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OUTFRONT Media, Inc. (OUT)

Q3 2016 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the OUTFRONT Media Third Quarter 2016 Conference Call.

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

Gregory Lundberg
Senior Vice President-Investor Relations, OUTFRONT Media, Inc.

Good afternoon. Thank you for joining our 2016 third 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 for a 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 of the call.

The conference may include forward-looking statements. Relative 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 will be made 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 also on our website, outfrontmedia.com.

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

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Jeremy John Male

Chairman & Chief Executive Officer, OUTFRONT Media, Inc.

Thanks, Greg, and afternoon, everyone. So revenues grew 2.3% organically in the third quarter in line with our expectation, and growth was fairly balanced between billboard and transit. We're pleased to report healthy conversion of revenues into adjusted OIBDA with a growth of 6% and even stronger growth in AFFO.

Improving same board billboard yields were an important component of this performance. Both static and digital were up again, with improvements seen across the country. This is the fourth quarter in a row that we've grown our billboard yields, which clearly shows the focus our sales people are putting on maximizing the revenue earned on each display.

In addition to delivering this organic growth, we recently announced the award of the Massachusetts Bay Transit Authority contract to OUTFRONT, under which we will manage all of the advertising across the Boston subway, bus and rail assets. This will add a new layer of growth in 2017, and we're looking forward to assuming the contract towards the end of this year.

The MBTA was looking for the best long-term partner to enhance the value of their assets, particularly through a digital approach to advertising to, and communicating with, their ridership. The MBTA chose OUTFRONT because of our vision, the quality of our sales organization, and our technology platform.

On that topic, we continue to invest in ON Smart Media. Additional advanced digital displays are being deployed in Washington, D.C., Minneapolis and other markets. We also built 13 new digital billboards in the U.S. this quarter and five in Canada. Progress continues on our data management and enhanced trading platform, and we're gearing up for 2017 to be a significant step forward towards bringing this to market.

Our solid financial results let us once again make additional debt payments, and I'm pleased to tell you that net leverage was reduced to 4.6 times. The healthy level of cash generation also enabled our board to declare a fourth quarter dividend of $0.34 per share.

Before I come back on with our fourth quarter revenue expectation and some color on the market, I'll now hand over to Don for a more detailed review of the financial results.

Donald R. Shassian

Chief Financial Officer & Executive Vice President, OUTFRONT Media, Inc.

Thank you, Jeremy, and good afternoon, everyone. Please turn to slide six, which shows a summary of the year-over-year performance of some of our key financial metrics for the quarter. With the exception of organic revenues, this table is not comparable year-over-year, since our Latin America business was sold on April 1, 2016. However, we provide some historical figures for Latin America in our exhibits and also in the 10-Q to assist you in your analysis and modeling.

Reported revenues were down 1% due to the sale of Latin America. Organic revenues, however, grew 2.3%. Adjusted OIBDA increased 6% even with the Latin America headwind. This OIBDA performance helped drive 26% growth in AFFO during the quarter, and 14.3% year-to-date. The key takeaway here is that we saw good flow through this quarter from revenues, all the way down to net income and AFFO.

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Please turn now to slide seven, where we'll start with our revenues for the quarter. Latin America is broken out for Q3 2015 so you can see its impact. As I just mentioned, organic revenues grew 2.3% for the total company. And you can also see that growth this quarter was very balanced across our categories.

U.S. Media grew 3% for the quarter and 2.3% organically. Within this, billboard organic growth was up 2.1%. This is a slight moderation from what we have seen over the past two quarters this year. Local revenues grew nicely in Q3, but were offset somewhat by flattish national revenues.

Transit in the U.S. posted 2.8% organic growth in the quarter, also a moderation from the prior quarter, but still an improvement on top of very strong 8.5% growth in last year's third quarter. In other, organic revenues grew 2.4%, driven by our sports marketing business, offset by the results in Canada.

While we still saw Canada revenues down year-over-year, the rate of decline was much improved compared to Q2; and we are pleased to report that we see good positive pacings in the fourth quarter on top of nice billboard RFP wins in key markets that should energize the portfolio of assets in 2017.

Please turn to slide eight for an overview of expenses this quarter. The driver of our expense decline in the quarter is the elimination of the Latin America business from our operations. That operation incurred $14.1 million of expense in Q3 2015. Looking at the remaining business, you can calculate that our expense base was up $4.2 million or 1.6%. This is a lower increase than our organic revenue growth of 2.3%, hence the flow-through to strong OIBDA.

Looking at the breakdown of expense levels for Q3 2016 compared to Q3 2015 without Latin America on an absolute dollar basis, billboard expenses held steady as our revenue growth was primarily driven by fixed cost boards. Transit expenses grew in line with revenue. Operations expenses were also up in line with revenue. And SG&A expenses increased just slightly. This increase reflects increased compensation-related expenses, increased strategic development costs, and certain professional fees in the quarter, partially offset by the non-recurring legal expenses of $3.2 million that occurred last year in Q3 2015.

The increase in strategic development expenses of nearly $2 million in the quarter reflects the accelerated activities underway in our development of the data management and digital buying platforms.

Please note that we expect our fourth quarter SG&A expenses to reflect around $4 million of one-time professional fees, an investment we are making to analyze and implement improvements in our cost base and our yield management strategies. We will undoubtedly talk more about this on our year-end earnings call, when this project will be completed and in full implementation mode, but we feel quite comfortable in saying today that this activity will result in positive OIBDA improvements with a very attractive payback beginning in 2017.

While we continue to invest in our business, our revenue increase during the quarter flowed through to a healthy 6% increase in adjusted OIBDA, which you can see on slide nine. As we did with the revenue expense charts, we've provided last year's Q3 adjusted OIBDA for Latin America of $800,000. Our adjusted OIBDA margin for Q3 2016 was 31.5%, compared to a reported margin of 29.5% in Q3 of 2015.

Approximately 1 point of this 2 point margin expansion is due to Latin America, which was a lower margin business, not being a part of Q3 2016 results. We are pleased that the remaining 1% increase in our underlying business is a positive indicator of good operating leverage.

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Turning to slide 10, capital expenditures were $15.6 million during the quarter or 4.1% of total revenues. Growth spending was 3% of total revenues and maintenance was 1.1%. Maintenance CapEx principally represents spending on our billboards, but also on office facilities, information technology, and safety of our people. Levels were higher coming out of our IPO, but have been trending to a lower level as we spread out our non-strategic maintenance spending like office facilities.

As we look at our annual guidance of $65 million to $70 million, we currently believe that we'll be at the bottom of the range or even possibly below it. This is being driven by the lower maintenance I just mentioned along with some deployment timing in our new digital billboards, which is classified growth CapEx.

During the quarter, we completed 13 digital board conversions in the U.S. and five in Canada. Year-to-date, this brings our total to 54 new builds in the U.S. and Canada, which is behind our broad guidance of approximately 100 new builds for the year. Similar to 2014 and 2015, when we built well over 100 digital billboards in each of those years, the timing of these builds is dependent on numerous factors. We expect to build approximately 80 to 85 in 2016, with the balance that was anticipated in 2016 falling over into the first quarter of 2017.

Next quarter, we'll provide you with our 2017 estimate in total. I can tell you now, however, that we continue to develop digital conversion opportunities that provide excellent returns, and we plan to keep or even grow our pace.

Please turn now to slide 11 for a look at AFFO. We had good growth of 26% during the quarter and 14% for the nine months ended September 30. We have added a table to the slide that walks the components of the AFFO change between last year and this year's third quarter.

The key items causing the change on a year-over-year basis were, one, adjusted OIBDA up $6.8 million. Two, current taxes were a benefit of $3.4 million in the third quarter of 2016 versus a provision of $3.1 million in the third quarter of 2015; over a $6.5 million positive swing on AFFO. If you equalize the tax impact for both quarters, AFFO growth was still double-digits. And, third, maintenance CapEx was down $3.2 million.

The current tax benefit of $3.4 million in Q3 reverses the current provisions we made in the previous two quarters. This was recorded in Q3 as our most recent full year tax projection is lower for the TRS, which is Canada and the U.S. Media rolling transit business. Our estimated current tax estimate for the fourth quarter is $1 million to $2 million.

For the remainder of the year, we expect our revenue initiatives, combined with our disciplined investment approach, can continue to drive AFFO improvement. Even with the one-time cost professional fees in Q4 that I discussed earlier, we expect our full year of 2016 AFFO outlook to be toward the upper end or possibly ahead of our guidance range of mid to high single-digit growth.

Slide 12 shows where we stand on a trailing 12-month basis with AFFO of $294 million and free cash flow of $256 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 $66 million difference between the free cash flow we've generated and the dividends that we've paid to shareholders. This represents a comfortable 74% dividend payout ratio of free cash flow and 64% of AFFO.

Slide 13 shows the highlights of our balance sheet with a liquidity position of $466.4 million at the end of the quarter, including $73.1 million of cash and $393.3 million of availability on our revolving credit facility.

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We used residual free cash flow to make $20 million of aggregate discretionary payments on a term loan in the third quarter. Including an additional $10 million discretionary payment we made on October 31, the term loan has now been reduced by $70 million year-to-date to approximately $690 million.

Our net leverage ratio is now 4.6 times, down from 5 times at the end of Q1. This was achieved through higher OIBDA and lower debt. We remain focused on reducing our leverage to our longstanding target range of 3.5 to 4 times through further growth in OIBDA and further debt paydown. We believe that our balance sheet is in good shape and continues to give us financial and operational flexibility while delivering our shareholders an attractive well-covered dividend.

Let me turn this now back over to Jeremy.

Jeremy John Male

Chairman & Chief Executive Officer, OUTFRONT Media, Inc.

Thanks, Don. And so, now looking forward on slide 15. At this point in time, we expect that fourth quarter revenue growth will be in the low single-digit range with a positive trend in billboard and a slight decline in transit in the light of the double-digit growth in the fourth quarter of 2015. This only represents our view at this point in time, and it's on a constant dollar basis for our international operations in Canada.

We're pleased to see national advertising improving in the fourth quarter after a slightly disappointing third. And we remain absolutely confident that national will be a significant growth driver for us, particularly as we layer on data and analytics and deploy additional digital displays.

Local was up mid single-digits this quarter and accounted for just over half of our revenues, and local remains very important to us and has been growing well this year. What you may not appreciate is that this growth is not just on billboards; local is a significant contributor to transit as well. Our strength in local leads us to believe that some of the actions we took last year with our regional sales force realignment are working well.

Across both local and national, we're fortunate to have exposure to a wide basket of industries with many different types of advertisers and campaigns. With this broad exposure to the market, we see clients pursuing different goals at different times. Last call, I gave you some color on the campaign run by Lyft in the second quarter. It was a great campaign with the press reporting that Lyft completed 13.9 million rides in July, up 12% from the month before.

In the third quarter, the big advertisers for us were in the beer and liquor category. This segment is middle of the pack in terms of its contribution to our total revenues at about 5%, but it was our top grower during the quarter in terms of incremental revenues. It's notable that all the major brewers were up, and we were pleased to see them targeting specific brands at unique audiences with campaigns tailored specifically for the Hispanic and African American communities, and specialty brands aimed at craft beer drinkers in specific markets and neighborhoods. These campaigns were deployed across virtually every display type we manage.

Our consistent growth shows the positive impact we can make for advertisers. What excites us even more, here at OUTFRONT, is what we see coming down the road as data and analytics allow us to give new levels of insight and targeting to advertisers, especially as it relates to behavior and location. As you saw in our numbers, we're able to invest in this future while still delivering growth, deleveraging the balance sheet, and paying out an attractive dividend.

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Finally, I'd like to update you on the New York City transit renewal. You may have seen the release we just put out. As you're aware, our contracts for the transit advertising on subway, bus and rail systems, were due to expire December 31, 2016. The MTA issued a follow-up request in mid-October that extended its timeline and refined its bid requirements, particularly relating to its digital advertising and communications platform.

We are currently working on our next bid submission. Therefore, as we announced today, we've entered into an agreement at the request of the MTA that extends our contracts through June 30 of 2017, unless terminated earlier on 90 days' notice through the – and by the MTA.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] We'll go first to Marci Ryvicker with Wells Fargo. Please go ahead.

Marci L. Ryvicker
Analyst, Wells Fargo Securities LLC

Q

Thanks. Jeremy, in your guidance for pace for the fourth quarter, you talked about both improved billboard and national. Can you give us a little color on that? And then I have a couple of follow-ups?

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

A

Yeah, sure. Thanks very much, Marci. So, yeah, as we look forward right now, our billboard business is progressing nicely in quarter four. Transit, little more difficult, but obviously there we did have the tough comp that I referred too. In fact, it's interesting if you go out now and look at some of the advertisers that are up right now; across many of our markets you'll see Twitter, Google, Snapchat, Facebook. So some great brands are using us right now. But as I also said, local has performed very nicely for us this year also in our billboard business.

I think if you sort of take one step back and sort of look at out-of-home as a whole this year for most of the messaging, it looks as if when you take the ad market as a whole, ex political, so in other words if you take political out, that once again the out-of-home industry is likely to maintain share. Obviously, we still to need to see Q4 numbers, et cetera, both ours and the market as a whole. But it's going to be in that region, which I think once again is a very positive statement for out-of-home.

Marci L. Ryvicker
Analyst, Wells Fargo Securities LLC

Q

Okay. And then also related to the guide, what would bring the AFFO above that high-single digits? Would that be something that's revenue driven or something that's more expense or below the line driven?

Donald R. Shassian
Chief Financial Officer & Executive Vice President, OUTFRONT Media, Inc.

A

Marci, this quarter we have really good flow through with sales in certain markets. We've got more of a fixed cost structure. More of that could help. And there are also some things we're managing on the expense line. And the maintenance CapEx is something we continue to manage, to be just smart and prudent about it. So I'd say it's a lot of different items; not any one item. Jeremy did mention, to your question earlier, that billboard was continuing

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to see improvement there. And again, that one really can drive this business. Getting the right revenue growth with the right assets can really give us a nice operating leverage, and that's probably the main area that probably could kick it.

Marci L. Ryvicker
Analyst, Wells Fargo Securities LLC

Q

Okay. And then my last question is about the digital billboards, putting up 80 to 85 instead of 100. It doesn't sound like it's because there's a slowdown in demand. It sounds like there is something else going on because you're actually going to be building those in the first quarter of 2017. So just want to clarify that?

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

A

Yeah. That's absolutely right, Marci. It's no change in demand. Putting up these billboards, I mean, it's complex. As, I think we've talked about before, you have very different regulations in each different municipality. In some markets we have, for example, a takedown ratio. We to take down static billboards in order to put in a digital billboard. And it's really then just a function of when we get the approvals from the municipality in terms of zoning, and then in terms of our lead time, in terms of posting boards, et cetera.

So no slowdown in timing. We fully expect that that little bit of catch-up from this year we're likely to do in the first few months of next year. And as Don alluded to, we're actually making great returns in our digital billboard conversions right now and the boards that we convert. And, if anything, I think over the next couple of years we're likely to start pushing that number north rather than south.

Donald R. Shassian
Chief Financial Officer & Executive Vice President, OUTFRONT Media, Inc.

A

And I am continuing to see a nice submission of business cases for conversions that, I would say, if anything, it's starting to increase. Just getting them all the way in the ground is just a timing issue.

Marci L. Ryvicker
Analyst, Wells Fargo Securities LLC

Q

Great. Thank you so much.

Donald R. Shassian
Chief Financial Officer & Executive Vice President, OUTFRONT Media, Inc.

A

Thank you.

Operator: Thank you. We'll go next to Alexia Quadrani with JPMorgan. Go ahead, please.

Alexia S. Quadrani
Analyst, JPMorgan Securities LLC

Q

Hi. Thank you. Just questions on the transit business. First off, I guess on the MTA, the New York MTA, the delay – this is not your first delay. Do you feel like you guys are making progress though or could this turn into kind of an evergreen, where – I know you're completely out of control here, but it could just keep getting extended?

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And then, staying on the transit business, you guys have had some great success in recent contract wins. I guess maybe if you could provide some more color in terms of what investments you're making or really what have you done to kind of help drive some of the success we've seen recently?

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

Yeah. Thanks, Alexia. In terms of not our first delay with regards to the MTA, actually to me sounds like classic British understatement. It's certainly true that the MTA process has been continually delayed. And if I remind you, we originally expected that we might receive an RFP document going back to around Thanksgiving in 2014. So there certainly have been some delays along the way, but it is what it is. It's out of our control.

As I intimated in the script, we're busy working hard on our next submission. We have always been cautious when we make any sort of public statement that we certainly do not want to get ahead of ourselves or in any way be arrogant. But we do continue to feel that we've been a great partner for the MTA over the last nearly 80 years; and we feel very good about the bid that we're going to be sort of putting forward in the coming weeks.

I think it does give us comfort I think and a good feeling that when you look at some of our recent contract wins, I think MBTA in particular, when you look at what the MBTA was looking for, actually it sort of looks and feels I think quite similar to some of the key pieces of the MTA's likely requirements. So we feel in a good place, but this has obviously got a long way to run. And we'll have to wait until that process finalizes, which is likely in the early part of 2017.

Alexia S. Quadrani
Analyst, JPMorgan Securities LLC
Q

Thank you.

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

Thanks, Alexia.

Operator: We'll go next to Ben Swinburne with Morgan Stanley. Go ahead please.

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC
Q

Thank you. Two for Don. Don, I was surprised by the operating leverage in the quarter. You mentioned fixed rate boards. You had flat U.S. direct OpEx in the quarter year-on-year. Can you just maybe help us think about how normal that is going forward? Is it something that you expect in the fourth quarter, or any color on sort of the percentage of your billboards that have those types of contracts? And if they are fixed, do they step up annually, so maybe this was the timing point? And then I had a question on taxes.

Donald R. Shassian
Chief Financial Officer & Executive Vice President, OUTFRONT Media, Inc.
A

On operating leverage, Ben. We actually take this down to distinct boards and distinct markets, and there are a number of our markets and regions that are predominantly fixed cost lease with minimal rev shares and minor increases we can see. We just have seen in this quarter a real nice sales effort in a number of those regions,

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which will really had a nice flow through. I won't be able to say it can happen every quarter, but it was really quite nice.

There are certain markets that are very high of rev share, which doesn't really give you that kind of flow through. But this past quarter, we saw in the right markets. And our people know about which markets are the ones that we can do that, and our people know which boards are most important to us. But sometimes the advertisers pick the locations they want, and you've got to go with that. So, hopefully, we can see more of it happening, but I think it does depend on each market each period.

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Okay. So your fourth quarter guidance, you don't have a particular view on the regional balance that you'd share with us today that might help us think about that?

Donald R. Shassian
Chief Financial Officer & Executive Vice President, OUTFRONT Media, Inc.

A

I think it's premature, Ben, to sort of give that guidance right now.

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Got it. And then I just want to make sure I heard you right. I think you said your cash taxes are coming in lower this year, you got a benefit this quarter from reversing prior accrued cash taxes or paid cash taxes because the TRS income is coming in lower. If that's correct, if you could just talk about why? Because certainly your revenue growth this year seems to be fine, and I'm just wondering if it's something maybe happening sort of on the tax books that we can't see?

Donald R. Shassian
Chief Financial Officer & Executive Vice President, OUTFRONT Media, Inc.

A

One item to clarify, Ben. First of all, it's not cash. The calculation is a current provision. It should approximate cash, but there's a unique difference there. What's happening is the projections that we sort of anticipated on the TRS side on taxable income are coming in a little bit lower. Part of that is some of the rolling stock estimates for the year are a little bit less than we anticipated. It could be on the transit side, it could be still on the station platforms and things that are not rolling stock. We also are making some investments in the business in the data analytics, et cetera, and a number of other initiatives where those expenses are partially being attributed to the TRS and driving that taxable income lower.

And then the last one is Canada itself, it hasn't been a great year for Canada. And so, it's a little bit behind where we expected it to be. So it's a combination of items. Our businesses are still continuing to grow, but some of the investments what we're making are hitting the TRS, which in a good way, to some degree, if it's able to minimize what we're paying to Uncle Sam, I'd certainly like to be able to try to do that where it makes some sense.

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

A

Yeah. That makes sense.

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Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Thank you.

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

A

Thanks, Ben.

Operator: We'll go next to James Dix with Wedbush Securities. Go ahead please.

James G. Dix
Analyst, Wedbush Securities, Inc.

Q

Thanks very much. Good afternoon, gentlemen. I guess I had three questions. First, any color in terms of vertical strength or weakness you're seeing for the fourth quarter? I know on its call Lamar mentioned a little weakness they were seeing in some of the commitments around the holiday season. So just wondering whether you're seeing anything similar, or the reverse?

And then, secondly, in terms of regulations, you mentioned for digital conversions they vary a lot by markets, anything broader that you're seeing either that would allow you to accelerate the pace or that might be a block to conversions in particular markets? And then the last is just kind of a follow-up, Jeremy. I think you mentioned that certain markets may have different takedown ratios. Any particular markets in mind which do have those takedown ratios, which you have to consider when you're doing digital conversions? Thanks.

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

A

Okay. Thanks, James. So let's take those. And firstly in terms of verticals, it's a little bit early to talk about Q4. We've still got lots of business to write. I gave you a little bit of color in terms of some of the advertisers we see up right now that are going to contribute to that slightly increasing national picture. And I think it's sort of worth – you mentioned the Lamar reference. It's quite interesting, if you look at the numbers I think their national was a little bit stronger than ours in Q3; and who knows that reverse may or may not be true in Q4. But what it does highlight is that we have very different businesses. We do business and we are actually, as you know, much more heavily weighted towards national. We're much more heavily weighted to, in particular, New York and LA. And we're more heavily weighted towards transit.

So actually we've got different products in different geographies. And I would always urge caution when drawing a line between ourselves and Lamar and the Clear Channel, who in a similar way have different brands as well.

With regards to digital conversions, in terms of looking to the future, is there's anything that's likely to create a hindrance to us converting. No, I don't think so. I think there are only now two states or really very small number of states who don't accept digital conversions. And to be honest, talking about the specifics of takedown ratio really is probably too granular. You can have a different ratio actually in the same market just dependent upon the absolute specifics of the individual board in question.

So I think from where we sit, it's more about potential acceleration in the future. I think that is likely to come through a continued slight decline in terms of the cost of digitizing boards. I think it's going to be driven by the incremental revenues that we'll be able to achieve when we get real-time audience data, and the ability then to

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push content to these boards on a far more real-time basis. So to us I think it's not about any blocks that we can see, but more about potential increased expansion rates as we go forward.

James G. Dix
Analyst, Wedbush Securities, Inc.

Q

Great. Good to hear. Thank you very much.

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

A

Thanks, James.

Operator: [Operator Instructions] We'll go next to Jim Goss with Barrington Research.

James Charles Goss
Analyst, Barrington Research Associates, Inc.

Q

Thanks. I was wondering in terms of the digital boards, if you could talk a little more about the considerations that drive your decisions about where to place them. And, in particular, the ROI in the added inventory and expense on one hand versus the inherent value on the other. And also the nature of ad demand since you can mix in local a little more with national because of the ability to change the displays at will. What sort of are the key things that drive your decisions?

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

A

When we look at a digital opportunity, I guess the first piece is actually what demand is like in the market relative to the digital build-out there. If you think that for the most part we're selling between six and eight different advertisers on to each board, what that means is that if 15% of the inventory is converted in a particular market, you've almost doubled supply.

Now the great thing about digital is it does draw new advertisers into the market, but you obviously have to be cautious in terms of where you're building out to make sure that you don't oversupply a market at a particular time. So we would therefore look at geographies, where from our point of view we think we have the demand. We'd look at geographies that give us better coverage in terms of when you look at our national presence. And then obviously just, quite simply, markets where we have inventory that we think it makes sense for us, if you like, to trade in for those conversions.

So I guess it's a mix of factors. When we look at how – our returns on those boards, we still tend to get around about 4 times increment in revenues, on balance we pay around 2X on rent when we convert those boards. And for the most part, we're still seeing IRRs of around about 25%. So it's all, as we say, good. And we don't always have absolute control of being able to build exactly the right number of boards where we want to, but those are the factors we are taking into account as we manage our digital conversion.

Donald R. Shassian
Chief Financial Officer & Executive Vice President, OUTFRONT Media, Inc.

A

And included in that, if I may, we also consider the deployment of a digital sign. Is it going to do anything on the pricing for any of the static signs in the area? So that goes in and factors into that. And we have done a review of all of our conversions over the past several years, compared them to the original business cases. And I feel very

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comfortable in saying that every one of the conversions that we have done from 2011 forward have had returns of at least 25% or higher. So I think we've been just very smart about them, and I think we'll continue to be very smart and thoughtful about trying to do the right places.

But the one item, Jim, and I'll just make one underlying comment, it is market-by-market and it is our people in those markets that know that market, and know the demand, and know the locations, and know the competition, that is where we get the input from. It's not something that's being driven from here, it's being driven by our local people identifying those opportunities for us.

James Charles Goss
Analyst, Barrington Research Associates, Inc.

Q

Okay. That's great insight. Just a couple of other things. First, to what do you attribute the decline in D&A in the quarter, or the decline in the growth of D&A?

Donald R. Shassian
Chief Financial Officer & Executive Vice President, OUTFRONT Media, Inc.

A

Decline in D&A?

James Charles Goss
Analyst, Barrington Research Associates, Inc.

Q

I think it was a little – or it didn't increase perhaps as much. I was just wondering what had occurred.

Donald R. Shassian
Chief Financial Officer & Executive Vice President, OUTFRONT Media, Inc.

A

Jim, there are some assets that have been fully depreciated coming off. It's probably the biggest item if you're looking at it. Obviously, you've got Latin America that's been out of there for a couple quarters. If you're trying to compare that year-over-year, that probably is the biggest item that's there.

James Charles Goss
Analyst, Barrington Research Associates, Inc.

Q

Okay. And lastly on dividends, your share buy backs will benefit your per share dividend rate and I'm just wondering is something driving your dividend policy in terms of whether or not it would stay the same or increase in terms of your policy or REIT requirements?

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

A

I guess, the first point is that, Jim, we're not going for any sort of share buy back proposals right now. That's not really on our radar. Our board considers the dividend on a quarterly basis. We've held it firm at $0.34. We take into account obviously a range of different factors when we consider that. And our board will once again be reviewing it at our board meeting in the early part of next year. So not really much I can add there, Jim.

James Charles Goss
Analyst, Barrington Research Associates, Inc.

Q

It's okay.

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Donald R. Shassian
Chief Financial Officer & Executive Vice President, OUTFRONT Media, Inc.

A

The underlying philosophy of this business is to grow the business, grow the revenue, grow the OIBDA, grow AFFO, continue to pay down our debt. But we're looking to – as the business grows – to increase the dividend. That is an underlying thesis that we are pursuing here.

James Charles Goss
Analyst, Barrington Research Associates, Inc.

Q

>: All right. Thanks so much.

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

A

Thank you.

Operator: Thank you. And it appears there are no further questions. Please go ahead.

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

Thanks, operator, and thanks everyone for your questions and your time today. And we very much look forward to seeing many of you at investor events over the coming weeks. Thank you very much.

Operator: Ladies and gentlemen, this does conclude today's conference. We thank you for your participation.

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