there's a lot of other stuff going on, but yeah, the 100 refers to digital billboards, yes.

Drew Borst
Analyst, Goldman Sachs & Co.

Q

And so is the gating factor – like what is the gating factor? Is it sort of a 100 is sort of logistically what you can reasonably deploy given there's a lot of permitting you have to do and approvals and whatnot, or is it being gated by kind of your ROI criteria and that kind of thing?

Jeremy John Male
Chairman & Chief Executive Officer, OUTFRONT Media, Inc.

A

Yeah. There's a number of things. I mean, part of it is zoning. So, in a number of municipalities, I mean it changes municipality by municipality. Some municipalities we – in order to get their digital boards, we have to take down at a ratio. Maybe it's a four-to-one ratio or a six-to-one ratio. So, there comes a point when actually relatively that the boards you're taking down obviously lost revenue and the opportunity to cost on those boards maybe that doesn't stack up or whatever.

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In some municipalities, it's difficult to just get a permit full stop and that can be a gating factor. Others, it could be that actually the market is sufficiently built out for the level of demand that we can reasonably foresee in the next couple of years. So, therefore, if we were putting in a new digital board, actually there would be an attrition from our own static boards. So those are sort of gating factors that we need to think about.

And the way that's come together over the last couple of years and the way we think that it will continue to is that – and then we put our returns criteria on it, and we're looking on these digital boards on an IRR to be sort of making probably for the most part north of 20%. It comes down to about 100 boards a year.

Drew Borst
Analyst, Goldman Sachs & Co.

Q

Okay. I'm going to ask you about M&A, the M&A environment. I mean you guys at varying points have participated. We mentioned Van Wagner was a fairly sizeable mid-size acquisition for you, guys. What are you currently seeing in the M&A environment because it's very fragmented once you get outside of the top three players. Are there a lot of opportunities? What's going on with sort of the pricing and competition for deals?

Jeremy John Male
Chairman & Chief Executive Officer, OUTFRONT Media, Inc.

A

Look, there are quite a few opportunities. Once you get past sort of the big three, if you like, in the U.S. market, who account for about 70% of revenues, then go JCD or whatever, it is 4% or 5%. And then the tail of 25%, there's probably a hundred-or-so companies to make that up. And at any time, we would probably be looking at three or four deals in it.

I think deals that appeal to us are in the right DMAs where we can get the right synergy from both the cost side and from the marketing side, and in other words where we can leverage those assets better than the incumbent is leveraging them. Because actually, pricing is pretty high. Clear Channel sold some relatively second-tier markets, and they were making 13 times, which is, I personally – unless you can get synergy, that's very full value.

We like to look at opportunities where if you're going to be paying that sort of multiple, you can actually bring it down to a post-synergy multiple more in the sort of the single-digit range. So, that's what we target. So, we're trying to be very smart. We're trying to be very selective. We're not doing everything, but we will participate where we think it makes sense.

Drew Borst
Analyst, Goldman Sachs & Co.

Q

And those were EBITDA multiples I assume you're referring to?

Jeremy John Male
Chairman & Chief Executive Officer, OUTFRONT Media, Inc.

A

Yeah.

Drew Borst
Analyst, Goldman Sachs & Co.

Q

Yeah. Because you guys being a REIT have this natural sort of synergy with most of the acquisition targets are not going to be REITs, since they're paying taxes?

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Jeremy John Male
Chairman & Chief Executive Officer, OUTFRONT Media, Inc.

A

Yeah. That's right.

Drew Borst
Analyst, Goldman Sachs & Co.

Q

That helps lower your free cash flow multiple or?

Jeremy John Male
Chairman & Chief Executive Officer, OUTFRONT Media, Inc.

A

Absolutely. But then when you think of the competitive landscape, right now, Clear Channel, for obvious reasons, aren't going to be a buyer. So, really you're competing with PE's in some cases and PE's tend to look at life in a slightly different way or it's another REIT, because there are certain assets where we may compete with Lamar.

Drew Borst
Analyst, Goldman Sachs & Co.

Q

Let me see if there are any questions from the audience? Sure.

Q

Thank you. Just curious as to your view is how big do you think out-of-home can be of the total U.S. advertising pie, just in terms of percentages, and do you think there's a natural sort of cap to that limit?

Jeremy John Male
Chairman & Chief Executive Officer, OUTFRONT Media, Inc.

A

I don't think there's an absolute cap. If you look at out-of-home worldwide, it's 7% of all media, and here it's about sort of 4.5%. And I don't believe that it can get – well, actually I was just going to – I'm going to contradict myself here. I don't think it can get to 7%, and the reason it can't is for all sorts of structural reasons that we don't have a huge pedestrian facing out-of-home business here relative to Europe, you compare Atlanta, Amsterdam. They're just very different places. We don't have as much transit here in the States, and transit is a wonderful landscape to hang out-of-home ads.

But I do think that when you look at the 4.5% and the 7%, I do think, implicitly, it suggests that the U.S. market is one where that share could grow. So – and the biggest piece of that, I've said it before and now I'll probably be saying it in many years' time, but I do think the biggest opportunity is national advertisers because national advertisers are only spending about 2% of their dollars out-of-home. And they really aren't using it in the way that our advertisers in Europe and other parts of the world use it. So, I do think there's an opportunity to expand that, but structurally, it will be never be the same as probably the world average.

Q

Thanks. I guess two questions on MTA if that's all right.

Jeremy John Male
Chairman & Chief Executive Officer, OUTFRONT Media, Inc.

A

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Oh no.

Q

First of all, given that subway and bus were combined into one RFP, is it possible or even likely that the MTA would split them up at this point? And secondly, sort of see if you can help us understand sort of the advantages to incumbency here in terms of how difficult is it for the MTA to switch vendors? Thanks.

Jeremy John Male
Chairman & Chief Executive Officer, OUTFRONT Media, Inc.

A

Okay. So, the answer to the first question is that there's three contracts, not two. It's bus, rail and subway. I think there are many reasons why it's logical to keep it as, if you like, one – within one advertising contractor, if you like. I don't really want to go into all the reasons why because that suggests potentially some of how I'm likely, what I'm likely to be saying in my RFP response. And I don't really want that to be something that I'm discussing publicly.

And with regards to incumbency, I think you said what – is that – yeah, I think if you sort of look back to the days when I was at JCD, we did quite a lot of work on what was the benefit of being an incumbent and we did so, we analyzed a whole bunch of contracts across the world. And the reality was that 92% of them stayed with – were won by the incumbent.

That doesn't make – that doesn't make us feel arrogant in any way. We're working very hard to put – to make sure we've got a great bid with the MTA. We think we'll, we sincerely hope we'll win it on the merits of the bid rather than any difficulty of change because we just won Boston, how difficult will it be for us to change at Boston. No, we'll probably need a couple of months ramp time. Then with there, we're up and running, so. Yeah?

Drew Borst
Analyst, Goldman Sachs & Co.

Q

Sure. Go ahead. There's the mic.

Q

[Inaudible] (45:00) congratulations on the contract wins both in Boston and LA.

Jeremy John Male
Chairman & Chief Executive Officer, OUTFRONT Media, Inc.

A

Thank you.

Q

But you mentioned winning those over Intersection. And if I remember right, the Intersection is doing the LinkNYC project. So, like linking up with all the Wi-Fi hotspot and things like that kind of increasing connectivity just across Metro place here. So, I guess I'm just wondering how big of a factor is that connectivity piece maybe in the RFP kind of in that contract. And I guess you couldn't say if there...

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Jeremy John Male
Chairman & Chief Executive Officer, OUTFRONT Media, Inc.

A

Okay. So, in terms of connectivity, actually the MTA have already let the Wi-Fi contract to a company called Transit Wireless. So, they're already putting Wi-Fi throughout the subway. So, the fact that Link are providing Wi-Fi aboveground it's kind of separate. I mean it's a sort of separate piece. So, I don't think that'll be – in that way I don't think it'll be particularly relevant, but yeah Intersection is the company that – yeah, they'll be, I'm sure, competing for the MTA. And they have Link aboveground which has had – to be fair, it's had its challenges. It's been in the news probably for the wrong reasons more times than not over the last couple of weeks or so.

Drew Borst
Analyst, Goldman Sachs & Co.

Okay. We are out of time. Thank you so much for being here Jeremy. Appreciate it.

Jeremy John Male
Chairman & Chief Executive Officer, OUTFRONT Media, Inc.

Thank you, Drew. Thank you everyone.

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