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OUTFRONT Media, Inc. (OUT)

Q2 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the OUTFRONT Media Incorporated's Second 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 second 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 as usual for a question-and-answer session.

Our comments today will refer to the earnings release and the slide presentation, and you can find them both on the Investor Relations section of our website, outfrontmedia.com. After today's call's concluded, an audio archive will be there as well.

This conference call may include forward-looking statements. Relative 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. Any references to OIBDA made today will be on an adjusted basis, and reconciliations of OIBDA and other non-GAAP financial measures are in the appendix of the slide presentation, the earnings release and also on the website.

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

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Jeremy John Male

Chairman & Chief Executive Officer, OUTFRONT Media, Inc.

Thanks for joining us today to review our second quarter results and guidance for the third quarter. Please turn to the highlights on slide 3. Total revenues increased 14.5% in the quarter, ahead of our expectations and giving us our third straight quarter of double-digit growth. Strength in revenues was broad with outstanding performance in every part of our business. Both billboard and transit revenue growth ramped further, static and digital yields were up, local was strong, and national revenues surged. This strong top-line helped drive OIBDA up 15%, with good flow through to AFFO, which grew by 25%.

Now let's turn to the components of our revenue growth on slide 4. This is our strongest organic growth since we've been a public company. During the quarter, more than 90% of our growth came from U.S. Media, which was up 14%. Other revenues were up 17% on a reported basis or even higher 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 $30 million or 29%, once again our highest level to-date. We had great performance in all our key markets, and around half of our transit growth came from digital as we continue to increase our displays in many markets, notably on the MTA here in New York.

Worth mentioning also is the majority of our inventory that is not digital remains very attractive to our advertisers, with revenues also up strongly during the quarter. What we're finding is that our amazing new digital displays are opening doors to more conversations where we're able to sell the benefits of transit overall, and advertisers are buying campaigns both using digital and static to reach their target audiences.

In billboard, revenues grew $23 million or 9% on both the reported and organic basis, also the highest growth – organic growth we've ever posted. This was driven by excellent performance in both static and our fast growing digital business.

Slide 6 gives you another view of U.S. Media growth, this time splits between revenues from local and national advertisers. Our overall business mix for the quarter was 55% local and 45% national which is in line with our historic trend. Local revenue was up 10% and national revenue of a very strong 20%.

The key driver of U.S. Media was our growth and billboard yields which you can see on slide 7. In the second quarter, our total yield was up 10% with very healthy static yields and growth in digital yields also.

Now please turn to slide 8 which shows 17% reported growth in our other segment both Canada and Sports Marketing had strong double-digit quarters. Canada in particular had excellent billboard growth driven primarily by growth in national. So looking at our revenues in total, there was strength all the way around. Clearly we're delighted with the progress of our business and the returns on the investments that we've been making.

Let me now hand over the call to Matt for a closer look at expenses, cash flows and the balance sheet.

Matthew Siegel

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

Thanks, Jeremy, and good afternoon. Moving down the income statement. Let's first take a look at our expenses on slide 9. In total, our expenses grew just slightly less than our revenue growth. Billboard lease expense grew but as a percentage of billboard revenues, they were down about 40 basis points year-over-year.

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Transit franchise expenses increased on higher transit revenues, but as a percentage of revenues, they were down 1 point year-over-year. Posting and maintenance expense increased with our higher sales activity, and SG&A also increased due to higher sales and compensation costs and also some higher professional fees this quarter.

Looking at these expenses as a percentage of total revenues on slide 10, you can see that we were at 68.8%, the same as last year. This translated into the 15% OIBDA growth you can see on slide 11. Revenue was the clear driver, and you can see the changes in the expense levels we just discussed. Overall, OIBDA margins matched last year at 31%.

Slide 12 is a view of our total OIBDA growth that is split by component. Overall, U.S. billboard grew 7% to 42% OIBDA margin business and represented 82% of our total company OIBDA during the quarter. U.S. transit, as you know, is a lower structural margin at 20% but posted very strong growth of 32%.

Turning to slide 13, our capital expenditures as a percentage of revenues were down to 4.7% with lower levels of both maintenance and growth CapEx. This decline is largely driven by timing and we continue to expect to be within our prior annual guidance of approximately $80 million with maintenance at $20 million to $25 million and growth at $55 million to $60 million. Our growth CapEx reflected the further digitization of various transit systems and 24 digital billboard conversions. Including acquisitions and marketing agreements, our total digital billboards increased by 38%.

Moving on to cash flow, slide 14 shows a bridge in year-over-year AFFO. The 25% growth in AFFO was driven in its entirety by the growth in OIBDA as the collective changes in the other items were largely neutral. Back in May, we raised our annual 2019 AFFO guidance to the high-single-digit range. For the first six months, our AFFO is up 18%. As we head into the second half, despite higher interest expense from additional borrowing and some catch up on maintenance CapEx, we are confident that we will exceed the higher end of our guidance range and now expect to reach double-digit territory.

Slide 15 shows dividend coverage for both AFFO and adjusted free cash flow. On an LTM basis, we saw a continued improvement in our AFFO dividend payout ratio to 64%. The adjusted free cash flow payout ratio compressed nicely to 85%. So our dividend coverage is solid, and our next quarterly dividend was approved last month by our board of directors at $0.36 per share.

Now let's turn to our balance sheet on slide 16. There have been quite a few changes recently, so I thought it'd be helpful to take a couple of minutes to clarify. First of all, this slide shows our position at June 30. During the second quarter, we successfully issued a new 5% senior unsecured note due 2027, primarily to refinance our existing 5.25% notes due 2022. That's the new $650 million you see at the far right of our maturity schedule.

A portion of the proceeds were used during the quarter to pay down all outstanding amounts under our revolving credit facility and accounts receivable securitization facilities. The remaining proceeds are in our June 30 unrestricted cash balance which you see on the liquidity chart on the left.

However, subsequent to quarter end, we used the bond proceeds to repay $50 million of term loan and also completed the redemption of our $550 million – 5.25% senior notes and we also increased the borrowing capacities under our account receivable securitization facilities by a combined $40 million. The net effect of all these activities accomplished two important things. First, it pushed out our next bond maturity to 2024 giving us a

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five-year runway. Second, it further improved our current liquidity position. The net impacts to cash and debt after these transactions would have had a neutral impact on leverage as of June 30.

Looking forward, our funding expectation to complete the build out remains unchanged at $350 million in total for the MTA over the original full year timeframe that began in 2018. It is worth noting that we have already incurred north of $100 million of this amount as of June 30. And additional source of liquidity is our at-the-market or ATM equity program. During the quarter, we used the ATM facility for gross proceeds of $35 million which has been and will be used to partially fund tuck-in billboard acquisitions. As of June 30, we had $232.5 million of capacity remaining on the ATM.

Turning back to the MTA, you can see our progress on slide 17. Deployment accelerated again this quarter. We installed over 800 displays, 57% of which were advertising. The majority the deployment this quarter was in Manhattan including 14th Street-Union Square, Rockefeller Center, Ryan Park and numerous others from 121st Street all the way to Wall Street. Our total deployment to-date is 2,768 displays, roughly half of which carry advertising. This ratio will continue to be skewed toward more advertising over time.

Our total MTA project cost in the quarter was $38 million or $71 million year-to-date. As we look at the remainder of the year, we expect our deployment cost to be lower than our previous 2019 expectation of $175 million. Some of the deployment planning with the MTA has shifted, including the deployment of screens in railcars which is now scheduled to begin in 2020. Therefore, the annual amount is likely to be closer to $150 million.

As of June, our cumulative project costs were $168 million. With the growth we're seeing in the New York transit business, recoupment of these costs was ahead of our expectations in the second quarter and we expect that trend to continue through the year.

In closing, I think you'll agree that this was a strong quarter financially. The capital markets remain highly receptive to us and we have taken some important steps to increase our liquidity and financial flexibility. Our team is executing well in an industry that is in robust health. We continue to invest in deployment of new digital which is driving new revenues and we are actively managing our entire portfolio to maximize profitability per display.

I will now turn it back over to Jeremy.

Jeremy John Male

Chairman & Chief Executive Officer, OUTFRONT Media, Inc.

Thanks, Matt. And moving on to slide 18 looking and looking at our outlook for the third quarter. At this point in time, we think it's likely that our total revenue growth will again reach double digits. Growth should be in a similar proportion to the first half in terms of billboard and transit growth and both local and national should contribute nicely. As you may recall, in Q3 2018, total revenues grew a respectable 6%. So it's very pleasing to see our momentum continuing against these stronger comps.

A key driver of our momentum is digital. Looking at this a bit more closely on slide 19, our total digital revenue growth was 41% in the second quarter, our highest ever, driven by both billboard revenues and the significant acceleration in transit. Digital billboard revenue was up 24% and digital transit revenue doubled as a result of the rapid expansion of digital displays in New York, Boston and other markets.

We've digitized a relatively small percentage of our assets but they represent 21% of total revenues in the quarter, up from 17% last year. We continue to believe that we are just beginning to tap the benefits of digitization.

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While digital is undoubtedly important, there are other factors that are driving our success. Slide 20 gives you a little color on these. The first is the loyalty and high customer retention we're experiencing. Over the past three years, we've had 100% retention of our top 10 customers and 79% of our top 1,000. What this tells you is our largest advertisers who are all national are staying with us. And among our top 1,000 which includes our larger local clients, there is also very strong retention. These top 1,000 generated over 60% of our total U.S. revenue last year. The same will be true in 2019. Our customers keep coming back because our media works for them.

Secondly, our geographic mix is unique. As you know, our top 15 markets are around 80% of our total revenue. Because of the population size in these markets and the audiences we can deliver, these top markets are tending to attract more national dollars. These markets also have very healthy and vibrant local advertising. In total, our top 15 markets grew revenues 16% in the second quarter and both their national and local growth rates were higher than we reported for the company as a whole.

One of the reasons that our larger markets are growing more quickly is also because these are the markets where we have the transit systems. In 2018, 86% of our top 100 customers purchased both billboard and transit from us. In the first half of 2019, this expanded to 89%. Clients choose to buy both because it's often the best way to reach their target audience. Transit assets provide long dwell times, proximity and access to that hard to reach urban audience.

Billboards are ideal for bolder images that cut through the clutter and noise of a city and create brand fame. OUTFRONT is able to offer both to our clients. So these three drivers, customer retention, large market portfolio and our ownership of transit and billboard are certainly key contributors to our success.

Additionally, we believe that our sales force is doing a great job executing well right the way across all of our markets. It's these elements that are enabling us to drive growth in this vibrant business and we certainly continue to benefit from the overall strength of the out-of-home industry. Furthermore, as an industry, we are all taking steps individually and collectively to enhance our data, audience insight, attribution, automation and our mobile and social connectivity. We believe that this is contributing to the industry's current growth and will increasingly drive an added layer of growth as we go forward in the future.

Reflecting this industry shift was the announcement you may have seen last month from a new President for the Out of Home Advertising Association of America. Our proud leader, Nancy Fletcher who was instrumental in driving the success of the industry for nearly the last 30 years, has decided to retire in December. We are all fortunate for her guidance to this important point in our industry evolution.

The industry now welcomes Anna Bager who joins from the Interactive Advertising Bureau. As I'm sure you know, the IAB is the tech media trade association that underpins the entire digital media ecosystem. Anna brings skills and leadership in online, digital, mobile and programmatic. We're also delighted to have her join our industry at this very exciting time.

Operator, now let's open the line for questions.

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QUESTION AND ANSWER SECTION

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

Marci Ryvicker
Analyst, Wolfe Research LLC

Q

Thank you. I want to dig in a little bit on the Q3 guide. Surprisingly strong, you have 400 basis points of tougher comps. What exactly is driving it? We'd heard a couple of companies say that maybe it's coming from the IPOs like Uber and Lyft which may not be as temporary. I just wanted to know exactly what the driver is. And then any color you can say on Q4? I realize it's early, but you have a really tough comp there at 13%. And then as a follow up to this with such a strong backdrop, would you speed up your digital deployment on the billboard side?

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

A

Thanks, Marci. So firstly, let's look at Q3 guidance. I guess our story is pretty similar to the last quarter. The out-of-home market seemingly continues to do very well. Our sales force is still doing great. Local and national are both going to perform for us. And that digital halo that I talked about in the script, I think is also going to work for us. When we look at individual and some of the individual advertisers. To be honest, we have a big basket of advertising, Marci. So the fact that maybe we don't have Uber or Lyft, if you like, IPO-ing within the quarter. We still feel good, we feel good about overall the strength of our brands or direct-to-consumer advertisers. Thus we are benefiting from increasingly in the out-of-home medium.

I think when you look at the advertisers in the quarter, our top revenue growth advertisers, financial, tech, retail and professional services, we don't normally look at it quarter-by-quarter. But the reason I mentioned that is that, in the second quarter this year, actually they're the advertisers that also have been our biggest dollar growth advertisers LTM. So I believe that they will continue to perform well for us as we go into Q3, and indeed beyond because you talked about Q4. You're right.

As we get into Q4, the comps get really, really pretty tough. We were up around about 12% in Q4 last year. But we're feeling good about Q4. As you know, we don't guide more than one quarter out. But look, we're continuing to build sort of great digital assets. And I guess the positive comments we gave with regards to AFFO and increasing our guidance range, obviously, gives you a feeling of the inherent confidence that we have as we look forward for the balance of 2019.

And finally, just on to digital billboards, Marci. Over the last sort of two or three years, we've been typically [ph] installed (00:22:21) between 90 and 100. We hoped to go somewhat significantly north of that this year. We'd like to be sort of 120-plus, which is a sort of whatever it is 25%, 30% improvement and we are certainly continuing to delve into ways that we can ramp that further as we go forward.

Marci Ryvicker
Analyst, Wolfe Research LLC

Q

Thank you.

Operator: And we'll now take a question from Alexia Quadrani of JPMorgan.

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Alexia S. Quadrani
Analyst, JPMorgan Securities LLC

Q

Thank you so much. Just two questions. The first is kind of a big picture question, which is the industry still remains fairly fragmented enough. I'm curious why you think we haven't seen more notable consolidation so far. And I would think with the national advertising being so strong and new national advertisers were discovering the benefits of out-of-home. I would think there's even more sort of benefits at scale now in this industry. I love to hear your thoughts on that.

And then just sort of I thought more specific question is really on the impressive yield we saw on the static business in the quarter. Is there – how sustainable is that? Thank you.

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

A

Thanks, Alexia. I'll take your first question and then I'll hand over to Matt for the second question. As we look at our industry, we're around about 75% consolidated between the four major players. So there are a lot of companies in that longer tail, and probably about 150 businesses in total go to comprise that. I think we have seen a reasonable amount of tuck-ins both by ourselves and our competitors within this.

I think when you look at – I don't necessarily believe that national will be the sole driver of this, because actually, relatively few national advertisers actually go particularly deeply into some of those smaller markets. Obviously they do, but sort of, as I say, relatively few of them. We continue to look for opportunities. And the reason that we've been utilizing our ATM, for example, is so that we can very actively pursue opportunities as they arise.

From our point of view, we're really keen on assets that suits our footprint. And as you've heard us talk about before, we're particularly interested in those sort of top 15 and 20 DMAs. That's where we want to direct our firepower and where we're concentrating.

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

A

Alexia, your second question yield on static. We feel great about our static business. It's doing great. It's really – the yield increase is driven mostly by price increases which we think is a great fact. The occupancy isn't changing much. So we very much feel it's a sustainable and look forward to great success in static going forward.

Alexia S. Quadrani
Analyst, JPMorgan Securities LLC

Q

Thank you very much.

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

Ian Zaffino
Analyst, Oppenheimer & Co., Inc.

Q

Hi, great. Thank you. On the MTA contract, is the value that you intend to spend over the life of the contract coming down or is it just for this year? Thanks.

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

A

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Thanks, Ian. It's Matt. The spend I believe this year is coming down. We expected, earlier when we said $175 million to start installing some of our railcar screens in the fourth quarter which means we'd have to get deliveries of screens in the fourth quarter and pay for them. Since now we expect the railcar deployment to start in the first quarter or later in 2020 some of that spending shifts. Overall, the cost of project we expect to be unchanged.

Ian Zaffino
Analyst, Oppenheimer & Co., Inc.

Q

Okay, thanks. And then just also, can you just touch on the initiatives, the big data initiative that you guys are working on now. I know you're talking a lot about the value of out-of-home. Help us understand kind of where you are in that process and what that really should do as far as creating additional value for out-of-home advertising? Thanks.

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

A

Yeah. Thanks, Ian. I'll take this one. As you know, we've been working for a while in terms of our tech platform. We are increasingly able to point out to advertisers the value of the audiences that we can deliver. If you look at out-of-home over time, the CPMs that we've been delivering, we think have significant opportunity to grow when you compare our CPMs to other media.

What we're now able to tell advertisers – increasingly as an industry and certainly as OUTFRONT is actually give far more depth and granularity as to the audiences that you can achieve on an asset-by-asset basis. And we think our ability to do that will certainly add value to our medium as we go forward.

Ian Zaffino
Analyst, Oppenheimer & Co., Inc.

Q

Okay. Thank you very much. Very good quarter.

Operator: [Operator Instructions] We'll take our next question from Ben Swinburne with Morgan Stanley.

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Hey. Good afternoon. First, Jeremy, just to dive into the growth drivers a little bit more. I'm curious particularly with the transit growth, 30%, and all the inventory you're adding in markets like New York. How much of that is coming from bringing new advertisers onto out-of-home or into OUTFRONT that you haven't had before versus just expanding your market share of existing advertiser spend?

And then secondly, when you look at national up 20%, what would be the top one or two verticals you'd call out driving that strength, I think you've talked about tech recently, but just want to see if you could flesh that out a little bit more for us. And then I had a follow up just on the balance sheet and margins.

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

A

Sure. Okay, Ben. Thanks very much. I said when we sort of – if we drill into this quarter, as I said, it was really about finance, tech, resale and professional services. It was really the strong getting stronger, if you like, within our mix. And when we will specifically look at transit, I think to be honest, there's both of that going on. What we're finding is that our sort of top transit advertisers are spending more with us and we are also appealing and adding

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new advertisers to the mix. We cannot be far more flexible in terms of campaigns [indiscernible] (00:29:48) shorter duration. I mentioned DTC was very fast becoming known as, if you like, the must advertise place for the new DTC brands that are looking to get their branding out to New York consumers.

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Got it. Helpful. And just on the numbers a bit, a lot of balance sheet changes this summer. I just want to – I don't know if you had the gross debt number as it stands today handy, if not, we can follow up, but I just wanted to see if you have that.

And then secondly on billboard, U.S. Media or U.S. billboard margins, I think, were actually down year-on-year despite high-single-digit top-line growth and I just was wondering if you had any color on that. I'm assuming it might have to do with the lease payment cost, but any help there would be great.

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

A

Sure, Ben. It's Matt. On a gross debt, I think our number is $2.4 billion, maybe $2.42 billion. But we can clarify to the [indiscernible] (00:30:50) if you need to later.

As far as margins, first, I would say, yeah. First, we point out we look at the 15% OIBDA growth and we're happy with that, and maybe beyond happy, delighted with that. Any margin issues would be good problems to have.

In billboard in particular, for us, the lack of greater margin expansion really a mix issue. A lot of our growth, as Jeremy pointed out, was in the top 15 markets and in particular, the really larger markets which have a higher rents and some rev share deals. So it's again a good problem to have. Similar outside of billboard and obviously, a big growth in transit would hold down the overall margin as well.

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Got you. Okay. Thank you, both.

Operator: We'll now take a question from Jim Goss with Barrington Research.

James Charles Goss
Analyst, Barrington Research Associates, Inc.

Q

Thanks. I was curious about one of the things you were discussing with – the potential perhaps to reinforce advertisers with both the billboard and transit. And I'm wondering if there are programs where you do the brand building on the billboards and then do something more granular in a related sell and the transit systems. And what might the impact on pricing and return expectations be for that sort of thing?

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

A

Yeah. Thanks for the question, Jim. I think, if you look at each campaign that there are different metrics that the campaign is going to be assessed by. And each campaign will be planned in a lot of detail depending on those campaign objectives by the ad agencies that we trade, the vast majority of our national media dollars too. Within that mix, there are certainly a number of advertisers who actually want to utilize both. We have a very high

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frequency medium in transit for example that suits new brands. And relatively CPMs that are very attractive to advertisers that are looking to at a relatively low cost way of getting the message out there. So does that help?

James Charles Goss
Analyst, Barrington Research Associates, Inc.

Q

Yeah. That helps. And I'm wondering too, as you get further along in the roll-out of the MTA system in particular, you were talking about the mix of boards that will do advertising versus public service and that sort of thing. Is that helping you quite a bit too in terms of the flexibility you have in both serving the public good but also having more of an opportunity to sell ads, and is that helping drive some of those new customer and client relationships?

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

A

Yeah. I think there's no doubt at all that the program that we're undertaking for the MTA is really adding to the consumer journey. I think the fact that you can now get much better information on the system is a very good thing that we're assisting the MTA with the New York travelling public. And also offering a tremendous advertising format opportunity for our advertisers.

I think what's exciting as we go forward is that that's only going to – the MTA is only going to look better. When you now – if you take a subway ride, as I do every other day from 42nd down to Fulton Street, seeing these screens, they're tremendous advertising, they brighten the system up, they make the system look better. And we're certainly getting strong complements from the senior management within the MTA with regards to the build out that we're doing.

Add on to that the fact that next year, we're going to be advertising entirely new advertising and information opportunity on train, and [ph] I think (00:35:29) that gets really exciting. So we're really looking forward to building this contract out as we go through the coming years.

James Charles Goss
Analyst, Barrington Research Associates, Inc.

Q

Okay. Lastly, the continuing strength in your ad sales growth is quite impressive. Are we at some sort of an industry inflection point? Have you ratcheted up to a new level or should we be expecting some steady upward bias as you do take share from some of the other media competitors?

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

A

Well, I think what's really pleasing for us actually is that we are in an industry that is doing very well right now. The first quarter of this year was the strongest growth that the industry has seen from many number of years. I'm guessing that certainly we've heard from one of our public company peers already, also had terrific growth in that quarter. So I'm guessing that Q2 will outpace that. So, and if you look at the total growth that I'm expecting in the first half of the industry, I suspect that it – we will be gaining market share. So I think as I said, the whole industry can feel great about that.

James Charles Goss
Analyst, Barrington Research Associates, Inc.

Q

Okay. Thanks much.

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

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

Thanks for taking the questions. I wanted to ask about the digital yields, amidst some pretty impressive growth across the board as you guys highlighted. I noticed that the yield on the digital was only up about 2% year-on-year. I was wondering if you could just explain, is that just sort of a mix issue with sort of the format or the size of the boards or something else going on?

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

A

Yeah, to be honest, that is largely a mix issue, Drew. Bear in mind that we can have a digital board in one particular market, if you maybe look at New York where you can be doing an annual yield of $1 million and maybe another board in one of the smaller markets where it might be near $50,000. So obviously just how monies move around in our digital business, which is obviously a relatively smaller piece of our business, you can get some sort of ups and downs there on a quarter-by-quarter basis.

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

Okay. Thank you. And then maybe for Matt. I wanted to ask about SG&A expenses. I imagine some of the growth here, it looks like it's up about 15% on the year. I imagine some of the increases related to the revenue growth. I know that you also mentioned higher professional fees and some things that sounded like maybe they're not – may or may not be recurring. I guess I wanted some help on how to think about SG&A over the back half of the year.

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

A

I think it's going to continue along the same path. In the second quarter, we have some commission plans that we've talked about in the past that have a quarterly bonus and a kick in for different markets as they perform. So as our larger markets earn those bonuses we pay out a bigger chunk of cash, which again, for us, a good problem to have. We're happy to pay it and it costs little money, but it seems to be that it's working and driving sales.

So I think a big part of it is, as you point out, is the revenue driver. The professional fees we created, they're probably one-time items and don't expect them to continue going forward.

Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

And can you help us sort of size as it kind of like low-single-digit or mid-single-digit millions per quarter type number, or how big is this?

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

A

Probably, it's a couple million dollars within the quarter and that's kind of roughly the size of the increase. Hopefully with good performance continuing in the third and fourth quarter, there'll be a little increase in SG&A in those quarters as well.

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Drew Borst
Analyst, Goldman Sachs & Co. LLC

Q

All right. Thanks very much.

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

A

Sure

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 thanks, everyone, for your questions and your time today. And we look forward to seeing many of you at investor events over the coming weeks. Thanks again.

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

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