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OUTFRONT Media, Inc. (OUT)

Q2 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the Second Quarter 2021 Earnings Conference Call.

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

Gregory Lundberg

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

Good afternoon, everyone. Thank you for joining our 2021 second quarter earnings call.

With me in person 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'll open up the lines for a question-and-answer session.

Our comments today will refer to the earnings release and a slide presentation that you can find in the Investor Relations section of our website, outfrontmedia.com. And after today's call is concluded, an audio archive will be there as well.

This conference call may include forward-looking statements and 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 2020 Form 10-K and our June 30, 2021 Form 10-Q which should be filed tomorrow.

We will refer to certain non-GAAP financial measures on this call and 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 our website, which also includes presentations with prior-period reconciliations.

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Let me now hand the call over to Jeremy.

Jeremy J. Male

Chairman & Chief Executive Officer, OUTFRONT Media, Inc.

Thanks, Greg, and thank you for joining us today.

It's great to get on an earnings call when the numbers are back in growth mode and when all the talk is about market is racing to reach people emerging from their homes. Our numbers certainly prove this out for the second quarter, and we're feeling very optimistic about the rest of the year.

As you can see on slide 3, our revenue grew 53% on an organic basis, well in excess of our expectations. The drivers of this impressive growth were US billboard, especially digital, and transit which was also stronger than we expected. This robust top line right across the board flowed nicely to adjusted OIBDA, which was up nearly fivefold and the AFFO moved well into the black.

The strength of our business is continuing and as we look at the second half, we have increasing confidence for the balance of the year. In fact, I'm going to steal a little bit of Matt's thunder here and tell you that he'll be raising our AFFO guidance later on this call. This confidence and positive outlook also allowed our board to resume a common dividend which was announced this afternoon. Matt will also be talking about that later on the call.

Let's turn to slide 4 for a more detailed view of our U.S. Media revenues. Billboard revenues were up 50%, reaching 95% of our 2019 level. Transit revenues were up 56%. While this is certainly large in terms of percentage, remember, it's off very low numbers from last year, and transit ridership does continue to lag. But the audience is now recovering. And notwithstanding any possible impact from the Delta variant, we expect to further step up after Labor Day.

Turning to slide 5, it's nice to see 50% growth in both local and national. You may recall that national revenues led our decline last year. We expect them to lead our recovery this year. In fact, in our billboard business, national grew faster than local this quarter. As expected, our local business has been steadier throughout, and I'm pleased to say that our local revenues this quarter surpassed our Q2 level in 2019.

This strong revenue growth naturally pushed up yields across our billboard portfolio as seen on slide 6. We were pleased to see a total yield of over $2,200, up 53% from last year. And this is 99% of our 2019 second quarter level. We anticipate further yield improvement for the remainder of the year.

You can see the recovery in our digital business on slide 7. The business came back strongly on both billboard and transit. Even more important than the growth rates you see here is the fact that we have more than recovered our 2019 second quarter digital billboard levels. In fact, our total growth on a two-year basis in the US is 10%. Digital has been and will continue to be a great growth driver for this business.

To complete our revenue picture for the quarter, slide 8 shows our other business which primarily comprises our business in Canada. The recovery there was also very strong with organic billboard revenues up 91% which was great to see. It's worth noting that the reported decline was impacted by the sale of our Sports Marketing business last year and we will lap this next quarter.

Let me now hand over to Matt to review the rest of our financials.

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Matthew Siegel

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

Thanks, Jeremy.

Good afternoon and thank you for joining our call today.

Please turn to slide 9 and we will begin with our expenses. Overall, our total expenses were up $54 million year-over-year. The increases you see on this slide are almost all due to a pick-up in our sales activity. Transit franchise expense was the largest increase, which was driven by revenue shares on the growth achieved across the country and also the guaranteed minimum annual payments to the New York MTA. You can see here that total expenses were up 25%, which is less than our revenue growth. It's good to be back where the operating leverage in the business is working in our favor which is very apparent on slide 10.

The $70 million of OIBDA in the second quarter represented a 21% margin, and we expect our healthy billboard revenue growth and continued improvement on transit to drive growing OIBDA and expanding margins for the balance of the year.

Looking at the breakdown of OIBDA on slide 11, you can see the tremendous growth in U.S. Media billboard and it has recovered 91% of the 2019 second quarter level. So, we are certainly pleased with this performance. Transit, as you'd expect, is a different story, and OIBDA remains negative, but less so than the first quarter. As revenues improve going forward, strong OIBDA recovery will follow.

Let's now turn to capital expenditures on slide 12. Relative to last year, we had a bit less maintenance and a bit more growth. The growth has offered digital billboard conversions, and our team is busy identifying new opportunities and converting approvals into new digital signage. We added 47 new digital boards this quarter and 77 year-to-date through a combination of conversions and acquisitions. You'll probably see an increased pace of CapEx in the second half as our total CapEx guidance for the year is unchanged at $85 million.

Slide 13 shows a bridge in AFFO [indiscernible] (07:38) that OIBDA was the key contributor to AFFO growth. You'll also notice that we picked up some benefit on most of the other key items. As Jeremy said at the beginning of the call, we are raising our annual AFFO guidance for the year. We began 2021 with a range of up 25% to 30%. And after the first quarter, we indicated that we'd likely exceed that top end. So today, we can be more specific and are raising our expected range to up around 40% for the year. As is always the case, we'll see how we progress throughout the year and revisit this guidance accordingly.

Turning to slide 14 for an MTA update. It was once again a light deployment quarter. We were pleased to file an 8-K yesterday confirming the signing of the MTA amendment. I want to highlight two items which we've discussed previously with you and that are mutually beneficial to both us and the MTA.

First is a three-year extension of the contract at the end of our initial 10 years with the option for us to extend this now 13-year term for an additional five years subject to certain conditions. The second is a modification in the scope of the contract that will result in a significant reduction in the number of displays we will be deploying into the system. We do not believe that the reduced display count will significantly impact our expected revenue stream. But the reduction will reduce our capital outlay. This will allow us to recoup our spending and the MTA to reach 70% revenue share more quickly.

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Now, let's turn to our balance sheet on slide 15. Our liquidity remains strong at over $1 billion. We generated positive cash flow during the quarter. We also spent $27 million on acquisitions principally on digital billboard tuck-ins, and we funded this from cash on-hand. Our revolver remains undrawn.

Looking forward, our next maturities are 6.25% notes due in 2025 which can be called in June 2022. Our overall weighted average cost of debt is 4.3%. Also worth noting is that we believe there are pandemic leverage has peaked as the expanding OIBDA is beginning to lower the ratio as expected.

Last but not least, [indiscernible] (09:53) dividend, we've always paid more than the REIT requirement, and we intend to do so going forward. Today's quarterly dividend announcement of $0.10 per share resumes a cash return for our shareholders. It's our intention to offer an attractive, sustainable dividend that can grow with the business.

In closing, it's great to be back in growth mode and backed by a healthy balance sheet, strong liquidity, and excellent prospects for out-of-home advertising especially in the markets where OUTFRONT operates.

Let me now turn the call back over to Jeremy.

Jeremy J. Male

Chairman & Chief Executive Officer, OUTFRONT Media, Inc.

Thanks, Matt.

And now, let's turn to our third quarter outlook on slide 16. You've probably heard in our tone today that we're feeling very good about the remainder of the year, notwithstanding some of the more recent headlines on the Delta variant. As we sit here today, we expect our total revenues to be up in the mid-possibly-high 30% range in the third quarter. Within this guidance is the expectation that our US billboard revenues will be at or above the 2019 third quarter levels which is a much quicker recovery than we originally expected. Regarding transit, we currently expect third quarter growth of more than 70% and believe that ridership recovery will be a significant tailwind for some time to come.

Our strong guidance is being driven by many of the factors that drove our second quarter results. If you turn to slide 17, you can see that our Q2 was driven by virtually every sector in the economy. Some, obviously, more so than others, but everything is moving in the right direction. We first showed you this chart last quarter when every purple bar was negative. Well, as you can see here, every purple bar is now positive.

It's also great to see some of our bigger categories putting up sizeable numbers. The top growth drivers during the quarter were professional services, retail, and beer and liquor, followed by entertainment, financial services, and technology. We're seeing broad strength and a healthy mix of both local and national.

We find all of this very encouraging and believe that it shows our business has more runway for growth, particularly in our top markets. Marketers are returning to the medium and this is especially true in a cookie-less world where changes in the privacy landscape are shifting marketers towards advertising solutions based on context and location. And that's what out-of-home and OUTFRONT is all about.

Before we take questions, I'd just like to take a moment to thank Greg Lundberg for his years of dedicated support, counsel, and friendship and for being at my side for what is now 29 quarterly earning calls. For those of you who don't know, Greg is leaving OUTFRONT following this quarterly earnings season, and after a short break will be starting a new and exciting role as Head of Investor Relations at Omnicom.

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During Greg's tenure as SVP of IR at OUTFRONT, he has provided excellent strategic guidance, insight, and communication through some exciting events for our company and the industry. We'll certainly miss him, but expect to run into him often at events, conferences, and I'm sure on occasional lunch. We and I'm sure all of you wish him all the very, very best for the future.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And we'll take our first question from Alexia Quadrani.

Anna Lizzul
Analyst, JPMorgan Securities LLC

Q

Hi. This is Anna on for Alexia. Thank you so much for the question. Jeremy, you've given very strong guidance for Q3 and with demand coming back, I was wondering if you can comment on how pricing is trending particularly on the transit side and on digital billboards? Thanks.

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

A

Yeah, absolutely. I mean, you can see obviously the yield slide which is made up of both price and occupancy. When we look at our occupancy specifically, it's interesting that in our billboard business, we're currently at around 76%. And that's down from kind of low-to-mid 80s at our peak. So, there's still some good way to go there in terms of future growth opportunities.

And look, as our business hardens, we fully expect that we will get the benefit of rate as we go through the rest of this year.

Anna Lizzul
Analyst, JPMorgan Securities LLC

Q

Great. Thank you.

Operator: Thank you. Next, we'll take our question from Ben Swinburne with Morgan Stanley.

Benjamin Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Hey. Good afternoon. Jeremy and Matt, two questions. One, you guys obviously have a lot of exposure to large markets like New York and LA. And we're all I think anticipating a rebound in stuff like Broadway, movie spending. I'm just curious as you look at your book of business in sort of the entertainment vertical, which I think was a huge tailwind for you back in 2018, 2019. Is that starting to show up? Are you seeing that in the numbers and are the forward pacings encouraging even with the Delta variant [indiscernible] (15:49) at the moment?

And then I didn't know if you guys would talk about your plans for digital board additions this year. Lamar noted some supply chain constraints showing up. So, I wasn't sure if you had an update for us on your plans for 2021 and if you're being impacted by those. Thank you.

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

Sure. Thanks, Ben. And I'll take the first piece of that, and then, Matt, the second. So, when we look into our Q3 sort of pacings right now, actually, entertainment and movies are both in there and actually very much part of driving that growth that I talked about. Tech is there. Professional services is there also. Look, I don't think anyone can completely guess, second guess the Delta variant. In our opinion, we think that we will likely see less burden on this in terms of lockdowns than anyone might have expected. We think there may be some masking. And we fully expect that entertainment and movies will be part of that growth for us as we go into the back half of the year.

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

And Ben, on digital and supply chain, we had said we expect 150 to 200 new digitals this year, combination of both conversions and acquisition. We recognize supply chain issues, but we think we have enough signage on order and inventory that we can still reach those numbers. We are recognizing that there are delays in getting container space and other things from overseas. But we feel pretty good about our situation right now.

Benjamin Swinburne
Analyst, Morgan Stanley & Co. LLC
Q

Thanks, Matt. And just want to follow up, did you give the MTA spending number update on the call? I apologize, if I missed it.

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

We did not. Just – for the MTA, we're back deploying pretty much at full speed ahead starting early third quarter after we signed – agreed the amendment with the MTA. Our screens are down overall, as I mentioned. But we have inventory, we're putting in digital urban panels and we expect to spend around the same annualized run rate that we've done in the past. So, I think our guidance for the full year was $100 million for this year. We spent about $30 million or $40 million. So, we'll spend the next $60 million or $70 million during the second half of the year.

Benjamin Swinburne
Analyst, Morgan Stanley & Co. LLC
Q

Thank you so much.

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

Sure.

Operator: [Operator Instructions] And we'll take our next question from Ian Zaffino with Oppenheimer.

Ian Zaffino
Analyst, Oppenheimer & Co., Inc.
Q

Great. Thank you. Matt, I just maybe want to follow up on the MTA again. Displays are down, so does that mean the revenue contribution is just going to be down by the same pro rata amount, or is there some offset as far as maybe better economics or better board locations?

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

We still think we can hit the same revenue numbers with the lower screens. The decline in screens overall primarily going to be on rolling stock. We think the money and the demand is going to what we call brand trains, those that get covered in digital screens. We're reducing the non-brand trains and we're reducing some on the commuter lines. But we're still going to have coverage on all the commuter lines. And you'll find these screens on various subways. So we still think we can maintain the revenue and just this is a better outcome for both of us.

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

I think and just to add to that, sort of three years in, we have a much better understanding of the yields that we're going to be achieving for a number of these locations, better understanding actually of location where we can maximize value by location. So, putting that all together, it just made sense because we could reduce screen count having minimal impact on the revenue outturn.

Ian Zaffino
Analyst, Oppenheimer & Co., Inc.
Q

Okay. And then just the other question would be, good to see you took the dividend back or reinstated the dividend. I think that's going to go over well. But the question really becomes is you don't really look at your minimum payment when it comes to how much you're going to pay on the dividend. Typically, it's more, you're thinking about more. So, if you're not really basing it on some type of minimum, what are you actually basing it on? Are you looking at how you're competitively trading versus your peers and then you'll look and maybe bring it up to your peers' level? Is it a matter of just being conservative initially? Just sort of give us your thinking and the logic behind where you think the dividend may eventually go. Thanks.

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

It's a good question. A lot of factors, there's both art and science to it. As I mentioned, we do want to be above the minimum. We want to be much more of a grower than a high payer as before. So I think you can watch this space, and as our business grows, you should expect the dividend to grow along with it. We do think we have a competitive dividend now. And over time as we grow probably quicker than some others, you'll see us get closer to some of our peers or some of the REIT peers. But we have a little higher leverage than we had pre-pandemic. We want, well, that to come back down. So, a lot of factors. But we feel really good about restarting the dividend and continuing to talk about it with our board and sharing good news with all of you.

Ian Zaffino
Analyst, Oppenheimer & Co., Inc.
Q

Okay. Thank you very much.

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

Thanks.

Operator: Thank you. And we have no further questions. So, I would like to turn the conference back over to the company for any additional or closing remarks.

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Jeremy J. Male

Chairman & Chief Executive Officer, OUTFRONT Media, Inc.

Great. Well, thank you all for attending the call today. Thank you for the questions. And we look forward to seeing many of you at investor events over the coming weeks. Thank you very much.

Operator: Thank you. That does conclude today's teleconference. We do appreciate your participation. You may now disconnect.

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