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OUTFRONT Media, Inc. (OUT)

Deutsche Bank Media, Internet & Telecom Conference

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

Mario Joseph Gabelli
Chairman & Chief Investment Officer, GAMCO Investors, Inc

MANAGEMENT DISCUSSION SECTION

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

Okay. We'll get started. Next up we have OUTFRONT Media. Very pleased to have the company back with us again this year. On stage with me is Chief Financial Officer, Matt Siegel. Matt, thank you for being here.

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

My pleasure.

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

So this is actually Matt's first time with us at the media conference as you joined OUTFRONT as CFO just last summer. So it'd be great to hear some impressions you have from your tenure thus far, and perhaps what you're most excited about for the future.

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

Well, sure. First, the best thing was I sat in a warm seat. My predecessor left me a great team, good processes, good control environment. So I'm pleased with that, which is a nice luxury. More importantly really for the industry is there's a lot of stuff going on and I find it very exciting, interesting and really a great runway for the company and for my company in particular, just a lot of growth opportunities, both inside the company with what we're doing in transit and in the billboard side, and also outside the company with the industry changing a lot.

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QUESTION AND ANSWER SECTION

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

Q

So you touched on a little bit just now, but how you feel you're positioned today? What's you're focus on and what are the priorities over the next few years?

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

A

Good questions. So I think we're positioned very well. We have a at scale billboard business among the largest in the country. We're in large markets where we like, we see the population moving more into the cities more. So we think we are where the population is moving. We're the largest transit operator in the country. We like transit. Transit is growing very nicely for us. We have a couple of live projects, high-profile one in New York, still finishing up in Boston and starting in San Francisco. So there's a lot of internal organic growth in transit. So we like what we have and we like the opportunities in front of us.

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

Q

Okay. So let's talk about some current events. You posted really strong fourth quarter performance. Both reported and organic revenues were up around 13%, which is one of the better prints I can think of in recent memory. And for 1Q 2019, you noted the business was pacing up high-single digit percentages, which I think as we heard from others was sort of the top tick across the board. So that current performance compares to mid-single digit growth for all of 2018, what's driving the acceleration in 4Q and as we look into 2019?

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

A

Well, as we saw in the fourth quarter, our national advertisers really picked up towards the end of the third quarter into the fourth quarter and transit really benefits from the national advertisers. So we're seeing great pickup there and we see good stuff in transit and national in the first quarter. That's why we gave good guidance.

And on the billboard side, really the local side of our billboard business has been solid for a couple of years, and the national pickup there has been evident in the fourth quarter, plus our Canadian business, even though we took a mid-year impairment on an acquisition, that acquisition where we turned, you know, the assets from that acquisition to digital Canadian billboards, really turned it around in the second half of the year as well.

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

Q

All right. And we'll dig back into some of those things as well, but many in the industry including Jeremy have been outspoken for many years that outdoor deserved a greater share of the media wallet spend. In 2018, I would say, I look at broadcast, publishing and I think it was pretty clear that outdoor outperformed a lot of other media – local media outlets. So do you think this is finally a sign that we're seeing some share shifting and that that's contributing to growth, is the message finally getting through?

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

A

Well, I think there is some share shifting. But we'll see when the industry numbers come out exactly where the share came from and where it's shifting. But I think that's clear, I mean, our audience is growing. Population is growing, people are traveling more. They're commuting more. So I agree with Jeremy, we deserve more and it seems like we're getting it. I think it'd be premature to declare that it's finally happened or it is a multi-decade shift, but certainly the current share shift is going our way and the media is picking it up and people seem to like out-of-home right now.

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

Q

Anything to call out on kind of the category side? Auto is a much bigger kind of influence there on the TV side. But I think fairly small for you. Any categories that are particularly good or weak at the moment?

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

A

Auto, fairly small and not such a great performer for us. Not sure why, frankly it's a great place to build a brand, but we don't see that as much. Really our big ones – big categories in 2018, tech, this has been big for a while and somewhat counter-intuitively, a lot of the tech clients like static billboards and they like the iconic signs. Also entertainment, there's always a feeding frenzy out in Hollywood, the entertainment companies like to advertise to each other, and with the change in ownership of some of the billboards in Sunset Strip, that's really helped us both in occupancy and price. Those are the two big ones.

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

Q

Okay. And in terms of geographies, anything you would call out from your bigger markets versus your less big markets? And maybe I know New York and L.A., you have a heavy presence in. Can you maybe highlight how those are trending?

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

A

New York and L.A. are about 35% or 40% of our business. So when national picks up, New York and L.A., both get rewarded and we see it probably more than anyone else. So we're pretty high beta in terms of the national and large markets.

We're really focused on large markets. So our next 12 markets after New York and L.A. – combined with New York and L.A. were about 70% of our revenue. So we are a large market focused, different than some of our competitors. So we think that move into the cities is helpful. As far as geographic performance, in the fourth quarter, we were up in every geography. Our transit properties were up so our big cities that have transit are really doing well. So we're seeing kind of strength across the board.

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

Q

Okay. And you mentioned local and national earlier, local right now are around 55% of your business, both though were up around 11% in the fourth quarter. And I think that's important to know because national has been lagging, what's causing it to turn the corner?

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

A

Well, first I'll give a shout out to my sales team and execution, we're performing better. So we've invested some money and some time into the capabilities in our sales team, our sales effort. We've built up over the course of 1.5 to 2 years, a team that combines sales and marketing to large agencies and large cap companies. So we're talking to the CMOs a little more than before. We're just talking to the specialists.

Also certainly the environment is picking up. So we think we're well-positioned. As you pointed out, our geography is based that we should benefit when national picks up and our portfolio is based such that national does a lot of a transit business. We're in transit, so we're well-positioned for what's happening in the market now. And I think we've invested and kind of built up our capabilities so we can handle it.

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

Q

Okay. So let me ask you a couple of questions about the billboard. I think they were up almost 10% in the fourth quarter. Can you talk a little bit about the drivers of that and maybe touch on occupancy and pricing and whether if you're seeing the pricing take, is that sustainable?

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

A

Yes. So, good question. So most of our benefit in billboards, yield is up, our occupancy is around the same, maybe it's up a point across the country, but nothing material. Most of the benefit we're seeing is in price. And some are technical, like in – I mentioned on the Sunset Strip, when someone takes out some of the volume. Netflix bought a lot of billboards and a lot of the other demand that came our way and enabled us to raise price, then you say the industry is more in favor. People are writing about it. There is some share shifts, enables us to raise price more. So we are able to raise price maybe not as much as someone in finance might think they can.

So I do think it's sustainable. I think we have a better mousetrap and something that people want to buy, so why can't we pull price where we are or go a little higher.

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

Q

All right. And on the digital side, your digital revenues were up almost 28% in 4Q. I think they account for right around 18% or a little more of total revenues. How should we think about the growth potential going forward and how big a piece of the overall pie do you think digital can grow to?

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

A

So digital has been great. So digital comes in many forms, we're talking just billboard for now. So our digital growth is both organic price increases, we're able to raise prices on digital as demand warrants, but more importantly one of the best things we do is converting our static signs to digital signs. A little over 2% of our billboard inventory is digital right now. So there's plenty of runway there. We got a very big lift from changing from static to digital. Basically we create more inventory and we can put more customers on that inventory, achieve more revenues. So, that's been great for us.

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I see around the world, JCDecaux, much more global than anyone has a digital over 20%, I'm aware in UK. Australia and some other countries have digital approaching 50%. So I think there's plenty of runway for us to take our digital number higher. I'm not sure exactly where it is, so we're not going to go to 100%. There's a lot of demand and a lot of attraction for static, but I still really think there's a lot of runway for our digital revenue.

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

Q

So you built or converted around 88 digital boards in 2018. Remind us what you're planning for 2019? And what are the factors inhibiting a more rapid digital expansion?

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

A

Good questions. So historically we said we'd like to convert 100 billboards a year and that's more about a round number, okay. Let's do a 100. And we realized middle of this year, if 100 is good, more is better. So we're targeting something around 125, 150 and like to do more in 2020.

It takes a little longer to ramp up, the digital conversion, you need lobbying, you need to get to the local zoning commission, you need the local approvals, some development works. So the runway can be anywhere from 3 months to 12 months, and you need to – it's not just capital frankly, we have all the capital we need to do as much digital conversions as we're able to.

So we've incentivized our local GMs to do more development, do more conversions, we changed their pay structure. So they're now rewarded for digital as opposed to being penalized with a higher budget. We've added some real estate people to focus on development as opposed to just renewing leases and keeping our portfolio in place, and we've increased the amount of time and money we're spending on government relations to further drive that. So we think it's something that's good. We'd like to do more of it.

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

Q

And then just finally, remind us right now how the current economic...

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

A

Oh, yeah.

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

Q

...for the digital board business, in terms of how much uplift you get in revenue, what's the increase in rent that we should think about, the cost to convert?

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

A

So the conversion cost is roughly $0.25 million from taking a static billboard and turning into digital. So we've been picking really from the top of the pyramid of our portfolio, the best billboards over time. And once you do the best, you do the next best and next best of course. So we think the revenue lift now is about 4 times what we're

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getting on static. And, again, we're taking good billboards, turning them into digital, picking one sign, turning it into seven flips.

So the revenue is 4x, the cost is about double, primarily – you know, not primarily, combination of a big increase in electricity and also the lease cost usually goes up. So if we're going to put some capital on a new billboard, we're going to extend – look to extend at lease. So if we have 3 years left, we're not going to put capital on our 3-year remaining lease. We go to landlord and say, hey, can we renew this, break the lease or extend it out to 10 years or 12 to 15 years. And the landlord usually takes, hey, there's a mark-to-market effect, and also the landlord wants a piece of that extra revenue.

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

Q

Okay. So flipping to the other side of the house, the transit side, your transit revenues also grew around 17% in 4Q. So like the boards, a really strong performance, without much benefit at all from your MTA effort in New York. So what's driving the transit growth, and is that sustainable?

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

A

So it's similar, so transit has being driven, we think by national. The national sales have always focused on transit. And we saw that in the first half of the year, also our transit did not perform so well in our national business. It was just underwhelming. So that said, it kind of goes hand in hand, so when national picks up, transit picks up.

Transit also benefited from plus some new signage in Boston, we now have 500 Liveboard screens. The revenue – the ARPU is higher than we expected. So we are enthused by that. WMATA in D.C. is similar, again in the hundreds of signs, again successful early on screens, people seem to like the new transit product we have. You're correct, the MTA really just started deploying, the first station went live mid-summer and we turned on about 20 stations – completed about 20 stations during the year. So it's early yet. But even the static that's in the MTA in New York has done very well. So I think people are coming back to transit and we're obviously a big beneficiary of that. We're large in transit.

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

Q

How much cross-buying do you see between billboard and transit from your advertisers?

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

A

Kind of our top 100 advertisers, I think 85, 86 were buyers in both. So it's – we think beneficial to have both, we can provide clients choice of what they'd like. And if the client wants to do a campaign that uses both transit and some iconic signs, we can provide that where others can't.

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

Q

Okay. So, on the MTA, because it is such a big project, I just want to flush it out a little more. You've deployed over 1,200 boards so far. The biggest portion was in the fourth quarter of that. Can you talk about the experience with the boards that have been installed so far and how they've been received?

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

A

Probably premature to talk about success or failure or really how it's going. The key thing, 1,200 boards, you mentioned most in the fourth quarter, really took a little while to hit our pacing. So we expect to do kind of a similar pacing that we hit at the end of the fourth quarter. So you will see a continued large ramp up in 2019 and 2020 as more screens come on. And going forward, more of those screens will be ad screens. In 2018 more than half the screens were communication screens.

We work closely with the MTA. We are partners. Our interests are aligned. But they had a very strong interest in putting in communication screens. They were planning on closing down the 'L' train to Brooklyn and they want to make sure the 'L' line was communicated with, so we work with them closely.

So, a little early to say what the ARPU or the benefit was. Anecdotally, we have a fair amount of social media inflow that says, hey, screens look great or something on the end of the Queens line or the outer boroughs are really getting hit. Well, we're excited about in 2019, more and more of our screens are coming into Manhattan and what we call more of an all-star lineup. So Columbus Circle, Union Square, Grand Central, Port Authority, really we're putting screens now where more and more people are and where they pass through. So we're very excited about it going forward.

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

Q

Yeah. I know that they look nice, from the ones I've seen so far. Remind us what the total cost of the program is expected to be now and I think that's moved a little bit from when you launched? How much you've spent of that so far and what you expect to spend in 2019?

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

A

Sure. So the total cost – the number we had shared in public was $800 million when we first launched the program. And we've shared that number to give people an idea of the scale of the project. So I think there were some rumors when it was first announced, that it'll be multi-billion dollars of spend and this is an albatross, and so we wanted to kind of frame it for our investors and our people who follow the company.

So in the last year, we realized the screen cost and some of the other hardwares has proven to be more expensive than we expected. So we just disclosed that the cost will be materially higher than $800 million. We haven't put a number out there, because we want to get people away from looking at the total cost of the project. For us we think it's more important to focus on what we need to fund and what our peak funding need is going to be. So the project is, we spend money, we buy screens, we pay for deployment. We put screens on the wall. We then sell advertising, achieve revenue, and we share that revenue with the MTA. And of that revenue share, we recoup the cost of capital from that.

So if the screen cost or the deployment cost is more expensive than we all thought, the onus is on us to generate more revenue to get paid back. So we feel better about our revenue than we did a year ago, based on our experience in Boston and D.C. and our current transit business overall. So we think the focus really is on our need for liquidity and our need to fund. So we put a number – we used to have a number that said that peak funding would be $300 million. We changed that to be $350 million, again, because the screens are more expensive. But not as high as people might think, the deployment is a little slower than our original.

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But this year – last year we spent about $88 million, which brought our total project cost to about $100 million out of pocket. This year we expect to spend $175 million focused where we're deploying a lot more stations. We're buying more screens to hold in inventory. So we're again hitting our run rate pacing. So we think our spend this year will be higher. That initial recoupment, and we think within the same first 4 years, our leverage will start turning down. Our peak financing will start getting repaid as well.

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

Q

So if there is any movement on that kind of total cost of the program, there is no cap on sort of your recoupment amount from the city.

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

A

No, no cap. We expect everything to be recouped. Really, our obligation to the MTA is on number of screens. If the screens prove to be more expensive and the revenue goes higher, we get full recoupment; if the screens are less expensive, again, we get early recoupment. So it's really about project and putting screens where they belong and working with the MTA to get the screens on the walls and then driving revenue to make sure we get recouped. We get a return and the MTA gets rev share as they deserve.

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

Q

Okay. And last question on this, as you think about that third party financing needs, the $350 million number, how do you expect to fund that?

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

A

Of the $350 million, again, we've already spent $100 million, so we're $100 million in; we have a $430 million revolver, which is unused except for letters of credit. So we think we can fund that with our committed financing. Periodically, certainly, we look at capital markets and things, we think we're self- contained at this point.

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

Q

Okay. Looking forward, your 2019 outlook, you've guided to mid-single digit percent AFFO growth for 2019. What are the key parameters you worked with to get comfortable with that outlook for the year?

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

A

So, first, we feel good about our revenue. We gave first quarter revenue guidance of high-single digits, which is our second highest revenue guidance we've ever provided after the fourth quarter. So, we feel good about our business. We think we can continue the business as is and that's going to generate pretty good AFFO growth.

The one concern I have in AFFO growth is really interest expense. The MTA spend is really like a rolling acquisition. So we're financing that with debt, whether it's committed revolver or internally generated. So, our debt balance is going to go higher. And I think still – the interest rate environment, that's a little higher than it was last year. So our interest expense will be higher. It will be a bit of a drag on our AFFO. So, we still think we can do mid-single digits there with the higher interest expense.

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

Q

And in terms of visibility, how much of the business is already on the books for 2019 and how does that compare with prior years at this point?

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

A

The interesting part of the out-of-home business, most years about 50% of the prior year's business is on the books, kind of around the middle of the first quarter. This year, it's around the same, maybe a little more in the transit side, again, transit really picked up its pace in the fourth quarter in 2018, had a slower first half. So about 60% of our transit business is on the books. Again, this is from last year. We do expect some growth in 2019.

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

Q

Let me shift gears over to the M&A environment. Can you talk about how the current pipeline looks right now and whether you're expecting kind of a more active year in outdoor in 2019?

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

A

Outdoor is going to be interesting in 2019. First, the pipeline, we looked at a lot of things. The industry has tons of small transactions or opportunity for transactions. There's a very long tail of non-large companies. So there are three big companies in the industry, Lamar, Clear Channel. For us, that's about 65% of the revenues. So there is about a 35% tail of regionals, some smaller regionals and a lot of family offices that have billboards.

So we look at opportunities multiple times a week, two boards, five boards, 10, 20, so there's always something to look at. We're very selective. Everyone thinks they are Lamar and they should trade at 14 times EBITDA. We don't necessarily agree with a lot of those. We don't buy a lot of things. We just bought something in Atlanta. We took over February 1st, which we're pretty excited about, some very large digital over very well trafficked stop and go highway.

So our pipeline is good for opportunities. We don't pull the trigger a lot. We do look at transit, both the MTA build out, BART coming online at the end of last year. This is kind of a rolling acquisition. So we have committed organic growth that we're putting in now. So we don't feel stressed that we have to do more on the billboard side.

As far as the industry, you mentioned certainly the Clear Channel becoming independent, coming out of the iHeart bankruptcy is going to be interesting. Speculation on if it comes for sale or if not, they've stood up a company with seemingly solid management and experienced board. To the extent the industry is looking at that, they want to see alternatives, that's something we would certainly look at.

And I think that's going to probably lead to some other industry changes. I think everyone knows our five-year REIT anniversary comes up in July and there is a certain French company that seems to talk about us often. So if you talk about it long enough, I'm not sure it just happens, but who knows what the speculation is with that. But I think the industry will have some activity in 2019 and 2020.

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

Q

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So, on the topic of your REIT status, as you mentioned, the expiration of your five-year hold period comes up this summer. Is that significant to the day-to-day of the business or is it more just thinking about it in terms of potential M&A events or otherwise?

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

I would say there are probably five or six people in the company who would think about it at all. Day to day, it doesn't impact anything to the extent we track business and we have a transit business and buses and things, so some – anything that's advertising on rolling stock does not go into our REIT structure, it goes into TRS which is still a very small part of our business. So some people in our accounting group track that.

Otherwise, myself, Greg, the Corporate Finance team, thinks about the REIT, we discuss with our board periodically. It really doesn't take any day to day activity. I look at it, it's beneficial. We pay less taxes because we're a REIT, so there's less leakage of cash flow that benefits the shareholders. For me, as an individual, as a corporate finance practitioner, it's restrictive. One of the arrows or couple of the arrows in the quiver aren't there. But again, we work for the shareholders. We think it's a good thing.

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

Let me ask one more question and then I'll put it out to the audience for any questions there. On the cap structure and I think this ties to the M&A discussion, you finished the year at around 4.7 times net leverage, which certainly benefited from the strong performance we already talked about in the fourth quarter. How should we think about the leverage trending over the next year plus and what's a realistic expectation to aim for perhaps three years out?

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

Our 4.7 excludes some commission compensation on a comparable basis, but I think the important thing was it went down 30 basis points from the quarter before. So we feel pretty good about where our balance sheet is now. Certainly, if I had a choice, I'd like our leverage to be lower. Mostly we have financial capacity to take leverage back up. We're pretty comfortable where we are now. We're kind of comfortable up to 5 times, which the market is very receptive to the out-of-home industry. You had Clear Channel do a huge offering at a much higher leverage than we would ever consider.

So I was encouraged by that. So, frankly, I'd like our leverage to be lower. When I came in, the company had a leverage target that we reiterated every quarter, which wasn't what is going to happen. With the MTA build out and the REIT structure that we can't use our free cash flow to pay down debt, I think we're good where we are, but I'd like to be lower, but play in the same neighborhood.

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

And in terms of your mix of floating and fixed rate debt, I think given your REIT structure, you're at the right level there?

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

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I think we have about 30% of our debt is floating as we spend more, which will be – the new spend will be floating, we'd look to manage that and keep that kind of in the same range.

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

Yeah. Okay. So, anyone in the audience want to ask a question before I keep going?

Mario Joseph Gabelli
Chairman & Chief Investment Officer, GAMCO Investors, Inc
Q

What's the philosophy towards outside of Canada and United States?

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

So, we have Canada...

Mario Joseph Gabelli
Chairman & Chief Investment Officer, GAMCO Investors, Inc
Q

Outside of both of those?

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

Really, no interest at this time out of Canada and U.S. So, we used to have one Latin America and some other things. We see a lot of growth in the U.S. No reason really to venture outside.

Mario Joseph Gabelli
Chairman & Chief Investment Officer, GAMCO Investors, Inc
Q

I'm just asking because of one of the companies you mentioned has operations outside the U.S., the other one, somebody else wants to buy in the U.S. All right. Thanks.

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

Great.

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

Anyone else? Maybe one more question on the transit side, we're thinking about opportunities. Are there any transit contracts that are held by your competitors that are coming up for bid over the next year or two? And maybe on the other side of the coin, any legacy contracts that you currently have that are coming up for renewals as well?

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

Certainly. So the current high profile one is Chicago Transit CTA. I think that contract comes up the end of 2019. So, we expect an RFP sometime in the second quarter. Our team is already gearing up and starting the charm offensive and making plans for Chicago. I'd like to think after all the other transit operations we have and the

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success we're having both with our screens, our operations and our revenue growth that we could cut a – maybe a more attractive deal for us at some point, some transit organization would look at us, say, that's the company I want to partner with. Much smaller than the MTA, it's a little bigger than Boston and BART, but we will take a good hard look at that.

Ad if I have any concern that we have a lot of activity at the same time, we're still finishing up Boston. MTA is in full swing. We're starting to put in digital screens in BART. So we don't need to have Chicago. We have a lot of the big cities outside – all the big cities outside of Chicago. But it's a nice to have if we can get it, but we'll be opportunistic.

As far as what we have, high profile ones, DC kind of gets renewed. We have a couple of annual renewals. So at some point, either they'll not exercise a renewal option or they will come out to RFP, but I think they're very happy with what we do. And Atlanta, I think has – maybe a year from now has a maturity, but much more than the other ones. But really we have – we're not in the airports, but outside the airports, we have really a very strong position in transit.

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

Q

And at risk of this being an obvious question, but is there a snowball effect that you can point to Boston or San Francisco or even what's going on so far in New York with the MTA and go into Chicago with that kind of momentum or even when you're playing defense with a couple of the cities, you just mentioned, does that help or is it really the incumbent is still likely to lock it in?

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

A

It's funny. Our transit team told me the incumbent has the inside track, but we've taken a few transit contracts away. So I'm not sure I buy that. Then, we've seen a couple of smaller deals where we pass on it or we have it in – I think really the economics drive. I would challenge the old urban myth of the incumbent wins the current deals especially in transit. They want capital upfront. They want competency. They want revenue growth. And I look at – they want track record. We bring track record. And look, on the capital side, for a couple of years, Clear Channel had some capital constraints. So, it did – made it a little easier for us to compete with them. I'm not sure what their plan is coming out, but the balance sheet does help.

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

Q

Okay. And maybe one last one on margins, just margin profile of the company as we look ahead. You ended 2018 at just a shade under 30%. It was a little higher in the fourth quarter. But what's the appropriate margin for us to think about for the business as the MTA kind of grows into a more mature place over the next few years. How should we think about that?

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

A

The simple answer is it depends. It's probably a little more complex. We split our disclosure of our business in two, so we can show our billboard business and our transit business. And we've always shown the revenue, but now we can show the EBITDA. Billboard business is bigger and it has a 40%, 42% margin. The transit business is smaller, obviously growing a little quicker, has a 20% margin. So, really the ultimate margin mix is going to depend on the mix. We do think transit's going to grow a little more because of the new properties coming online

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and the strength we've seen recently. So hopefully, it's a little higher toward billboard, but I wouldn't be surprised if it shifts in transit directions as that gets bigger.

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

Q

Okay. All right. I'll end with this one, just thinking about the portfolio assets right now, is there anything that doesn't fit in as well? The question on Canada came up, the college business that you have that competes with Learfield IMG, like, how should we think about any assets that might not be core to the business going forward?

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

A

The college business, it's sports marketing in universities. You would think it would fit nicely with the billboard business, it's signage, it's media sales, but really each school operates independently. We are – it's sort of subscale. We have three large universities, Maryland, LSU and Virginia. We have a whole bunch of mid-sized and we have some scholastic. So, that probably doesn't fit with the billboard or transit business. If there was a better home for that, we would certainly consider that. But so far, we think the EBITDA works with what we have.

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

Okay. We're about out of time. Thank you very much, Matt.

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

Thank you.

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