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OUTFRONT Media, Inc. (OUT)

Q3 2017 Earnings Call

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CORPORATE PARTICIPANTS

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

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

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

OTHER PARTICIPANTS

Alexia S. Quadrani
Analyst, JPMorgan Securities LLC

Marci L. Ryvicker
Analyst, Wells Fargo Securities LLC

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

James Charles Goss
Analyst, Barrington Research Associates, Inc.

Drew Borst
Analyst, Goldman Sachs & Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the OUTFRONT Media Third Quarter 2017 Earnings Conference Call.

At this time, I would like to turn the conference over to Greg Lundberg, Senior Vice President of Investor Relations. Please go ahead.

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

Good afternoon, everyone. Thank you for joining our 2017 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. You can find the slide presentation for today's call and the earnings release on the Investor Relations page of our website. And after today's call has concluded, an audio archive will be available there as well.

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 our earnings materials and in our SEC filings, including our 2016 Form 10-K.

We'll also refer to certain non-GAAP financial measures on this call. And 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 on our website, outfrontmedia.com.

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And with that, I'll turn it over to Jeremy.

Jeremy John Male

Chairman & Chief Executive Officer, OUTFRONT Media, Inc.

Thanks, Greg, and good afternoon, everyone. This quarter really marks a turning point for the company. With the recent announcement of our new 15-year agreement with the New York MTA, we're in a position to really begin our digital transformation, which will ultimately enhance our growth trajectory.

But before we talk about that in more detail, let's review the third quarter. We grew organic revenues 1.5%, in line with the guidance we gave you back in August. The shape of the growth was also as we anticipated and very similar to the second quarter. Local advertising grew solidly across billboard and transit, and was 55% of our U.S. business during the quarter, approximately the same level as full-year 2016.

On the national side, we saw some sequential improvement once again, but not sufficient to return to positive growth. Our organic growth was led by transit, while billboard revenues were closer to flat, and Don will provide some detail on this later on the call. With good cost control, we saw OIBDA grow very slightly, which is also a marked improvement from earlier this year.

So the quarter was as expected. Local is doing well and transit is doing well. But our focus is on improving billboard, particularly national billboard, to increase our cash generation.

Before I come back on and talk about our fourth quarter revenue guidance and give you a digital update, let me hand the call over to Don for a more in-depth review of our quarterly results.

Donald R. Shassian

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

Good afternoon, everyone, and thank you for being on our call today. Please turn to slide 6, which shows a high-level summary of the year-over-year performance of some of our key financial metrics. Please note that one quarter of Latin America is still in our nine-month 2016 results.

The takeaway from this table is that low-single-digit revenue growth, combined with good cost control, helped drive OIBDA up very slightly year-over-year. Nevertheless, revenues were weighted towards transit and we did not have solid billboard performance, which precluded a stronger flow-through to OIBDA. This, combined with an increase in taxes, interest and maintenance CapEx, resulted in AFFO that was down on a year-over-year basis.

We'll start our review with revenues on slide 7. Total reported revenues increased 2.5% and organic revenues increased 1.5%. U.S. Media increased 1.8% on both a reported and organic basis. U.S. billboard organic revenues were down 0.6%. This reflects a decline in national advertising that was only partially offset by growth in local.

In addition, there are two other items impacting our revenues. First, the August and September hurricanes in Texas and in Florida saw a great dedicated effort by our employees in removing vinyl to prevent wind damage to our structures. We had minimal physical impact overall. During the quarter, however, we did record a reduction to revenue of $1.5 million, representing a reserve for potential claims by customers for lost advertising time.

And secondly, at the outset of the quarter on July 5, we completed an asset swap wherein we exchanged numerous static boards in four non-strategic market clusters for a collection of prime, digital billboards around the

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Boston market. These are great assets and will drive revenue growth in the future as part of our broader portfolio, but the swap did drive a short-term negative revenue effect during the quarter.

Absent these two events, our billboard revenue growth this quarter would have been comparable to Q2 levels, which was up slightly. Same board static yield, which was down overall for the quarter, was also impacted by these two events. I will point out that same board digital yields, however, increased. On a blended basis, the decrease in yield across our entire U.S. billboard portfolio was driven by declines in occupancy. Rates were once again up, especially in digital.

U.S. transit and other was up 7.8% organically during the quarter. This was principally driven by solid local growth, offset by national decrease, and also growth from net impact of won and lost contracts, which was primarily the addition of the MBTA in Boston.

In Other, reported revenues were up 12.6%, principally reflecting our acquisition of a digital billboard portfolio in Canada in June. Organic revenues were down 2.6%. While the legacy portion of the Canadian business was also slightly positive, this was offset by a slight revenue decline in our Sports Marketing operating segment.

Please turn to slide 8 for an overview of expenses. This is the same presentation as last quarter that illustrates the main changes on a segment basis and isolates some drivers of change for the quarter and year-to-date. Our reported expenses, excluding stock-based compensation, were up 3.6% year-over-year for the quarter and up 1.5% for the nine months.

There are three items I want to point out in order for you to understand this. First, the U.S. Media segment in Q3 2017 includes the franchise fees and other expenses of the MBTA in Boston. Secondly, the Other segment reflects higher expenses in 2017 related to the recent renewals of several long-term sports marketing contracts. And third, Latin America was divested on April 1, 2016.

As you can see at the bottom of the two charts on page 8, on a more comparable basis our controllable expenses were closer to flat for the quarter and are down slightly year-to-date, which has been our stated goal for the year.

We are also continuing to invest in future revenue growth, with $2.6 million of strategic business development expenses during the quarter. Even with this investment, it remains our goal to keep these controllable expenses flat for 2017.

On slide 9, you can see that adjusted OIBDA showed slightly positive growth. While not where we like it to be, it is worth noting this is a marked improvement from the declines in the first part of the year.

Turning to slide 10, capital expenditures were $16.4 million during the quarter or 4.2% of total revenues. Growth spending was 3% of total revenues and maintenance was 1.2%. Growth in the quarter and for the year reflects a significant increase in spending on our digital initiatives.

During the quarter, we built or converted 16 digital boards in the U.S. and 6 in Canada, and continued the expansion of small format liveboards, primarily in Boston. We feel good about these discretionary investments for future growth and continue to see very good returns on the investments we have made to-date.

For 2017, our guidance for capital expenditures is approximately $75 million, the high end of our prior range, and it might be slightly ahead of this based on the timing of some incremental digital growth opportunities we are

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pursuing. This increase is all related to growth CapEx, as our maintenance CapEx spending is estimated to be $20 million, below our prior guidance.

I would also like to point out that this 2017 CapEx guidance does not include the rollout of digital displays under our new MTA agreement in New York. While these cash outlays will not be that significant in 2017, they will not be recorded as capital expenditures. As you may recall, these will be recorded on the balance sheet as prepaid assets and intangible assets. This reflects the economic structure of the agreement, which allows for recovery of these deployment outlays through the retention of incremental revenues.

Please turn now to slide 11 for a look at AFFO. As you can see, we have demonstrated sequential quarterly improvement in year-over-year AFFO performance in each quarter this year. In Q3, despite slightly higher OIBDA, the decrease in AFFO was due to higher cash taxes, lease acquisition cost, interest expense and maintenance CapEx.

We expect this improving AFFO trend to continue in the fourth quarter. However, a recovery in national advertising is a key driver, on billboard in particular, and continued softness leads us to believe that we will be unlikely to achieve our prior guidance for full-year AFFO. Our expectation is that full-year 2017 is likely to be down approximately 7% compared to the current-year consensus of down approximately 5%.

Slide 12 shows our 12-month trailing AFFO of $272 million and a dividend payout ratio of 73%. This is still in line with the 70% zone we established when we went public and set our original dividend level. Our 12-month trailing free cash flow, however, was $197 million and our dividend payout ratio on this metric was 101%.

I'd like to spend a moment explaining this free cash flow payout calculation. The free cash flow number on a 12-month trailing basis includes $10.6 million of higher CapEx and $20.3 million of higher use of working capital, including lease acquisition costs.

As stated earlier, our higher CapEx reflects our decision to increase our discretionary investments in digital assets. The working capital use includes $11 million relating to the fact that the MTA contract extensions we are currently operating under have a very different payment structure than in the past.

In 2016, we made fixed monthly payments with an annual revenue share true-up in the following year. In 2017, the extensions are structured to pay the actual revenue share amounts currently with no true-ups the following year. As a result, in 2017, we not only pay the 2016 revenue share true-up, but we're also paying the higher revenue share currently. So this is not an indication of an increased cash use as much as it is a one-time change in timing.

These working capital matters have had the principal impact on our cash generation this year and are not an indication of true cash flow of this business on a recurring basis. The new MTA payment terms and an improvement in our billboard revenues will bring this payout ratio back into the 80% zone it was in for 2014, 2015 and 2016.

On October 25, our board of directors approved a quarterly cash dividend of $0.36 per share payable on December 29, 2017 to shareholders of record at the close of business on December 8, 2017.

Slide 13 shows the highlights of our balance sheet. As of the end of the quarter, our liquidity position was $497.3 million, including $42 million of cash, $428.3 million of availability on a revolving credit facility and $27 million of availability under a new three-year accounts receivable securitization facility entered into on June 30.

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Our net leverage ratio is unchanged from last quarter at 4.9 times. We remain focused on our goal to reduce this to our longstanding target range of 3.5 times to 4 times, which will be achieved through growth in OBIDA and further debt pay-down. We also believe that the terms of the new MTA agreement will be accretive at the outset to both OBIDA, AFFO and cash flow.

Let me now turn it back over to Jeremy.

Jeremy John Male

Chairman & Chief Executive Officer, OUTFRONT Media, Inc.

Thank you, Don. And moving on to slide 15. Let me now give you some color on our fourth quarter. We expect organic revenue growth to be up low-single-digits and overall similar to the third quarter, including solid local growth in billboard and transit, partially offset by softness in national, and with transit once again outperforming billboard. As usual, this outlook represents our view at this point in time and it's on a constant dollar basis.

To put some context on the trends we are seeing from advertisers, the three advertising categories with the strongest U.S. growth in dollar terms for us in the quarter across both billboard and transit were technology, health and pharma, and thirdly, food and beverage. You'll notice that these are exactly the same categories as the second quarter. So we're pleased to see consistency and continued strength.

Technology was once again a strong performer, up 24%. Brands like Apple, Google and Netflix contributed to this increase. While most of our advertising categories are relatively stable over time, technology has been growing quickly from 1% of revenues in 2007 to over 5% of revenues in the third quarter.

At the other end of the scale, our bottom three categories for the quarter were automotive, financial services and movies. In automotive, we saw another improvement in the rate of decline and did see some brands increase their spend, but not enough for us to see overall growth.

Movies are another category that can swing around quarter-by-quarter, depending on the film slate. And while 2017 has clearly not been a great year for the industry, the 2018 slate sounds like it might be somewhat improved.

But I'd like to end today on slide 16. We have been investing in our digital product base over the last three years and are really starting to see the benefits. Back in 2013, we had 392 bulletin-size digital billboards generating $73 million of annual revenue. On a 12-month trailing basis through the third quarter, we now have 959 boards generating $168 million of revenue. That's around three times the number of boards and a compound annual growth rate in revenues of 25%.

So we've come a long way. We're going to continue investing in digital bulletins, and we have a robust pipeline of development opportunities.

The opportunity for growth and the significant ramp-up in the change of pace is also coming on smaller screen digital. Looking at some of the European and other international markets where digital is now close to 50% of total revenues compared to our 14%, we see huge upside. This is especially true in urban transit environments where we can show full motion video through addressable displays.

As you're well aware, mobile video is the largest growth ad category in the U.S. and it's a market that's around six times larger than the out-of-home industry in total. With our new digital transit displays and thinking back to our

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comments on the movie category earlier, a Hollywood studio will be able to show an actual trailer instead of a static poster. These will be engaging, captivating ads, effectively creating an entirely new channel for advertisers that's completely additive to the existing out-of-home market.

So the stage is set for a very large transformation of our small-scale digital displays. We'll be rolling out thousands more addressable video displays in New York and other cities in the U.S. While it's still too early to give absolute yield metrics, where we have deployed our newest liveboards so far, Boston and Washington D.C. metro for example, we're seeing healthy increases in revenues through the conversion of locations from static to digital.

Additionally, it's our firm belief that our technology platform will give our digital and, indeed, our static displays new life with real-time geo-location audience data. We believe that networked digital video displays, audience data and insights will transform the way our clients allocate their budgets to our assets and be a real growth driver for the out-of-home industry.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And we'll take our first question from Alexia Quadrani with JPMorgan. Please go ahead.

Alexia S. Quadrani
Analyst, JPMorgan Securities LLC

Q

Hi. Thank you very much. I have just two quick questions. I guess, one, if you can update us if there is anything to update us in terms of the MTA? Any follow-up details you can provide on the process in terms of timing of building out new digital displays?

And then the second question is sort of drilling into the weaker results you're seeing in national. I guess, can you talk a bit more, give us some more detail in terms of some of the larger markets you did in the quarter? And are you seeing any of the evidence or some early signs of maybe deeper national buys by some of your advertisers?

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

A

So, thanks for the question. Let me try and take both of those. Firstly, with regards to the MTA, we're very busy just on the final nits and gnats of the contract. We expect to have the contract signed sometime pretty soon over the coming weeks, obviously before our current contracts expire at the back-end of this year.

We're in full planning mode right now in terms of screen acquisition and our deployment plans. In terms of deployment, we're saying that, outside of a relatively small number of displays which we expect to deploy in the first half of year, this will be the back-end of 2018 when we start to really see the main deployment impetus.

And maybe it's just worth mentioning again, how transformative I think that this contract can be for us. 15 years effectively for the largest transit opportunity in the world, I think it really will underpin our growth strategy for the future and it certainly underpins our transit business for the future. We said on the call that we expect that revenues in this contract should double over the next 10 years, what that means is that this business alone will be

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equivalent in scale effectively to our entire transport business today. So, very, very significant, and we're very excited about really getting into this contract next year.

When we start, to go to your second question, and sort of think about national, we're pleased to – we said at the early part of the year that we expected our national business to improve, and indeed it did. Q2 was better than Q1 and Q3 sequentially was better than Q2. Not quite enough to get to positive. When we look at Q4, it's fair to say that national business is lumpy and it's late. So I don't want to call exactly where it's likely to come in, but I can say that once again it's likely to be a drag on our revenue growth in total.

If we start to sort of think about geographies, fair to say that national business is pretty much focused towards New York. We have a very significant platform in New York. So, that's one market that has certainly performed below our hopes and desires this year. As we look around some of the other key markets, Chicago was a little bit weak. Houston, after a great start with the Super Bowl, sort of tailed off a bit as we've sort of gone through this year. Other geographies, West Coast has been good for us this year.

So, a mix overall, but typically national advertisers within our portfolio tend to sort of concentrate on those top 20 DMAs. So it's there where we've noticed the weakness.

Alexia S. Quadrani
Analyst, JPMorgan Securities LLC

Q

Okay. Thank you very much.

Operator: And we'll take our next question from Marci Ryvicker with Wells Fargo. Please go ahead.

Marci L. Ryvicker
Analyst, Wells Fargo Securities LLC

Q

Thank you. I want to just continue with the national conversation. Without giving us guidance, how do you feel about national for next year? I mean, is it going to be this same case that it's going to be a drag and continuously improve, but still be negative? Do you have any visibility into that?

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

A

Thanks for the question, Marci. In terms of visibility, I obviously just made the comment that Q4 is quite hard to call right now in terms of national. So I wouldn't really want to get into thinking about next year.

When we look at our overall portfolio, actually our weakness this year has actually been based around a relatively small number of advertisers who had a sort of substantive change year-on-year in terms of the dollars spent in our medium. I believe that if we can fix those, there is absolutely no reason why we can't have a positive year in national for both OUTFRONT and for out-of-home. Certainly, I think, when we come to finalize our budget process, we're certainly not going to be budgeting national to be down next year.

Marci L. Ryvicker
Analyst, Wells Fargo Securities LLC

Q

And when you went to buy Van Wagner, I think what excited you was getting bigger in national. Do you regret that?

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

No, absolutely not. Marci, when we look at the U.S. out-of-home business, and I know I've said it before, and it's fair to say, well, maybe, Jeremy, show us the money, but what we do know is that national advertising continues to be under-represented in U.S. out-of-home, compared to just about any other metric.

It's our firm belief that we will be able to develop stronger national revenues as we go forward. Right now, we're actually putting more resource into going higher up the food chain, making sure we're having more conversations with the strategic buying agencies and directly with clients, rather than, if you like, the sort of the typical out-of-home buying process. So, what we're doing is that we're taking dollars out of administering our business and putting far more into selling upstream.

And when we think about Van Wagner, let's remember that this business and the value of our business long-term is location, location, location. We acquired some immensely valuable, quality long-term assets through our acquisition of Van Wagner, which are delivering massive audiences in the top markets such as New York, L.A, and Miami, where they were particularly strong. And I would go back and do that acquisition every day of the week.

Marci L. Ryvicker
Analyst, Wells Fargo Securities LLC
Q

Got it. And I have two quick clarifications for Don. When you talk about organic, and we're getting asked exactly what does organic include or exclude? And then the second quick one is, if revenue is looking to be up low-single-digits for the fourth quarter, can you talk about expenses for the fourth quarter?

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

Organic for us is, acquisitions and dispositions are excluded. So, disposing of assets and acquiring of assets is what would be pulled out of there. So the wins and losses of transit is organic. The nature of that business is you win some, you lose some. And that is part of organic in our definition.

On revenue, low-single-digit in our expenses, we are looking to keep expenses very tight again in the fourth quarter. Our folks have done a real nice job on the leases. Obviously, we've got increased expenses with the Boston contract and we have some increased expenses from those sports marketing contracts, but all the other controllable expenses we are looking to really maintain to be flat, even with the strategic development expenses that we invest in.

Marci L. Ryvicker
Analyst, Wells Fargo Securities LLC
Q

Right. Thank you so much.

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

Thanks.

Operator: And we'll take our next question from Ben Swinburne with Morgan Stanley.

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Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Thanks. Good afternoon. Don, any impact – if you mentioned this, I apologize. I may have missed it. But any impact from the weather-related issues in Q3 in your Q4 guidance?

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

A

We did mention in the prepared remarks, Ben, we did not lose a lot of structures – didn't have significant structure damage from the weather in Texas and Florida. The CapEx amount is not going to be that significant and the operating expense is not that significant. What we did do is we booked a $1.5 million reserve for potentially some revenue claims from customers.

We see Florida is bouncing back quite nicely. Houston is taking a little bit of time to bounce back. I think it may – I'm not sure it's going to be noticeable from the overall consolidated, but I think Houston is taking a little time to bounce back. They've really been hammered, as you all know. Advertiser mix is changing there, as they're still trying to get themselves back on their feet.

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Okay. And then just on the MTA, as we think about next year, I guess you guys have talked about an 8% CAGR on the contract, but the early year is higher than that I believe, as you deploy assets. I just want to go back, Jeremy made a comment before that the MTA benefits probably don't start kicking-in materially till the second half of next year. So, just wondering if that's a change in the timing of your expected revenue benefits? And if not, the revenue should be...

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

A

Yeah.

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

...let's say, all else equal, would suggest to us that revenue growth accelerates in 2018 versus 2017, given the MTA deployment. I just want to see if that made sense still.

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

A

Yeah. Jeremy's comment was related to the deployment of the assets, first of all. So we're in a planning mode right now to be able to deploy assets. I think he was saying, deploying the assets in the second half of next year. So those assets being deployed and getting the revenue kick-up, it's really not going to be so much in 2018, maybe the back of 2018, but it's really kicking into 2019.

So it really starts to deploy in the back half of 2018, and that is where you start getting significant deployment back half of 2018, all through 2019, all through 2020, and that really gives you a nice lift. That is not a change from what we've communicated on the earlier call on the MTA contract. We've always anticipated that. We still think we'll have the same growth trajectory we've talked about. It's a matter of just ramping the first year to really get those going.

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Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Got it. Makes sense.

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

A

Does that help?

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

And then just related to that, Don, I just wanted to see at this point, and it might be too early, but how does all this fit into your thoughts on the dividend for 2018? I know the MTA is accretive nicely to EBITDA and AFFO, but they're obviously capital requirements upfront. You talked about your leverage target. Do you have a sense of where you guys are headed on the dividend for 2018 or is it too early?

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

A

I think it's too early to talk about that. It's obviously a board decision, and I think we'll address that in February when we get to it. But our drive right now is to deliver on the expectations of this business. We've got cash outlays on the MTA contract that are very, very important. The MTA contract itself is going to be positive to us.

As you know, the revenue share changes out of the gate, but also recognizing that the dollars we're spending for that can be significant. We're also spending CapEx on our discretionary digital deployments elsewhere. So, a lot of pieces at play. We'll have the board make that decision on dividend. But our goal here is driving this business to grow revenue, grow OIBDA and AFFO, and provide real good sustainability for opportunities in the future on that regard.

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Thank you very much.

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

A

Thank you.

Operator: We'll take our next question from Jim Goss with Barrington Research. Please go ahead.

James Charles Goss
Analyst, Barrington Research Associates, Inc.

Q

Okay. Thanks. Regarding the MTA, does this wind up being somewhat of a test kitchen for you with the new things you're going to be developing you might be able to apply in other markets? And separately, does winning that contract give you any competitive advantage in trying to develop some wins in other markets or is there an incumbent advantage for other parties in those other markets that would be harder to overcome?

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

A

So, thanks for the question, Jim. I think it's fair to say actually that, in some ways in terms of test market, actually Boston, we've been building out our platform there, obviously relatively much smaller, but we're now up to a couple of hundred displays there, hope to be that by 300 by the end of this year and 800 next year. To put that in perspective, it's less than 1,000 and we would expect to be deploying multiples of thousands within the MTA.

It's worth saying that, when we look at other opportunities, there is no doubt that our tech stack is proving of interest to other municipalities. Boston was a win for us. The MTA, obviously, was a renewal. I've always said and continue to believe that there is always some advantage to being an incumbent. But we do think that our technology in terms of both hardware, in terms of content management and the tech stack in terms of audience data, insight and app-based delivery of information and/or advertising, will actually be something that we think could be of interest to a number of different transit authorities.

And as we look forward, I think I might have said before, it's a little bit like over the last couple of years, to some extent or other, we've been in defense in terms of protecting the contract base that we have, particularly with regards to the MTA. As we look forward, there may well be more opportunities coming up over the next couple of years for offense.

James Charles Goss
Analyst, Barrington Research Associates, Inc.

Q

Okay. Thank you. And one other thing, back on the national billboard concept. Is there any capacity or interest to use swaps in certain markets to intensify – and I know you said there are like top-25 markets that you're focusing on. Is it better to even do fewer within the top-25 with a stronger position or is that not necessarily an advantage that you need to seek out?

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

A

I think, as we look at our portfolio in total, we're always looking at those smart things that we can do within our billboard portfolio to sort of strengthen us in markets where we think we can get incremental value, and it's something that we're always open to. And if we can find smart things to do, either through asset swaps or through acquisitions and/or possibly some disposals in certain markets, we're always on the lookout for that, Jim.

James Charles Goss
Analyst, Barrington Research Associates, Inc.

Q

All right. Thank you very much.

Operator: [Operator Instructions] We'll take our next question from Drew Borst with Goldman Sachs. Please go ahead.

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

Thanks. I was wondering if you could talk about the national advertising weakness. Are you seeing that particularly pronounced in certain geographic regions or is it pretty much in all of your major markets?

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

A

Thanks, Drew. I think I've made the comment earlier on that we have a very major business in New York and, I would say, a lot of national dollars go into New York. So, that's the market that I called out weakness in.

But for the most part, the vast majority of our revenues are driven by the sort of top-20 markets, which are all markets that potentially national advertisers would want to be in. So, as I say, it's a little bit broader rather than thinking about specific categories. And it's worth noting that in the third quarter, while you never want to be down, actually our national business as we define it, and I think it's fair to say that, yeah, I think maybe within, if you like, all of the companies that report publicly in out-of-home, I'm not absolutely certain we have the same definition, but in terms of our definition of national we were off 2 points in Q3. So, yeah, still soft and still a bit of a drag.

I made the comments about Q4. It's a little uncertain exactly where we're going to end up in Q4. And as I said, I did also paint a picture of what I perceive to be, hopefully, more positive trends, while not guiding, but more positive trends for 2018.

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

Thanks for that. And then, I noticed in the press release, you guys talked about declines in yields. And that was true in both the billboard business as well as the transit business, which has a very good growth. But, I guess, I was wondering are there things that you guys can do to try to stimulate that and maybe could talk about what you're doing to try to improve the yields in both businesses?

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

A

First of all, on billboard, the yields were all based on occupancy. Rates were up. And so occupancy is very quite the driver there. As Jeremy just mentioned, it's driven by national, and it's national in sort of the major top-25 DMAs. So, driving our sales force, driving to move up the food chain with advertisers and with companies is the big effort we're pursuing.

And on transit, I'm not sure where you got lower yields on transit. Transit has been doing very, very well. We continue to see good growth there. It is still an occupancy issue, rates are doing well, but it's more of an occupancy issue there as well. And both, national drives this. I mean, that's the underlying theme here, if you would, that we've got to get national moving, it's going to drive yields up all over the place.

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

Okay. And just one last question. I was noticing in the slide you presented on digital, that last slide. If you do the revenue per board, that has declined since 2013, not dramatically, but about 6%. Could you just add some color to why that may have happened? Is that just sort of you've maybe converted some high-value big markets initially in early stages and then it declined over time? Or does that reflect sort of anything about the pricing or demand side of digital boards?

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

A

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No, absolutely not. And in summary, I think you partially hit upon the answer there, Drew. In the past, I've talked about billboards being a little bit like a pyramid and you tend to convert the Boards right at the top of the pyramid first out of the gate where you have the highest revenue per location. As you come down that pyramid, almost by definition you're going to be converting boards that had lower static revenues and, therefore, will also have lower digital revenues. So, that's the key driver there.

I think the only other important point to make is that, if you think over that sort of full-year period, what you've actually seen as well is a decline in the capital rate of actually digitizing a board, the CapEx required. So, when we look at the returns that we can make, we're still getting a 4x revenue lift on the boards that we are converting and we're making IRRs of 25% plus. So it's still a great business and we will continue to look for digital conversion opportunities.

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

Okay. Thanks for your responses.

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

A

Okay.

Operator: And it appears there no further questions. I'd like to turn the conference back over to Greg Lundberg for any additional or closing remarks.

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

Thanks very much, operator, and thanks to everyone on the call. Thank you for your questions and your time today and we look forward to seeing many of you at our investor events before the year-end. Thank you very much.

Operator: And once again, that does conclude today's conference. We thank you for your participation and you may now disconnect.

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