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OUTFRONT Media, Inc. (OUT)

Q1 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the OUTFRONT Media Inc. First Quarter Earnings Conference Call.

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

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

Good afternoon. Thanks for joining our 2019 first quarter 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 refer to the earnings release and the slide presentation that you can find in the Investor Relations section of our website, outfrontmedia.com. After today's call has concluded, an audio archive will be available 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 2018 Form 10-K. We'll also refer to certain non-GAAP financial measures on the call today. Any

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references made to OIBDA 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.

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

Jeremy John Male

Chairman & Chief Executive Officer, OUTFRONT Media, Inc.

Thanks for joining us today to review our first quarter results and guidance for the second quarter. Highlights of the first quarter are on slide 3. Total revenues increased 10% in the quarter, ahead of our expectations, giving us our second straight quarter of double-digit growth. While Billboard growth was solid, Transit growth was exceptional, driving our outperformance. We had growth in both static and digital, National was healthy and Local saw the strongest growth we have ever posted.

OIBDA was up 6.9% and AFFO was up 2.9%, also a little ahead of our expectations.

Now let's turn to the components of our revenue growth on slide 4. Again, revenues were up 10%, and over 80% of this growth came from U.S. Media, which was up 9.2%. Other revenues were up 19% on a reported basis or 22% when removing the effects of foreign exchange.

Let's look at each of these components in more detail beginning first with U.S. Media on slide 5. Our growth was led by Transit, which was up $18.6 million or 22%, an acceleration even from last quarter's high-teens growth rate. We had positive performance in all our key markets and around one third of our Transit growth was from digital as we continue to increase our digital displays. In Billboard, revenues grew $9.9 million or 4.4%, which was another solid quarter of growth. This was driven by growth in both static and digital revenues.

Slide 6 gives you another view of U.S. Media growth, this time split between revenues from local and national advertisers. Local was up 12% and drove most of our growth. And once again, it's worth noting that this is the highest local growth rate we've ever experienced. National was up 4.9%, which was a good start to 2019 and we're currently seeing very positive trends in national advertising, particularly in Transit.

Now, please turn to slide 7 which shows 19% reported growth in our Other segment. The most important part of this growth was another superb quarter from Canada, which was up 12% on a reported basis on continued strong Billboard performance. Sports Marketing increased nicely, and we also recognized just under $3 million of third-party revenue from sales of sports stadium digital signage.

So I think you'll agree that our business is in great shape. Our growth investments are starting to pay off and we still have significant runway on digital, which I'll come back to in a moment. But first, let me 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. Starting at the bottom, two of our largest categories, Billboard Lease and Transit Franchise expenses were flat on a combined basis. We were slightly up in all levels of Posting, Maintenance and Other expenses, which is where we book a lot of our infrastructure expenses related to the expansion of our technology platform.

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Corporate expense and SG&A expense were also up slightly. However, over half of the SG&A increase reflects our growth-related activities. Slide 9 shows the same expense categories on a dollar basis. In total, expenses increased 11%. Combined with revenue growth, this translated into the 6.9% OIBDA growth you can see on slide 10. It's clear in this chart that the largest expense increase was in Transit Franchise expenses, which are directly linked to Transit revenue growth. We are expecting to see margin improvement as Billboard revenues pick up relative to Transit in the remainder of the year, reflecting the strong operating leverage in the Billboard business.

Slide 11 is a view of our year-over-year OIBDA growth by component. By far the largest source of our OIBDA is Billboard, which grew 2.4%. Transit, while smaller, grew a very strong 34%. The Other category swung to profitability in Q1 and corporate expense increased largely due to compensation and other employee-related costs and some higher professional fees from our recent brand refresh.

Turning to slide 12, our capital expenditure levels as a percentage of revenues were flat at 5% with no significant change in our levels of maintenance or growth CapEx. Our growth CapEx primarily reflected 24 digital Billboard conversions and to a lesser extent the further digitization of the Boston Transit system which now has over 500 displays deployed of the approximately $700 million – I'm sorry, 700 displays in total that we will complete by the end of the year. Including acquisitions and marketing assignments, our total digital Billboards increased by 40 to 1,180.

Moving on to cash flow, slide 13 shows a bridge in year-over-year AFFO. The 2.9% growth in AFFO primarily reflects the headwind from extra interest expense associated with higher weighted average cost of debt and higher debt outstanding. Some of the interest expense increase relates to our cumulative MTA funding without which AFFO growth would have been closer to OIBDA growth.

Back in February we gave AFFO guidance of mid-single-digit growth for 2019. This level appears to be conservative, and as we look forward we are now confident in raising our annual 2019 AFFO guidance to the high-single-digit range. We are pleased to be raising our guidance, especially on the back of our 8% growth last year and this is strong indication that our strategies are driving shareholder value.

Slide 14 shows dividend coverage for both AFFO and adjusted free cash flow. On an LTM basis, we saw a marked improvement in our AFFO dividend payout ratio to 68%. The widening in adjusted free cash payout ratio to 102% was largely a result of one-time payments in 2018 related to new Transit and sports contracts and also recoupable interest expense from the MTA deployment. These items represent about 9 points of additional dividend coverage, which would have resulted in a payout ratio comparable to last year. We are also currently experiencing somewhat later collections from some large national agencies, but are taking steps to improve this. Our next quarterly dividend was approved last month by our Board of Directors of $0.36 per share.

Now let's turn to our balance sheet on slide 15. The left slide shows our liquidity at March 31 of over $400 million comprised of unrestricted cash and unused availability on our revolving credit facility and accounts receivable facility. We believe that this is ample liquidity when considering the performance of our business, the maturity schedule in the chart on the right side of the slide, and incremental funding of $250 million for the MTA, which is unchanged from our previous call. Our leverage ratio is unchanged at 4.7 times and our next debt maturity is not until 2022.

An additional source of liquidity is our at-the-market or ATM equity program. During the first quarter, we used the ATM facility for gross proceeds of $17 million, which we used to partially fund an attractive Billboard acquisition in California, primarily in the San Francisco Bay Area. As of March 31, we had $267.5 million of capacity remaining on the ATM.

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Now let's turn to an update of our MTA progress on Slide 16. This was another big deployment quarter with 735 new displays installed, bringing our total to nearly 2,000. For those of you in New York, you've probably seen these sprouting up at key passenger touch points in Manhattan. They really stand out and have proven to be very popular with our advertiser base. You also may have noticed that not all of these displays carry advertising: as you see here, advertising screens are under 50% of the total to-date, but that will ultimately trend to around 85% of total deployment.

Our total MTA project costs in the quarter were $32.9 million, in line with our previously communicated 2019 expectation of $175 million. Our cumulative project costs are $129.7 million. Recoupment of these costs has begun and will accelerate through the year.

In closing, we are pleased to have delivered another good quarter of financial results. The top-line trajectory reflects our past investment in people, operations, and assets and gives us great confidence as we look to the future. Our leverage held steady. We continue to manage our cost structure, and we are really pleased to be raising our AFFO guidance for the year.

I'll now turn it back over to Jeremy.

Jeremy John Male

Chairman & Chief Executive Officer, OUTFRONT Media, Inc.

Thanks very much, Matt. And moving on to slide 17 and looking at our outlook for the second quarter. At this point in time, we expect total revenue growth to accelerate and approach the early teens with both Billboard and Transit growth rates increasing further from our first quarter rate. I'm sure you appreciate that this is the highest revenue guidance we've given as a public company.

This strong growth is being driven by our continued digital expansion and our focused execution at the sales level.

On slide 18, our digital revenue growth was 22% in the first quarter and this represented more than half of our company's growth. Digital Billboards were up 12%, while digital Transit was up 60%, a phenomenal growth rate driven by our rapid expansion of digital displays in New York, Boston, and other markets.

We've digitized a relatively small percentage of our assets: 2.5% of our Billboards; and under 1% of Transit; but this is now driving 17.5% of run rate revenues, up over two points from last year. We believe that we have a long runway ahead of us in terms of the benefits of digitization.

A second factor we believe is driving our business is highly focused sales execution. Looking at slide 19, our total Billboard yield was up 5.7%. While we did see a small decline in our digital Billboard yield, this was due to some mix and timing issues which we expect to change and be up again in the second quarter. Static billboard yields were up again and Transit yields were also up on the strong results that I discussed earlier.

Strength in Local was particularly pronounced this quarter in both Billboard and Transit. We have great sales leadership, have implemented stronger accountability metrics, and have incentive programs that are resulting in consistent profitable growth. In National, our brand refresh and our broad marketing approach focusing on audiences and social amplification are resonating in the market. Digital investment is also creating a halo effect across our business, particularly on Transit.

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Drilling down further, it was our larger markets this quarter that were the key drivers, as the importance of big cities to advertisers continues to grow, both in terms of National and Local. While we enjoyed broad growth in Q1. it was actually these large markets that made up over half our Local revenue increase. These large markets have a vibrant customer base across many industries that are spending heavily on out-of-home.

These big cities also attract most of our national advertising dollars. Why? Because our unique mix of Transit and Billboard assets can deliver both mass and location-based targeted audiences which help build brand awareness or drive specific outcomes such as online behavior.

A great example of this are two national brands that are somewhat topical right now for investors, Lyft and Uber. They have both been our customers for years and you can see two recent campaigns on slide 20. In 2018 their combined U.S. spending on Out-of-Home was over 10% of their total ad budgets, compared to just 2% for the top 100 advertisers as a whole. Our big city assets helped build these two brands and launched them toward their IPOs this year. This is the power of Out-of-Home that is so compelling to an increasing number of national advertisers.

In closing, we had a great quarter to begin the year and our even stronger outlook for the second quarter is hugely encouraging and enables the raise in our AFFO guidance to high-single-digits for the year. Having just returned from the international Out-of-Home Conference in Dubai, it seems that in most parts of the globe our industry is in great shape and we are certainly pleased to be amongst the world's leading players in this vibrant Out-of-Home market.

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

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

Thanks. I want to dig in a little bit on the Q2 guide. And I guess first, is this a new norm? I mean is this something that we should think is going to continue and is it coming from another medium?

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

A

I think when you when you drill into it Marci, there is no doubt at all that Out-of-Home seems, as I say, across the world and indeed in the U.S. the market is strong. Our peers are doing well. And yes, I think it will be coming from other traditional media. And to some extent, I think for the last three or four years, whatever the question, the answer was always, digital. Okay? I think as we – over the last sort of year or so I think that's just starting to change. And then I think that advertisers are thinking both bottom of the funnel – which is still hugely important – but also top of the funnel in terms of brand building. So, as we look at second quarter guidance – as I said, the market's doing very well. We are seeing actually a nice uptick in National in the second quarter, particularly on our Transit assets. And we're investing in our assets: we're building out a digital platform that is really resonating with advertisers. And as I said in the prepared script, I think what this is doing is really re-awakening advertiser interest in Transit as an advertising medium as a whole and the importance, if you like, of that urban audience that we can deliver.

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As to the question of, is this the new norm, we've certainly seen now three quarters of really pretty good growth. Fair to say that as we move to the back half of this year, obviously we – if you look back to last year, in the first half we were up one point to two points: in the second half, up eight points. So naturally comps will get a little bit tougher, but we still feel great about 2019, hence the guidance range.

Marci Ryvicker
Analyst, Wolfe Research LLC

Q

Okay. And then I want to just drill a little bit into Billboard: with revenue up 4.4% in the first quarter and I think OBIDA up 2.4%, you mentioned that revenue is accelerating and there should be I think margin expansion. Is there any more color you can give us on billboards for Q2, especially on the expense side?

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

A

We've sort of said that in our business, you need – depending on where the revenue growth is in our Billboard business, you probably need a sort of point or two of growth, if you like, before you can really start getting any sort of real expansion. As we look forward for – certainly for the second quarter, what we're seeing in terms of Billboard gives us confidence that we will start enjoying that positive operating leverage as we go into the rest of the year.

Marci Ryvicker
Analyst, Wolfe Research LLC

Q

Okay. And then last question for Matt. Last time on the call you talked about the costs of the billboards on the New York City, MTA being more expensive than you already – initially thought but that you're working on bringing those costs down. Do you have any update for us?

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

A

Nothing new. We are still working with our current vendor: we're talking to some alternatives and we're still working with the MTA on some further scope changes. But we feel really good where the revenue is and we still think the more valuable metric is our peak borrowing, which we talked about today. We're still on track for that $350 million target sometime over the first four years.

Marci Ryvicker
Analyst, Wolfe Research LLC

Q

Great. Thank you.

Operator: We'll now take a question from Alexia Quadrani with JPMorgan.

Alexia S. Quadrani
Analyst, JPMorgan Securities LLC

Q

Hi, there. Thank you. Just a couple of follow up questions on your commentary earlier, any more color you can give us on the uptick in National in Q2? Are there certain verticals that are kind of jumping in or is it widespread? And then you mentioned Uber and Lyft spending 10% of ad budgets in Out-of-Home. I guess do you see other advertisers sort of shifting a share of their budget or is that specific to that type of a category?

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

A

In terms of that – sort of 10%, it's interesting: because when you look to – we've highlighted before that the likes of Apple and Netflix and a number of other sort of media organizations, media and film in particular, a number of those would be up in that sort of 10%-plus range. When we – if we look back to Q1 and sort of look at the stronger ad categories for us, actually two of them were the same as trailing 12-month, which was professional services which is largely local and financial services which are largely national.

In terms of commenting on this quarter, Alexia, I think it's better to sort of look backwards really for – on categories rather than sort of – rather than pre-empt it at this stage. But as always, as a medium, one of the strengths of our business is the broad – is our broad advertiser base. And the National uptick, as I say, a big part of that is about our new transit platform that is really resonating with these advertisers.

Alexia S. Quadrani
Analyst, JPMorgan Securities LLC

Q

Okay, thank you. And if I can just squeeze in one more: the record Local growth in the quarter, anything one-time-ish or – to help boost that or is it really just a great performance and a good run rate?

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

A

No, I think it's worth pointing – I did point out that in terms of our total growth rate. We took that $3 million related to sales of digital signage, which if you like is not normal course activity for us but it comes along once in a while. And we are benefiting from, if you like, an apples-to-pears comparison in that we have BART, the transit system in San Francisco in this quarter that we didn't have last year. Those two pieces combined, they are short of a couple of – just short of a couple of points of total revenue growth.

Alexia S. Quadrani
Analyst, JPMorgan Securities LLC

Q

Thank you so much.

Operator: We'll now take a question from David Miller with Imperial Capital.

David W. Miller
Analyst, Imperial Capital LLC

Q

Hey, guys, great numbers. Matt, on the share count, 141.1 million, what would you say is the division there? It looks like it just went up sequentially by about 1 million shares. So, I have that – it looks like it – maybe half of that was the ATM and the other half was just standard sort of dilution off options issuance. Just curious what the breakdown is there. And then, as a related note, would you ever consider tapping the ATM further to de-lever? And then I have a follow-up. Thanks.

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

A

I think a little more than half of it is the ATM program and the rest is as you point out some normal exercising. As far as tapping the ATM, we started tapping in a small way in the fourth quarter. So far we are using it really just to fund tuck-in acquisitions. We had something we closed in Atlanta during the first quarter and we expect to close something, as we pointed out, mostly in Northern California in the second quarter.

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David W. Miller
Analyst, Imperial Capital LLC

Q

Okay, great. And then, Jeremy, on the New York City MTA, in terms of the proliferation of displays that's there so far, would you say that the categories that have emerged are what you thought would happen going into this and where we are now, or have certain new categories emerged onto the platform that you didn't expect?

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

A

So good question there. So for the most part, the advertisers that are taking these – using these displays are, if you like, advertisers that we've seen on the platform before. But there's no doubt about it that they are using it in a slightly different way: and actually it's incremental. When we talk about proliferation, it's also maybe worth mentioning that every time we put a digital sign up, we're actually taking some of the analog or static signage down. So, as to what we're doing, if you like, it's just a general ramp of the advertising displays rather than the sort of proliferation word.

David W. Miller
Analyst, Imperial Capital LLC

Q

Okay. Wonderful. Thank you.

Operator: We'll now take a question from Ben Swinburne with Morgan Stanley.

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Thanks. Jeremy, can you talk a little bit about how the sales organization is using technology to sell, whether it's programmatic – or anything you're doing on the automation front? Any sense for how much of your business and your growth would be benefiting from that? I know it's been a long-running project for you guys in terms of growth areas. Be curious on that. And then for Matt, just on corporate costs which were up year-on-year, is that just accrued comp, given the strong start to the year, or anything else you would call out in terms of corporate and what we might want to think about for the rest of the year on that line. Thank you, guys.

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

A

I'll jump in first. On corporate cost it was – year-over-year we did some hiring in our sales operations area, increasing our capabilities in terms of our analytics and we did – based on a very strong fourth quarter had some costs roll into the first quarter. And then in the back half of last year, rolling into the first part of this year we had a brand refresh, which we spent some marketing dollars on.

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

A

And then maybe coming to your first question, Ben. So we now have a number of our assets on, if you like automated platforms – I hesitate to use the word, programmatic, because that typically implies some sort of real-time bid process, whereas ours are in a private marketplace and we are generating some revenues from that and some of our peers have also – they've sort of quantified that in some way.

When we look at our own tech platform, we have our beta out now: it's a product called Smart Scout, which I think Greg is hoping to give analysts and investors a sort of a look out over the sort of coming weeks at our media lab

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here in New York. So you are about to sort of see that and that's up – it's impressive right now. In terms of our business, that's not specifically impacting our revenues. And actually that's a good thing, because what we're seeing right now, for the revenue growth you're seeing or we're experiencing is business as usual. And the growth opportunity that I believe – and I've talked about this before that we can expect from a more digital overlay to the way we trade our assets in the future actually is all to come. So as I say, I see that as a good thing rather than a bad thing right now, Ben.

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Yeah. That makes sense. And if I just pick up on a point you made earlier about digital broadly on the National side, are you seeing a change in how agencies view Out-of-Home, because it was – is obviously a relatively small part of media plans, but in this sort of shift back towards non-mobile or social or streaming to maybe traditional platforms like Out-of-Home, are you seeing any change in how the agencies are approaching the media versus two years or three years ago?

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

A

I mean there's one thing, Ben. When you – as we mentioned in the script, when you are only 2% of national advertising revenues, you don't need much of a swing to actually really impact us as a medium. And I think there is a growing sort of understanding that actually location is hugely important to advertisers: and we are all about location. So you have location with mobility and the way that we interact with mobile – and here I don't just mean classic mobile ads. As you know we have sold 3,000 or 4,000 mobile campaigns ourselves as a, "would you like fries with that?" But also just in terms of how we then interface with social. So we go out with a very broad, consultative message both to local and national advertisers, and I think that's really resonating.

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Got you. Thank you.

Operator: We'll now take a question from Ian Zaffino with Oppenheimer.

Ian Zaffino
Analyst, Oppenheimer & Co., Inc.

Q

Hi, Greg. Thank you very much. A great quarter. My question would be on, on the second quarter, the acceleration – I mean, do you have any visibility into the third quarter right now as far as, should we continue to see an acceleration in the third quarter? And then also in the second quarter, how much of that is booked and kind of said and done? Thanks.

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

A

Yeah, thanks Ian. So we've only ever guided to the next quarter, okay and so that's why we are very comfortable giving the strong guidance that we did – that we have just done for Q2. And I think really the best answer to that question is two bits really: the first, again, we know that we're going to have – comps are going to get a little bit tougher as we go forward for the balance of each month. But even given that, we were sufficiently confident at this relatively early stage in the year to increase our AFFO guidance for 2019.

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Ian Zaffino
Analyst, Oppenheimer & Co., Inc.

Q

Okay. Thank you very much.

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

A

Thanks, Ian.

Operator: We'll now take a question from Jason Bazinet from Citi.

Jason B. Bazinet
Analyst, Citigroup Global Markets, Inc.

Q

Thanks. So everyone likes the results, but let me just ask this question. If I look at the quarter, there was more revenue than EBITDA, more EBITDA than AFFO and I think more AFFO growth than free cash flow. And I suspect all of that sort of emanates from the noise around the MTA contract – by noise I just mean, it helps your revenue, but there's a lot of unique stuff in there with rev shares. Given that your div payout ratio is still quite high, do you mind just updating us on when you expect the standalone MTA contract actually begin to generate free cash flow? Is that sort of a 2021 event? Is that sort of the right zip code, or could it happen sooner?

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

A

I think there is a couple of points there Jason, and the first is, as you know, Q1 is seasonally our lightest quarter: that's the first one. The second point is that when you look at the sort of relative mix, that is always going to weigh just because of the difference in relative profitability between Transit and Billboard. That said, our Transit business is going great guns, and it's throwing off good cash. When we sort of – as we look forward, as we said and – to the quarters, as we see Billboard increasing strength that will change. And the difference between the OIBDA growth and our AFFO growth, as Matt explained in his comments was about incremental interest expense, which to be fair we also flagged at the start of this year.

Jason B. Bazinet
Analyst, Citigroup Global Markets, Inc.

Q

And so – but when will the MTA contract generate cash flow? Do you have a rough estimate of when we inflect?

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

A

Jason, and the number we say, you have $350 million of peak borrowing over the first four years. Once we hit that peak, obviously we start paying back that borrowing: and free cash flow comes, we pay down debt from that. So sometime in year four of the MTA contract, and 2018 being year one, so looking at 2021.

Jason B. Bazinet
Analyst, Citigroup Global Markets, Inc.

Q

Okay. Thank you very much.

Operator: [Operator Instructions] We'll take our next question from Jim Goss with Barrington Research.

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James Charles Goss
Analyst, Barrington Research Associates, Inc.

Q

Thanks. I think Matt made a comment that Billboard should pick up more than Transit in the balance of the year: and I was wondering if that comment was tied to more challenging comps as Transit has been doing well, or if there is anything specific about Billboard that you thought that you'd want to point to?

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

A

Yeah, I don't think that was exactly the comment, Jim. I think what we said is that Billboard is going to pick up: we didn't say that Transit is going to slow down.

James Charles Goss
Analyst, Barrington Research Associates, Inc.

Q

Okay. I was wondering also, as you put more digital boards in trains and buses et cetera, but especially the MTA as well as Boston and San Francisco, do you think there is there is an opportunity for political ads in those areas and will that will be another category for you?

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

A

We have difficulty with political on municipality-owned assets. So I don't think that that's going to be – that's going to be an opportunity, Jim.

James Charles Goss
Analyst, Barrington Research Associates, Inc.

Q

Okay. And I was wondering, tech IPOs – Tech has been a pretty good category for you. Are they fielding any additional business?

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

A

I think what we have seen is, a number of these DTC brands as they are called, direct-to-consumer brands, are really strong with us, particularly in these urban environments, particularly on Transit. So brands like Casper have literally built their business by – on our medium. And we believe that these kind of sort of pre-IPO brands are actually really benefiting in terms of getting their brand out at relatively low CPM, one of the sort of great strengths of Out-of-Home.

James Charles Goss
Analyst, Barrington Research Associates, Inc.

Q

Okay. That's all I have for now. Thank you.

Operator: We'll now take a question from Drew Borst with Goldman Sachs.

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

Hi. Thanks for taking the questions. I wanted to ask about the MTA deployment over the next couple of quarters. You – I think you said you guys installed 300 advertising boards in the system just in the first quarter alone: that

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was a pretty big inflection upward from last year. I think you maybe only did 30 in the fourth quarter. Is that kind of the run rate, 300 per quarter over the next couple of quarters, or does it perhaps pick-up, or sort of how should we think about that cadence?

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

I think, Drew – it's Matt. We're roughly running at our run rate that we expect to do throughout the year for next few years: so it's about 10 stations a month or 30 stations a quarter. The actual number of screens will depend on which stations and what the configuration is. We think this is roughly a run rate for the next few quarters going forward.

Drew Borst
Analyst, Goldman Sachs & Co. LLC
Q

Okay. Thank you. Also want to ask about the U.S. Billboard OIBDA margins in the quarter. They did compress about 60 basis points. I heard Jeremy's comments about maybe it picking up. But I just want to better understand why it may have compressed in the first quarter.

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

Yeah, once again, part of it's to do with seasonality: part of it's to do with mix, where we generate our Billboard revenues. So, for example – and I think this is well known that if we're selling a board in Times Square, there is a good chance that we're going to be paying $0.75 on the dollar back to the landlord: if we're selling a board in one of our smaller markets, say a Louisville, there's a chance it's likely to be nearer $0.15 or $0.20 on the dollar. So, a lot of it is about geographic mix in a seasonally light quarter.

Drew Borst
Analyst, Goldman Sachs & Co. LLC
Q

But you do expect it to improve for the balance?

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

Yep. We do.

Drew Borst
Analyst, Goldman Sachs & Co. LLC
Q

And then my last question, on the AFFO guide, the increase to the high-single-digits after first quarter up 3%. I don't know if you can help us with the cadence over the next three quarters?

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

I think as we point out, our second quarter revenue is going to be very strong. That's going to help our AFFO, and I think our AFFO guide and growth is still below what we saw in revenue in the first and second quarter. So we still think it's comfortable, achievable, and I don't think anything more – I should say more on second half of the year.

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Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

All right. Thanks for taking the questions.

Operator: We'll now take a question from Aaron Watts with Deutsche Bank.

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

Q

Hey, guys. Thanks for having me on. A question on digital. Historically you've converted around 100 boards annually, and I think this year you're aiming a little higher than that .Given the strength the industry is seeing and OUTFRONT specifically, do you see an opportunity to accelerate the rate of conversion over the near-term horizon, appreciating you want to avoid flooding any particular market with supply.

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

A

Yeah that's a good question, Aaron, and in some ways, there's a little bit of the answer in the flooding of the market. As you know, when you multiply your inventory sort of six-fold for every sign you put in: so if you've converted 15% of the inventory in a market, you've effectively doubled supply. Now, it does bring in new advertisers. I mean, that's for sure: so that's a good thing, but we always keep one eye on, if you like not eating our own lunch when we put digital into a market. There is one other important factor and that is the gating factor, and that is purely in terms of zoning. We have roughly sort of 100 people out there that are looking for opportunities all the time: and assuming they make the IRR threshold that we have for digital, which is sort of just north of 20%, we go ahead and build. So, it's very rare that we are turning down an opportunity, they're just not always that easy to come across.

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

Q

Okay. That's helpful. Thank you.

Operator: And it appears there are no further questions at this time. I'd like to turn the conference back to the company for any additional or closing remarks.

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

Thank you, operator, and thank you all for your questions and your time today and we look forward to seeing many of you at investor events over the coming weeks. Thank you very much.

Operator: This does conclude today's call. Thank you for your participation. You may now disconnect.

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