13-Sep-2017

OUTFRONT Media, Inc. (OUT)

Goldman Sachs Communacopia Conference

Copyright © 2001-2017 FactSet CallStreet, LLC

CORPORATE PARTICIPANTS

Drew Borst
Analyst, Goldman Sachs & Co. LLC

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

MANAGEMENT DISCUSSION SECTION

Drew Borst
Analyst, Goldman Sachs & Co. LLC

I think we'll get started with our next session. I'm pleased to welcome on stage Jeremy Male, the CEO of OUTFRONT Media. Jeremy's been CEO since September of 2013, so four-year anniversary, I guess, happy four-year anniversary. Prior to joining OUTFRONT, Jeremy spent 13 years as the CEO of the UK, Northern Europe and Australia division within JCDecaux. Thank you very much for being here, Jeremy.

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

Thank you, Drew. Good to be here.

QUESTION AND ANSWER SECTION

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

So, since the separation from CBS in 2014, it's been a busy three years for you. You've rebranded the company to OUTFRONT Media, completed the REIT conversion, restructured the sales operation, bolstered the U.S. footprint with the acquisition of Van Wagner and you've also divested some non-core businesses, including Latin America. With all that accomplished, what are you looking to do sort of as you go forward, what are your strategic and operational priorities?

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

A

So, thanks, Drew, and good afternoon, everyone. Maybe just one quick word in terms of forward-looking statements. We have a Safe Harbor statement on our website, just to refer you to that.

So, yeah, it has been a busy time over the last four years. I think we've achieved quite a lot. As we look forward from here, from my point of view, I don't think too much has changed in terms of a strategic direction. We remain very focused on getting some incremental growth in our EBITDA. I think we're going to get that through continuing to focus on yield overlaying, and I'm sure we'll get into some of these themes later, but overlaying data and insights that I think that will make our medium more attractive to advertisers of today. So, it will be yield, if you like, through technology; it will be yield through new product development. We've launched OUTFRONT Mobile.

Copyright © 2001-2017 FactSet CallStreet, LLC

We've done vast number of campaigns now where we integrate our media with mobile, and I think that could be an important driver in the future.

We'll continue to digitize. We know that we can make attractive IRRs through digitization. So that will be a continued focus, and we will continue to look at selective M&A. So, from that point of view, I think most of those things have been a focus in the past, and I think will continue to be a strategic focus as we go forward.

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

Thank you. I guess, let's get the obligatory New York MTA question out of the way. I guess, the decision, as you said in the last earnings call, is expected on September 25th at the MTA board meeting. Can you talk about – has anything changed, I guess, firstly in that expectation, and then you could just speak briefly about what your confidence level is in terms of retaining the contract.

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

A

So, nothing has changed in terms of timing as far as we know. It's fair to say that timing has changed a lot over the last two years, or however long it's been since we've been involved in this process. But as we understand it right now, that's still – we believe that their decision or decision of the committee would be ratified at that board meeting, that's 25th.

Step back from that a bit, I think there's an agenda that's public. I'm not certain whether – how granular the information will be on that agenda, but certainly, within the next couple of weeks from where we are today, we would expect a decision. It feels like the wrong time to be talking about confidence or otherwise when the decision is just literally a few days away. All I can say is that we think we've put in a very attractive bid, and we're very excited at the opportunity that, if we're fortunate enough to be selected, that that contract will afford us.

I talked earlier about digitization and the fact that – if you look to other markets around the world now, you've got – in the second quarter, in the UK, I was interested to see that 46% of all out-of-home revenues in the UK are now digital; that's 2.5 times effectively what it is in the U.S. So, we've got an awful long way to go. And projects like the MTA will be a very key piece of that, because, I've said before and I don't think it's any secret that a significant part of the MTA bid is about digitizing what is currently an analog landscape certainly from a media point of view, but also sharply enhancing their ability to communicate with their passengers through technology, essentially through our digital screens. So, I'm very excited at what a win of that big could do for the business, if we're fortunate enough to be selected.

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

So, aside from the MTA, OUTFRONT's done a great job adding new transit contracts to the portfolio and most notably the Boston contract earlier this year. Maybe you could talk about how does – you secured that contract and discuss sort of the pipeline of opportunities that you see for adding incremental transit contracts over the next couple of years?

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

A

Sure. I'm going to talk about Boston in one second. So, I mean, for the most part, actually the last year has been about defense if you think about it, because we've had this huge MTA contract to renew. At the moment, LA,

Copyright © 2001-2017 FactSet CallStreet, LLC

which is obviously much, much smaller franchises, up for bid. We got small billboard piece of the MTA that's up for bid. Whereas when we look forward, yeah, it's certainly about offense, assuming we can get all these buttoned down over the coming weeks. Next year, San Francisco, BART comes up, Bay Area Rapid Transport (sic) [Bay Area Rapid Transit] . The year after, the CTA in Chicago, which we think could be a significant opportunity. So, get 2017 behind us, and I really think it will then on offense.

As to Boston, yeah, it was a great win. A significant part of the reason for that win, we are told and at the time, obviously, we could tell from the bid, was actually about our tech piece, which is – you will remember that two or three years ago, we invested in acquiring some technology in-house and that is now proving itself, I believe, with the Boston win. I hope that it's part of an MTA renewal. And I think that we've got a good mousetrap; we've got a good mousetrap, but I hope things will appeal to other transport authorities.

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

Let's talk a little about the broader out-of-home market in the U.S. and sort of what the recent trends have been. It's clearly been a bit of off year for the industry overall, growth is about 1%; historically, it's been more of a 3%, 4% growing industry. You look at the macroeconomic indicators, they are reasonably healthy, not overly robust, but sort of stable. Can you talk about your confidence level in terms of like whether this is just a sort of a speed bump, a pothole, what have you, or sort of a little bit of all, or is this potentially more of a secular shift where out-of-home is may be falling out of favor with ad buyers?

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

A

I think to answer that question fully, Drew, I mean, you have to take a little bit of a step back in time. And if you look at out-of-home on a worldwide basis, basically at least from – since really digital became part of the media environment in any real sense, which was kind of like probably three, four, five, that sort of time, we then went through the global financial crisis, we came out the other side, all the way through has either out-of-home maintained or slightly increased its share dependent on the market. And if you like, I'd say out-of-home has maintained share in the light of effectively now half of all of the ad market being digital in some way or other.

So, I'm a fundamental believer that we've actually – that we've weathered the storm. I think when you look at the ad market this year, I think it's far more granular, I think it's far more about some individual allocation decisions by certain larger clients that skewed the numbers a bit. I mean, our business itself, our national revenues were down high single digits in Q1, mid single digits Q2 and we pointed to an improving trend and hopefully we will see that in Q3.

But, as and when you get into it, as I say, it's actually about relatively small number of advertisers, I don't think it's about a secular shift. I actually believe that what we were talking about earlier on, which is actually overlaying a much more digital approach to our media, not just in terms of physical hardware, but in terms of how we sell it, the data we provide on it, how we then sort of – how we transact it and then how we transmit it, I think will all be positives for the medium and that will, as a minimum, ensure that it maintains its share as we go forward.

When you look at who is buying out-of-home, so where are we up this year? Tech is our strongest category. Who's our largest advertiser? Apple. What – clients spending increasing dollars with us over the last sort of 12 months, with the Googles and the Facebooks. Where did Snapchat go when they wanted to have a great statement ad for their IPO? It was our sign in Times Square.

Copyright © 2001-2017 FactSet CallStreet, LLC

So, everything that out-of-home and has done – everything out-of-home has done so well for years and years and years, okay, which is connect and build brands with mass audiences hasn't changed. We're never going to be that one to one medium, but I think we can be a data and insight infused medium on a one-to-many basis where – which is all about location. And as we go forward, I think media is increasingly going to be about – as one of the Publicis guys said, it's going to be about, as much about where you are as who you are. And we're all about the where you are. So, it's a bit of a long answer, apologies, but, in terms of is this a secular trend, really don't think so.

Drew Borst
Analyst, Goldman Sachs & Co. LLC
Q

Yeah. Thank you. You touched upon this in your response, but there has been kind of a bifurcation in the national versus the local where national has been declining maybe mid to high single digits and your local business has been growing nicely due in part to the Boston contract, but even beyond that, it's still growing. Maybe you could talk about what you're seeing, sort of what's causing that divergence in growth?

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

So, you're right. Outside of Boston, I mean, we still have some great growth I think in our local business this year. I think there's two reasons for that. I think one reason is actually, for the most part, we know that obviously there is some pressure in retail, but for the most part, main street hasn't been doing too badly. We've put an awful lot of work into improving our sales operations. We have a big sales force, 350, 400 people; we have 40 local offices across the U.S. and we put a lot of work into how we recruit, how we train and how we motivate and how we compensate. So, that's I think a result of that.

And there's one other thing that I think is important to say in fairness and that is that when we look at the signage, if we haven't sold something to a national advertiser, there is, if you like, at the margin, there's the possibility that there's more available to sell locally in the market. Now, quite a lot – so that – actually there is a sort of shift. They have more inventory to sell than they would have otherwise have sold. So, that is also part of it to be completely clear.

Drew Borst
Analyst, Goldman Sachs & Co. LLC
Q

I don't know if there's anything you'd care to comment in terms of like what you're seeing in the current market. I know, I ask that question knowing you generally have a policy of not doing that, but I figured I'd ask anyway.

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

Thanks for asking anyway.

Drew Borst
Analyst, Goldman Sachs & Co. LLC
Q

That's my job.

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

Copyright © 2001-2017 FactSet CallStreet, LLC

Yes, absolutely. So, we've obviously guided on Q3, no change today on that; so, sort of business as usual. And no, we don't – I don't want to give any further comment on Q4 right now. I think we would probably cover it otherwise, but when we just – as we're just talking about today and trading and things that might be an appropriate time just to mention the kind of weather impact sort of piece, because that's important.

So, as we look around, we were very fortunate in Texas, in Houston. We only lost one board, which is – we hurricane-proofed a number of our boards in the early 2000s, which has obviously helped significantly. In Florida, as I sort of came in, we were around 35 boards down, we still haven't got all the way down the Keys, so there will be more boards down there. But it's going to be I would guess somewhere between 35 and 100, something like that. So, the total capital cost of 100 or might even be outside, I would guess. So, the total capital cost associated with that, we don't think is going to be much more $1 million and $1.5 million, so relatively small in the overall scheme of things. So that's one piece of it.

The second piece is that one of the reasons that we have so few boards down out of the thousands of boards we have in the region, is that we take down the copy, so that it doesn't form a windbreak. So, we take down all the copy before on the exposed board and then we put it back up once the hurricane has passed through. Now, what that is, is it's downtime from an advertiser point of view. So, we lose some display time there between the up and the down. We still can't get out in certain of the places to put all the copy back up. So that's a little bit unclear of the impact there, but I would guess, it's maybe a couple of million dollars of revenue, something like that that we may be exposed to.

And then the third piece is just what happens in those markets, like from here in terms of when do they bounce? I mean, you can imagine that you're going to have some different advertisers wanting to advertise in Houston in the next three months. And if we think about it, Autos I think, could be used, the kind of home improvements and this, and builders and solicitors and legals and blah, blah, blah, attorneys whereas you probably you might not get one of the big cruise companies advertising in Miami for a while. So, we think we will see some shifts. I think on balance, it seems that these events aren't necessarily bad for media, but I think it will may take – that will take a little while for it to shake out. But that's harder to quantify, but I think I hope to be pretty much on the money with regards to the other two numbers I gave you.

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

Yeah. And I guess, you disclosed that Huston is about 3% of the overall revenue for the group.

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

A

Yeah.

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

And you haven't – like how much is...

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

A

If you sort of put together all of that, all of the kind of hurricane hit sort of area, I mean, when I say that, I mean not – you know what I mean where there was real impact is something like 9% to 10% of revenue, something like that.

Copyright © 2001-2017 FactSet CallStreet, LLC

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

9% to 10%. Thank you for that. I was wondering if you could talk a little bit about, again broader ad trends within your book. What sort of trends are you seeing amongst the verticals, right? I think, on the last earnings call, you talked about auto being weak, and auto is probably somewhat self explanatory in terms of what's going out at SAAR, but telecom is another category where you've seen a little bit of weakness; that is different than what we're hearing from one of your peers, Lamar, where they seem to be having strength. But, I don't know, maybe just speak generally about, which verticals are sort of showing strength, which are not, I mean is there anything sort of to be ready into that for the longer term?

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

A

I think actually telecom is a great example of why. I think it can be a little potentially misleading to look at out-of-home national and draw too many conclusions in terms of verticals. Because if you think about the top 200 advertisers, they're spending a couple of percent of their dollars out-of-home. So, it's relatively – you're talking about relatively small piece of that. And Lamar is a great example of where just because of one particular advertiser's desire to build presence in, generally some of the smaller markets, you've got it, it's been an up category for Sean and a down category for us, because actually some of our key markets that were used by a particular telecom company last year, Miami for one, actually wasn't on the schedule this year. So, you can get one decision, by one carrier in one market and it can have that kind of swing.

Yes, in general, auto has been down for this year. Part of that was GM and Chevy spent a lot of money with us in the first part of last year, that didn't repeat this year. So, once again, part of it was just on sort of more one client driven. Beer, beers are down for us this year. On the upside is – as I said, tech is our fastest growing category and that's very positive. Entertainment has been strong for us this year. And for us, health and pharma has been strong this year. So, that's what's going on. I would just caution really – trying to draw a straight line and saying that this is a trend because you can get these nuances just between the two main players.

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

Right. In the case of your book of business and you're concentrated in New York and Los Angeles, it's a little bit north of a third of your total revenue. And I guess, I wonder if you're seeing any divergent trends between kind of these two big urban markets versus sort of some of the smaller markets, recognizing you're in pretty big markets overall, you're concentrated in top-20, top-25, but is there anything sort of interesting going on in terms of the geographic trends?

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

A

You're right. Around 35% of our total revenues are between New York and LA. And it's fair to say that national money tends to be directed towards the larger markets. So, we find that to be the case. So, I mean, just looking between those two markets, actually the West Coast for us has been – has really been pretty good for us for the last two or three years. We've seen some great advertisers come in like Netflix and Hulu and others that have been part of that. While those advertisers also support us in New York, we found that we noticed the missing national advertising dollars more in New York than we have on the West Coast. Outside of that, we're in sort of around 58 markets. And so, in the mid-30s of those are up, and then you have the balance, you know what I mean – slightly down, it's very much like, at any time, it's like a basket of – it's like a basket of performances that contribute to the whole number.

Copyright © 2001-2017 FactSet CallStreet, LLC

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

Yes. I presume sort of the variances tie generally reflects the local economy or what may be happening in those regions, is that kind of the correlation you see?

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

A

Yes, some of it can be. Yeah, part of it can be that; some of it can be – you may have had, could be as simple as you've had some one particular big advertiser; maybe just falls out that's difficult to replace. In one, you may have a market that's $5 million a year, you have a $0.5 million advertiser fall out for whatever reason, be it a national advertiser or a local advertiser. And sometimes, they take a while to replace, so that could be part of it. Some of it could be personnel change, some of it could be more granular than that.

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

When you talk about the business, you guys are very focused on managing the yield; and in the years past, investors have sort of gotten used to hearing statistics about sort of rate and occupancy. But, I think all the players have kind of shifted their focus to yield management. Can you talk about sort of that shift in sort of philosophy or maybe wasn't a shift for you, but can you talk about why you're so focused on yield rather than sort rate and occupancy?

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

A

Because ultimately, the multiple of rate – times occupancy is effectively the number worth concentrating on. I don't want one of my – if you have 20% of our boards for example, we sell on a permanent basis, annual basis and a large number of those renew each year with the same advertiser. So, I've got a 100% occupancy. Am I happy? No. Because the only thing that's important on that board is how much incremental rate I can get when I come to renew that board. So, that's why we're all about yield rather than all about occupancy. And we're trying to push that philosophy down into our sales force, so they understand that. So, we're spending more time thinking about the history on the board. So, how often has that board been – if you got a board that has a rate of 10, and you've sold it 6 times on average in the last year, you've made 60 on that – you've made out of the potential of the 120. So, actually, I might better going up, and I'm better going up and trying to get that board pushed out at 7, 7.5 and get an annual booking.

Just very simple example as to why for us it's important to always think about it. Okay. How can you increase yield and we're trying to push sort of yield management tools down to our management and our sales force, so they can start thinking about the world through those eyes rather than – it happened to me in 2013 when I came over, one of my managers said, it's great, I'm 100% sold and I said, where are you on your budget and they said, I quite made it.

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

How far along are you in that process of sort of deploying those tools? I mean, is it you're sort of fully out there? There's obviously an education sort of component I suppose to it and maybe a cultural change in some of your regional offices.

Copyright © 2001-2017 FactSet CallStreet, LLC

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

A

When I think of how, some of the other platforms I interact with in terms of yield management. So, if you think about booking a flight and you go on once, you check it out and there is a rate and you go back – if you don't book it then; next time you go on, it's have gone up, because the algorithm is saying, hey, there is more demand – there is more demand for this. When I look at how other industries are, we are still extremely far behind. So, we're not far down – we are not very far down that continuum. But as you know, we're putting significant investments into our tech stack, which will go from start to finish. So, hopefully, we will be available on other exchanges via our API within ad agency so they will be able to go in, they will be able to put in what audience they want through our DMP, which is going to be principally fueled by cell data with other location data and other data that all goes into it.

You will be able to sort of say, okay, I'm targeting this audience, what are the best boards to buy that, you will be able to go in. And we will be able – then is available and then at what rate. By then, as we build up our data, we will know how many people have searched for those boards, how many signs have come up, therefore what could we price it at and then you'll be able to purchase. And we will have a much more seamless process certainly for our national advertising base as we go forward. Is that going to change the lives of Joe's Mufflers who wants that board by his outlet just because he wants that board? No, but realize that could it make a big difference to how we start managing yields within our national advertising business? Yes, I think it could. So, as I say, we're on the move but we're not there yet.

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

I think there is this concept like, as your inventory becomes more digital and a screen is a screen is a screen sort of concept, and I guess, I wonder, are you in these platforms lined up against other sort of digital? Can you get your digital inventory next to another, whatever, maybe a phone or a PC or whatever? And can billboards, digital billboards compete in that space and sort of take share from other digital screens?

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

A

I think I'm absolutely certain they can, but they have to be seen at the time of the allocation decision. So, what's the different things that I could do, at what CPM, on what screens, and that's the time to add them, not at the moment, we remain too often a bit of an afterthought, a bit of a while I've still got some budget, so let's allocate it to out-of-home. I'm totally convinced we can. And once we have the ability to – and I use this word with a small p, programmatically trade media, it means that I'll be able to trade audiences in real time. So, you'll be able to buy – the audience at Grand Central that are going up to the Yankees game on a Tuesday evening between 5 and 7. And as soon as you can do that, so at the moment for the most part, we're sending ads for a month as soon as you buy that 2-hour slot, because you want that audience because for whatever reason, you think of the value add that that has for our industry in general. I mean I think it's huge.

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

On the topic of yields, in the most recent quarter, the billboard yields were down in both static and digital. And over the years, the industry has sort of wrestled with sort of how quickly to convert from static to digital. And there has been a concern, if you move too fast, you may cannibalize yourself. And I guess I'm trying to get a sense, when you look at the current environment and these declining yields. I mean, is that an issue currently or is there something else going on that's causing the yields to decline?

Copyright © 2001-2017 FactSet CallStreet, LLC

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

A

I mean, from our point of view why yield's down is because national advertising is down. I mean, that was -...

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

Yeah.

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

A

...yeah, it was just the demand thing. It's actually far less about price. When we drill in, if we – if you do, do that the kind of the old math, if you like, that's the kind of rate and occupancy, it's about that occupancy. So, we just, do you know what I mean, there is just not enough demand out there. The people that buy are quite happy to buy at the rates that we're proposing for the most part. Because, obviously, at the margins, rate is always an issue in a market where there is low demand.

So, when I think about yields in the future, and when I think about digital, whenever we look at a digital opportunity and I'm – now I'm – by the way, rather than talking about digital, if you like, within transit systems, I'm talking about the classic digital billboard. We certainly consider what that – what impact that board may have on our static boards in the same area or in the same vicinity on the same route, whatever it happens might be, because we just have to be aware every time we build a digital board in wherever it happens to be, it doesn't necessarily increase advertisers' budgets in that town. May draw in some new money but it may also take other money. So, we manage that very carefully. We're still achieving roundabout 100 conversions a year. We're still making a roundabout 4x in terms of incremental revenues on those digital boards. And we're still achieving IRRs of around 25%. So, those metrics are still fine.

But if you look back at the industry as a whole, it's fair to say, and this is not just in the U.S. by the way, if you look outside of the U.S. as well, a lot of the industry's growth is about – it's about digital. And that the sort of the analog piece is – some of it is very clear because if you digitize the MTA advertising platform, you're going to lose a whole load of analog revenues and you're going to gain a lot of digital. So, some of it is inherent in the fact that you're converting analog to digital. And some of it is just, I think, will be about the fact that digital – the flexibility that digital will have, will, do you know what I mean, also draw advertising dollars.

What we're trying to also spend a lot of time doing and this is once again fueled by – fueled essentially by cell data and other is to also what value can we add to our classic analog boards, do you know what I mean, we're never going to convert it to digital but it's still a great out-of-home location. So, as soon as we know exactly who goes past it, so if you know this, you know where they live, you know where they work, you know did they turn left to the McDonald's where it said turn left, so, therefore, you're starting to get some ROI, you're starting to get attribution metrics that you can overlay on top of that.

What we hope to do is for every billboard we have is really – it will have an individual personality. So, even if you've got – if you've got two businesses, two billboards at the moment, one at an intersection, one facing – this facing the intersection and the other facing that way. At the moment because they're both on the same intersection in Brooklyn, they're deemed to have effectively the same audience characteristics. Actually they're, probably, very, very different, if you work – because may be that route goes to Westchester and this one goes to Queens.

Copyright © 2001-2017 FactSet CallStreet, LLC

So from that point of view, if we can start getting that granularity and depth of information, I think we can start adding value, particularly if that one – with the competitor, for example. So that's the route we're going, which is to say, okay, it's not just about digital, it's how can we utilize our tech stack to add value to our static inventory, because sort of 1.5%, 2% converted in terms of digital billboards. If we multiply that by 3 in the next three to five years, we're still only a 5-ish percent, I'm still – 95% of my location is where I'm also concentrating, making sure that we're concentrating on in terms of adding value.

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

And so, where are you in that in terms of that process? Because it makes a lot of sense in terms in getting that technology, that data and then leveraging it to improve that sort of sales process? I mean, are you a quarter of the way there or what needs to happen to get there?

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

A

I think we're close, it's been – we've been, as you know, because we typically call it out, it's been – we've been allocating dollars to it. We think that it's a key piece of our future, I would hope that we're certainly in full test with number of agencies, in the early – well, early spring of next year, that sort of timeframe, and in sort of a fuller test, as we go through the year. But, this has been – this is very much part – it will be a 2018 sort of event in terms of actually trading media in this way albeit, it might not be across all of our agency interfaces.

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

And let's get – so this ON Smart is another initiative, I mean, is this part and parcel with what you're just discussing or is it...

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

A

Yes, we've used the ON Smart sort of brand to cover a number of, if you like, kind of tech initiatives. So, the tech stack of which the DMP is part of it, we use it to cover the fact that – to cover something called OUTFRONT Mobile. So, now through xAd, now GroundTruth, we have a white label product whereby we're selling mobile ads typically triggered by a geo-fence around our board or around our store. We've done, whatever it is, 1,500 mobile campaigns now. So, we're now a significant seller of mobile. And we have huge amount of data to say that, if you see the ad here, and you see it on the billboard, you're twice as likely as X percent – is about 50% more likely to click through on the ad on your cell phone if you've it reinforced or you've been re-targeted by a billboard. So, that's another piece of the initiative.

Included within that is our cell leasing – cell site operation...

A

Small cell.

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

A

Copyright © 2001-2017 FactSet CallStreet, LLC

...small cell opportunity, where we are now at a stage where we now have those 25,000 locations in the hands of the carriers and the IoT companies et cetera. I think that will be an interesting and growing part of our business in the future. We don't talk it up because we don't want to have numbers put in a forecast. But if it's $1 million or $2 million today, I think it could be a significant – a much more significant number of dollars five years down the track when you look the requirements that the carriers and others, they're going to have data.

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

Earlier when you were talking about the transit business and the pipeline, and you mentioned there are sort of number of opportunities where you're not the incumbent, so sort of greenfield for you. I was wondering if you could speak about how aggressive are you going to pursue those opportunities versus sort of when you think about your REIT structure, not all the transit assets can be included. I mean, is that a limiting factor to bidding for some of those opportunities?

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

A

When you look at our business actually in terms of QRS and TRS, actually the TRS, we have a lot of room to grow before that. And although we, obviously, got taxed on those dollars, actually when you look at the transit business in general, it's a great business. We think it's likely to be the fastest growing or a faster growing piece of the out-of-home market on a going forward basis. We want to be in that market.

And you can get good return on capital. Depending on, there are many different capital models in transit, either the transit companies pays for it upfront or we pay for it and get a deduction or we take it on the chin, whichever you do it, it's still a great return on capital business. So, we want to be in the transit business for sure.

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

And what is it you think that will cause that to be a better or faster growing part of the out-of-home?

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

A

I think when you – if you think about the opportunity to digitize – and particularly I'm talking about indoor environments. You can get full motion, so all of the ads that you current – if you went on to your Snapchat feed now and just sort of looked all the ads you're getting served up, none of them have sound, all of them can go straight down, do you know what I mean, onto that advertising platform. Whereas you're restricted to non-movement. You have the zoning issues. So you might desperately want to put a board – new digital board and you can't do it. We can't put any digital boards up in LA right now. So, there are other factors at play that will, I think, slow that down.

I think the other thing that as we look forward, and it's – this is a – for debate, but right now, most people believe that urban centers are going to get bigger, do you know what I mean, that the big cities will get bigger. Big cities are all about transit systems. So, I think as you get more eyeballs, you get more people, I think that that will also drive growth at a higher rate, maybe than some of our billboard networks.

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

Yes, could you control that inventory? You can move digital more quickly [indiscernible] (40:31).

Copyright © 2001-2017 FactSet CallStreet, LLC

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

A

It's moving more quickly, and arguably there may be more eyeballs out in the future.

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

Yes. Why don't we see if there is any audience questions, if not I can -- I have many more. Sure, back here.

Q

When I ride to subway in New York, I see a lot of empty space in ads, I see a lot of things that make it look like there is not robust demand for ads. So, I just wondered if you have any comment, because I just -

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

A

Yeah.

Q

What you've been saying doesn't square with what appears to be what I'm seeing, which suggest to me that, I don't know, that things are softer than we see.

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

A

I didn't catch the last thing, but let us just – let's say – that's fine, let's take the – I think I got the nuance of your question. I think we go back to another question that Drew asked and talked about, okay, regionally and geographically, do you know what I mean, what have been the really strong markets, and I sort of implied that with the national advertising, and this has not been our strongest market. But for the most part, I mean, I ride the subway a lot, I take transit every day from Greenwich, Metro North, down and rode the subway down here, et etcetera this morning. And look, you do see blank spaces. I don't think there is any – there is no network that you don't. It's – but if you look at the revenues associated with our subway business this year, do you know what I mean, on a relative basis, there is no alarm there.

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

Okay. Maybe I'll round things off with maybe a question about your AFFO guidance. In the first half of the year, you were down about 13%; you are guiding for the year to be down slightly, which implies a second half acceleration, probably, to maybe the low single, maybe high single-digit kind of growth. Maybe you could just sort of enumerate what sort of the key drivers of that, I mean is it strictly a top line sort of story?

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

A

Yes. I mean, as you know, there aren't that many moving pieces in AFFO. Obviously a key moving piece is OIBDA. And that the key driver of that is revenue. After that cash taxes is in there, for the most part, there is somewhat known. Maintenance CapEx is in there. And that the maintenance CapEx in the first half of this year

Copyright © 2001-2017 FactSet CallStreet, LLC

was higher year-on-year but, which has been a piece of AFFO so far. So, those are the main moving parts. And as of now, we've no change to the slightly down guidance that we provided.

Drew Borst

Analyst, Goldman Sachs & Co. LLC

Okay. Well, thank you very much, Jeremy. I appreciate you being here.

Jeremy John Male

Chairman & Chief Executive Officer, OUTFRONT Media, Inc.

Thanks, Drew.

Disclaimer
The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2017 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.