27-Feb-2019

OUTFRONT Media, Inc. (OUT)

Morgan Stanley TMT Conference

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MANAGEMENT DISCUSSION SECTION

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Okay. Yeah, there we go. All right. Good afternoon. Please note that important disclosures including my personal holdings disclosures and Morgan Stanley disclosures all up here. The hand-out is available in the registration area and on the Morgan Stanley public website. Once again, I'm Ben Swinburne, Morgan Stanley's U.S. Media Analyst. I'm really happy to welcome back to the conference. To my left, Jeremy Male, the CEO of OUTFRONT Media. OUTFRONT is one of the largest out-of-home media companies in the U.S., also has international presence in Canada, Mexico, and South America.

Prior to joining OUTFRONT, he spent 13 years as the CEO of several regions for JCDecaux. Jeremy thanks for being here.

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

Pleasure. Good to be here, Ben.

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QUESTION AND ANSWER SECTION

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

So I know you got on an early flight, but the timing has still worked out, and then you just reported results last night for Q4, gave us your outlook for 2019. You had double-digit top line growth in the fourth quarter. I don't know, if I can remember, when that may have last happened but it's certainly been a while. Talk about what's driving the revenue strength in your business and why you think that's going to continue into 2019?

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

A

Absolutely, yeah. So, very good to be here. Before I certainly answer, I'd probably just refer to our Safe Harbour statement also on our website.

Yeah, we just reported last night, we had indicated double-digit Q4 and in fact we came in just below 13% on organic growth and up best part of 19% on OIBDA growth and AFFO, so very, very pleasing quarter.

When you drill into the numbers, we pretty much had growth in every facet of our business. So the biggest part of our business is our U.S. billboard business and that was up around 8.5% in the quarter. We then have our transit business, which is roundabout 30% of our U.S. business and that was up 16% in the quarter. Now on our other business, which comprises Canada and also Sports Marketing business, in percentage it's a relatively small business, it's only up $10 million in absolute revenues, but it was up north of 30%. So, very strong across the board. And pleasing within that is the strength of both our local business.

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Yeah.

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

A

Local revenues are 55% of U.S. our revenues and national, the balance, 45%. And both parts, both national and local grew by 11%. So really good solid growth right the way across the board. Earlier in the year, I mean our local business has been performing very strongly for 18 months actually, but this was the strongest quarterly performance of the last 18 months. It was really in the first half of the year particularly, and also in 2017, that national business was a bit weak. That really rebounded in Q4. So yeah, pretty much broad growth and positive right the away across.

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

So what do you think is driving that improvement in national for you guys because the economy is healthy, but it's sort of been healthy for a while, anything you'd point here to sort of explain the acceleration in that part of your business?

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

A

I think when you – I think at the moment, I think out-of-home is actually at the margin generally benefiting on a worldwide basis actually. I think that, look it's very hard to know exactly what issues such as fraud in digital or product placement or whatever, actually have in terms of how marketers think about their spend. But I think that out-of-home is a really straight forward medium, what you see is what you get, we have no editorials, I mean there is no content. We're very fresh, pure medium in that regard.

And we don't have an – we don't have any audience issues. Our audiences keep growing, because people are spending in general more time out of the home, more time commuting et cetera. So for example with our transit properties. So you've got this growing audience. But we're able to connect with an increasingly interesting way as we digitize our assets. So you can now be more timely, you can be more creative, you can be more impactful. And I think all of that generally across the world, and certainly here, is actually stimulating demand for out-of-home right now.

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

And when you look, Jeremy, at the verticals inside of national, I know you said generally everything is strong.

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

A

Yeah.

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

But what are the verticals you would highlight for us that are driving your national acceleration?

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

A

So for the quarter, and also actually for the trailing 12, which I think is probably a better indicator of overall strength, Tech is right up there, entertainment and financial services. Those are the three standout categories for us.

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

And help us think about the role of digital in driving the overall business, but also again coming back to nationals, I'd imagine digital may over indexed the national, all else equal.

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

A

It's interesting, a lot of national advertisers it is very much a go to. I mean the other great thing about digital is that suddenly we can go and compete for late ad dollars. We never could before, because we're a complicated medium, you have to book the space, and then you have to get that stuff printed, and then you have to go find the guy, not quite, I'm exaggerating with a ladder and bucket and paste.

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So we've moved on, we've moved on a lot, and the fact of the matter is that maybe you want to get a campaign up tomorrow and we can do that for you. So, suddenly we can compete for those new ad dollars, and that's important both nationally and locally. And the other – and I'll answer your question on national in a little while. But just if you look at from a local point of view, you can actually capture a number of different type of advertisers that you weren't capturing before, because the classics sort of booking cycle for a board is – would be a month, whereas now we can offer sort of days or day parts, so you can just be increasingly flexible.

And then so with regards to national advertisers, so they're used to making those quick decisions. Digital revenues in total were up for us 28% and change, 28%-and-change in the fourth quarter, and now represent – in Q4 represented over 18% of revenues, and that's up a good full two points in the last 12 months. So really it's a strong ramp and very serious part of our growth story now, Ben.

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Yeah. And you've guided to mid-single-digit AFFO growth for the year, and some healthy revenue growth I think high singles for the first quarter. Just talk about how you see the year playing out, and how we should think about maybe the cadence and growth, and what's keeping the business growing as quickly as we sit here in Q1?

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

A

Well, as we sit here in Q1, we guided last night to high-single-digit growth for the first quarter. And I think that's a great sign of the continued strength that we see in our business. Transit business is really flying, but that's really strong. I'm still seeing very nice growth in our billboard business. And as a company right now I've got 60% of the revenues that I did in our billboard business last year, I've already gotten on books for this year. And that number is around about 50% for transit. The reason it's lower for transit compared to billboard is that transit is more nationally oriented and that books a bit later national advertising books later.

So as we sort of look forward we generally feel good about the year, as I've said on our call last night, we can have a pretty tough comp in Q4. I mean beating a best part of 13% in Q4 right now that's just you think okay, that's going to be – it's going to be an ask. But by the same token our Q4 this year is also going to be impacted by all of the good things that we're doing in terms of building out further digital.

So, we're ramping up the number of digital billboards that we're putting in this year, last year we just have 100, and we're targeting to be 125 and 150 this year. We're also really starting to build out on the MTA in earnest in terms of our digital platform there, we're finishing off Boston, we're starting in San Francisco, we have our general manager for San Francisco here listening to this presentation. So that's going to be another growth driver. So actually we're also going to have some great new inventory by the end of this year as well. So going back to the AFFO point, we – AFFO, we have a slight headwind in AFFO because of increased interest expense this year, we have a slightly higher interest because of the financing the way that MTA project is financed, and slightly higher interest on our floating rate debt, so that's a headwind, but we feel great about the year. We feel great about OIBDA growth, and we feel comfortable with the guidance that we've given on AFFO.

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Great. Yeah. Actually that sort of leads me into my next question, you've touched on it a bit there, but you took – I think you're taking up your digital additions expectations for, at least relatively what we were expecting, for 2019.

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So is that the way just a function of the demand you're seeing in the marketplace and returns you're getting and you're increasing the pace of your digital conversions?

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

A

Yeah, it is. It's all about demand, because every time you put a digital board into a market, you're increasing your inventory by six or seven times just because that's the sort of loops that we sell. So you need to be pretty sure that you've got enough demand in there, so that you're going to out of fill those locations without just taking money out of your analog locations that you might have in the same market.

So yes, we feel good about the demand side. Also, I think we've put quite a bit of effort on our development teams saying that because these locations don't just happen, we've got 100 people in our – on the estate management side who are out there looking for these opportunities. And quite often we – to get a digital board we have to trade in some static boards or we have to find a very smart way to be able to do it. So it's about creating more opportunities given the fact that we feel more confident about the demand piece. So we still make great returns. We – I sign off every board that we convert or that we put a new, and we don't sign anything of below 20% IRR.

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Are you really taking sort of direction from your local managers on that supply/demand dynamics to make sure you don't get ahead of yourself in terms of yield?

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

A

Yes we do. I mean the only thing you have to remember is you can't control everything. So I think you said about an hour ago you are having this conversation with Sean Reilly at Lamar and what I don't know is what Sean might put into the market at about the same time that I'm putting in our inventory into the same market. So you can't control everything, but you can be as smart as you can.

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Yeah. Let me ask you a question I did ask Sean a couple of hours ago which is if you look at last year out-of-home had a nice year as an industry and the rest of local media is pretty tough. The economy is healthy, but the share gain I think from out-of-home looks pretty significant. What do you think is there anything changing on that front, do you think there is a accelerating move of money out of other local media like broadcasting radio into out-of-home or maybe this is just continued Internet deflation on the broader local landscape?

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

A

There's no doubt about it. That out-of-home is outpacing right now. For quarter four, organic growth for Lamar was 5.6%. It looks like it was 7.5% I think for Clear Channel and there is in the double-digit for ourselves. So we are outpacing without any doubt at all, and I think that the confidence that we see on Main Street, I mean it's almost palpable, I mean there is a lot of confidence on Main Street. We pitched really hard in terms of at the beginning of last year to local businesses in terms of what you're doing with your tax dollars, you're going to put into building a business or you're going to put under the bed. And it seems that a lot of people decided to put it into increasing media.

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We – now, certainly when we go out, and our local business is very strong last year. It was terrific. We go out now with a proposition to a local advertiser that says yes we're about billboards, we're all the things you know and love about billboards, but also think of those as being part of your social strategy. So we'll work with you to make sure that we'll give your campaign oxygen in terms of social media.

We launched an influencer platform that we now have within our mix, so we can either get a local – I mean a local celeb whatever it happens to be, a photo in front of the board, we'll merchandise that. We'll put that out on social, so we can say to a local advertiser now hey and look what about having a mobile overlay on that. What about geo-fencing your competitors store or your own store, okay and getting [indiscernible] (00:15:08) myself and I was going to [indiscernible] (00:15:09) getting a mobile message to support your social strategy and deploy your billboard. So we're going out very much now as we're not "Jack the sign seller," where you're media consultant in a local market and it seems to be resonating.

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

And is that resonating more with national transit advertisers, because actually local as you pointed out is the stronger part of your business at least until recently?

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

A

Yeah, I mean it's – for us, our local business is more disposed towards billboard, and part of that is, we have a lot of local advertisers that almost use it as signage, so you have this amount of business where that is just permanent signs and you have the other business that changes if you like on a campaign basis above it. So, yeah it – local and billboard go hand-in-hand.

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Yeah. Let's talk New York City MTA. And us New Yorkers are starting to see all those boards pop-up all over towns, so it's really happening, you guys had some new announcements for us last night on the call around you know your pace of deployments and also the cost of deployment, and how you're thinking about rolling out these displays, could you just maybe update us on the MTA for 2019, and what we should be expecting in terms of investment and also revenue?

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

A

Yeah, absolutely. So last year or by the end last year we had spent around about $100 million on the MTA, a lot of that had been start-up costs that was also associated with the first part of our build out. And I think by the end of the year we had built our in the region of sort of 40 stations something like, and around about a 1,000 screens.

This year we're going to be building out another 100 stations, we're going to be putting – we're going to have in terms of platforms, I think something like 5,000 screens by the end of the year, we're also going to start building out in carriage, in the subway cars and also probably start building out this year in Metro North and also Long Island Railroad in terms of in car, which is a completely new medium, which is really exciting. To be able to – we think to be able to interact with a captive audience, the average ridership something like 30, 32 minutes on commuter rail, to be able to have that captive audience for our ads and potentially infotainment is really exciting as we go forward.

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So, yeah, all of that's happening this year. We have put – we've said look as a range the investment this year depending on timing and otherwise, there's a complexity about dealing with – in dealing with transit authorities that you don't get in other areas of our business. So – but we've put a frame around that of $175 million of potential investments.

And the other thing that we led people to on the call yesterday is, important thing about this contract, in a way, it's a little bit like a rolling acquisition because what you're doing is, you're investing to generate incremental return, difference with this is that we recoup that investment from the MTI as we go forward out of – almost it's a little bit like out of foregone revenue share.

So obviously what's important to us and what's important to our investor base is, okay, so what's was the max borrowing requirement likely to be. So we scaled that as well, because we'd given an indication of that back in September 2017, I think it was, so we scaled that, we said that's likely to be $350 million. It's going to be within the first four years, and that number takes into account the level of investment we're making, the revenues associated with that investment and therefore what we're recouping, you know what I mean, that brings the investment our maximum capital outlay down, so that's what we were trying to get over on the call yesterday. And I think that helped everyone's understanding of the project, I must admit, it's going great. I mean it really is, for any one that's New York based, or even not, I mean now if you take the ACE line up from downtown to uptown, you'll see our screens everywhere and they really are very impressive getting great traction with advertisers.

And what that's doing actually is that while the digital screens themselves is running very well, it's given a great halo over the rest of our transit business. Our transit business is flying.

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

You mean beyond New York?

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

A

Beyond New York. Yeah. Well, we're investing into some extent, and rather nothing like the scale in digital...

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Yeah.

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

A

...but we have done in Boston, we will be in San Francisco, we are doing in Washington. So right the way across it's just given – it's added just an excitement I think to transit advertising in general. And so, we're – our static revenues are doing great as well.

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

That's great. I mean I think – I don't know it was a year ago and a little less New York had been a little soft for you guys, right, as you tried to add on this inventory, but I'm looking at your transit numbers, I've got to imagine, it's performing better now.

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

A

Doing great.

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Yeah. Okay. One other topic I want to ask you about is M&A. You guys I think have a small – you did a small acquisition or are you at least raising money for a small acquisition in the fourth quarter. Can you talk a little bit about your philosophy on acquisitions and industry consolidation in out-of-home in general is a big topic these days. So if you can just touch on acquisitions small and potential consolidation large in this space?

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

A

Absolutely. So let's think about small first, just sort of on the tuck-in side. We are very focused towards top markets, the top 15 DMAs for us in our top markets account for around 70% of our billboard revenues and 98% of our transit revenues. So we are very focused to those top 15 markets.

And as we – when we look to acquire businesses, we look to – we look at markets were either we are underweight, or where we have a management and sales infrastructure whereby we can leverage more out of those assets than the incumbents. So that tends to be the businesses that we look for. And we're very selective, we – the best way to get growth right now we think the least expensive way to get growth is to go out and organically develop your business, you got to go and build new signs rather in transit or billboard. But for the right assets in the right markets, yeah, we will absolutely go ahead and compete, and we're still very keen to do that.

On the larger M&A, so it's interesting that this morning when I was just reading the journal on the flight, I was reading about the AT&T, Time Warner and the DOJ piece of that. And the DOJ, I'm wondering whether or not that decision has any impact on the other media landscape. And the DOJ have always been very excited and excitable about combinations...

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

I guess that's their job.

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

A

I guess so. A large combinations in out-of-home, and they've been very definitive about market definition, et cetera, it's been a tough place to get. I'd rather hope that over time now there is a genuine understanding, they're actually – you know what for the most part, my competitor isn't Lamar or Clear Channel, for the most part my competitors are Google and Facebook, that's where really our dollars are going. And the sooner, right the way across the world, the competition authorities start understanding that, I think the better, it's a slightly long answer.

Yes, this year what's happening Clear Channel, obviously the change there with them coming out of the kind of the bankruptcy process. People have indicated we have a – there was a five-year kind of hold over a period from when we converted to our lead status so that lifts in July. So a number of – there's a number of commenters that have said maybe this would therefore will be a year where the tectonic plates of out-of-home in the U.S. starts changing, we will see.

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Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Yeah, it's been interesting that JCDecaux not breaking any news when they have publicly talked about trying to get into the U.S. for a long time including I think at Davos?

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

A

Well, Ben as you know I was there for 13 years, so I was the one talking about it for 13 years.

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

[indiscernible] (00:24:34).

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

A

So yeah, I certainly know how much they talked about it. But talk is – talk is talk.

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

All right. Nothing else to say beyond that. I've got some more questions, but why don't we see if there is any questions in the audience if you don't mind just raising your hand [indiscernible] (00:24:51) Jeremy, so we can pick it up on the webcast otherwise I'll keep going. Yeah. Andrew?

Q

Good afternoon.

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

A

Good afternoon.

Q

Just the comment you made earlier about the ROI on the conversion to digital boards or panels, it's a very good return number. Just curious on the trajectory of that over the last three to five years, has that been a steady number or has that been falling? And if so, it has been fallen, I'm curious to know where there's been any leakage there, is it your lease agreements changing or anything like that?

And then secondly just hypothetically interested in your thinking behind whether 125 to 150 billboards upgrading this year is the right number or whether that could be 250 to 300, keeping the returns so good, there's not a lot of other industries in traditional media where you can get a 20% ROI, so I wonder it might be this regulation that holds that back or what holds you back from moving even faster on that upgrade?

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

Okay. So answering the first part of the question, if you have a billboard portfolio, you have a relatively small number of amazing boards, and then, you have a larger number of average boards to put it like that. And the way you always go first in terms of conversion is, you think where is the biggest bank to your buck, you convert your best boards. So for example one of our best boards here is to say when you go to Bay Bridge fabulous digital board that literally gets all – all of the traffic is going towards Berkeley, et cetera.

So, [indiscernible] (00:26:33) now the revenues on that board, let's just use round numbers and just this to prove a point might be like $400,000 a year. So – and the revenue on a digital board you might convert in one of the smaller markets might be $75,000 a year. So the cost of board is the same, right. So originally and when we first started the returns were even better because we were getting much, much higher. We were only converting our best boards. But we've got into these fabulous returns. Where we are now is that, on average the boards that we're converting we're making about 4x revenue, we pay about 2 times rent, the cost of converting is about $250,000 per board. And within that sort of framework, that's where we can make sort of 20% plus IRR.

But why aren't we doing more. The gating factor is, two things, really. One, finding the opportunities I mean literally how many out there are there, those – the regulation of the out-of-home industry is very, very strong and it changes not just on a DMA by DMA, but county by county basis. So you have to be working that way hard.

And then overlaid on that is the conversation we had with them, which is a little bit earlier which is and what about supply. So balancing those factors, we think that we can target 150. If we can find more opportunities that we believe will pay, we will build them, but that's where we think we'll likely to end up.

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

Okay. Jeremy just to wrap up, when you think about M&A you think about digital billboard or digital board spend, you're also doing that in the context of the balance sheet that you're I think focused on bringing leverage down, maybe just put all this into context with where you want to take leverage over time?

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

So with the strong growth in EBITDA that we had, OIBIDA that we had in Q1, our leverage came down 4.75 times from 5 times...

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

In Q4.

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

In Q4. Yeah. So as of now we're at – yeah, sorry, you're right. As of now we are at 4.7. Directionally, I think we're – directionally we would much prefer 4 than 5, and that's where we would like to think about in the medium term, we will grow into that leverage. We've still got some investment, incremental $250 million to put into MTA. So, as we said to get to that sort of peak financing. So we're going to be in this same area for a little while. And then I

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believe we'll start growing into that leverage and we'll start seeing that fall back down towards sort of 4 range something like that.

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Got it. All right. Well, that about takes us down to zero. Thank you so much for out Jeremy.

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

Thanks, Ben.

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Thanks, everybody.

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

Thank you.

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