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OUTFRONT Media, Inc. (OUT)

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CORPORATE PARTICIPANTS

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MANAGEMENT DISCUSSION SECTION

Aaron L. Watts
Analyst, Deutsche Bank Securities, Inc.

Okay, we are going to continue the media track. I' m Aaron Watts, the credit analyst at Deutsche Bank. And next up, we have OUTFRONT Media. And pleased to have them back with us again this year. To my left is Chief Financial Officer, Don Shassian. Don, thank you for joining us.

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

Pleasure to be here, Aaron. Thank you.

QUESTION AND ANSWER SECTION

Aaron L. Watts
Analyst, Deutsche Bank Securities, Inc.

Q

So, a broad question to start, but over the last couple years you've added to the portfolio through acquisitions. You're building out your digital board presence. You've also trimmed the portfolio in certain areas like with the LatAm unit.

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

A

Yes.

Aaron L. Watts
Analyst, Deutsche Bank Securities, Inc.

Q

Can you talk about how you feel OUTFRONT is positioned today, what your focus is on now, and also what your strategic priorities are over the next few years?

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

A

Thanks, Aaron. And I'm pleased to be here. We've been very busy past several years on a lot of things you just mentioned. And we think we're in a very good position. We've been on a path of accomplishing an awful lot of

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stuff. But going forward, I sort of look at four main areas that we're focusing on. The first one really is the base business. It's blocking and tackling, right. It's growing the billboard yield. It's converting the right static boards to digital. It's building organic billboards. It's maintaining our cost. And basically, just keep running that business and keep growing it as best we possibly can, given our sales force better tools, better ways of selling, and really developing and really getting as much out of that business as we possibly can, that's sort of number one. That's job number one, two, three and four, if you would.

The second item are the new transit contracts, all right. So, the Boston transit contract and the MTA that we just announced last week are two very different contracts. For example, we've got a lot of construction activity and we've got it – get those done right in a quality way, at the right time, at the right cost. And that's an effort and initiative on a tone that we've got to do to prove everybody that this stuff really works and creates a lot of value, and that's sort of the second piece.

The third bit set of initiatives is by product development. So, we're selling geofencing on a mobile products with xAd, now called GroundTruth, which is nice, it's being added to revenues. We're leasing sell space on our billboards as well. And we are building a DMP, data management platform, and a tech stack to be able to start selling by audience in the future, right. So, there's a – new product is up there in the third category.

And the fourth one is just, call it M&A. We've tried to do smart and selective M&A, and win these new transit contracts. And so, there's four paths there. They're all very concrete in terms of what people are pushing on. But our goal is really try to get this revenue from a low-single digit up to mid-single digit up to high-single digit through all of these initiatives that we think creates greater cash flow, greater certainty for both equity holders and bond holders, and really want to get that leverage down as we've got the commitment we still want to try to achieve.

Aaron L. Watts
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. So, it probably behooves us to start with the big news that you announced a week ago, good news at that for the company for sure. Maybe you can give us a general overview of the New York MTA deal, some of the aspects that you think helped OUTFRONT win all the components of that bidding process and what it can mean for you going forward?

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

A

When Jeremy and I joined back in 2013 and we went public, coming out of that process, we looked at lot of the risks in the business. And so, early in 2014, one of the bigger risks was the renewal of the MTA contract. And so, Jeremy brought on a gentleman named Andy Sriubas to really help us drive this activity and change our approach, and really listen to understand where the MTA wants to go and really help us build capabilities to meet their vision.

So, we've been spending a lot of time, strategic development expenses, partnerships, developing these screens, content management software, so that we can demonstrate to them that we can help them become leading edge in the digital age. I think that was really quite critical and hope – the deal is – it's great, it's a 15-year contract. We're spending the dollars to be able to digitize the entire subways, platforms, Metro-North, Long Island Railroad; everything is going to get digitized over a number of years. But, in return for that, we've changed the economics of the historical transit deals so that the revenue shares is less on the base business. And that the first dollars being generated in new revenues, all gets retained by us to get a recovery off and on the dollars we're spending. And then, once it's all been recovered, it will revert to a rev share of probably blended in the 60s.

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So, I think it's a great opportunity for us. I think it's a great opportunity for the city of New York to really change the paradigm and to really engage the ridership. And it's really important for the MTA, and we're glad that they wanted to partner with us again in the next 15 years.

Aaron L. Watts
Analyst, Deutsche Bank Securities, Inc.

Q

Yeah. From a financial standpoint, you mentioned that the minimum annual guarantee is lower than in the old agreement as well as the revenue share, at least where it starts.

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

A

Yes.

Aaron L. Watts
Analyst, Deutsche Bank Securities, Inc.

Q

Can you talk about what that means in terms of EBITDA off the bat and maybe in kind of year one, two, three?

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

A

So, the construct is – the base revenues, and let's say, it's about ballpark $210 million, which is ballpark what it is now, which is at a blended rate of about 67%, is going to be 55%. And that 55% on the 210-ish every year will be adjusted for CPIs. So the $210 million goes up by CPI. We're going to be paying them in cash and recording the P&L 55%. So there is an improvement there from 67% to 55% out of the gate.

There will be some increased expenses as we implement this contract, but there will be an improvement to EBITDA and, clearly, an improvement to cash flow from that alone. And that was something we really wanted to make sure of to be able to demonstrate to all of our stakeholders the importance of the contract and the importance of if we're going to step up and fund this going forward, we got to have a little bit of de-risking upfront and a little bit of cash flow improvement from that. And so there's a little bit of EBITDA improvement. It won't be the full spread there of 12%. So, I think that there'll be some increase in expenses, but we're still working that through right now in terms of our ramp-up.

Aaron L. Watts
Analyst, Deutsche Bank Securities, Inc.

Q

And in terms of the actual displays that you're putting out there over the course of the contract, 54,000 digital displays, including 46,000 for advertising...

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

A

Right.

Aaron L. Watts
Analyst, Deutsche Bank Securities, Inc.

Q

...can you give us a sense of the timeline for the rollout of those screens?

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

A

I'm going to – there's some commitments that we sort of put out with to do some in the first couple of years. The timing of that through the first six years we'll probably communicate in a couple of months, but there is an increase of spending we're going to be having in the first couple of years out of this contract. Governor Cuomo and all the officials in New York want to make this a big push and start really demonstrating improvement and we want to try to meet that as best we can. We also want to do it thoughtfully.

You can only do so much. There are over 400 subway stations. You can only do so many subway stations in a year and every – the transit system in New York runs 24/7. So, you've got to be able to – this is not just slapping screens up on a wall, you've got to get electricity and power to go to every single one of these things. You got to do it in a way that's not going to interfere with the train performance, it's not going to interfere with ridership, you're not going to have any safety issues, so there're lot of logistics that have to go through this and to make this thing work as seamlessly as possible to be able to get it deployed.

But there's a big push, about $600 million is what we estimate will be the dollars we'll have to spend to get all 54,000 screens deployed. That extra $200 million going from $600 million to $800 million essentially is the refresh of that equipment; because those screens are going to have a useful life over 15 years, they're going to have to be refreshed. So the extra $200 million really is the refreshing of those screens. It's a lot less than the original because the power is already there. All you're having to do is change the screen or some components of the screen.

Aaron L. Watts
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. And I think you've said that the $600 million is even front-loaded in terms of the timing over those first eight years. How should we think about the funding of that? Could we see a mix of debt and equity, or do you think it's more exclusively debt funded?

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

A

So, the ramp-up, it's first thing out of the gate. We're going to [ph] probably (08:37) put a deposit down for a whole bunch of screens. And so, I got flexibility on the balance sheet today with our revolver and our AR securitization that can help us get all that in place. As we look at the schedule, as it gets built over the next several months, we get designs into the MTA for approval. And really still looking at the cash flow, we'll start looking in the first quarter and the second quarter about how we want to do this. We could add on to the term loan. We could refinance our 22s that are callable in February. We do an add-on to that.

If the stock price is at the right level, I'd be interested in doing an ATM to get a little bit of a durable equity up there. I think all of that's on the table right now. Nothing is immediate. So, you're not going to see us having to go forward immediately. I think the markets feel good about the economy on where things are going and don't feel pressured we have to do something now.

But I think there's a lot of choices on the table. And as you would suspect, every firm on the street has been knocking at our door wanting to talk about financing. And we're just trying to guide things and really see where we are. But we've got a financing in place already that can deal with any of the immediate stuff that we've got to do in the first nine months, in all honesty.

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Aaron L. Watts
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. And as it gels with your leverage profile, I think you're in the high 4s now.

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

A

Yeah.

Aaron L. Watts
Analyst, Deutsche Bank Securities, Inc.

Q

How should we think about this contract impacting that?

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

A

Yes, we mentioned that on the contract, that alone, just this contract, we see that our leverage could go up about $300 million peaking in year four just on the contract itself. The rest of the business generates the free cash flow which should be generating. We shouldn't have to go as high as that. So our goal is leverage your – I see how it could tick up a little bit. But our goal is we still want to get our leverage down below 4, to 3.5 to 4 times. It's going to get pushed out a little bit because of this contract. But I think we've structured the contract in a way to give everybody a great sense of a probability of getting recovery both off and on, on this deal.

Our 8%revenue growth forecast for this contract, which essentially talking about doubling the revenues in 10 years actually is not that big a growth target when you think about what it's already done in the past and when you think about the screens are compared to what they are today. And I think the question that you all should be asking us in our earnings calls going forward, how are you doing on – two things for this. One, how are you doing on the revenue? Boston is a great indication. We're deploying these screens in Boston.

So how are you doing on the revenue growth on those compared to static and how does that compare to your 8% revenue growth rate. And it's too early for us to give you an indication that, yeah, we have deployed enough. But the next several earnings calls, we should be able to give you guidance on that, and then getting the project management in place to be able deploy these screens because it's a big construction project.

Aaron L. Watts
Analyst, Deutsche Bank Securities, Inc.

Q

It's a lot of digital boards you're rolling out and just on your revenue assumptions here, I think one concern with the digital expansion is that you're bringing a lot of supply to the market, right. So how do you balance all this new digital supply that you're bringing with the actual demand that's there from buyers?

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

A

I think we're going to see how this plays out, but understand it's not all happening at day one. It's going to happen over six years or seven years. Also understand that there essentially is no competition on the MTA platforms and subways and trains. We're the only one that's advertising. So we're going to be putting out digital screens for advertisers that heretofore has been putting up static poster and you've got a captive audience standing on a train platform on a subway or Metro-North Line railroad and now it's going to be digital. And they're going to be able to see live streaming news, there could be sporting events, there could be advertising.

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I think advertisers can look at this in a wholly entirely different way, but I think it's going to be, as we've seen, a nice lift in what we've done in Hudson Yards, in Washington, and in Boston and we'll see how that continues to roll. And it's a roll that's happening over a number of years. We think that advertisers are going to find this to be very, very attractive to get a message out to have a really engaging audiences. And we think it would be a really good opportunity to grow this revenue. But we've got to be careful but it's not happening all at once because logistically just could not possibly happen at once.

Aaron L. Watts
Analyst, Deutsche Bank Securities, Inc.

Q

Sure. You've mentioned Boston a couple of times. That was a nice win earlier in the year. Early observations from your progress there so far?

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

A

We're learning the deployment. We're doing it faster and cleaner. We're seeing some very good receptivity from advertisers. They look great. And if you're ever up in Boston, we've got about close to 100 of these installed already, and it will be a couple hundred more in the next several months, 800 within another year almost. And it really looks great. We're getting good receptivity. I think we need a little bit more deployment for mass scale to be able to say the revenues are doing this, but we're very pleased.

And the key I keep talking on Boston is on the Billboard business, when you convert static to digital, you see a four times lift, right. So we did not talk about a four times lift on these transit displays. We're talking essentially 8% compound, that's about 2 times. But we think there's a huge attractiveness for these screens for a dedicated audience that advertisers really would want. And these iPads on a wall are going to be intelligent. They're going to be app-enabled, so advertisers would be able to utilize apps to be able to trigger events to be able to kick in an advertising.

Temperature goes below 30 degrees, there's an advertisement for WeatherTech, or it goes above 80 degrees there's advertisement for Coppertone. These are whole different things that these apps can do and how these boards can become intelligent that I think is going to be very attractive to how agencies and our clients really want to use these intelligent boards.

Aaron L. Watts
Analyst, Deutsche Bank Securities, Inc.

Q

Can you talk about some of the more recent developments on the measurement side? You're alluding to it here a little bit that you're going to be able to analyze this data. What's being done to make the buying and managing of outdoor ads easier for advertisers?

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

A

Today, our business, much as we know there's data available, people can understand, eyeballs go past things, but for the most part, the business is still based on location. So we've been investing capabilities, both building a data management platform and enhancing our whole technology stack, as we like to call it, to be able to enable advertisers to sell by audience and to enable them to see it live, to see it more dynamic, to enable them to do things programmatically or automatically if you would. And we're in that process of really trying to build this out.

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We're still a number of months away from a pilot, but we think that this is a way that really enhances the ROI capabilities of this whole medium. We think our whole industry is going to go this way. And our goal as an industry is really to improve the capabilities of these screens and faces and the dynamics around it with data so that people feel confident in the ROI characteristics so that more dollars come into the industry. It's not so much competing against Clear Channel, Lamar and everybody else in our sector.

It's more about getting more dollars overall into out-of-home with better technology, both screen capabilities, digital capabilities and the data analytics so that advertisers can target more and get more of their dollars. How do we get dollars from social and mobile into out-of-home? And that's the investment we're making, have been doing so for a couple of years, really try to do it smartly, not trying to just waste a lot of dollars and go too quickly and moving very steadily on that process and looking forward to getting some pilots out there in the not too distant future.

Aaron L. Watts
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. So you have been playing a lot of defense over the last year plus with the MTA and New York being such a focus, are there any other material contracts we should be thinking about that you're going to have to defend? And on the other side of that coin, maybe you can talk about some opportunities for offense that you have to play coming up, chances to take business from others.

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

A

Yeah. The only one from a retainer standpoint is one of our contracts in LA on buses. That's up for renewal right now. Revenue amount is ballpark about $30 million. And we have competition on that as we certainly would expect. We feel cautiously optimistic. We'll see how that plays out. There's opportunities out there. San Francisco BART comes up in 2018 and Chicago comes up in 2019. I'm just actually glad that they're not coming up right now.

We've certainly got a lot on our plate to get done, but we're hoping that as we demonstrate and prove on Boston and really get the MTA really moving well that we'll be in a good position to be able to be proactive and offer solutions on both of those to digitize their entire plan to the extent they would like to do so. So I think there are some good opportunities there.

Those contracts are not – again, they're not the size of an MTA. They're more of the size of a Boston, if you would, which was Boston, the incumbent there's about $30 million of revenue. So I think that's ballpark what those are individually. So they're nice contracts and nice wins and our whole business is focusing on top DMAs for billboard and the top, top DMAs on transit. And we do this well, we could pick up a couple, that'd be great. But we'll obviously try to make sure anything we do is smart as we did with the MTA contract.

Aaron L. Watts
Analyst, Deutsche Bank Securities, Inc.

Q

And maybe this is an obvious question, but do those municipalities see that you've had success winning in Boston, that you've had success with New York, and do you think that influences them and gives you an edge in these contract discussions?

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

A

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I'm not sure it gives us an edge, but we would hope that they would obviously see what's going on. We have to believe the MTA saw what we're doing in Boston. In Boston, we won from the incumbent. They can see us that we've deployed screens up there. They can see how it works. They've seen it down at Hudson Yards.

And as we do the MTA, the best reference you're ever going to have is actually doing it. People can see it and so it doesn't take much to see these screens and see how vibrant they are and see how much positive reaction there is. So we're hoping that works and its great and our goal is to make sure we do Boston well, we do the MTA well and you do them well, put a check mark on those, do well by our municipalities and we'll pick up more if we can.

Aaron L. Watts
Analyst, Deutsche Bank Securities, Inc.

Q

And away from the transit side of things, how would you characterize the pipeline of opportunity that might be out there on the M&A front for the boards? Are you seeing a lot of assets shaking loose? Is it going to be more tuck-in in nature?

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

A

I think it's tuck-in and we continue to look at things that we can pick-up at the right prices that assist our various markets around the country, got 53 markets around the country. There might be some chunkier things that come up and we could talk about hypothetically a lot of things. We'll certainly look at stuff that comes up, but we feel very good about the set of assets that we have and we believe that there is a lot of organic opportunity in our existing Billboard business both on yield, conversions, billboard development, and additional transit wins, deploying things to the MTA and this audience selling.

So, we think there's a lot of organic opportunities there. And I think it remains to be a question about, is there a need for any further scale, because I think we're in a very good position, I think we see how we can grow, we've got a nice projections here in terms how we get revenue growing at the right level as it is. And scale brings with it increased balance sheet risk, increased risk on execution, and also regulatory risks.

So if you do anything chunky, you're going to run into regulatory risk, we have to get rid of some assets, and that has its own complications. So, right now, there's a lot of tuck-ins. There may be some chunkier stuff in the future, I think we'll look at it, but I think we'll be very cautious to make sure it meets a lot of needs. But, I don't think that scale in and of itself is a criteria for success in this industry from where we sit today.

Aaron L. Watts
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. So, I want to shift gears over to the operating side, ask you a question about the business environment, right. The economic backdrop here in the U.S. has been stable, it's not robust, but outdoor industry growth has been a little slower than what we've grown accustomed to, I think in the first couple of quarters, overall up 1% to 2% versus the 3% to 4 % growth rate. Again, we've gotten used to seeing.

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

A

Yeah.

Aaron L. Watts
Analyst, Deutsche Bank Securities, Inc.

Q

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Is there anything secular going on here or is it more just ebbs and flows in the ad environment?

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

I think it's more to the latter event. Transit is still growing quite nicely. Local is growing quite nicely. The phenomena we've been seeing has been a slowdown in national. We saw that in the first quarter. We were down in the first quarter. It improved in the second quarter, still down, but it improved and we topped in the second quarter. We thought the second half would continue to improve.

I'm not going to give any comments about third quarter right now, but we saw some slow out of the gate by certain verticals. And they've been slowly coming back. But on the flipside, we've seen some verticals being absolutely leaning in like crazy, the whole technology sector is using out of home really strong. The Apples, the Amazons, the Googles, the Facebooks, Twitters are all using out-of-home in a huge way, really pushing their brand. But there are still some verticals that have been slow.

In the first half of the year, auto telecom insurance were all verticals that were on the slow side coming out of the gate. We're starting to see some of those improve a little bit. And I think it's been some hesitation or maybe what's going on the geopolitical side of this thing. But I think the economy is in a good position. And my fingers are crossed that we'll have some certainty on the tax policy. I think certainly on tax policy gives all businesses a better view of investment you want to make over the next two, three, four years. And I think that that is the one big variable that's out there that really could really fill in a void that I think will help the large companies in this country start to really push on, on the growth vehicle.

Aaron L. Watts
Analyst, Deutsche Bank Securities, Inc.
Q

And on the category side you highlighted a couple of them.

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

Yeah.

Aaron L. Watts
Analyst, Deutsche Bank Securities, Inc.
Q

A lot of investors who look at other ad-driven businesses like television are used to hearing how auto, for instance, accounts for a quarter or more of the revenue pie for some companies. For you guys though you have a more evenly spread kind of pie, right. So can you maybe touch on that?

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

We're very spread. I mean, as some verticals go down and other ones usually pop in, a number of years ago, online gambling wasn't even a vertical and all of a sudden it popped in a number of states and it sort of being very positive. And you hope there was certain verticals going down, you've got other things that come up. Real estate years ago was a huge vertical and it sort of went away but was replaced by a lot of other things.

Entertainment, TVs and movies as a group is a pretty big impact for us. And it really is very important one for us but we're really pretty well spread across the board here that auto could be maybe 4% or 5%, I think, in that ballpark zone. And telecom also can be a nice one but if it moves off a couple of percentage points it's not really

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noticeable. They're all pretty flat across the board and no one really drives something. But you lose somebody for a couple of quarters, you can feel it if you haven't replaced them quick enough. And with 45% national, local's got to kick-in gear real fast to replace that and sometimes it's a little longer to fill it in.

Aaron L. Watts
Analyst, Deutsche Bank Securities, Inc.
Q

Okay. And a couple of the big markets matter a lot for you, New York and LA. Can you touch on some demand trends you're seeing there? And also if there's anything standing out in terms of competitive behavior?

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

On the latter part, pricing is rational, right?

Aaron L. Watts
Analyst, Deutsche Bank Securities, Inc.
Q

Okay.

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

So, also on the pricing side, I've been very pleased by the fact that all of our GMs have been holding their pricing really well. We've been pushing pricing for a number of years to really get them better market price and really to focus on. And this year has been doing very well in pricing, but occupancy has not been very good. National has not been strong, and that's really where the pressure has been and not filling up the bucket.

Markets, New York and LA are big; big markets for us. When they do well, we really do well. National does not do well it's hitting those sort of markets. New York can get – when national is not well, New York may not be doing very well. Transit throughout the business is doing very well, but billboard national a little bit soft. And so, those couple of markets can get hit a little bit. Our New York market's been a little bit soft than we like. LA has been doing pretty well, holding on pretty well, but there's still a little bit of national softness there as well.

Aaron L. Watts
Analyst, Deutsche Bank Securities, Inc.
Q

Okay. And just to dig into pricing and volume trends or the yield that you've been seeing lately. I think both static and digital yields were down slightly in the most recent quarter...

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

Yes.

Aaron L. Watts
Analyst, Deutsche Bank Securities, Inc.
Q

...higher rates offsetting lower occupancy.

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

Yes.

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Aaron L. Watts
Analyst, Deutsche Bank Securities, Inc.

Q

What's driving that and how do you get the yields solidly back in the positive territory?

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

A

It's a national push. I mean, national buys spend higher than local buys. The price points are higher. And so, pricing has been great, even without them, which is super. But we need to get that national bookings to fill up the pie. There's a void there on occupancy. And getting national, really pushing on it, shows that that occupancy yield is going to pop. Pricing has been very good. I've been very pleased that our markets have not given up on pricing because it's very difficult to get that pricing back up. And I think we've been very disciplined, which is really to the testament.

Aaron L. Watts
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. And separate from the MTA contract, but in terms of your plans on digital board conversions going forward...

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

A

Yeah.

Aaron L. Watts
Analyst, Deutsche Bank Securities, Inc.

Q

...you had been running around 100 a year. I think you were at close to 800 to start this year. You made an acquisition up in Canada recently for some more boards. How should we think about adding incremental boards going forward?

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

A

I think, ballpark, it's still about 100. I would love to get that number up to 125, 150. It's all tied to the number of people we have, the process. Every board has got a story. You've got to get zoning requirements. You've got to get landlord approval. There's a whole lot of things to go into. And so there's a pipeline – and I can still see 100 each year, but we're trying to find ways to increase that a lot more.

Digital is important, and we really want to be able to grow digital, but you've got certain throttles that don't enable you to do it all overnight. We did an acquisition in Canada. That was really important. We had not been very aggressive in deploying digital in Canada. We were woefully behind and we really needed to step up their digital presence. And so, we did an acquisition of a number of boards in Canada that makes us a huge player on digital in Canada, and really just changes the game for us up there. And that was great.

We don't have any needs in the U.S. that are like that, that we've got to get digital acquisitions in a market. I think there is organic development that we can do, both conversions as well as billboard development. And one of the areas that we're trying to put time and attention to is organic development.

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Our real estate group, we've got over 100 people that are real estate reps around in all the markets, local people and they know their markets. And they're responsible for renewing. And we got 24,000 leases. We got about 1,800 leases a year they have to renew. So, they're trying to renew them on terms that make some sense, and they got a lot of activity. But we also want them to develop boards. We want them to find locations, we want to work zoning opportunities to be able to really develop new digital signs, static but preferably digital.

And we're trying to look at ways that we can really put more time and attention – resource attention into growing those because organic board development can really take you up and really grow your revenues quite nicely. So, we're looking at doing it internally. We're also partnering with some entrepreneurs. There are developers out there in all these markets who have found ways to develop boards by working zoning. And they build them and they run them for a couple of years, and they come knocking on our door and want us to buy it, right? And so, we've done some of those acquisitions.

But why aren't we developing them ourselves? So, in some cases, we'll do it ourselves. In some, we're partnering with some of those developers in joint ventures to use their expertise and knowledge to be able to develop some of that stuff. And I think that's a big area of emphasis for us in the next several years as organic development on these boards, because I think it's a missed opportunity that we've had in the past couple of years that we should be able to harness ourselves.

Aaron L. Watts
Analyst, Deutsche Bank Securities, Inc.

Q

And as we think about the cost of these boards today or even the next couple of years, how does that compare to what you were spending maybe even just two, three years ago?

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

A

I think they're ballparked $250,000 per – maybe down about $240,000. A market like New York and New York City, if you really had the luxury to do something, there is a lot more. But on average around the country, it's about that dollar amount. We've got an arrangement with Opto Tech, who is our vendor and we've got a new contract with them. And while the cost of these boards have dropped precipitously from where they were 12 years ago, they've been really hanging around the $250,000, $240,000 at level, and we still think they'll be in that level for the next couple of years. But we're reaching a stage on some of the older vintage digital diodes, we have started changing those out now and trying to be cautious about when we do those.

But the cost point is pretty good. The economics are very solid. We do a postmortem every year, looking back at our conversions. We've evaluated conversions. We've done in 2012, 2013, 2014, 2015 and 2016. Every one of our conversions has had IRRs in excess of 25%, and we haven't evaluated the 2017s yet, it's still too early. We're in process of looking at that. But we feel good about the disciplined we've had in selecting the right places, in developing the revenues and executing on those. And we think we continue to do 100 a year at those kind of returns, whether it's 25% or definitely north of 20%, we still think some very, very good returns.

And digital is the way of the future, right. And advertisers want to continue to spend on this new medium, and I think the way they're going to advertise is going to change over time.

But we've got to do them in a smart way. We can't just do them quickly. And we got to follow the rules and regulations. There are developers around the country that develop things illegally, right. And we're not in that game. We're a public company. We do things above board, and we'd follow a process. But we got to follow that process, and it sort of puts a throttle on how much you can do in any one year unfortunately.

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Aaron L. Watts
Analyst, Deutsche Bank Securities, Inc.

Okay. Let me pause for a second, does anybody want to jump in with a question? Okay, then, let me kind of finish the conversation. The credit analyst in me wants to go back to kind of free cash flow and leverage just a little bit more here.

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

A

Yeah.

Aaron L. Watts
Analyst, Deutsche Bank Securities, Inc.

Q

So, thinking about your priorities for your free cash flow, you obviously have the MTA contract, I think you've said you're going to continue to pay your dividend.

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

A

Yes.

Aaron L. Watts
Analyst, Deutsche Bank Securities, Inc.

Q

Where does deleveraging and paying down debt come into that equation? A few years back, if I think about us on the stage, you had said you wanted to get down to 3.5 times to 4 times leverage, and we're still sitting above that. So, how should we think about your priorities in getting that leverage down?

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

A

Yeah. First, that range we put out there was sort of artificial, but it's important. I lived through 2008. And to me, the balance sheet needs to be in a position that if you ever had a tower coming for refinancing, you're in a position that you can refinance it at reasonable rates. So, we want to get there. We levered up to do Van Wagner. And we've had unfortunately – the transit business has been growing more strongly than billboard, and billboard is where you actually get the leverage – operating leverage to be able to pay down debt.

Our priorities are still to want to get that leverage down. The dividend, it's pretty important to continue to pay that for that stakeholders, but it's also important for us to be able to continue to demonstrate to all of our stakeholders that leverage coming down. Leverage is going to tweak up for this MTA. And we talked about a peak that could be $300 million. But with the rest of the business, we don't think it should be the high. But we do want to get that down. It is important to us to pay down debt, but it's all dependent, 100% dependent, if you will, you've got to grow OIBDA. So, the base business has got to grow. We got to grow the OIBDA on this contract, the MTA, all of our transit contracts, and get it all moving. And that growth is what's going to de-lever this business.

And it's very important to us, for both Jeremy and my standpoint, that we want to get this down. And therefore, when you think about the M&A question earlier, that's what I said, we don't think scale is important because to do so, it's like, well, wait a second, you're going to put the balance sheet more at risk, and if you really don't need it, so that's why the M&A side for big deals probably on the lower, lower priority standpoint for us.

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Aaron L. Watts
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. And I know I saw at least one of the ratings agencies come out...

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

A

Yes.

Aaron L. Watts
Analyst, Deutsche Bank Securities, Inc.

Q

...and feel comfortable with what...

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

A

Yes.

Aaron L. Watts
Analyst, Deutsche Bank Securities, Inc.

Q

...with the transaction. Your conversations with them, you were able to kind of sell them on the attributes of it, and even though you have a slight uptick initially in leverage.

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

A

We don't sell attributes. We just tell them what the facts are...

Aaron L. Watts
Analyst, Deutsche Bank Securities, Inc.

Q

Right.

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

A

...and I – we think we negotiated very balanced, smart contract. And they understood it. We'll have our normal annual sit down with them later in the year. But I think they understood the change in revenue share on the first base revenue, that's important, that's great to see. And the first dollar on all incremental revenue is going to pay down what we basically have funded, gives everyone a greater probability of success of getting that paid for. So, I think it's all pretty good. It was pretty clear to explain to them, and I think, they understood it.

Aaron L. Watts
Analyst, Deutsche Bank Securities, Inc.

Okay, great. We're about out of time, Don. Thanks [indiscernible] (34:56).

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

Aaron, thank you.

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