26-Feb-2019

OUTFRONT Media, Inc. (OUT)

Q4 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the OUTFRONT Media Fourth Quarter and Full Year 2018 Earnings Conference Call.

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

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

Good afternoon, everyone. Thank you for joining our 2018 fourth quarter and full-year earnings call. On the call today are Jeremy Male, Chairman and Chief Executive Officer; and Matthew Siegel, Executive Vice President and Chief Financial Officer. After a discussion of our financial results, we will open up the lines for a question-and-answer session.

Our comments today will also refer to the earnings release and the slide presentation that you can find in the Investor Relations section of our website, outfrontmedia.com. And after today's call has concluded, an audio archive will be 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 2017 Form 10-K and our 2018 10-K, which we expect to file tomorrow. We'll refer to certain non-GAAP financial measures on this call. Any references to OIBDA made today will be 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.

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And with that, I will turn the call over to Jeremy.

Jeremy John Male

Chairman & Chief Executive Officer, OUTFRONT Media, Inc.

Thanks, Greg, and good afternoon, everyone. We're excited that you can join us today to review our fourth quarter performance and 2019 outlook. Looking at the key highlights on slide 3, I think you'll agree that our financial results surpassed expectations in the fourth quarter. Total revenues grew a very strong 12.7% on a reported basis. This strength was broad, with accelerating results in billboard, transit, local, and national. Strong revenues drove adjusted OIBDA and AFFO up more than 18%. The quarter capped off a good year with reported revenues up 5.6%, OIBDA up 8%, and AFFO also up 8%, which surpassed both our original and our upwardly revised expectations.

On slide 4, total revenues grew 12.7% on a reported basis and 12.6% on an organic basis. The main engine of this growth was U.S. Media. Looking more closely at U.S. Media on slide 5, the 11% growth in total was balanced in dollar terms between billboard, which was up 8.5%, and a strong ramp in our transit business, with revenues surging nearly 17%. And it's worth noting that geographically, we saw growth in every one of our key regions across both billboard and transit.

Slide 6, which we introduced last quarter, shows you the local and national advertiser split in our U.S. Media segment. Local was 55% of our business this quarter, and national was 45%. They both grew double-digits in the quarter, each up 11%. As you're aware, national started out more slowly in 2018, but we saw improvement coming in the second half, and this was a very strong finish, which we guided to on last quarter's call.

Slide 7 shows that our other revenue categories were also very strong this quarter, up $10 million or 32.5% on a reported basis. This was led by strong billboard performance in Canada. We also saw growth in our Sports Marketing business, and enjoyed a $3 million non-core revenue increase related to the sale and installation of digital screens in sports stadia.

We're very pleased with our overall results this quarter; every part of this business performed well, with great sales execution in local and national across our unique and attractive mix of transit and billboard assets.

Let me now hand the call over to Matt.

Matthew Siegel

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

Thanks, Jeremy, and good afternoon. Moving down the income statement, please turn to slide 8 for a look at our expenses. As a percentage of total revenues, total expense levels declined around 1.5 points. We saw margin improvements in both billboard lease expense and transit franchise expense, as well as posting and maintenance expenses. Corporate expense levels were also down. While we did see higher SG&A levels, the majority of this increase was related our sales growth efforts, and to a lesser extent, our continued investment in strategic business development expenses, which were $4.3 million for the quarter.

Slide 9 shows the same expense categories on a dollar basis. A significant portion of our expense growth was directly related to higher revenues, which grew more than our expenses, driving the 18.7% OIBDA growth you can see on slide 10. This bridge puts into perspective the contribution of revenues to our OIBDA growth this quarter, as the OIBDA margin lifted to 31.8% from 30.2% last year.

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Slide 11 is new, and we think it will give you a more clear understanding of the relative contribution of our asset mix. What we show here is our U.S. Media segment OIBDA broken out into its two components: billboard and transit. Billboard is around 80% of our total OIBDA, had a 42% margin, and grew by 9.9%. Transit, as you know, has different economics, with a 20% margin and extremely healthy fourth quarter growth of 24.3%. The Other segment grew nicely on the strength of billboards in Canada.

Turning to slide 12, our fourth quarter capital expenditure levels increased relative to last year. For the full year, our growth capital expenditures were $63.7 million, above our $55 million estimate as we increased our digital investment. Our maintenance capital expenditures were $18.6 million, slightly below our $20 million to $25 million guidance.

During the fourth quarter, our growth CapEx primarily reflected 20 digital billboard conversions and a further digitization of the Boston transit system, which will be completed this year. During 2018, we built or converted 88 digital billboards. For 2019, our guidance for capital expenditures is approximately $80 million, with maintenance of $20 million to $25 million and growth of $55 million to $60 million. This increase on the growth side reflects our desire to accelerate digital billboard conversions due to demand we see in the market and the attractive returns we continue to generate.

Turning to slide 13, we show a bridge in our year-over-year quarterly AFFO. The 18.4% growth was mostly driven by the higher OIBDA. I'll note that interest expense was also up due to higher weighted average cost of debt, higher debt outstanding, and letter of credit fees related to our MTA agreement. The strong fourth quarter performance helped AFFO increase 8% for the year, which put us well ahead of our original low to mid-single-digit guidance for the year. In 2019, we expect AFFO to grow in the mid-single-digit range, which incorporates higher interest expense, our continued investment in digital operations, and cash taxes of approximately $10 million.

AFFO and adjusted free cash flow coverage of our dividends are shown on slide 14. The payout ratios on AFFO for the quarter and on a last 12-month basis were comfortably in our historical range. For adjusted free cash flow, it was 62% for the quarter and 99% LTM. Within the LTM calculation are approximately $17 million of one-time payments related to new transit and sports contracts, and also recoupable interest expense of approximately $3 million, which was incurred for MTA deployment funding. These two figures represent about 9 percentage points of additional dividend coverage. As you saw this afternoon, the board approved our next quarterly dividend of $0.36 per share.

Now, let's turn to our balance sheet and liquidity on slide 15. Our total liquidity at December 31 was $432 million comprised of unrestricted cash, as well as unused availability on our revolving credit and accounts receivable facilities. We feel this is an ample level of liquidity when looking at our future requirements, and we do not have any meaningful debt maturities until 2022. And due to our strong OIBDA growth, our net leverage ratio decreased 30 basis points to 4.7 times.

An additional source of liquidity is our at-the-market, or ATM, equity program. During the fourth quarter, we used the ATM facility for the first time, raising gross proceeds of $15.5 million, leaving $284.5 million unused. The proceeds will fund an acquisition of a digital display portfolio in Atlanta that'll close in the second quarter of 2019, with attractive returns well above our cost of capital.

Now, let's turn to an update on our MTA progress on slide 16. We feel really good about the project and how it's going, and we encourage you to see it for yourself. Those of you in New York are probably seeing the quality of the displays and the terrific advertising that they're carrying. In addition to advertising screens, every station will have some displays that provide customer information, such as real-time train updates and other useful

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passenger communication for the MTA. As of December 31, we had deployed over 1,200 displays, including 934 in the fourth quarter. In 2019, we will significantly accelerate the deployment of platform displays and also begin the initial deployment of digital advertising screens on rolling stock, which is an exciting new media format. In 2018, following the MTA build-out requirements, more than half of the screens installed were communication screens, and in 2019, the mix will shift toward advertising screens. Our total MTA project costs were $33 million in the quarter, $91.2 million for the year, and $96.8 million in total, which includes equipment costs for the 2019 deployments.

You'll recall that our estimate for 2018 had been $130 million. Most of the difference was due to slower than anticipated deployment, and also the timing of some year-end payments. We expect our 2019 equipment deployment cost to be approximately $175 million, which captures some of the underspend from last year and the installation ramp-up.

You'll see a new table in our 10-K and 10-Q that tracks the balance of the project, annual deployment cost incurred, recoupment, and amortization. While 2018 was a partial build-out year with the first station turned on in July, you will see we did begin recoupment of our deployment cost. It was a small amount, as expected, and recoupment will increase significantly as we grow revenues going forward. As you will recall, all of our expenditures are expected to be recouped from the MTA over time.

As we look at the full 15-year project, based on our estimates and assumptions derived from current cost levels, the projected total installation of that would actually be materially higher than our initial estimate of $800 million; however, we are actively working on display cost reductions, installation efficiencies, and scope changes that we believe will positively impact our current estimates.

Going forward, we'll continue to update our annual equipment deployment cost estimate as we move through the fiscal year. And, in lieu of updating the total 15-year project costs, we will update our third-party financing expectations, which reflects the combination of our revenue expectations, related recoupment, and capital outlays. This amount is still in the same zone as previously estimated, with cumulative third-party financing needs peaking at approximately $350 million within the original four year timeframe. This reflects lower early deployment, and more importantly, better revenue outlook than originally forecasted due to the success we're seeing in Boston and D.C. with our liveboards and the general strength in our transit business, which help us feel very positive about our MTA opportunity.

You'll note that our current liquidity is in excess of the $350 million estimate. We have already spent the first $94 million, leaving approximately $250 million of incremental financing for this project.

And finally, we are pleased with our financial results. Our business is accelerating on many levels, our leverage is improving organically, our liquidity is ample, and we have flexibility in our financing options, and the industry is providing good tailwinds.

On that topic, let me turn it back over to Jeremy.

Jeremy John Male

Chairman & Chief Executive Officer, OUTFRONT Media, Inc.

Thank you, Matt. And moving on to slide 17 and the outlook that Matt just mentioned, at this point in time, we expect first quarter total revenue growth in the high single-digit range, with transit growth increasing further from the fourth quarter rate and attractive growth in both local and national. The same factors that drove such a strong fourth quarter are also contributing to our first quarter outlook – digital expansion and improving yields.

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On the first topic, digital, please turn to slide 18. Total digital revenues were up 27.6% in Q4, an impressive growth achieved through a combination of increased yield, digital billboard conversions, and new transit inventory. As Matt mentioned, we're working to increase our billboard conversion pace and to ramp up the digitization of our key transit properties. Digital now represents 18.4% of our total revenue, an increase of 2.2 percentage points over the fourth quarter of last year, and remains a key element of our growth strategy.

The second driver of growth was billboard yield, as seen on slide 19. Our total yield was up 9.6%, the strongest growth this year, and it was particularly pleasing to see the static performance. Importantly, while digital growth was positively impacted by new units, the majority of growth was actually driven by yield improvement.

I'd like to close the day on a topic I mentioned at the beginning of this call, which is the asset mix of our portfolio. In 2018, 69% of our revenues came from billboards and 31% came from transit, a ratio that's been very stable since our IPO. We think that this is the best portfolio in the market today relative to where advertising is growing and is expected to grow in the future.

There are two key reasons for this. The first reason is urbanization. Populations are growing in the large and important U.S. cities. Within these vibrant urban markets, household incomes are higher and populations skew younger, which are key factors for advertisers both national and local.

Our U.S. portfolio is concentrated on these top urban centers, with our top 15 markets generating 71% of our billboard revenues, and 98% of our transit revenues last year. Billboards work very well in these environments, and transit is critical to reach the commuting population.

A second reason we believe we have the best asset mix is the complementary nature of billboard and transit. These assets work together to accomplish our advertiser's goals and to drive our revenues. In 2018, 86 of our top 100 U.S. advertisers purchased both billboard and transit from us. We believe that campaigns using a mix of billboard and transit will become even more common in the future, as technology advances and advertisers can execute in more targeted and automated ways.

In closing, we had a great quarter to cap off a solid year and are beginning 2019 with some really good momentum. We're executing well, our financials are improving, we're outperforming and generating good returns from our assets, and we're doing so in an industry that is one of the healthiest in media, posting growth rates not seen in years. Looking forward, technology investments will provide a further tailwind, and we firmly believe that out-of-home is well poised to take an increasing share of the total media market.

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

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QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] We'll go first to Marci Ryvicker with Wolfe Research.

Marci Ryvicker
Analyst, Wolfe Research LLC

Q

Thank you. I have a couple; I want to start with the fourth quarter. Can you just give a little bit more color on exactly what was driving local and national? Is it a specific category? Is it something you're doing it, is it your market? Are you taking share? Is there any political in there?

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

A

Okay. Let's take some of that – let's take that from the top. So, I guess when you look at the categories, the strongest categories for the quarter were actually the same as the strongest categories of the year: tech, entertainment, and financial services. And within tech, there are some of the usual suspects that you would expect in there, who are all highly supportive of the out-of-home medium. When you look into it further, to be honest, everything was great. It wasn't a political story. Political was 0.3% of our revenues, only.

And everything in Q4 was great; local business was very strong in both billboard and transit, national was strong. We did get a couple of benefits that helped the overall growth rate. So we had the $3 million that I mentioned in terms of the sale of some digital screens. We had around about a $1 million bump in Canada from the legalization of marijuana. But for the – we also had the first time contribution from BART coming into our numbers in transit. But if you take all of that together, it's sort of just over two points of growth. So actually, we were well into the double digits, if you think absolute apples-to-apples, which we were really pleased with.

Marci Ryvicker
Analyst, Wolfe Research LLC

Q

Okay. And then, I guess, just a similar question for the first quarter guidance of high single digits, what's driving that? It's very different than what we saw from Lamar. And then, I hate to do this to you, but can you give us a sense for the year in terms of revenue growth? Is it something we should be plugging in every quarter, or is it going to sort of decelerate a little bit as we go through the year?

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

A

Okay. Marci, just on – to the first point in terms of industry comps. As you know, we've always said that you can't draw a line between the companies that publicly report in our sector. We have different asset mix; we haven't – and we have different geographical mixes. So, we're going to see variations over time. So, yeah, the high single digits is the second highest guidance that we've given.

Things are going well. Billboard will be up nicely; transit is, obviously, powering ahead. National will be up; local will be up. So, yeah, we feel very positive about the first part of the year. It's fair to say that, look, when we get to Q4, we're going to have some much tougher comps. So, I think we'll prefer to comment on the annual sort of revenue guidance as we get closer to the time. But one thing that we do know is that within our base, we are continuing to build out our digital inventory, we're continuing to build out the MTA, and all of those will be starting to impact nicely, I hope, by the time we get to the year-end.

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Marci Ryvicker
Analyst, Wolfe Research LLC

Q

Got it. Thank you so much.

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

Jason B. Bazinet
Analyst, Citi

Q

I just had a question on slide 19 regarding yield. I guess the market is maybe a little bit nervous about the macro, and yet you guys put in pretty significant – I think this is just a way of saying price increases on the billboards. What is the collateral, if there is sort of negative implications of taking big rate increases? When does that manifest itself? In other words, is it something that's sort of, if there is an adverse implication from taking big price increases, it shows up a quarter or two down the road?

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

A

I think that the way to answer that is yield is obviously a combination of occupancy and rate. So if you drill into those yields, we saw some occupancy increase, but for the most part, it was about rate. I'm not sure that there's a linear – anything linear about sort of recession and price versus recession and occupancy.

In fact, sort of during – if you go back to the sort of the Great Recession, I wasn't in the U.S. then, but sort of looking at out-of-home generally, there seemed to be a tendency to actually accept a little bit of a reduction in occupancy and actually work really hard to see if you could maintain rate, because obviously over time, it's sort of more difficult to generate rates. So, a little bit hard to comment on. We're talking on something that, at this moment in time, is hypothetical. But as I say, right now, there are no signs in our business that give us any cause for concern.

Jason B. Bazinet
Analyst, Citi

Q

Would you say that on the utilization part of yield that you're sort of near record highs, or is there still, if you look back at history, a lot of wiggle room to sort of raise the utilization rate?

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

A

Well, it's sort of what I'd call pretty much normalized rates. We do vary a lot by market, so we have some markets where we're right up in the early 90s. When you're at that sort of rate, you're almost fully sold, because after that...

Jason B. Bazinet
Analyst, Citi

Q

Yeah.

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

A

...you just got – you're trying to manage gaps between campaigns, and then we've got other markets actually where we're more in there like 65% to 70% range, where we've got some great upside. So...

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Jason B. Bazinet
Analyst, Citi

Q

[indiscernible] (24:06).

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

A

...mixed bag, as I say, dependent on geography, but still opportunities to grow through occupancy.

Jason B. Bazinet
Analyst, Citi

Q

Helpful. Thank you.

Operator: We'll go next to Aaron Watts with Deutsche Bank.

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

Q

Yeah. Thanks for having me on. Jeremy, wanted to ask, as you look into your crystal ball for this year on the M&A pipeline, curious what you are seeing both on the billboard side and then maybe with transit, if you can comment at all about any legacy contracts of yours that might be coming up for renewal that are material, and on the other side of that coin, any opportunities you might see to go after out there?

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

A

Yeah, absolutely. So in terms of the M&A pipeline, there continues to be a number of, if you like, smaller tuck-in opportunities that we are interested in. We mentioned obviously an investment that we're putting into Atlanta in Q2. We pursue really on a selected basis in markets that we really think can add value to our portfolio, which is very much sort of top 20 portfolio. And at any one time, we'd be working on three or four acquisitions, if we look at the total value of that, they're sort of probably around sub-$100 million, and not all of them will necessarily come through.

On transit, it's interesting because the way in some ways we think about transit, with the investments that we're making, it's almost like a rolling acquisition, because as we invest and we're building out our digital footprint in transit, all of that will bring in incremental OIBDA. So we sort of view that a little bit like an acquisition.

In terms of transit authorities, there's nothing of any significance coming up with our portfolio this year. We think there may be a bid out in Atlanta, which is a property that we have, but that's a relatively small piece of our footprint. And on the – so that's, if you like, on the defense side; on the offense side, it's very likely that some RFP will come out from Chicago sometime over the summer period, and that's something we'll be looking at with interest.

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

Q

Okay. That's helpful. And maybe this is somewhat related, but you commented about why you're happy with your asset mix today. Maybe if I could ask about how you think about your capital allocation options for the future though, I'm curious how you balance organic and inorganic opportunities in billboard versus those in transit. And I

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ask considering the higher margins on the billboard side of the house, and given the amount of up front capital requirements and ramp or payback period on the transit side.

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

Yeah, I guess the first point is that in terms of, if you like, investing organically in our billboard business in terms of billboard conversions to digital, et cetera, et cetera, there's nothing that we're not investing in that we don't think that that's a great thing to invest in. And we're still making really good returns, 20% plus on the digital investments that we're making in our billboard business and we'll continue to make.

In transit, outside of Boston, where we took on, if you like, the capital investment obligation, the investments that we're making in the MTA and indeed in BART in San Francisco, actually those investments are recouped from us out of the share of revenues that would have gone to the transit operators. So, it's a slightly different way of thinking about capital. So, as I say, we're very comfortable with both parts of our business. And when you actually look at total capital in the transit business that the return on capital there is fantastic.

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

All right. Great. Appreciate the comments.

Operator: We'll go next to Drew Borst with Goldman Sachs.

Drew Borst
Analyst, Goldman Sachs & Co. LLC
Q

Hi, thanks for taking the questions. I was wondering, is there much of a benefit from the new MTA contract in the fourth quarter organic growth?

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

Relatively small.

Drew Borst
Analyst, Goldman Sachs & Co. LLC
Q

Okay.

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

Actually, interestingly right now, the transit business in general is just performing very well, be it digital, for example in Boston, or static, which is – we're principally still a static estate in New York and that performed extremely well in Q4.

Drew Borst
Analyst, Goldman Sachs & Co. LLC
Q

When do you think it's reasonable for us to start seeing – I appreciate you're scaling up the deployments, you mentioned in your script that some of the deployments in 2018 were more communication rather than advertising,

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but that mix will shift to your benefit this year. I mean, what's a reasonable expectation in terms of starting to see the benefits of these digital deployments in MTA, is it sort of 3Q or 4Q, or is it more kind of a 2020 benefit?

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

Yeah. As I said on the call, when thinking about guidance for the year as a whole, I hope to see that we're starting to get some of the benefit coming through Q3, Q4. But obviously, it will be next year when we start to see the greater benefit, yeah.

Drew Borst
Analyst, Goldman Sachs & Co. LLC
Q

Okay. And then, just lastly, I think I heard you correctly that you're guiding to AFFO of mid-single-digits for 2019, is that correct?

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

Right, Drew. It's Matt. Mid-single-digits; we have – still increasing our interest expense in 2019, that's a bit of a headwind on otherwise a solid growth.

Drew Borst
Analyst, Goldman Sachs & Co. LLC
Q

So because you have been de-levering obviously, the incremental interest, I guess, is associated with funding the MTA, is that where the interest is coming from?

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

Yeah, our deleveraging is really we're growing into our debt, we're not paying down debt, we're increasing our OIBDA. We have about $700 million of floating rate debt, which, in a slightly higher interest rate environment, this is a negative. And as we continued to fund the MTA upfront, we have a big funding year in 2019 combined with some funding in 2018, we do expect interest expense to go up.

Drew Borst
Analyst, Goldman Sachs & Co. LLC
Q

Okay, great. Thanks for the answers.

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

Sure.

Operator: We'll go next to David Miller with Imperial Capital.

David W. Miller
Analyst, Imperial Capital LLC
Q

Hey, guys. Sorry about that. Sorry about that audio issues. Can you hear me?

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

Yeah.

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

Yeah.

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

Yeah, clearly.

David W. Miller
Analyst, Imperial Capital LLC
Q

Can you guys hear me? All right. Sorry about that.

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

Yeah.

David W. Miller
Analyst, Imperial Capital LLC
Q

A couple questions. So on the New York City MTA platform, how many subway stations do you think you'll retrofit in the current quarter, and how many commuter rail stations do you think you'll retrofit in the current quarter? And then – and maybe it's too early to answer this, but thus far with the way the platform has been built out, which looks fantastic, what is the competitive environment like? How would you describe the overall competitive environment in light of what Decaux is doing with bus shelters and what Intersection is doing with the Wi-Fi kiosks all around Manhattan? And then, I have a follow-up. Thanks.

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

Okay. So, I don't think we're going to be giving a quarterly sort of breakdown of stations completed, but there's going to be a strong ramp this year. We're going to be doing around about another 100 stations between subway and Metro-North, Long Island Railroad, et cetera this year in that sort of area.

David W. Miller
Analyst, Imperial Capital LLC
Q

Okay.

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

The interest that we're getting in the signs is terrific. And, look, nobody operates in a competitive vacuum. We're always aware of the competitive market. But what we have is we have a somewhat discrete audience, which you can only get if you're advertising on our platform. And we also have the ability to do full motion video.

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David W. Miller
Analyst, Imperial Capital LLC

Q

Right.

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

A

That's not something that can easily be done on the streets. And when you think about – if you think about the sort of ads that are coming through to your Snapchat feed or Facebook feed or whatever, a lot of those are actually full motion video without sound and in portrait form that could very easily go onto one of our screens. So, as I say, look, there's always competition, but we think we have a product that actually has great aesthetics and a great audience.

David W. Miller
Analyst, Imperial Capital LLC

Q

Okay. And then, a related question, I'm sure you're aware of the difficulties that the outdoor industry is having with the auto category. And obviously, things are changing with regard to how dealerships advertise, and the Big Three how they advertise and so on and so forth. But with the full – with the platform that you have in New York and the way it's going to look, say, four, five, six years from now and your ability to project full motion video, is there an opportunity to work a little bit more effectively with the auto guys, with the auto advertisers, and take share and really kind of create a renaissance in that particular category?

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

A

Yeah, it's a great question. I was watching TV the other day, and I was watching News 12 Connecticut, and in one ad break, I saw four different auto ads, and I thought, what the heck is this clutter? How – why are people trying to achieve any sort of breakthrough using that medium? It just struck me as nuts.

But, yeah, we have had – that the industry in general, we have seen auto go backwards for a while. For us now, in terms of total revenues, it's sub-5%; and it was down in the quarter. And, in fact, it was one of our – it was the second to bottom in terms of performance for the trailing 12 months. We're talking to them all the time. We are pitching very hard. And I'm hopeful that some of the excitement that we're now injecting into our advertising platforms, with – particularly with this digital build-out – I'm hopeful that we'll have some better news as we go forward.

David W. Miller
Analyst, Imperial Capital LLC

Q

Okay. Wonderful. Thank you very much.

Operator: [Operator Instructions] We'll go next to Jim Goss with Barrington Research.

James Charles Goss
Analyst, Barrington Research Associates, Inc.

Q

Thanks. I was wondering, first, about the mix component and the exceptional first quarter revenue gains in terms of static or digital or any other sort of comparisons that might have influenced those double-digit gains.

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

Are we talking Q4, Jim, or thinking about the Q1 guidance?

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

No, actually, I meant Q4. Yeah.

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

Okay.

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

Those were impressive numbers...

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

So...

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

...so I'm just wondering. And I think Marci touched on it a little bit at the very beginning, but anything more you might add?

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

Yeah. I mean, Q4 in total, our digital revenues were up almost 28%, which is obviously terrific. We're building out digital signs, we're building out our transit platform. So some of that's about new signs, and some of that's about – is purely about yield increase on our current assets. So, if we look at – in more detail at Q4, our digital yields were up just over 4%, and our static yields were up over 7%, so that's all about – so that was obviously a significant driver of the U.S. growth, which was around 11%.

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

Okay. And given the trend toward urbanization that you were pointing out, and maybe your Chicago comment related to this a little bit, I was wondering if you can and would want to incorporate more street furniture into your mix, or is everything along those lines on a bid basis that would at least block or slow you on a temporary basis? And what is your desire to do more in that area?

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

So just for the avoidance of doubt, we do have some street furniture in our portfolio, and all of that is captured within transit. So unlike one of our competitors, who tend to look at billboard, street furniture, and transit, we look at billboard and transit and incorporate street furniture within it.

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So, for example, we have shelter programs, in, yeah, a number of the smaller markets, we have great shelter program in Miami for example. And we'll continue to look for great opportunities as they come up. We certainly don't feel that that's a market that we're not in, we're just obviously not as – we're not in the major markets, as a couple of our competitors are, and some of those contracts are very long term.

So on that basis, the amount of opportunity that we'll have for growth in that area is probably going to be limited to smaller markets, which are not necessarily our absolute focus.

James Charles Goss
Analyst, Barrington Research Associates, Inc.

Q

Okay. Maybe lastly in the deal category, do you ever consider swaps with your competitors when each of you have greater perceived expertise than what the other holds? Are there ways that those sort of transactions get done?

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

A

Yeah, absolutely. Good question, and we do. And in fact, we had a swap, if we go – but we swapped a business in 2016, we swapped some assets in Virginia for some digital assets in Boston. So, yeah, it's something that we do actively pursue when it makes sense. Yeah.

James Charles Goss
Analyst, Barrington Research Associates, Inc.

Q

Okay. Thank you very much.

Operator: We have no further questions at this time. So I hand the call back over to our speakers for any additional or closing remarks.

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

Thanks very much, operator, and thank you to all who attended our call today. We look forward to seeing many of you at investor events in the coming weeks. Thank you once again.

Operator: That does conclude today's conference. We thank you for your participation.

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