08-May-2020

# OUTFRONT Media Inc. (OUT)

## Q1 2020 Earnings Call





Copyright © 2001-2020 FactSet CallStreet, LLC

# CORPORATE PARTICIPANTS

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

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

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

# OTHER PARTICIPANTS

**Alexia S. Quadrani**
*Analyst, JPMorgan Securities LLC*

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

**David W. Miller**
*Analyst, Imperial Capital, LLC*

**Drew Borst**
*Analyst, Goldman Sachs & Co. LLC*

**Stephan Bisson**
*Analyst, Wolfe Research LLC*

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

**Bryan Daniel Goldberg**
*Analyst, Bank of America Merrill Lynch*

**James Charles Goss**
*Analyst, Barrington Research Associates, Inc.*

# MANAGEMENT DISCUSSION SECTION

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

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

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

Hey. Good morning, everyone. Thank you for joining our 2020 first quarter earnings call. And we hope that you're all safe and well. Given the New York stay-at-home order, we're hosting today's call remotely and joining us from their homes 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 the usual question-and-answer session. Our comments today will refer to the earnings release and the slide presentation that you can find on the Investor Relations section of our website, outfrontmedia.com. And after today's call is concluded, an audio archive of this call will be there as well.

Today's call 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 2019 Form 10-K and our 10-Q, which will be filed later today. We will refer to certain non-GAAP financial measures today on this call. Any references to OIBDA will be on an adjusted basis, and the


Copyright © 2001-2020 FactSet CallStreet, LLC

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.

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

## Jeremy John Male

*Chairman & Chief Executive Officer, OUTFRONT Media Inc.*

Thank you, Greg, and thank you all for joining us this morning. As you know, we've been posting great growth for some time and indeed it carried into the first quarter. But the historical results we're reviewing today are relatively less significant than usual. What's more important right now is our response to the pandemic, where we stand today and where we see things going.

Slide 3 highlights for you some of our important early actions. Beginning March 10, all of our office-based employees have done a great job as they shifted to work from home. And we put protective safety measures in place for our operations staff who were doing terrific work keeping our business going out in the field.

We have also enhanced the cleaning practice across our offices, restricted non-essential business travel and maintained frequent and open communications with our employees. The health and well-being of all of our people remains our most important priority. We're also helping our communities by donating space for special health messaging and for advertising that is helping businesses adapt to the current situation.

Turning to some financial measures, on March 25, we announced that we prudently drew nearly all of the remaining amount available under $500 million revolving credit facility.

On April 20, we closed the $400 million investment by two leading private equity firms; Providence Equity Partners and Ares Management. We structured this as an issuance of perpetual preferred stock that is convertible into our common stock. This gives us immediate liquidity without adding to our debt leverage. It also brings a new member to our board of directors to help create lasting value for our stakeholders.

On April 20, we announced the amendment to the maintenance covenant on our revolving credit facility to give us relief on the ratio calculation as we navigate through the coming quarters.

Since March, we have taken numerous operational and cash flow measures to enhance our liquidity. Cost reductions have been focused on right-sizing our business for the current environment, including restrictions on discretionary expenses, a workforce reduction, furloughs, a hiring freeze and a temporary step-back in compensation to certain employees and our executive officers. We're also addressing our fixed costs with focus on our larger billboard leases and our transit guarantees. Additionally, we're suspending billboard and transit digital deployment, reducing or deferring other areas of discretionary capital expenditure and we are pausing new acquisition activity.

Lastly, stockholder dividends are the foundation of the REIT business model and we will continue to be a significant dividend payer. For the moment, however, our board has decided to pause quarterly distributions on our common stock. We intend to pay at least the annual REIT requirement in 2020 and will assess our levels as the market improves.

Two goals guided all these actions. Firstly, it was a proactive and prudent response to a situation whose severity and duration are unknown. And secondly, our goal was to prepare our business for recovery with enhanced financial flexibility to pursue strategic options that we believe will certainly arise.


Copyright © 2001-2020 FactSet CallStreet, LLC

Later on this call, we're going to discuss our second quarter view as well as some of our early directional thoughts on the balance of the year. Before we do that, let's proceed with business as usual and review the first quarter financial and operational results on slide 4.

As you know, we had originally guided Q1 revenue to be comfortably in the mid-single-digit range and that's where we would have ended up had COVID not started taking a toll during March. Given this and on top of a 10% comp last year, our business performed in line with our lower revised guidance, with first quarter revenues up around 4%. OIBDA was flat year-over-year, principally due to COVID slowdown in March and also due to significantly higher bad debt provisions as we prepare for the coming quarters. AFFO growth was 2% in the quarter, reflecting the benefit of lower interest expense.

Let's now look at our quarterly revenue in more detail, beginning on slide 5. US Media was up almost 5% and was the growth driver in the quarter, while our Other segment, which is much smaller, was down mostly because of equipment sales last year that didn't recur. Slide 6 shows that the US Media strength was driven by 9% billboard growth, but transit and other was down 4%, largely reflecting the initial COVID impact I mentioned a moment ago.

Turning to our local and national revenue split on slide 7, national came up with some – kept the same pace as it showed in the fourth quarter, while local was up 3%. The local story reflects some good billboard performance, offset by the decline in transit.

Slide 8 shows that overall billboard yield increased a full 10% during the quarter, reflecting a higher number of digital boards and a much greater monthly revenue. We increased digital billboards by 170 year-over-year and 41 in the quarter. Digital was 21% of our US billboard revenues, up 3 points from last year.

Turning to slide 9, which is our other segment, it's worth noting that our core performance was actually somewhat better than this chart first implies. Specifically, billboard revenues in Canada were down very marginally on an organic basis and, like the US, began seeing COVID impacts in March. The transit and other piece reflects $3 million in the digital equipment sales that didn't work out this year, offset by good growth in Sports Marketing.

Turning to slide 10, our total digital revenue growth continued to be robust, up nearly 40%. This was driven by same board yields and new units in billboard, as well as the continued expansion of our digital transit displays. Even with the pandemic impacts beginning in March, we saw transit digital grow 67%. Combined digital was 23% of our total company revenues, up almost 6 points from last year. So, very good progress in this important area. In summary, a very solid first quarter, even including some impact from the pandemic.

Let me hand off now to Matt to go through the remainder of our financials.

## Matthew Siegel

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

Thanks, Jeremy, and good morning, everyone. As you can see on slide 11, total expense levels increased 5%, which were driven overall by bad debt provisions. And excluding this, our overall levels were down 1 point. Before I get into that, let's take a look at each of our expenses in more detail on slide 12.

Billboard lease expense was up due to some new locations in Los Angeles, Chicago, San Francisco and Miami, as well as some annual step-ups. It also reflected our strong sales levels, particularly in some of our larger markets where some of our leases have variable components. Transit franchise expense fell in line with a drop in


Copyright © 2001-2020 FactSet CallStreet, LLC

revenues. As you would expect, we are engaged with our billboard landlords and transit franchise partners to mitigate these costs going forward.

Posting and maintenance expenses were up slightly. SG&A expenses were up primarily due to a higher provision for doubtful accounts, as we look forward into the coming quarters due to COVID impacts. This represented about 70% of the increase and the rest represent the employee hiring in the back half of last year. And, lastly, corporate expenses were down by half due to lower employee benefits expense. This overall increase in expenses was in line with our revenue growth, resulting in the flat year-over-year OIBDA on slide 13.

There's a slightly different picture when you dig into the components on slide 14. After allocating bad debt provisions on a revenue-weighted basis, US Media billboard was up 5%, but transit was down by half. This was offset by the significant drop in our corporate expenses I just mentioned.

Let's turn now to cash flow, beginning with capital expenditures on slide 15. They were flat at $18 million and the growth CapEx was primarily for 20 digital conversions. We've mentioned fewer conversions as a source of liquidity for the remainder of the year. There are some investments in process that we'll see to a conclusion. But, in general, we expect total CapEx to now be below $50 million. This represents lower maintenance expense and three quarters of suppressed digital conversions, with a bit of offset from some previously ordered digital billboard screens that we immediately deployed when conditions are ready.

Moving on to the AFFO bridge on slide 16, we were up a couple of points, driven mostly by lower interest expense. As you're already aware, due to the uncertainty brought about by COVID, we withdrew our annual AFFO guidance on March 25.

Slide 17 shows that dividend coverage for both AFFO and adjusted free cash flow improved substantially from last year. Obviously now, given the pandemic's impact on our business, our board has decided to pause the quarterly common dividend which Jeremy mentioned earlier. We believe that conserving cash is prudent as we watch the shape of the recovery.

I think it's important to take a second and explain the mechanics of the dividend. All REITs must distribute 90% of their REIT annual taxable income to remain in compliance with REIT requirements. In 2019, that amount was around $150 million in dividends, but we actually paid just over $200 million. The compliance test is an annual one, even though most companies make quarterly distributions. This March, we paid a $56 million distribution and we are pausing the remaining quarterly common dividend distributions. By pausing, we can assess the total amount, total annual 2020 payment to bring us to or slightly above the minimum requirement. It's also worth noting that this requirement can be met by dividend payments on both common and preferred stock.

We have strengthened our liquidity, which you can see on the left side of slide 18. During the quarter, we drew nearly all the remainder of our revolving credit facility, which you can see in the unrestricted cash balance in the left chart, and now in the 2024 maturity comment on the right. We thought it was prudent and worth the extra interest expense to have this cash in our own accounts. What this liquidity does not show are the net proceeds of our $400 million convertible preferred equity issuance that closed in April.

As of yesterday, our cash and equivalents on hand were approximately $850 million. Also worth noting is the preferred stock is not counted as debt in calculating our leverage covenants under our debt agreements. Had the net proceeds been on hand as of March 31, the net leverage ratio you see in the slide would have been 3.9 times.


Copyright © 2001-2020 FactSet CallStreet, LLC

Another important step we took was amending the financial maintenance covenant on our revolving credit facility. Until September 30, 2021, we will be able to substitute our results in Q2 and Q3 of 2019 for our future results in Q2 and Q3 of this year when calculating the LTM denominator in the covenant, subject to certain limitations on making restricted payments.

To further enhance our balance sheet, we chose to raise capital in the form of equity, not additional debt. We wanted to emerge from the pandemic in a stronger position and with financial flexibility for what we anticipate would be attractive strategic options. The preferred security carries a competitive coupon, and an attractive conversion price at closing, and we believe it is very much aligned to the interest of all of our stakeholders.

Driving our strong digital revenue growth in the first quarter was a further ramp in the continued digitization of the New York MTA, which you can see on slide 19. We installed just under 700 displays, bringing our total deployment as of March 31 to over 5,000 displays, more than half of which carry advertising. Our total MTA project costs in the quarter were $22 million. We did not recoup any cost during the quarter and we may not recoup for the remainder of 2020.

Our cumulative project costs were $270 million as of March 31. On March 25, we announced that we suspended display deployment due to the impact of the COVID pandemic and therefore we now expect that full-year spending would be significantly lower than our previously announced $175 million. We also had previously said that we expected $160 million of net incremental third-party financing to fund the remaining equipment deployment. However, given the uncertainty around the COVID pandemic, we will update you on our aspects of the deployment as we have more clarity. Importantly, we're having constructive conversation with the MTA as we review the situation.

In closing, this was certainly the most eventful period since I joined the company. Our enterprise risk planning helped prepare us with the quick and proactive operational and financial measures we have taken and we'll continue to take to address the pandemic. Some of them are more challenging than others, but collectively we believe they're going to get the company to where it needs to be and, importantly, with financial and strategic flexibility.

Let me now turn the call back over to Jeremy.

## Jeremy John Male

*Chairman & Chief Executive Officer, OUTFRONT Media Inc.*

Thanks, Matt. And now let's turn our outlook on slide 20. Maybe it'd be helpful to give a little bit of background. When the pandemic started impacting our business in March, we put in place new financial tracking that included cancelations, which is something that we had never really analyzed before because, quite simply, they were infrequent and immaterial to our business.

This is certainly no longer the case and we now need to consider the combination of new business that we are writing, contracts that are being deferred from Q2 into later quarters, contractual changes reflecting some audience declines and indeed outright cancelations.

Considering all these factors, as we look at Q2 today, we expect our total revenues to be down approximately 50%. As you would expect, this is playing out differently in the two major parts of our business; transit, which, as you know, is Northeast-focused and urban by definition, was impacted more quickly and to a much greater degree than billboard. In Q2, we currently expect transit to be down around 75%, while our billboard business is expected to be down in the region of 35%.


Copyright © 2001-2020 FactSet CallStreet, LLC

Looking a bit further forward, right now, we see a trough in July and an improving trends from August onwards. We believe the improvements we're seeing in our Q3 numbers imply an expectation from our advertisers of some normalization in people's lifestyle and work patterns over the coming weeks. As we all know, the situation for everyone is very fluid, but we thought it was important to share with you what we're seeing.

So, that's what we see right now. Every day is the day. One thing you should be encouraged by is that we are writing some good new business. For the last few weeks, it's been one step forward and a few steps back, but we expect this ratio to significantly improve in the second half of this year. People are still going out of their home. Like every one of you on this call or someone in your household, someone has to leave home with some frequency for necessities, and it's in these moments that our advertising can be impactful and highly relevant.

You can see what has happened to the national US audience across our assets on slide 21. This is data from our proprietary smartSCOUT platform. We've been giving it to our clients by market and by location to help them in their planning and to show that our medium is still delivering significant impressions.

It shows that our overall audience is at 80% of the pre-COVID levels and there's a nice uptick in the 7-day trend which has now crossed the 30-day average. Different cities are certainly at different levels, but the declines appear to have stopped, which is very encouraging, and we expect we'll continue to improve as an increasing number of states open back up.

Our data has also enabled us to identify thousands of displays that have been able to retain or exceed their pre-COVID impression levels because of people's changed living patterns. This has also opened new sales opportunities as people journey to and from essential business locations. This also kept our client conversations open and ongoing, and we know that our longstanding relationships will continue to benefit both OUTFRONT and our advertising partners.

Lastly, I'd like to thank our employees for working so hard and helping us through this difficult period. We really believe we have the best people and the best assets. And we're looking forward to helping our clients reinvigorate their demand as the economy improves.

So, with that, operator, I'd now like to open the line for questions.


Copyright © 2001-2020 FactSet CallStreet, LLC

# QUESTION AND ANSWER SECTION

**Operator**: Thank you. [Operator Instructions] We'll now take our first question from Alexia Quadrani [audio gap] (21:53). Please go ahead.

**Alexia S. Quadrani**
*Analyst, JPMorgan Securities LLC*

Q

Thank you very much and I hope everybody is well. I have two questions. First, can you give us some color on the guidance in terms of what you're looking at for the second quarter in terms of advertising categories and maybe what you're seeing in local versus national? And then my second question is, as you've talked about constructive conversations with the transit authorities, and obviously the MTA is a big one, if you can talk about if you're paying the MTA sort of in guarantees?

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

A

Yeah. Thanks, Alexia. I'll take both of those. I guess, the first thing to say is that we felt it was really important to give you color and guidance on this call today and that, as we look out out-of-home, we continued to feel as bullish for the sector as we always have. OUTFRONT and out-of-home was really strong as we came into this and we absolutely believe that we can come out strong.

So – but going back to your questions, as we look at it, it's interesting actually. We were at a investor conference in early March and we gave then what we thought categories would be difficult if the pandemic increased, as it obviously did. And we said at that stage, entertainment, movies and retail would be difficult, and yeah, they are in dollar terms where we're seeing the most significant pullback.

As we look across our business, national is somewhat more impacted than local. And I'm sure as you can imagine, there's a lot of geography involved here. New York is a particularly difficult place to be. What is interesting is that the aspects that really drove our business and drove our market outperformance over the last couple of years was two things really. One, the fact that we were big city, urban; and two, our transit business. Obviously, right now in these particular few weeks, big city and urban isn't necessarily the place to be and transit is difficult. And I'll talk a little bit about that in a minute. So, lots of geographical change; Northeast, difficult; the West Coast certainly easier than the East; and right in the middle, and particularly where we have small and local markets, actually much less impacted.

So, maybe just a couple of comments on transit and then I'll come to your question on the MTA. Look, we're fundamental believers in public transit. We absolutely believe that it's going to be a key part of the American commute for many years to come. That being said, it's going to have a difficult few weeks. Right now, ridership is down and, reflecting that, obviously, services are down pretty much in all of our key markets. And you can, obviously, see that the general impact of that in our guidance for the second quarter. And as we say, next few weeks are going to be difficult. As things start to open up, we're really hopeful that we're going to start seeing some positive movement there.

Specifically in terms of guarantees, we have relationships with a number of important transit authorities across the US. We've been talking to them all with regards to the structure of those relationships and, where applicable, guarantees. And I can confirm that, in agreement with the MTA, we haven't been paying our guarantee to the MTA from April.


Copyright © 2001-2020 FactSet CallStreet, LLC

**Alexia S. Quadrani**
*Analyst, JPMorgan Securities LLC*

Q

Thank you very much.

**Operator**: Thank you. We'll now take our next question from Ben Swinburne from Morgan Stanley. Please go ahead, sir. Your line is open.

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

Q

Thanks. Good morning. Jeremy, could you talk about what you expect in terms of a return to growth as you think about national versus local? I mean I think, historically, national has been sort of the higher beta part of the outdoor business and it sounds like that may be what you're seeing right now. But it feels like part of the story of outdoor's growth in the last few weeks has been the strength in national advertising and sort of the embrace of the media by national advertising. And I'm just wondering if you think, as we come out of this back half of this year into 2021, at whatever level it's going to be, if you expect national to grow faster than local? I know there's no crystal ball, but I'd love your thoughts on that.

And then if either you or for Matt or for either, any way to help us quantify second quarter expense growth or, I guess, decline since you gave us the revenue outlook? Can you help us think about costs? And I was just wondering on the preferred equity, if you guys expect that to be a cash or PIK dividend at least in the near-term? Thanks a lot.

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

A

Thanks for the questions, Ben. I'll take the first one and maybe make a few comments on expenses and then hand over to Matt for more expense color and picking up on the preferred question. I guess the first thing is that, if you look back to the last time when we saw a downturn, there was undoubtedly a higher beta in national than there was in local. National can switch off dollars quicker than local, and that tends to be more flighted rather than permanent long-term ads. And for that reason, that's where the beta comes from.

As we're looking forward, we were actually seeing from our tracker some sort of good, new business coming in from both local and our national advertisers. And there's no particular reason we think why national shouldn't maintain that kind of high beta and actually outperform local, as we get through this sort of difficult cycle, as it has been doing for the last couple of years. As I said right at the outset, the fundamentals of out-of-home, they're still there, they're still valid. That's the reason that we were outpacing all media growth and it's the reason why we'll continue to outpace all media growth in the future.

And just before I sort of hand over to Matt, maybe just a couple of comments in terms of the overall shape of the expense initiatives we've taken. We expect around about $100 million to fall out of our expense base in Q2 this year compared to 2019. Yeah, a good portion of that, obviously, relates to the variable expenses in transit. We've talked a lot about transit benefiting from that variable expense, particularly where minimum guarantees are suppressed.

So, that's where a good piece of it will come from. We've been working hard on our billboard leases, some of that's fixed, some of that is also variable, as some of our variable lease costs will come down. And then the balance is through other cost initiatives that we've taken.


Copyright © 2001-2020 FactSet CallStreet, LLC

So I'll hand back now over to Matt for just a bit more color.

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

Yeah. Ben, on the expense, I think you can figure out, our billboard lease expense could go down maybe 10%. As Jeremy said, we're working hard with our landlords, plus some of our larger markets have a variable component in posting, maintenance and other, and SG&A. There are both and we've taken some steps on personnel issues with hiring freezes, head count reduction, activity reduction. We think both of those can go down dollar-wise somewhere in the $15 million to $20 million range each. As Jeremy said, transit franchise will be a big saving that gets certainly entirely shifted to variable. So, that's about $100 million.

And you had a question on the PIK aspect of the preferred. At this time, we expect to make cash preferred dividend payments through 2020, but we do have the option if we need to exercise it.

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

Okay. And maybe, Matt, just so I understand, are you going to be accruing MGs on transit like the MTA or, because you're not paying, it's essentially going to be purely variable?

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

In the case of minimum guarantees right now, we're not going to be accruing. So it is completely variable.

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

Got it. Thanks for the help, guys.

**Operator**: Thank you. We'll now take our next question from David Miller from Imperial Capital. Please [audio gap] (31:51)

**David W. Miller**
*Analyst, Imperial Capital, LLC*
Q

Hey, guys. The first two analysts took all of my questions. So you guys can move on to the next question. Thank you very much.

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

Thanks, David.

**Operator**: Thank you. We'll now take our next question from Drew Borst from Goldman Sachs. Please go ahead.

**Drew Borst**
*Analyst, Goldman Sachs & Co. LLC*
Q

Thank you. Jeremy, I wanted to ask about the August improvement that you're seeing. I was wondering if you might be able to provide a little bit more color on just sort of the overall trend, like, where are you seeing some of


Copyright © 2001-2020 FactSet CallStreet, LLC

the improvement, is it transit, or is it billboard, or is there any particular geography that's recovering more quickly? Is it more static or digital? But just looking for some additional color on that, please.

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

Sure. Thanks, Drew. So, as we look at it right now, obviously, the billboard business is much less impacted anyway than transit and that's certainly where we're seeing the most obvious signs of recovery. But transit is also certainly starting to pace considerably better in that second quarter than it is – in that third quarter I'm sorry than it is in the second quarter. And we're starting to see those pockets of strength as some states open up.

When we think about transit generally, I think quite a bit of that's going to be dependent on just how quickly the service starts improving and how quickly demand starts picking up as they improve that service. So it's early days. But from what we can see from our trackers, there really is something of an inflection point in both.

**Drew Borst**
*Analyst, Goldman Sachs & Co. LLC*
Q

All right. Great. Thank you. And then maybe just one for Matt on – again, going back to the OpEx, and thank you for all the details you've already provided. You mentioned the billboard lease expenses might be able to be reduced by 10%. Can you sort of help us also think about some of the other expense buckets in terms of, like, how much of a reduction you might be able to see over the balance of the year?

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

Balance of the year, I hope I'm not seeing a bigger reduction because a lot of the reduction is based on variable costs. So, our transit franchise reduction, which we expect to track our revenue, shouldn't be as big. So the $100 million savings that Jeremy mentioned for the quarter, probably a little less in the third quarter and fourth quarter. Of the 10% reduction in billboard, I'd say maybe half of that is going to be recurring. It's work we're doing with the landlords directly. Hopefully, the revenue increases so not all of it increases. And then the same thing on posting, maintenance and SG&A. We furloughed a number of our staff. Unfortunately, the activity level has gone down. So we do think as the activity level picks up, some of those costs will come back. But I'd say, again, that same thing that half in each quarter stays away.

**Drew Borst**
*Analyst, Goldman Sachs & Co. LLC*
Q

That's great. Thank you very much.

**Operator**: Thank you. We'll now take our next question from Stephan Bisson from Wolfe Research. Please go ahead. Your line is open.

**Stephan Bisson**
*Analyst, Wolfe Research LLC*
Q

Good morning. Thanks so much for all your color. Just a couple for me. First, can you discuss a little bit about pricing versus occupancy trend? I know coming out of the recession, pricing was a little slow to recover and that was kind of a drag. Are you trying to defend it a little bit more vigorously in this downturn?


Copyright © 2001-2020 FactSet CallStreet, LLC

And then you mentioned strategic acquisitions and maintaining flexibility. Is there anything specific that you're kind of seeing out there that you would want to purchase? And what kind of markets that they would be, billboards, transit, mid market, large market? Thanks.

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

A

Yeah. Thanks for the questions, Stephan. If you look back to the sort of the last downturn, it was interesting really because what you actually had was obviously a macro decline, but audiences remained the same. There was effectively no change in audiences over that period. What we've had to cope at this time is some sort of macro decline and actually an audience decline. So it's fair to say that we've had to reflect some of those audience changes in our pricing.

But as audiences come back, we would expect, by definition, pricing to recover in line with that audience recovery. So it's not a fundamental change in strategy at all. It's just purely reflecting numbers that have been out on the streets over the last few weeks. And, reasonably, some occupancy has gone down. And also, as we – as states open back up, we believe that we'll get back to more normalized occupancy levels.

With regards to your second question in terms of acquisitions, we kind of always said that we're principally interested in acquiring billboards rather than transit and we're principally interested in acquiring in top 25 DMAs where we already have a presence and where we can leverage our national sales force and some operating expense benefit. And we don't really see that changing in the near-term.

Going back to the first part of your question, Stephan, I'm thinking about that pricing – the comments that we made earlier on with regards to audience recovery is already happening and we're feeling very good. There's no reason why pricing can't get back to pre-COVID levels as that audience comes back.

**Stephan Bisson**
*Analyst, Wolfe Research LLC*

Q

Great. Thank you so much.

**Operator**: Thank you. We'll now take our next question from Ian Zaffino from Oppenheimer. Please go ahead.

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

Q

Hi. Great. Thank you. Maybe you guys could look into your crystal ball to maybe help us understand as far as when we get into the fall, we start to see the recovery you're talking about, we get the past the trough you're talking about. We're still in this world of social distancing. What does the audience level then look like let's just say in fall when the economy is back, but maybe we still need to maintain our social distancing. How do you think about audience levels and kind of the ability to get back the utilization levels you had pre-COVID? Thanks.

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

A

Okay. I guess, audience sort of falls into two halves really. The first is the vehicular audience that our billboards appeal to. And there there's no reason at all why, as people effectively come out of their homes, that our audience shouldn't directly benefit from that. And that obviously is not something – that mode of travel is not something that is particularly impacted by social distancing. And then when we look at our transit business, I mean there's two


Copyright © 2001-2020 FactSet CallStreet, LLC

parts to our transit business. The first is the above ground piece. So we have bus shelters, we have buses. And there's absolutely no reason why that business shouldn't rebound in line with our other road side assets.

When we look specifically in a business that's sort of on-transit, so that's sort of in-car, so for example, the New York subway, right now it's unclear how those social distancing measures are going to continue to impact audience there and that's one of the things. We're talking to the MTA about it. Because we have with the MTA a terrific long-term partnership. Remember, it's set to go 15 years. And there are various different pieces to it, there's audience, there's the investment piece in digital to benefit their communications with the audience and also to drive advertising revenues, as we've been doing over the last couple of years.

So, as we look at all the different pieces of the relationship with the MTA, you can understand, that that is quite a – it's a complex discussion. But I'm pleased to say that they're very open to those discussions and finding solution that's going to work for both parties.

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

Q

Okay. Thank you very much.

**Operator**: Thank you. We'll now take our next question from Bryan Goldberg from Bank of America. Please go ahead.

**Bryan Daniel Goldberg**
*Analyst, Bank of America Merrill Lynch*

Q

Thank you. I apologize if you addressed this in your prepared remarks. I joined a little late. But on the billboard lease expense, could you just remind us approximately how many landlords you have in total? Roughly what percentage of those are you actually actively engaged with right now in terms of renegotiating lease costs. And then, just generally speaking, what's the tone of progress with that stakeholder in your business? Hopefully, it's a constructive one. And over how long a period should we expect these negotiations to go on for?

And then secondarily, I was just hoping on advertising, I think you mentioned you are writing some business, and I think you called out some of the categories of softness. But are there any categories that have sort of remained healthier or resilient for you in the current environment? Thanks.

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

A

Bryan, I'll take the first one. It's Matt. We have more than 20,000 leases there or 23,000 or so leases. I think about 15,000 or 17,000 different landlords. So we treat it like a triage. We talk to the larger ones first, and most often, keep a very active dialogue with them. I'd say, half of our leases have – more than half maybe, and they have diminution clauses, which give us an opportunity to discuss with them. It's a negotiation. So it takes time. We can't get to everybody right away. So, that's why we don't have as large a benefit in our billboard lease side as we do in our transit side so far. But we have over 100 people in our real estate group and they're incredibly focused on doing this. So we think we'll seen benefits in 2020 and probably into 2021 and 2022 as well.

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

A

So, Bryan, let me take the second piece of that. So, in terms of categories that, as we look at our pacing in Q2, legal is pacing well for us, local services is pacing pretty well for us, healthcare we expect to be one of the least


Copyright © 2001-2020 FactSet CallStreet, LLC

impacted and sharing growth in the near term. And just when we think about tech as well, we think that tech is going to come back pretty quick from some of the conversations that we're having with our advertisers right now.

**Bryan Daniel Goldberg**
*Analyst, Bank of America Merrill Lynch*

Q

Thank you very much.

**Operator**: And we'll now take our final question. Please go ahead, Jim Goss from Barrington Research.

**James Charles Goss**
*Analyst, Barrington Research Associates, Inc.*

Q

All right. Yeah. Thanks for squeezing me in. Regarding the dividend, are you thinking that the final payment would likely be in one form and it would be at the end of this year, or would it move into New Year? And is it fair to think that, since preferred dividends are preferred, that that would also reduce the dividend payments available to common shareholders? And should there be anything to be concerned with in this regard? And then, a couple of others.

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

A

Yeah. Jim, it's Matt. On the dividend, yeah, the REIT requirements is a full-year look back. So we could make that, I'd say, true-up or rationalized dividend payment in end of December or early January I think we have some flexibility for a couple of weeks into January. Like I said, we'd have some visibility by then of what our requirements would be and what we should be paying. And the calculation of the REIT dividend does include the preferred dividends. So, to the extent that we are paying something around our REIT requirement, we would take the preferred payment into account as we calculate that.

**James Charles Goss**
*Analyst, Barrington Research Associates, Inc.*

Q

Okay. Are you seeing also any varying demand between the digital versus static displays in various environments...

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

A

Yeah. Let me answer that.

**James Charles Goss**
*Analyst, Barrington Research Associates, Inc.*

Q

...in terms of coming down and going back up?

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

A

Yeah. It's interesting. One of the great things about digital for out-of-home, but generally, and one of the reasons that it's enjoyed such stupendous growth over the last few years has actually been its flexibility relative to static.

Obviously, in this situation where people are making swift decisions about changes in requirements to their advertising program, digital you would expect to decline at a faster rate than static because you can enact those


Copyright © 2001-2020 FactSet CallStreet, LLC

decisions much more swiftly. And by the same token, we expect it to actually come back more quickly than static when it comes back.

### James Charles Goss
*Analyst, Barrington Research Associates, Inc.*

Q

Okay. And lastly, it's good to hear the ongoing discussions in terms of the MTA, but I'm also wondering social spacing on the subway would seem like a pretty challenging type idea, especially enforcement of whatever rules you came up with. Are there some issues that are being developed and ideas that have been advanced so far to address that sort of issue? And is it unique to New York? But I'd imagine you also have exposure in other subway systems. So, maybe talk about them as well.

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

A

I guess the short answer is, Jim, that we don't know exactly how the state of New York and indeed others right now are going to open up, when we don't know right now what measures will be taken for in-car transit with regards to social distancing, et cetera. So, as that becomes clear, it's obviously one of the inputs into the discussions that we're having with the MTA. And it's also one of the inputs into the discussions we'll be having with our advertisers.

Because while it's fair to say that audiences may not quite be where they are, for the near term there remains a hugely attractive audience. And the fact is that if you think about the subway, we were previously carrying – previous to COVID, 6 million passengers a day, all right? There's no way that they can all jump in their cars, New York wouldn't survive. So it's going to come back. We're just not exactly firm, right now, how.

### James Charles Goss
*Analyst, Barrington Research Associates, Inc.*

Q

Right. Thanks very much.

**Operator**: Thank you. I'd now like to pass the call back over to our speakers for any additional or closing remarks.

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

Yeah. So, thanks very much, operator, and thank you all today for your questions and your time. We look forward to speaking with many of you at investor events in the coming weeks. Thank you, again.

**Operator**: Ladies and gentlemen, this concludes today's call. Thank you for your participation. You may now disconnect.


Copyright © 2001-2020 FactSet CallStreet, LLC

Disclaimer
The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2020 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.


Copyright © 2001-2020 FactSet CallStreet, LLC