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OUTFRONT Media, Inc. (OUT)

Business Update Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the OUTFRONT Media, New York MTA Call. At this time, I'd like to turn the conference over to Gregory Lundberg. Please go ahead, sir

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

Good morning, everyone. Thank you for joining our conference call today regarding the New York Metropolitan Transportation Authority, which during the call we'll simply refer to as the MTA. On the call today are Jeremy Male, Chairman and Chief Executive Officer; and Donald Shassian, Executive Vice President and Chief Financial Officer.

You can find a slide presentation for today's call on the Investor Relations page of our website, outfrontmedia.com. After today's call is concluded, an audio archive will be available. This conference call may include forward-looking statements, relevant factors that could cause actual results to differ materially from these forward-looking statements are listed in the slide presentation and in our SEC filings, including our 2016 Form 10-K.

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

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

Thanks, Greg, and good morning everyone. We're very excited to be sharing this news with you today. It's truly an extraordinary opportunity and one that's been a long time coming for all of us at OUTFRONT and frankly also for you as our investors. With this announcement, we are embarking on a total transformation of the world's largest transportation systems advertising and communications platform.

So turning to slide 3 in the presentation. Again, this is an immensely important win for OUTFRONT. We have entered into a new long-term contract up to 15 years with the MTA for all three advertising concessions, covering subways, commuter rail and busses. This is really a once in a lifetime opportunity. Before we get into the details, slide 4 is important to give you a sense of what this transformation entails.

You can see here that the shared vision of the MTA and OUTFRONT is a substantial digitization of the platforms, stations and railcars across the transit system. What you can't see in this slide however is that these are all full motion and high definition video. They are highly impactful state-of-the-art displays. Our YouTube channel has some recent video showing how this looks in Boston, which I encourage you to watch. For advertisers, this creates an entirely new network, a new digital channel through which they can reach any audience in New York City with content that is infinitely more dynamic than is possible today.

On slide 5, a more highlights of what this new network entails. Quite simply in terms of system miles or audience or stations that is the digitization of the largest transit system in the world certainly in terms of stations and route miles. We are transforming the traditional transit advertising market into a new digital ecosystem that will include full motion high-definition video. The opportunity for an advertiser to focus on an individual station in real time or dominate the entire network at once, real-time advertising triggered by events, app-enabled advertisements tied to conditions around the display and seamless integration with mobile devices.

You've heard us talk a lot about our data management platform and technology stack. Data and analytics will be a critical part of fielding the growth of new advertisers to digital, and indeed our analog displays over the coming years. It will be a critical catalyst to deliver any target audience in New York City to our advertisers. A broad network of screens also opens up our traditional out-of-home advertising market to an entirely new set of clients. So, we're currently spending that budget in mobile video, television and other media. We could now enter into real-time content partnerships and sponsorships and show full motion video without the zoning restrictions associated with digital billboards.

Imagine your journey to work today, while standing on the subway or train platform, one of our screens could give you an update of the world news or the latest track of a hurricane. While inside the railcar, a headline in captivating image from a New York Times story may have caused you to search out the story to read later, while an advertisement for a ski resort in Vermont reminded you that winter is coming, and you need to make your plans, as you leave the station another sign highlights a local restaurant that place their self-service ad by an app, about a wine tasting tonight in your neighborhood. The possibilities are truly endless. We think we're creating a must-buy medium for advertisers, who want to reach New York City audiences.

And now I'll turn the call over to you, Don, to talk about the details of the contract.

Donald R. Shassian

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

Thank you, Jeremy. As you know, the board of directors of the MTA at the scheduled meeting yesterday, the 27th of September approved the award of these three concessions to OUTFRONT. There are aspects of this agreement that need to be executed in a contract which is not yet happened. That said, on slide six, you can see the broad terms of what we've agreed to in a very balanced partnership. As you all know, reaching this point has taken a long time and for good reason, this is an extremely well fought-out an incredibly detailed agreement.

The term of the contract is 10 years with an additional five-year extension at our option. So effectively a 15-year term. Similar to most transit contracts, there is also an agreed upon revenue share with a minimum annual guarantee or MAG. With the MTA, we have agreed on a MAG that begins at $115 million in year one and increases thereafter at the Consumer Price Index, or CPI.

To put this MAG in perspective, in 2016, the advertising revenues generated on the MTA contract were approximately $212 million and the revenue share was $142 million. The revenue share in the new contract is uniquely linked to the screen deployment. Out of the gate, we negotiated that the revenue share in the new contract begins at 55% on the first $209 million of annual base revenue, which will, like the MAG, grow with CPI. This revenue share applies to the collective revenue of all three transit systems. It is important to note that this is a meaningful step down from our current 2017 blended rate of 67% across the three systems. Therefore, we will see an immediate benefit to OIBDA and AFFO under the contract.

The contract calls for us to deploy 54,000 digital displays, which include 46,000 that will be for advertising and 8,000 for the MTA to communicate with its customers. The timeline in the agreement currently plans for 80% of these screens to be installed by 2022, with 17,000 installed within the first two years of deployment. We will acquire and install the equipment. All revenues above $209 million base amount will be used to reimburse us for our deployment costs, plus our interest at LIBOR plus 3.75% and a 10% surcharge. When the costs associated with the display, equipment and installation are reimbursed, the revenue share we pay to the MTA will then change in two ways.

First, the 55% on the first $209 million annual base revenue will increase to a 60% revenue share. And secondly, the MTA will be paid 70% in all incremental revenues, in excess to the annual base revenue amount. Because of the reimbursement mechanics in our models we do not expect the blended revenue share to reach our historical percentage levels over the life of the contract.

From an accounting perspective, similar to all of our other transit contracts, we will be recording as transit franchise expense on the income statement, the 55% revenue share on base revenues, the 60% in the future, and the 70% revenue share on all incremental revenues. With the lift in OIBDA from the lowered revenue share on the $209 million, this new contract is immediately accretive to AFFO.

In terms of the spending for the deployment of displays, we have put a lot of work behind this. The RFP process has been going on for a long time, and we've used that time to prepare an extremely through estimate, station-by-station, car-by-car -- equipment costs, installation costs, project management costs, MTA costs. Being the incumbent and having seen deployment in other cities, we have a cautious view of the logistical challenges.

The total cost of the display [indiscernible] (00:10:01) estimated to be $800 million over the full 15-year term. The cost of the first eight years is estimated to be $600 million and the cadence of that is somewhat more frontend loaded. Because the display deployment relates to growth, there is no impact to our maintenance capital expenditures, as I mentioned earlier. With a lift in OIBDA from the lowered revenue share on the $209 million and no impact on maintenance capital expenditures, the contract is immediately accretive to AFFO.

From an accounting standpoint, the cost for the display deployment will be recorded in two places on our balance sheet. The portion of our spending that we are entitled to recoup from the MTA's 70% revenue share on the incremental revenues will be recorded as a prepaid asset. This prepaid asset will be relieved or decline as we retain the MTA's 70% share on incremental revenues. The portion of our spending that are not entitled to recoup will be recorded as an intangible asset franchise rights. Those franchise rights will be amortized over the remaining life of the contract as amortization expense.

As you can see on slide 7, the investment we've been making to build-out this platform will be funded from internally generated free cash flow, as well as debt or equity financing as conditions warrant. To the extent we only used debt financing, and without considering any incremental free cash flow generated from the rest of the business, we would anticipate that peak borrowing would be $300 million in year four. With expected OIBDA growth from this contract and the rest of the business, any increased borrowing will not have a significant impact on our leverage.

A key assumption for OUTFRONT and the MTA is our expected revenue growth rate. As you can see here, our projected 10-year advertising revenue CAGR from year one is approximately 8%. Our most recent five-year advertising revenue CAGR through 2016 on the same three transit systems was approximately 6%, it was achieved on a largely static network. With the exciting upside we see by bringing mobile, digital, television and other advertising budgets into our digital screens throughout the system, we feel very confident in this 2% incremental revenue lift.

From a REIT perspective, things will be unchanged from our current structure, spending on assets and revenue generated from stationary assets remains on our qualified REIT subsidiaries or QRS, and spending on assets and revenue generated from rolling stock assets meaning subway cars, railcars and buses remains in our taxable REIT subsidiaries or TRS. Based on our large billboard business and the projections we have for this digital transformation, we do not foresee any impact on our REIT qualification.

You can see the breakdown of these displays between QRS and TRS on slide 8. This table shows the distribution of that 54,000 displays across both the stations and the railcars of the subways and commuter railroads. We'll be deploying state-of-the-art digital hardware that we call Liveboards similar to what many of you can see now being rolled out in Boston or Washington D.C. Driving the advertising will run on the displays is our proprietary content management system. We are also developing a user-interface designed for self-service purchases, all the work that we're doing in the data management platform will ultimately give them measurable ROI regarding the audiences actions prior to and subsequent to seeing their ads on our displays.

As you might imagine, deploying over 50,000 digital displays is a complicated transit system is no small task. We are partnering with two leading industry firms, AECOM and Telephonics to help us as construction managers for the electrical and mechanical installations.

Slide 9 also lists some of the important next steps. First and foremost, we need to finalize the contract with the MTA. We also need to finalize our agreements with the partners and subcontractors that'll be helping us design, schedule and install the new network and coordinate all of this with the MTA. The initial display installation will begin in 2018. We will provide ongoing updates on future earnings calls.

I will now turn the call back over to Jeremy.

Jeremy John Male

Chairman & Chief Executive Officer, OUTFRONT Media, Inc.

Thanks, Don. I'd like to end today on slide 10. As you can see here, this is a truly landmark, public, private partnership that has significant benefits for both the MTA and OUTFRONT. This balance was an important part of the process and really sets a new standard in municipalities working together with corporations toward a mutual goal.

The benefits to the MTA are numerous. The New York transit system will become quite simply the digital transit showcase for the world. The key benefit for the MTA is not only a ubiquitous communications platform to help passengers on their journeys with system-wide alerts and security, but also a complete reinvention of the customer experience in terms of the degree and desirability of content, real-time travel information and alerts.

We're also proud to continue the partnership with the MTA that we have had one way or other for nearly 80 years. And this consistency will benefit them as we continue the momentum at this partnership. The MTA will also benefit financially by sharing both the risk and the incremental revenues produced from this exciting new build out, once reimbursement has taken place.

For OUTFRONT, this sharing of risk is also an important benefit and parts of the reason that this concession is a growth and value driver for our stakeholders. We're doing nothing short of creating exciting groundbreaking new ad network that will change the way location based media is bought and sold. This partnership win with the MTA further validates our ongoing investment in technology, which was a distinguishing factor in our selection, and we'll become increasingly important for the success of our medium. With this deployment, New York City will be the preeminent transit digital ecosystem in the world. It's an amazing opportunity and we're very eager to get to work.

So with that, I'm now going to hand the call back to the operator who will moderate a Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] We'll go to Drew Borst with Goldman Sachs.

Drew Borst
Analyst, Goldman Sachs & Co. LLC
Q

Thank you very much. And firstly congratulations on securing this deal, it's obviously been a long road and quite honestly, I think a lot of the terms in the deal are better than certainly I expected and probably the markets, so congratulations on that firstly. I have a couple – two questions.

First, maybe for Don, I was hoping that you could maybe describe a little bit more about the financing of the CapEx, especially in sort of these initial years, because I think you mentioned that it sounds like in the first two years, there is probably a commitment to spend about a third of the CapEx or maybe $270 million, so how are you going to finance that? And you mentioned that you don't expect there to be a material change to the leverage ratio, so is the assumption that the EBITDA uplift in revenue growth that you get will offset that spending?

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

Thanks, Drew, and thanks for the comments at the beginning. We're very pleased about the balanced contract that we are entering through the MTA. On the financing, a much of the number you put out, I think the number you put out is a little bit high, but the spending we're going to be doing in these displays in the first couple of years is going to be financed with third-party debt. You may recall that we did put in place recently an accounts receivable securitization to give us even more flexibility, and we'll look at the debt and equity markets if we're going to do anything over a period of time.

The spending here is over a number of years, and while there's an increase for first couple of years, there's – a lot of this is going to be self-financed, as the revenue continues to be generated through this, so we've got an approved OIBDA on the base business out-of-the-gate, we see increased revenues that are going to be coming from these screens that are going to be deployed immediately. Once they're deployed, they're going to be sellable, and we think we're going to see the lift in that revenue as we're seeing in Washington and Boston. And then we have the base business itself that continues to improve and generate cash.

So we don't see that having a very significant impact on leverage whatsoever on the next several of years, and we think we'll go through this process of whatever financing and paying it down in a pretty short period of time.

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

Okay. And then I guess the second question is on the revenue side of it, and so how quickly we should expect to see this acceleration up to 8%? And I guess it's somewhat contingent upon how quickly you rollout these digital boards, but I mean, should we start to see that kind of happen pretty immediately in year one and two?

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

A

So, thanks, Drew. We anticipate that we're going to be starting to rollout screens towards the backend of 2018 and then sort of a more significant rollout in 2019. So, I guess the simple answer is that it will be starting to trend up in the latter part of 2018, and then I think we'll start to see a much more significant growth factor in 2019.

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

And then just one last one, and then I'll let somebody else in the queue. But you guys have done digital deployments obviously in Boston, you've done that Hudson Yards, I guess in D.C., you've done some of those. How does this 8% sort of acceleration from 6%, how does that compare to what you've experienced in the market in those various deployments?

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

A

Yeah, I mean, we've been involved with digitizing different platforms in our business for a while now, as you know Drew. I mean, if you think about our sort of billboards, typically there we've sort of achieved a kind of 4 times multiple of previous revenues. You're right, in Boston we've been rolling out, and Washington we've rolled out, in Minneapolis we've rolled out. So we have a number of different touch points, that give us confidence for the revenue expectation. And I've also been involved with other rollouts in different areas in the UK. If you look at the shelters that have been digitized in the UK, you sort of look at the incremental revenues that they're deriving, if you think of – in fact, closer to home, if you think about the digitization of the shelter network here in Manhattan, which are also sort of sharply increasing revenues, I think [indiscernible] (00:22:12) certainly based on their public reporting. So, all of the touch points we look at suggest that we have an absolutely reasonable expectation in terms of growth.

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

Right. And I guess, it's maybe the point that a lot of people have that 4 times number in their head, because that seems to be kind of the industry average. And if you do the 8% CAGR and kind of pencil it out through 10 years that would suggest that revenue would only double. I mean, should we just assume that you guys are being conservative with your modeling or is there something else that causes the uplift to be lower?

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

A

Honestly, we believe we are taking a conservative view. That said, this is a major – it's a major digitization, I don't think it's immediately comparable necessarily to all other conversions. But you use the word conservative, and I think that's as I would also describe it.

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

Okay. Very good. I'll get off. Thank you very much for answering the questions.

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

A

Thanks Drew.

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

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Thanks. Good morning. Jeremy, maybe just sticking on the top line discussion we were just having. I would have thought that CAGR would be more backend loaded, since I think Don said 80% of the displays will be in place by 2022, 17,000 I think by year two. So it seems like over a 50,000 screen build it's – the assets will mostly be in place pretty far down the road. I would have expected the 8% to be maybe lower in the early years and higher in the long-term. And I just wanted to see if you had any comments on that.

And then similarly, maybe just along the same lines, Jeremy, how are you thinking about the impact, either positive or negative, from the fact that I think you're going to be removing a lot of billboards – or posters anyway. There's a lot of inventory coming out of the network as part of this agreement as well.

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

A

So when we look at the build out, the vast majority of the screens will be in place over the first six years. And that is when we're going to get the – it will be that that we're getting the most significant ramp. Once we've, if you like, achieved the ramp, we've been pretty conservative then in terms of how the revenues increase from there. We've taken a far more kind of CPI type view, once we've achieved the of, if you like, the new multiply rates on this media.

And you are right, Ben, because obviously for the most part, when we put in a digital screen, there is the loss of a static screen that we also need to take into account. That being said, static won't completely disappear. There will be places where we will continue to use static displays, certainly where we do some dominations on the system, et cetera. But so what you're getting is the sort of immediate kind of ramp and then turning up the growth rate. And as I say, the 8% is the CAGR, but we don't expect that to be flat over that time, if you know what I mean.

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

A

If I may just add on, Ben. There's 493 subway stations that are going to be converted over X number of years. While there're some that are being statics coming down and digitals going in, we're going to continue to sell the static on everything else and advertisement on the static in the transit system continues to grow. And so we expect to continue to see some lift out of the static business in concert with the change over here. So we want to maintain the momentum that we've have in this business, that our people are doing a really good job on. And I think that is where you're going to continue to see the lift in the first several years as we go through this – keeping momentum on existing business while changing.

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Yeah. I was referring to some of the old posters that I think are coming down and sort of maybe helping to firm up pricing or clean up the overall environment, maybe that's not that significant.

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

A

Absolutely. Correct. Correct.

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Okay. And then Don, just maybe going back to you then on some of the numbers. Is there an incremental lift in kind of run rate operating expenses associated with this more advanced network than what you've had in the past? We have a lot of the variables now from you in terms of revenue and CapEx in the splits, but I was just curious if we should be assuming some higher sort of maintenance costs as this gets displayed – developed because it's a more advanced set of assets than what's been there before.

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

A

There is some costs that come down and there is some costs that go up. The increasing digitization means the amount of content that's coming through our business is going to be significantly increasing. So some of those skills are going to be changing and some of you will be able to take that content, move that content on seamlessly and quickly for advertisers and there's some other pieces in the business that are going to see some cost reductions, both to be more efficient and some functions will not be going away. Hopefully a lot of those are going to be on non-wage side, so there will be a little bit of a change. Net-net, there will be a little bit increase in expenses. Definitely you can have some increases here, especially as you scale up a little bit. I don't think it's going to be significant, we'll give you more of a read on that, as we get to the latter part of this year, when we talk about 2018, but there will be some increase in expenses.

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Okay. And then just lastly at this point Don, do you have a sense of what this means for the 2018 dividend or is that still TBD and all options remain sort of available to you?

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

A

No change on dividend policy. We're looking at this as sort of a, if you were like an M&A transaction or project financing, we're going to do financing, and this thing is going to be self-financing and grow it, and the base business continues to grow and continues to improve our cash flow that supports the dividend, so no change in the dividend policy.

Now one item if I may Ben, just to read or we make sure that essentially all of the incremental revenues being generated from this business over that $209 million is essentially enabling us to fund the development that we are doing on spending on the screens as well as any increase on expenses that we're having to ramp up. And that's a key part of this is really increasing, but to the highest probability possible, our reimbursement and recoupment of those dollars to then get ourselves in a position that everything has been digitized for the MTA, we've changed our business in terms of what we're selling, how we're selling, and then the economics sort of changes toward the backend, getting back to a 60% and 70%. But the first number of years here, more cash is available to us, to be able to deploy and make this investment for the MTA.

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

That makes sense. Thank you both.

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

Thanks.

Operator: We'll go next to Alexia Quadrani with JPMorgan.

Julia Yue
Analyst, JPMorgan Securities LLC Q

Hi, thank you. This is Julia Yue on for Alexia. Congratulations on winning the contract. And with the CapEx that you are investing now in MTA, it doesn't sound like this will change any of your other plans, but I'm wondering if there is any change in strategy of the digital billboard conversion? If you think [indiscernible] (00:30:00) presents a greater near-term opportunity for returns at this point or do you think you'll be able to invest in both parts of the business over the coming years?

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

Thanks Julia. No, we're absolutely certainly going to be continuing our investments in our digital billboard operations. We've been targeting around about $100 million a year and we will continue to do so. So, absolutely no impact there. It's interesting if you look over the last sort of couple of years, this obviously has been very time consuming and we've been kind of in defense mode if you like. And as we look forward actually, we really believe that particularly with our tech that obviously has now appealed to both Boston and it's appealed obviously now to the MTA, we think in addition to continuing the digitization of our billboards that we will actually be able to hopefully find more interesting ways to grow our transit franchise also.

Julia Yue
Analyst, JPMorgan Securities LLC Q

Helpful. Thank you very much.

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

A

Thank you.

Operator: We'll go next to Jason Bazinet with Citi.

Jason Boisvert Bazinet
Analyst, Citigroup Global Markets, Inc.

Q

Thanks. I just had four questions actually. If your revenue uptick is right and given that the MTA is ultimately going to own all of this equipment on the backend, it seems like the NPV from your perspective goes up the faster you deploy all these digital boards. And so in that context, I think what you've messaged is sort of daisy-chaining your way into this gradually, but would you say it's possible that you end up issuing equity to sort of frontload the deployment and was that considered at all? That's my first question.

My second question is, as we go through all of this math, I think it's a little bit a function of the top line growth you get, but in the last year of the contract, where do you see the – if your 8% is right, what is the ultimate payout ratio versus the 67% that you're paying today? Third on your math, what is the NPV of this entire enterprise as you sort of run everything through? And then lastly, should we expect some sort of erosion in the New York area non-transit contract revenues as sort of dollars, sort of migrate to these new digital boards that may be away from some static non-NPA assets that you have in this geography? Thank you

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

A

Jason, let me – hopefully I charted these down. First question about frontloading and equity, I don't think the issue here is financing, the issue for us is absolutely agreed, doing this faster is greater for us and greater for the MTA. The logistics of us getting the equipment being able to deploy that equipment, install it and the installations is electrical work that's got to be done in every one of these locations, it's very time consuming, to the extent we can do it faster and do it smart and not just waste money, then we'll do that and I'll figure a way to finance that, but there is more of a logistical question here. There is only so much that really can be done, just focusing on subways 493 subway stations, how many subway stations can physically be done in any one year, how many electricians and contractors can you really physically get access to be able to do something. That's the answer to the first question. And how we finance it is really secondary, we want to move it as quickly as possible. We want to do it right.

Jason Boisvert Bazinet
Analyst, Citigroup Global Markets, Inc.

Q

Yeah.

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

A

It's important to do this right out-of-the-gate, so that's first question. In fact, our payout ratio and AFFO – I'm sorry.

Jason Boisvert Bazinet
Analyst, Citigroup Global Markets, Inc.

Q

I mean the payment, the percent of revenues that will go back to the MTA versus 67% was my question under the current contract.

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

It lends lower, because you're starting off with – at the end of the day when we put the dollars, the base revenue is at 60%, the incremental revenues were at 70%, that blend, it has it below 67%. I don't think I want to give out right now that percentage, but it is in the low-60%s to mid-60%s and that's really about the highest thing that's going to get to.

Jason Boisvert Bazinet
Analyst, Citigroup Global Markets, Inc.
Q

Okay.

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

On the NPV, I'm going to answer in a backwards way. IRR for us on our investments we have done on our billboard investments is always been anything north of 20%. We target in the range of 20%, 25% to 30% IRR, this is the lower end of that range. And I think the last question was erosion in other advertising in New York, Jeremy?

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

Yeah, I mean, whenever you put in a new inventory opportunities in any market, there is the possibility of erosion. We spend a lot of time talking to you about when we put in digital boards into other markets, considering what impact those boards might have on other static inventory in those markets. And so to that extent, it's absolutely a valid question.

I see this is being something that really will in a very absolute way bring new dollars to the out-of-home medium. I think when you look at the way that you're going to be able to sort of purchase this, the impacts, the fact that we're going to be able to display as in real-time, the fact we'll be able to self-serve et cetera, I do see that these will be, as I say, new dollars. When we're talking about the other inventory in New York, it's also worth mentioning that although, it sort of was a smaller part of the news this week, if you like, we were successful in renewing the MTA billboard franchise for the next 10 years as well. And actually, with that we see the opportunity for incremental digital billboard signage in New York, which actually is relatively underserved.

So, we think that having this incredible digital billboard opportunity in New York, in combination with the digital assets in the transit system, we really do feel that we're going to have an immensely powerful medium for our advertisers for many, many years in the future.

Jason Boisvert Bazinet
Analyst, Citigroup Global Markets, Inc.
Q

Okay. Thank you.

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

Thanks, Jason.

Operator: We'll go next to Marci Ryvicker with Wells Fargo.

Stephan E. Bisson
Analyst, Wells Fargo Securities LLC
Q

Good morning. This is Stephan on for Marci. I was just wondering if the New York contract win had any impact on potentially future transit contracts that might come up, particularly San Francisco, Chicago, anything along those lines?

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

Well, thanks, Stephan. I mean, when we won Boston, I think, we said, well, this really won't be unhelpful for the MTA in terms of their decision making process, because the things that Boston was looking for were very similar to that which New York were looking for. And as we look further ahead at some of the other transit opportunities that are coming up, I guess that remains to be the case. So, we're always very cautious when we look out, and we're never arrogant, we have to go and compete for those in the normal course. But I certainly think it's an indication that the product offer that OUTFRONT has right now – that certainly seems to be what the market is looking for.

Stephan E. Bisson
Analyst, Wells Fargo Securities LLC
Q

Got it. And then regarding the requalification, you guys provided a good breakout of the number of boards between the rolling stock and the stations. Is the revenue split between those two proportional to the displays or does it weight more towards the station side or the cars?

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

Yeah. It weights way more to the station side. The displays, the very small displays that are in rolling stock for the most part and these station platforms are much, much larger. So the revenue that's coming from the stations versus rolling stock is almost like two-thirds, one-third, stations versus rolling stock.

Stephan E. Bisson
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: And we'll go next to David Miller with Loop Capital Markets.

David W. Miller
Analyst, Loop Capital Markets LLC
Q

Yeah, hey guys. Congratulations. Just a couple questions. Don, just trying to understand the mechanics of the reimbursement angle. Is there a significant amount of lag time between the CapEx commitment when the dollars change hands on your part and then when you reimburse for those CapEx dollars, is it fairly real-time or is it like a six-month delay or how does that work? And then I would assume – kind of a dumb question I guess. I would assume that there is just no changes in guidance for this year and you're not – at this time you have no comments on guidance for next year, I would assume that's the case? Thanks.

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

Yeah, on the second question, no change on guidance in this year, we're not commenting on anything for next year.

David, on the reimbursement, let me make sure you understand. So we're going to be spending the money to build, acquire, install these screens on railcars, on stations et cetera. And we are then selling advertising on all the screens, static and the digital. And instead of – we're sharing in the first $209 million, 55% with the MTA, but any revenue above that we essentially are keeping. So it's not a reimbursement – we're going to pay somebody, it's actually not paying the MTA their 70% on incremental revenue. And so I'm not going to say it's real time, but we're spending the dollars first, we then have to get it up and running and hopefully in the very short period of time we got the revenues coming from those screens very quickly. But we are retaining the MTA's 70% share. You follow that?

David W. Miller
Analyst, Loop Capital Markets LLC
Q

Yeah, yeah, understood, yes.

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

So that's the difference, and hopefully that helps. So I don't see it as being a very big delay, but it's a matter of us knowing this – scheduling this out, scheduling stations and subway cars and being able to get that into our systems to be able to sell to our customers and planning for that – well for that scheduling enables us to get them quickly, running quickly, cash billing and then cash coming in.

David W. Miller
Analyst, Loop Capital Markets LLC
Q

Excellent, very helpful. Thank you.

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

All right. Thanks.

Operator: And we'll go next to Jim Goss with Barrington Research.

James Charles Goss
Analyst, Barrington Research Associates, Inc.
Q

Thanks. Jeremy, you started to address just a little bit, but I was wondering if this whole process is going to be very similar to digital conversions in traditional environments as to refresh rates, and increase in amount of inventory, and that sort of thing. And I was wondering how the split works between ad inventory versus the informational aspect of what you're deploying?

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

A

So in terms of absolute number of screens, we're sort of in the range of sort of 45,000 in terms of advertising and 8,000 in terms of specific screens only for information. But all screens because of the – because all screens would have the ability, if you're in the case of an alert for example, to be able to carry passenger information.

James Charles Goss
Analyst, Barrington Research Associates, Inc.

Q

Okay. And obviously, this is a massive project to coordinate the displays and implement them and to do what you just suggested. Wonder if you could talk about that process, and the cost share – I'm sure share is built into what you've been telling us that how big a project that is?

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

A

Yeah. I mean, Jim, you're right. It's a significant project. One of the – probably the only good thing about the fact that this process took so long was the fact that we had an awful lot of time to sort of – to spend on the logistics of it, in terms of making sure that we have all of our projections in terms of both installation dynamics, et cetera, honed down completely. We're working principally with two very respected construction companies AECOM and Telephonics and we believe that we'll be able to manage this process certainly in terms of the build-out program that we have in our model. So, yes big project, but we're absolutely confident that we can achieve it.

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

A

And also Jim, also on the spending, we're going to be deploying the 54,000 screens in whether it's – approximately the year seven, let's say. And that's a large portion of the CapEx. But then over the 15 year period, we're going to have to refresh that, because those screens we're expecting have a certain useful life [ph] when they're changed out (00:44:14). And that's what drives the number up to the $800 million is during the rest of the number of years having to refresh for screens that have met their useful life. So there is a – the deployment in the first seven years approximately – it's ballpark – the $600 million is really the cost to deploy the 54,000, above that is for refresh, which we have anticipated in our numbers.

James Charles Goss
Analyst, Barrington Research Associates, Inc.

Q

Okay. And one final thing, I know there have been technologies developed where you can – I assume there won't be any audio component in a subway, or you'd have a lot of unhappy people. But is there a way to enable sort of a personal audio that might appeal to certain people and that might add another dimension to this?

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

A

Yeah, absolutely, by the way, you're right. Yeah, no absolutely, I mean it's certainly possible to have outpaced audio opportunity on these screens.

James Charles Goss
Analyst, Barrington Research Associates, Inc.

Q

Okay, Thank you very much.

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

A

Thank you, Jim.

Operator: And that concludes today's question-and-answer session. At this time, I'd like to turn it back for any additional or closing remarks.

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

So I would like to thank you all today for your time and for your patience and seeing us through to this important event. Very much looking forward to spending time with you over the coming weeks to discuss this in more detail. Thanks very much indeed.

Operator: This concludes today's call. Thank you for your participation. You may now disconnect.