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OUTFRONT Media, Inc. (OUT)

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MANAGEMENT DISCUSSION SECTION

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Thank you, everyone. If you want to grab your seats, we'll get started with our next session. I'm pleased to welcome to the stage Jeremy Male. He's the CEO of OUTFRONT Media, a position he's held since 2013. Prior to joining OUTFRONT, Jeremy spent 13 years as CEO of the UK, Northern Europe, and Australia at Decaux (sic) [JCDecaux] (00:21), which is also a billboard operator. So thank you very much for being here, Jeremy.

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

Thanks, Drew. Good to be here.

QUESTION AND ANSWER SECTION

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

Let's – maybe you can set the stage for us. Maybe you could talk a little bit about the main strategic objectives for OUTFRONT over the next few years. What are you focused on right now?

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

A

I think when we look at – as I look out at the world of out-of-home now and look at what's going on, there's a hugely positive development in terms of the digital overlay that can be achieved with investment in out-of-home.

So by that I mean two pieces to it; significant build-out of digital hardware in the field. So, right now, I mean, ourselves and our competitors are putting digital signage in that will be growing in the market, we believe, substantially; and then significant investment obviously in terms of some of our transit advertising properties where we're literally changing the entire way that out-of-home is going to work in those environments.

I believe that that opportunity, when combined with a much more digital approach to how we trade our inventory. At the moment, if you want to buy a billboard from us, it's pretty hard work, frankly, and it's probably going to involve a fax at some stage and certainly a signature. So, as we sort of look forward and we think of a world where actually out-of-home in the future will be fueled by the same data and insight that other media are being

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enriched by now and bought in much the same way that you would approach buying an air ticket, with the same algorithms involved in terms of working out to determine what the demand piece from our side in terms of maximizing yield, for example, and then add to basket because those are the boards that I want based on audience. I think we have an incredible sort of future in front of us.

So certainly from our point of view we're thinking very hard in terms of our strategic objectives about how we capture that digital opportunity. Because I think, internally and externally, I think when you look at the macro trends for out-of-home, I think they remain as strong as they ever were.

We're still a medium that is gaining eyeballs rather than losing eyeballs, whether or not it's urbanization or other lifestyle trends, such as eating out. The connected consumer can now obviously connect to an out-of-home the way that those mobile devices are going to be able to increasingly interact with our digital or, indeed, analog locations that we have.

And even over the last sort of few years, well, it may be a little bit challenging in certain areas. So I think national advertising for us has been a little challenging. You look at the sways of cash that's coming over to mobile, social, etcetera. I still think on balance we're certainly outperforming all the other traditional media. And I think we're poised for some growth as we go forward as well.

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

Yeah.

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

A

So overall, yeah.

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

That's a great start. Thank you for that. I think, maybe jumping off of one of the things that you mentioned, which is sort of the – having the data and the platform I know that you guys have been focused on this for some time and have been investing in a Digital Management Platform, or DMP.

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

A

Yeah.

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

And maybe you could give us a little bit of an update on where that stands, that whole process of building it out and maybe give us an update when it might be out in the market? And also set a view on sort of the costs that's going into that?

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

A

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So, I think – let's use DMP. I mean, DMP – what we're talking about is the tech stack, okay? We're talking about end-to-end tech stack of which one piece is the DMP. That's what we wish to create, and it's that we're investing in.

And because as I sort of you know touched on before, when you think of how our industry currently trades relative to just about everything else we do in the world today, we are so far behind them, and the opportunity is so great.

So, what we're trying to achieve is basically – to start with anyway, a user interface on the advertising agency. So, you can go into that user interface. You can say okay I want to be in New York, this is my budget. That's the audience I'm after. What boards index highest for that audience? Are they available? Yes, they are. What's the rate? Okay. Add to basket. And if it's a digital sign, I want to be able to deliver – to, I mean, deliver on ad assuming that the copies being pre-approved to that sign then pay based on that audience, because we will have real-time audience data being driven by the DMP that is fueled by cellular carrier data, et cetera. So, that's what we're trying to achieve.

And I would also look for the time where you can, via an app, buy, for example, one sign on the MTA at a particular station that's on the corridor that leads out to a restaurant will buy it two hours at 6:00 at night because it hasn't got enough covers, okay, and you'll do a buy-one-get-one-free on a bottle of wine. That's how I want the flexibility of our medium to be in the future.

Now, you can't wave a magic wand and get there overnight.

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

Right.

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

A

You really can't. It is going to require investment and time, and we're putting that time and investment in now. We've had an alpha in terms of the DMP piece. This is the audience I'm looking for, what boards? We've had that out in market over the last few months, a lot of good learnings.

Next piece is to go to Beta with that and put two other pieces associated with it. So we'll have a UI. You'll be able to go in. You'll be able to then check availability, and you'll be able to see price. You won't be able to book, okay? You would have to go around, swivel chair as we call it, and swivel over here to do the booking. I hope to have that piece out sometime in the first quarter of next year.

Now, this is an iterative process. It's going to – it's not something that's – you don't kind of flick a switch and a light bulb moment, hey we're now in digital, but it's going to be an iterative process. And so I'm absolutely convinced, that strategically, it is the only way to go in today's world. I think to not be doing this would be really doing our business, out-of-home, and our shareholders a disservice. I think it's absolutely where we should be putting our investment.

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

Yeah. I mean, I guess – as I understand, I believe there's an industry – a trade group – the trade group for outdoors is working on something similar. And I don't know if this is a fair characterization, but it seems like you're

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going more sort of a proprietary approach of building it. I don't know. Maybe you can address that. Is that not the right way to think about it?

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

It's the wrong way to think about it. What we will have in our DMP is all sorts of different pieces of data, one of which will be Geopath, okay, which will be the data that the industry used. You're talking about layers of data, layers of information. Everyone – if anyone – it's highly unlikely in the future that an ad agency would just use Geopath as their source of data for buying out-of-home. They're going to put all sorts of other datasets on that. They're going to put ePlus data in or whatever else it happens to be in terms of other datasets on top of that.

And that's what we're talking about. We're talking about having a very robust real-time set of data that is going to work for our business, and our business won't necessarily look like every other business. Our business will comprise what will be eventually 50,000 more screens, on the MTA for example, that all communicate effectively in real-time, and other people aren't trying to do that. So, that's why we're doing something that is right for our business rather that might – is not necessarily what others in the industry might be doing at this point in time.

Drew Borst
Analyst, Goldman Sachs & Co. LLC
Q

And just for clarification, the Geopath data, which is the industry consortium, what is that data, like what type of data is inside that?

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

I mean, basically Geopath is a database of billboard locations for the industry as a whole, with overlays of audience from various different sources and how that audience interacts with those boards over time. That's effectively what it is.

Drew Borst
Analyst, Goldman Sachs & Co. LLC
Q

And I guess your point is that your DMP, you're going to layer on some additional data that will make it better.

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

Better.

Drew Borst
Analyst, Goldman Sachs & Co. LLC
Q

And hopefully, proprietary, it will become kind of a selling point I presume potentially for your billboards.

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

Yeah, absolutely. I would hope so. I would hope so, yeah. But look it's – as I said, I think it's something that we feel very good and positive about. Frankly, would we like it quicker, sooner, cheaper. Of course, we would, but we feel directionally very, very good about.

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Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

Can you help us think about to the point of cheaper? Can you help us think about the level of investment that is currently going into it and maybe how much is room left to go?

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

A

In terms of – I think we're always going to have a set of costs in the business that is it going to be different in the future than they are today. I think we're going to be buying data, so we're going to have some verticals that are going to go in it. They aren't going to go away.

We are also – we are now, for example, as part of our service to Boston, the MBTA in Boston, we are providing their emergency messaging. We're providing their real-time updates on their platforms. I mean, we've put in our ad signs and we're also now producing emergency messaging for them.

Now, as doing that and becoming an expert in that field, that's one of the pieces why we won the MTA and it's one of the reasons why we won BART. So we're putting these investments in this, giving us skills and technology levels that that's nothing to do with the DMP. It's to do with actually with winning transit bids.

So we're going to have certain costs in our business that won't necessarily go away. At the moment, we sort of put those in a bucket which we because of the strategic development expense, and that – it's a run rate of about, I think, $3 million to $4 million a quarter, something like that. We don't expect any huge step-up, but by the same token, I don't anticipate them to a step-down – a huge down step-down, not really.

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

And is there a CapEx component, or that's not terribly significant or maybe that's all behind you at this point?

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

A

There's not a significant CapEx, no, associated with the platform there.

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

Let's talk about the other side of digital that you mentioned in your opening remark, which is about sort of the digital assets out in the field, if you will. I think today, you generate 17% of your revenue from digital. You've talked about a target of getting up to 25%. Can you talk about over what time period you think you may be able to achieve that? And how do you balance the deployment of new digital boards versus the risk of maybe oversupplying or oversaturating the market?

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

A

Yeah. Absolutely. So, if we look at our digital business, in 2016, digital was 12-ish-precent of our revenue in – that was 2016. So, in 2017, I think it was closer to 15%, and now we're at about 17%. So, we've had 5-point swing in two years. And I would suspect that next year, particularly with some of the investments we made this year, so our digital business is growing, by – in total, it will grow by around about 20% this year. So, if it's 17% of our

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business, that's like 1.5 points of our total growth that's just going to come from – I think, if I'm doing the math right, it's going to just come from digital.

So, I would strongly suspect that next year, it'll start with a 2%. So, I think we'll be at 20%. 25%, I would guess two to three years, something like that, that, max, the way that our digital revenues are growing.

When we look into it, two pieces to that growth. One is that we're putting in new signs, and obviously that – when you convert a sign for digital, what you do is you detract from your analog because you are taking an analog sign down. You're putting a digital sign in. That is obviously fueling digital growth, and it means it's a headwind, if you like, for analog growth as soon as you take a sign out. We're seeing growth from that, but we're also seeing increase in digital yields on that same board digitals that we've had before.

So, we're feeling very good about the digital billboard business. We're thinking more about how we can ramp up rather than ramp down because local demand at the moment is terrific, our local businesses is good. I think we're executing well. Main Street seems pretty strong.

So, as we look at opportunities, and when we look at an opportunity, we take into account – it's part of our investment thesis that our individual managers have to go through is what are the revenues going to do on that board, okay? What revenues might we lose from boards in that area, and we take that into account when we do our investment analysis. So, we're thinking about that all the time. But we think that, right now, we'd like to see how we can increase that rather than decrease that. Digital's still got a way to go in the market. As you know, in certain European markets, it's much higher now. 50% now of the UK market is digital.

Now, the markets are structurally different. There's no absolute comparison. But, directionally, digital is only going to go one way in terms of its share of the out-of-home market. And I think that the digital piece I was just talking about in terms of digital billboards, the digital overlay in terms of how we trade them, the investments we're putting in terms of transit will be a big driver of that digital [indiscernible] (15:58).

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

And what are sort of the gating factors that it's – we've heard that in some markets like the regulatory resistance that you can meet. I mean, is that been a huge gating factor in your ability to move more quickly, or because you operate in mostly big urban cities, is it not as big of an issue as it may be in some smaller markets?

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

A

Yeah, it's interesting. When you got into a zoning regulation, is very much – it's almost a county-by-county thing. It's – and we have a single around about 100 people across the U.S. that do two things really. One, they're responsible for all of our leases. So, we have 20,000 leases that are – we need to renew as they sort of roll off all the time. And also, they're looking for opportunities to build new locations.

The zoning piece can be a problem. It can be a problem in either two – two examples. L.A., the off-quoted example, the City of L.A. whatever reason right now. So, I mean, because of a political storm, whenever it was, six or seven years ago. Notice in the City of L.A., whereas City of Inglewood which abuts the City of L.A. You can put digital signs there.

So, that's at the extreme. For the most – outside of that, sometimes you can put in digital, but there's a cost associated with it. The cost might be, we'll allow you to put a digital sign up there, but you've got to take down six

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other signs. And we do the math and we work it out and we – you think, should we, shouldn't we and so that can sometimes change the economics of the decision as to whether you'd – we're putting in 100ish a year at the moment. And so I'm just – I think the way demand is right now, I think the pricing of the digital screens themselves is not going to – I think it's going to go up over the next couple of years. If anything, it might trend marginally down.

So that, associated with good demand, I think gives us confidence to build more signs, and we make great IRRs. I mean, we're still getting 4x – signs we're building today – on the signs – on our historic signs, we've been getting closer to the 6x. On the signs we're building today, we still achieve 4x in terms of revenue. We pay roughly 2x in terms of rent and can make IRRs 25% plus and get pay back in two or three years on the book, but it's good business.

Drew Borst
Analyst, Goldman Sachs & Co. LLC
Q

I guess when I hear those returns, which are incredible, it makes me wonder, should you try to move faster and could you move faster?

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

We're trying to. As I say, zoning is a gating factor, that's right. Supply is a factor that we need to keep an eye on because that is also right. And then just investing in the teams so that you have the right number of teams out there to produce the right number of opportunities. Some of these take a long time. You start on, and some of these can take three years for a project to come from fruition – from start to fruition...

Drew Borst
Analyst, Goldman Sachs & Co. LLC
Q

Yeah.

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

...to getting a sign on the ground. I hope everyone's noticed that wonderful new sign up in the west side highway. There's a new digital sign, so you got a west side highway at about 75th that you'll see, and it's on...

Drew Borst
Analyst, Goldman Sachs & Co. LLC
Q

[indiscernible] (19:38).

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

It's actually part of the MTA build out that we're doing.

Drew Borst
Analyst, Goldman Sachs & Co. LLC
Q

Sorry, it's that one of their pieces of property?

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

A

Well, actually this one is actually Amtrak. We have two contracts. One of Amtrak and one with MTA, but it's just a great sign and it's just an indication that there's still some fabulous digital signs to be built out there.

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

Well, you mentioned the MTA but why don't we move in that direction with transit. And it's been about 10 months – you're 10 months into your 15-year...

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

A

Yeah.

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

...contract with the MTA. So clearly, very, very early days still but it is a big deal for you guys. You spend a lot of time renewing that and negotiating it. Can you talk about how the implementation is going so far? What have you learned? What are you seeing as you start to get into this?

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

A

Absolutely. So as with everything, maybe I'll put it like that. Dealing with transit authorities is always a challenge we've always had, and the MTA would be the first to say, listen, we are a terrible partner and they are, in some regards.

So, you're always working in an environment where the most important thing for your partner is getting people from A to B on time, okay? Which isn't necessarily out, what we think about all the time which is how can we get some great ads up. So there's always that tension.

But cutting to the quick, we're a few months behind where we expected to be. We will build – we built out 8 stations now. We're going to build out another 40 before the end of the year. I hope to build out in excess of 100 next year. So there will be 150 stations done. I would hope, that's out of a total of 400-plus. So we've always talked about a multi-year build.

Obviously a station is not necessarily at the station. What's important is which station. So, there's a lot of difference going and building out 14th Street or Grand Central as opposed to a small station in Staten Island or up in the Bronx or whatever. So, that's an important piece as well. It's not necessarily linear, in terms of revenue per station. They're very lumpy.

But that's sort of the feel of it. And, yeah, it's very exciting. We've also – just on the seven train, we've now got our test screens on train, okay? So we've won – we've got carriages on train because that will be another big piece. I mean, it's some...

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

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Just the whole – are all of the displays are digital or just select ones on the train?

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

A

It will be all the displays on the train, yeah. So, that's exciting. We'll be obviously – we'll be trialing on Metro North soon as well. And there, what do you think of Metro North? I mean, I do think about it because I'm on the Metro North every day on the way down from Greenwich. So, I have a 40-minute ride, and I look at the current analog ads there and I think, wow, when these screens, okay – and effectively I think I can put infotainment on those screens.

If you're there for that long, you can put infotainment on. You can also have a lot of people that are wearing – listening to whatever. You can have an app, so you could actually have a sound stream associated with that programming. You've got a – you think of the audience of the whole MTA which is 6.8 million a day or something. You've got a huge channel. You've got a huge new media channel. I use the term loosely as an opportunity in New York. So, I think it's really exciting early days, but really exciting opportunity for the business.

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

Have you gathered – maybe it's still too early but have you gathered much information from the advertisers about how they're thinking about what they can do with – again, it's not fully scaled and fully deployed yet, but you heard anything from them?

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

A

Yeah. I mean, we've learned as we go along. I mean we have 400 screens now in the MBTA and we'll have 800 but – so we're already taking lots of different copy. One of the great things about the MTA platform as it goes – as opposed to other digital opportunities, say, on the streets of Manhattan is that we can show full video because we don't have the same breaks on below ground or on train as we have for example as there are four other on-street media. Those are the same ads that you receive on your Facebook or Snapchat feed, in a small vignette video format in that shape will be able to take straight down on our signage on the MTA.

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

And I think it was on the last call you mentioned that you're accelerating some of the spending that the investment. You expect now $130 million in 2018 versus $100 million. What was sort of or is it just you're trying to move faster? Is that you're just pulling it forward to accelerate?

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

A

It's not particularly a pull forward. What it does, it reflects the number one-off start costs, there is some tooling costs that we have reflects, for example, the build out on the car – the subway car that I just talked about where that's not a revenue thing, it's just we're just learning, we're building out, we're testing. So there's capital associated with that. There's capital associated with pre-paying some lines that we're going to put in next year as well. So it's sort of a range of different pieces.

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Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

Yeah. You kind of learn as you go obviously with something like this.

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

A

It's a bit of that. It's not a – exactly, it's not a perfect science. I mean, we have really good controls over the process, and we've got some great partners and we feel very confident. But it's – yeah, it's not perfect economics.

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

Does any of this impact kind of the longer-term investment levels? Because I know you guys have talked about $800 million over the life of the contract. But it's a front-end-loaded at $600 million in the first eight years. Is that still kind of your expectation?

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

A

Yeah. Right now, from where we're sat, I mean, there are still so many moving parts, you know what I mean, associated with that. But there's absolutely no – there's no reason for us to think that – to change that as the likely milestone.

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

Yeah. And in terms of stepping back from MTA and just thinking about the broader transit business overall, can you talk about sort of your view on the strategic importance of the business? It is a lower-margin business than your traditional billboard side. Some – not all the assets can fit into the REIT, but it depends on the situation. But can you just sort of talk broadly about how you think about that fitting in? Are there synergies between transit and billboard that you're realizing?

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

A

So, just on the REIT piece, the only bit that can't fit in the REIT is if it's got wheels on it. So, pretty much that's a bus and a subway car outside of that – all of the platform insertions. So, that means a good piece of it fits into the REIT.

I think also, when you consider the – I mean, the MTA are paying for their own capital. We are, if you like, cash-flowing it and getting a return on that cash because we're charging the MTA our cost of capital, in general our cost of borrowing on that cash while it's outstanding. But they're paying for it. And for the most part, in transit systems, okay, the Transit Authority pay for the capital.

So while it's a 20% EBITDA margin versus a 40% EBITDA margin, round numbers, billboard to transit, actually return on capital is great because you're not really putting much in. Our transit business is a quite profitable business when you look at it from – 20% EBITDA margin isn't shabby, but also in terms of return on capital, it's a good business.

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So, I think when you think about it strategically, passenger transit or public transit infrastructure is only going to go one way. Eyeballs are they going to increase? It's going to become – this is – today, the millennials or Gen X or whatever Gen Y's that we look for, they aren't going to be owning cars. If they are, it's going to be a car that's going to look and feel different from the cars of today. They're about living in cities. They're about urban environments. They're about public transit.

And, for us, I think it's a real strength of our business that we have this amazing advertising opportunity with all of the digital opportunity that it presents in Boston, and in New York, and in San Francisco, and in Washington. And because it's going to be coming up for bid next year, who knows, maybe Chicago. Once you have Chicago, for the most part, you have the big transit systems in the U.S. So, yeah, I think it's a very important strategic part of our business, and we're pleased to have it within our armory.

Drew Borst
Analyst, Goldman Sachs & Co. LLC
Q

Yeah. And – that was one of my other questions. But it sounds like once – to what happens with Chicago next year. But after that, it sounds like there's not a lot of major systems up for bid or...

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

There's not a number up for bid within a timeframe that it's worth talking about today. But, I mean, Philly, I think it's a great transit system but it's a long deal – I mean, it's a – there's a long-term contract out there so unlikely. But there's nothing else burning. No, that's right.

Drew Borst
Analyst, Goldman Sachs & Co. LLC
Q

Yeah. One of the things that you mentioned on the last earnings was the competitive intensity in New York hurting a little bit of the transit growth. Can you talk about what's sort of happening there and what you think going forward, is it likely to continue? Is it through the new normal or – what do you think?

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

So, I think the first point is that New York is our most nationally disposed market. So, when national businesses is weak, New York is. It's actually – there's certainly a piece of that. But by the same token, when you look at – you look across the business, we lost because of the process that the MTA have it took so long. I mean, we're kind of a year behind the other digital projects, if you like. And there's more digital out on the streets and at the margin, particularly in a weaker national as an advertising environment that has a little bit of impact. But as I look at our business in New York, and I look at the transit business in New York, it will be – we're having – as we look forward, we're feeling very comfortable about where we're likely to exit this year.

Drew Borst
Analyst, Goldman Sachs & Co. LLC
Q

Yeah.

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

We like that. So, it's more...

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Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

And obviously doing these...

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

A

...more of a blip than anything that we can [indiscernible] there.

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

Yeah. I guess, the point is that there has been some supply injected into the market or sort of the Wi-Fi hotspots or some advertising on there. But you guys, going forward, you're obviously making a lot of investments in the transit. So hopefully, you can kind of compete and gain back that share I guess over time once you get the MTA fully deployed.

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

A

Yeah. Look, I mean, I think when we – I think we can do that before we're fully deployed. I think we'll be seeing some great growth next year before we're fully deployed on the MTA, full stop. So, I feel good about that.

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

I mean it that the New York billboard market, your New York billboards have also had a bit of a tough stretch. Is it kind – is it just the same issue of just competition increased supply that sort of driven that? And what's sort of the outlook on the billboard side of New York?

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

A

Billboard side will also be likely growing in the second half of this year. And once again, I have expectation of growth in the back end for next year. So, we feel good.

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

Great. Maybe we could – the local has been particularly strong for you this year both in billboards and in transit, can you talk about what you're seeing in the marketplace now? Is that trend sort of continuing? Maybe talk about the drivers of that strength.

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

A

So, local has been strong for us for six quarters. We grew that – we grew local revenues by around about 5% last year. Last year, we had the national headwind which was what took our overall growth down to – into that sort of much low-single-digit range.

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And local remained strong for us in Q3. As you know, we guided on our call in August, for low- to mid-single growth. We called out local, and so it continues to be strong. We called out an improving picture in national, which is obviously a positive for us. And we called out strong billboards.

So, there's a lot of good things happening in our business right now. And as we look forward, certainly, I think when we look back on 2018, actually it's going to – well, I think we're going to feel pretty good about – certainly about where we exited the year as a whole.

So that's – when you go into it in terms of, let's say, in terms of national coming back, we continue to do well from the tech category. We're seeing more – some strength in the movie category as we go towards the back – towards the sort of back-end of the year. There's a good movie slate which we do particularly well out of when you consider that – we do a third of our revenues between New York and L.A. And that's effectively where all of them – where all of the out-of-home media money goes into those markets. So media is strong – media and movies is strong. We tend to disproportionately well, and the reverse, obviously, when not so.

So I guess that's a long way of saying we feel pretty good about where OUTFRONT and where out-of-home is, right.

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

Are there any other verticals – appreciating that entertainment so significant for you, but are there any other sort of verticals where you've seen noteworthy inflections in either direction or is it a bit of fairly broad-based for you?

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

A

Going into our – if you look at our verticals, one of the great things about our business is that we're not overly reliant on any one particular vertical. We've definitely seen over the last 18 months, Retail, without any doubt at all there has been a little bit of pressure there that we've seen that and seen that move backwards and auto took a step back 2017 on 2016. But this year it's just sort of hovering about where it is and no huge change there. I think we will see a tick up again over the year as a whole in technology. And when we look around, we look at our medium. We've had great support from the Apples and the Facebooks and the Netflixes and the Hulus, whether or not you would call them tech or media. But yeah I think. We've seen some great advertisers on the medium and I think that will be reflecting when we look back, on the trailing-12 at the end of this year I think we'll be seeing that sort of movement.

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

Anything interesting with wireless? I know that they sort of come in and out and I think it – is it sort of stable at this point or is anything noteworthy having the wireless factor?

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

A

There is nothing of particular of interest.

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

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And I'll see I don't know if there's any questions from audience members. I'll keep going. Why don't we ask a few questions about M&A.

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

There is one there.

Drew Borst
Analyst, Goldman Sachs & Co. LLC
Q

Okay.

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

That you missed it.

Drew Borst
Analyst, Goldman Sachs & Co. LLC
Q

So just to repeat the question, there was a question about the Clear Channel Outdoor asset and sort of turnover of investors there.

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

So I guess the simple answer is obviously I don't know because I don't know. But as we look forward, it seems now that that they will – it will, in Q1 that they will come out of the process that they've been going through. I mean, I guess there's really only sort of a couple of things that could happen.

One possibility is that they decide to try and continue to run the business as a public company, obviously going to restructure the balance sheet. Maybe part of restructuring that balance sheet is a sale of the international business, which seems the most obvious chunk that you can sort of parse out, and that has a valuation, whatever, $1.5 billion, maybe, something like that. So that helps to de-lever and restructure that balance sheet.

And I would imagine, having done that, I mean, unless there's somebody ready, willing and able to acquire the business as a whole, I would suspect that they'd run it and try to see if they can create some value for running the business over the next couple of years. I think most people, if you look at the prognosis for out-of-home over the next couple of years, people feel – the forecasters feel good about it. I don't think it'll be a terrible asset to own for those investors.

Other possibilities might be some sort of breakup of the U.S. piece. Whether or not that maximizes value, I'm not sure. There's certainly a complexity associated with selling anything in pieces, that on the one hand you might think, well, if the size of the prize is big enough, you'll take on that incremental complexity. But I somehow – some – I can't quite see it from where I'm sat, but I've been surprised before and wrong before, so maybe that will happen.

There are still sort of DOJ sort of issues swirling around the industry in terms of how much bigger certain of us can get in certain markets. I wish that the DOJ would think about out-of-home in a much more broader media landscape context with 4.5% or whatever it is, which is a small medium in and of itself. So, the – I firmly believe they should allow greater consolidation within – in that medium. But at the moment, you can – the DOJ when

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some of the transactions from last year between Fairway and Lamar and CCO, they were almost going county-by-county, road – highway-by-highway in terms of how they were analyzing that. So, the DOJ, I think, probably got a bit of a way to move maybe before it would – before three could become two, to put it like that.

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

The – your balance sheet is about 5 times net leverage right now. I suppose that would be a bit of a gating factor in your ability to participate in M&A?

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

A

I think as we look forward, I mean, we talked about leverage over about 5 times right now, and directionally we would like that to go south. We believe we can achieve that as we start to expand our EBITDA with the improved growth rates. So that will definitely help.

When you look at other facilities that we have available – we have an ATM out there which is $300 million – indeed that we have the possibility that – when that might be, obviously that's associated with – as a REIT, we should absolutely know when to be buying stock and when to be selling stock. And right now, probably, that wouldn't be the case. But I'd rather hope that that might be the case at some stage in the future or – so there's that.

And when we sort of look at our other obligations, we have a lot of discretionary pieces in our business. All of our – some two-thirds of our CapEx each year is discretionary. So we have maybe a little more flexibility than might be perceived.

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Listen, we are out of time. Thank you so much for being here, Jeremy.

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

Thank you. Thanks, Drew. Thanks, everyone.

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