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OUTFRONT Media Inc. (OUT)

Q2 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

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

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

Gregory Lundberg

Senior Vice President-Investor Relations, OUTFRONT Media Inc.

Hey. Good morning, everyone. Thank you for joining our 2020 second quarter earnings call. We hope that you're all safe and well. We are hosting today's call remotely with Jeremy Male, Chairman and Chief Executive Officer, actually at our headquarters in New York City; and Matthew Siegel, Executive Vice President and Chief Financial Officer at his home where I am as well.

After a discussion of our financial results, we'll open up the lines for a question-and-answer session. Our comments today as usual 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 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 2019 Form 10-K, our first quarter 2020 10-Q, and second quarter 2020 10-Q to be filed tomorrow.

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We will refer to certain non-GAAP financial measures today on this call. Any references to OIBDA on it 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 on our website.

And I will now turn the call over to Jeremy.

Jeremy John Male

Chairman & Chief Executive Officer, OUTFRONT Media Inc.

Thanks very much Greg and thanks to you all for joining us today. I am indeed back in my office at the moment and it's frankly great to be here, particularly good today as I had a power outage from the storm yesterday at my home in Greenwich and connectivity would have been a nightmare had I still been there. But you know what, our business is running well on a virtual basis. And many of our offices are opening now and I actually really appreciate being back in the Chrysler building, seeing people back on the streets, the number of which is picking up every day. I commuted in today on Metro-North Railroad, walk through Grand Central, saw some of our buses on Lexington Avenue. And every step of that journey, I could see the advertising that our clients are running to drive consumer demand for their businesses. Obviously, that demand softened considerably in the second quarter, but that's what we expected to happen. We guided for both the billboard and transit revenue numbers you see here as well as the expense levels.

While we were able to take significant cost out of the business, the dramatic revenue declines drive an even larger impact on OIBDA and AFFO. Although it's not exactly satisfying to be accurate when forecasting numbers such as those that you see on slide 3 and while nothing is certain in this world, we do firmly believe that the second quarter was the low point for our business resulting from the COVID-19 pandemic. Its effects are still playing out across the country, but we are seeing sequential improvements in our business as we move forward in the second half of the year. And as usual, I'll comment further on this later in the call.

So let's now look at our quarterly revenue in more detail beginning on slide 4. Both U.S. Media and our Other segment were down to similar level. There's no particular area of our business was spared from the pandemic. However, the most divergence in results was in U.S. Media, which you can see on slide 5, where transit was down 76% and billboard down 36%. As we talked about previously, this reflects the severe contraction in the transit commuting audience in larger cities, which are all primarily in the Northeast as stay-at-home orders went into effect. At the same time, people still needed to leave their homes for necessities. As you would expect, the audiences were much better above ground than below, which mitigated billboards decline relative to transit.

It's worth noting that these cities were until recently growing the fastest and outpaced smaller markets within our portfolio. Well, now they're lagging, but we expect them to come to ultimately outperform as we come out of these surreal times. Our bigger cities, New York and Los Angeles, were the hardest hit and we saw equal pressure in local and national.

Slide 6 shows local and national for all of U.S. Media, where you can see that national was down 57% and local was down 43%. Proportionately, this was pretty much what we saw back in 2019, with national coming out first, but also the first back in as the economy began accelerating. The good example of the dynamics at play here are the media and entertainment industries, which use our portfolio extensively, especially in the top few markets. When we put movies, entertainment and TV together, they were down 66% year-over-year or about 20% of our entire company's decline. In just the movie category, the decline was 84% and just two studios drove the vast majority of them. Look, it's worth noting that this business hasn't gone. It's just shifted to future periods as the specific movie releases have been moved out.

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Turning to slide 7, our billboard yields were down 36% in the quarter. Overall, the vast majority of this decrease was more a function of demand than pricing as we were largely successful in maintaining rate on occupied boards wherever possible. Yields were down more in digital than in static, reflecting the shorter nature of some digital contracts and the fact that digital advertising is more closely linked to timely events and promotions, all of which were curtailed in the quarter across the country.

Turning to slide 8, our Other segment similarly saw its revenues down by half. Billboards in Canada were very challenged by the length and severity of the lockdown and our Sports Marketing business was impacted by the cancelation of the spring athletic seasons.

Slide 9 illustrates the point I made a moment ago on digital with billboard revenues down 53% and transit revenues down 77%. As you know, our digital product is extremely attractive to advertisers. Recall that last year, our digital billboard revenues were up 17% and digital transit up 89%. Digital will continue to be a key growth driver for us. The second quarter results are an aberration caused by the pandemic and as Matt will describe momentarily, we are reengaging our digital investment as we move forward.

So before I talk more about that and what we're seeing in that regard, let me first hand off to Matt to go through the balance of our financials.

Matthew Siegel

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

Thanks, Jeremy, and good afternoon, everyone. I'll start by talking about expenses on slide 10. While we couldn't reduce them as much as our revenues, we were able to deliver in excess of $100 million of cost savings we'd forecasted. Some of this was driven simply by the structure of our business, but a significant piece was driven by numerous proactive measures we took as the pandemic broke out in March.

Let's look at the key components on slide 11. Billboard lease expense was down due to lower revenues on displays, but there is a variable lease component, and due to proactive discussions and negotiations we've had, we continue to have with our landlords regarding the deterioration in the advertising market.

Transit franchise expense fell in line with the lower revenues and because we were able to work with various transit partners to convert minimum annual guarantees into revenue share arrangements. Posting and maintenance expenses were down, driven largely by lower business activity. SG&A expenses decreased primarily due to restrictions on discretionary expenses, a hiring freeze, workforce reductions, employee furloughs, temporary reductions to certain employee base salaries and lower professional fees, partially offset by a higher provision for doubtful accounts in anticipation of impacts from COVID-19. We took proactive steps to lower our corporate costs including temporary reductions to the base salaries of our executive officers and to the cash compensation of our non-employee directors, partially offset by the impact of market fluctuations on an equity-linked retirement plan offered to certain employees.

Let's turn to OIBDA on slide 12. It's evident in this chart that the pandemic caused a sudden downward shock to revenues, and we were able to offset a good portion of it through the cost measures I just described. Cost reduction was driven by all of last year's variable costs as well as reduction in some fixed costs, primarily the minimum annual guarantees. And this chart clearly shows you how future upticks in revenue could benefit OIBDA, while obviously there will be an increase in certain variable expenses as our sales improve in term of our fixed cost base as we invest for growth, the positive effect of operating leverage will be substantial.

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When you look at the components of OIBDA on slide 13, it's clear that U.S. Media, which is the vast majority of our business, drove more of the loss in particular billboard because of its relative size. Transit, which is typically a 20% margin business, unsurprisingly flung to a loss following the sharp revenue decline.

Capital expenditures on slide 14 were also reduced significantly. We did have some maintenance commitments to complete, and we follow through on some digital billboard projects that were in progress. These included some attractive conversions in Dallas, St. Louis, Indianapolis and New Jersey. As the year progresses, there are other digital billboard projects we paused and we'll likely be getting back to. It's worth reminding you that we reduced our CapEx spends to $50 million from $90 million, and anticipate being pretty close to that number. Again, digital is very important for our future growth, and there are some great opportunities out there for both organic builds and acquisitions.

You can see on slide 15 that the move in revenue and therefore OIBDA is the key AFFO driver. As the slide offset, we picked up some benefit in other drivers, yet AFFO was negative for the quarter. While AFFO due to the REIT metric was negative, our free cash flow was not, as investors typically define it, cash from operations minus capital expenditures, we generated $22 million in the quarter. As we historically presented adjusted for MTA deployment costs, we generated $32 million in the quarter or $47 million year-to-date. This positive cash generation reflects some of our aggressive cost cutting and importantly, protects our strong liquidity position.

Slide 16 shows dividend coverage for both AFFO and adjusted free cash flow. I note that this now include the preferred dividends and winds up with our total dividend payments on the cash flow statement.

Although you see that payout ratios increased year-over-year on an LTM basis, I want to point out that this trend will continue as we cycle into a weaker cash flow of 2020 relative to the stronger results of 2019. Dividends, both common and preferred are key capital allocations for us that we make in consideration of our liquidity, our debt levels and our outlook for the core businesses and other potential investment areas.

As we discussed last quarter, it is our intention to distribute at least our REIT required minimum to fiscal year 2020. As you can see on slide 17, our balance sheet has strengthened significantly since last quarter. We're in a strong liquidity position with combined cash and availability of $1.1 billion. During the quarter, we raised $400 million of gross proceeds from a convertible preferred stock investment by Providence Equity and Ares Management. We issued $400 million of senior notes due in 2025 and we fully repaid the outstanding amount on our $500 million revolving credit facility.

It's also important to note that with the anticipated deterioration in revenues due to the pandemic, we paid down and temporarily suspended the accounts receivable portion of our AR securitization facilities and reduced the outstanding borrowing capacity under the repurchase portion, $80 million.

Our next significant maturity is in 2024 and our maturities are nicely laddered thereafter with our longest maturity dated 2030. You may recall that we received an amendment to our senior secured credit facilities that allows us to substitute second and third quarter of 2020 EBITDA as defined for covenant purposes with the results from the same period in 2019. This is only for the purpose of calculating our maintenance covenant ratio.

As you can see on this slide, our total net leverage has increased this quarter on the lower results offset partially by net cash proceeds from the preferred issue. On a net basis, we're at 5.1 times compared to 4.7 times at the end of last quarter. One of the considerations in terms of capital deployment, liquidity, and our balance sheet strength is our MTA digitization project which you can see on slide 18.

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As we mentioned back in our earnings call in May, we had stopped deployment as the pandemic began and as you can see here our display net adds for the quarter reflect this pause. Our total MTA project costs in the quarter were just $12 million. We do not recoup any cost during the quarter and not surprisingly it's unlikely we will recoup for the remainder of 2020. Our cumulative project costs were $282 million at June 30. As the situation improved in New York, the MTA and OUTFRONT decided to recommence display deployments in the third quarter.

Operationally, we believe that this is a good time to be constructing. However, the uncertainty of the pandemic drives us to be prudent in preserving our liquidity. We agree with the MTA to begin deployment again and given the circumstances, we therefore made some important modifications to our contract. First, they have agreed to fund the majority of the deployment capital this year, so about $140 million of spending incurred over the next 12 months, the MTA will pay 70% and we will pay 30%, there won't be any recoupment. Second, the MTA eliminated the minimum annual guarantees for the rest of 2020. Third, we are paying a higher revenue share 65% compared to the prior 55% level for the rest of 2020. And finally, the resulting delta between minimum guarantees we would have paid and revenue share we will be paying will be added on a pro rata basis to future minimum guarantees for five years beginning in 2020 – I'm sorry, 2022. So good outcome in the spirit of partnership.

In closing, it was a difficult quarter for us, it was expected in we prepared for it to the fullest extent we were able. We emerged from it with a strong liquidity position and we're prepared to weather whatever may come, and as the big environment improves, we'd hope to be able to benefit from some of strategic opportunities that may arise.

Now, let me turn the call back over to Jeremy.

Jeremy John Male

Chairman & Chief Executive Officer, OUTFRONT Media Inc.

Thanks, Matt. Now, let's turn to our outlook on slide 19. Over the last few weeks, we've continued to write some great new business that have had to deal with significant cancellations as you might well imagine. We are pleased to say that as we look forward, despite the uncertainty and some of the fits and starts and states reopening, we are seeing signs of improvement. We believe that the low point in our business is now firmly behind us.

For the third quarter as we look at it today, we expect billboard revenues to be down around 25% and transit to be down around 65%, both a bit better sequentially. On a blended basis, this takes us to total revenues down in the 35% to 40% range, which is a positive step-up from the second quarter. The key factor driving the improvement is an increasing audience around our billboard and above-ground transit assets as you can see on slide 20. As we shared with you last quarter, this is our proprietary smartSCOUT data showing audience impressions sourced from mobile data. While Los Angeles and New York are lagging, we think it's fair to say that for our billboard business in general, that audience issues at least seem to be behind us by delivering 106% at pre-COVID levels.

Now, although audience doesn't align exactly with our historical revenues and it doesn't serve as a proxy for future revenues, it is somewhat of a leading indicator. It's good to see that LA and New York are on a solid path to pre-crisis levels. But as I mentioned earlier, they're both significant markets for us and will be an important piece of our recovery.

Transit on the other hand is lagging. Those of you on this call who are based in New York, probably even commute into your Manhattan office today, in New York City, pre-pandemic daily subway ridership was between 5 million and 6 million. This went down to around 0.5 million in March. But it's been rising slowly and steadily since then and is now well above 1 million. Now, that's still a long way from the 5 million to 6 million, but it's improving and will continue to do so. Even if the subway ridership takes a while, we're still going to be delivering huge attractive audiences with remarkable digital presentation for both our local and national customers.

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In closing, I'd like to once again thank our employees for making sacrifices that they have over this challenging time. They are really what make our industry great and our company truly OUTFRONT. Though much has changed in the economy and our business, much has not. We still have great assets that reach an increasingly mobile population. We reach them more immediately, reliably and directly than many other media in these distracting times. And technology and data remain huge tailwinds for our business.

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

QUESTION AND ANSWER SECTION

Operator: Of course. [Operator Instructions] We'll take our first question from Ben Swinburne from Morgan Stanley. Please go ahead.

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Thanks. Good afternoon. Jeremy, when you look at the kind of month-to-month trends and forward pacings in your business, do you get the sense that the fourth quarter should be better than the third quarter? I don't know if you have any color on that, but obviously, we're more focused on sort of the rate of improvement as we move through the back half of this year.

And then, maybe for Matt, thank you for the detail on the MTA. I was a little bit confused, if you could just go back and talk about the point you were making on the delta being added, I think, starting in 2022, for five years. I think you were talking about the deltas here and what you would have paid and what you will pay. I don't know if you could help us just think about that and if there's any way to, I don't know, roughly quantify what that might look like, that would be helpful.

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

A

Okay. Thanks, Ben. So I'll take the first piece of that question. You'll remember from many of our calls that we typically don't guide beyond the quarter that we're in. But let's just see if I can at least provide some color. It's fair to say that there's still many imponderables out there, there's still a lot of uncertainty. We have obviously, if there is sort of second wave, what happens with schools, what happens to the film slate and et cetera, et cetera. So there's still uncertainty out there. But from what we can see right now, it's certainly our anticipation that the fourth quarter will show further sequential improvement in both parts of our business.

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Thank you.

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

A

Ben for the second part, on the MTA, essentially, we're going to be paying them a revenue share from the second quarter on to the rest of the year so the back nine months of the year, their revenue share will be 65% which is up from the 55% that we've been paying them. And we won't be paying on minimum guarantee. To the extent, the

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revenue share is below the minimum guarantee, we'll add up that difference over the course of the year and add that aggregate amount into the five years of minimum guarantee between 2022 and 2026.

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

I see. Thank you. And Matt just as a follow-up, as you move into next year, or Jeremy, can you help us think about the ranges of the outcome with all of your transit partners as we are looking at ridership obviously well below "normal." Is this going to be an ongoing process in sort of discussions and negotiations and adjustments as we look into 2021?

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

A

Yeah. Thanks, Ben. I'll take that. But we have, in total, we have over 60 transit franchises and 30 – 35, if you like of those are – have significance with regards to that question. And you know what over the last few months as we've been in discussion with them, we've had, great responses. We've had a terrific spirit of partnership. And you can see that really from how we've suppressed the – what would have been fixed costs within our transit business. And, look, it's very early to say, what next year will necessarily look like. As I said, I mean, they've still got quite a few variables. But I see no particular reason why we wouldn't be able to maintain that spirit of cooperation and partnership as we go forward.

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Thank you, guys.

Operator: We will now take our next question from Alexia Quadrani from JPMorgan. Please go ahead.

Alexia S. Quadrani
Analyst, JPMorgan

Q

Thank you very much. I wonder if you can give a little bit of color on – a little more color on the improvement you are seeing to sort of raise the guide for Q3 versus what you saw in the lows of Q2, you know what [indiscernible] (25:26) July or what you're seeing in terms of commitments, is I think that's bit more nationally driven than local? So I guess that's my part of question.

And then, is the improvement in transit you mentioned above ground, obviously, doing better than in subways. Is it all above-ground? Are you're seeing some marks of interest in the subways at all? And then lastly, any transit advertisers maybe moving to billboards in the interim? Thank you.

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

A

Good. So, let me translate that. I guess the first point is that actually in some of our smaller markets, local advertising has really held up pretty well considering what local economies have also been through. And – but as we look into Q3, we think it's likely that there will be a small piece of recovery in our national advertising base. When we look into the categories, it's very early to start then talking about categories. But it appears to be for the most part is that the categories that were difficult for us in Q2 will be less difficult for us in Q3. And then there are two or three points, parts of our business, two or three categories are looking good. Legal is currently pacing

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ahead politically. As you know, [indiscernible] (26:57) is not a big category for us, but it's nice to see that pacing up for Q3 and maybe to be expected given where we are in terms of the election cycle and public services also.

And just generally, I think that's – I personally think that we're going to see quite a shift as we go through past Labor Day. I really do see transit audiences picking up thereafter. The fact of the matter is that New York City really won't cope as a city unless people start taking transit again and I feel confident that, all of the advertises that have been huge supporters of transit in the past will continue to be in the future. Is that helpful?

Alexia S. Quadrani
Analyst, JPMorgan

Q

Yeah. That's very helpful. Thank you very much.

Operator: All right. And we will now take our next question from Jason Bazinet from Citi. Please go ahead.

Jason B. Bazinet
Analyst, Citigroup

Q

Oh, thanks so much. I may have my numbers wrong, so please don't be bashful about correcting me. I think you guys had minimum transit payments for 2020 on the order of like $230 million a year and the MTA was, maybe $120 million of that, something like that. When I look at the quantum of decline in the transit franchise expense, it seems to strongly suggest that you've been successful in renegotiating other contracts, some of those 34 others, other than the MTA. Is that a proper interpretation or do I have my numbers or interpretation of the number is incorrect?

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

A

Nope. Jason, thanks for the question. We were never bashful. And, but what I can say is that your numbers are, you are pretty much right on the button which does indeed imply that we've had very constructive discussions with our other transit partners. It's worth remembering that these transit contracts in general, their pretty long-term. And we've worked with, diligently on their behalf and continue to work diligently on their behalf to generate whatever revenues we can. And I think that's understood and there's been definitely a desire to give some latitude.

Jason B. Bazinet
Analyst, Citigroup

Q

Okay. That's great. Thank you.

Operator: We will now take our next question from Ian Zaffino from Oppenheimer. Please go ahead.

Ian Zaffino
Analyst, Oppenheimer & Co., Inc.

Q

Hi. Thank you. Can you just go through maybe some of your lease agreements, the terms again, if you could remind us? Because I'm just looking at this and it looks like a 7.5% reduction in lease expense. Is there more opportunity to reduce that further? If so, how much? And then also, the other question with the – in the discussions with the transit authorities, when you think about the commuter rail specifically, did discussions about work from home or any other sort of development that might permanently or at least for the medium term reduce

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ridership in those, I mean, are there any adjustments or accountability for that as well when you go to negotiate table or when you discussed it? Thanks.

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

Okay. So, I'm going to hand off the first question on leases to Matt, if you would like to take that, Matt, and then I'll come back on commuter rail.

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

Sure. So, lease expenses down for a couple reasons, we have been negotiating with landlords as I've mentioned. Also we had some variable components in some of our leases in larger markets in New York and LA and a couple of others. So that's contributed to that. Some of our success in negotiations in lease reduction is going to appear not in EBITDA and expenses, it's going to be in AFFO because of lease accounting, they get smooth out over a longer period of time. So you're not going to see the full effect in expense.

The second half of your question, is there more opportunity? We continue – we have roughly 100 people in our real estate group continue to work with our landlords and talk to them as partners. We do really like our portfolio. So we'd like to maintain the assets we have and we're working diligently to mitigate the cost impact of this whole situation.

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

Thanks, Matt. And Ian, to the second part of your question. Some of this comes down to what do you feel about cities. How are cities going to look in the future? I continue to believe that cities are going to be hugely relevant and that over time, they will continue to take a bigger share of GDP looking forward into the future.

As I mentioned earlier on I live in Greenwich and the fact of the matter is that really the only credible way of me getting into city and knowing how long it's going to take me is to take Metro-North. That's what I do and I absolutely believe that that is what a significant percentage of people will be doing in the future.

Now, will it take a little bit of time to build? Yes it could do. Are we going to be back to those levels immediately? No, probably not. I think right now, forecasting when we get back to them is a little hard, because as we said earlier on the call, there's a bunch of variables out there. But essentially, I was chatting to someone who came over to my house the other day and she's a 22, 23 old lady, so graduated last year who works for Wieden+Kennedy, one of the big ad agencies. And you know what, she is working from home. Where does she want to be working? She just wants to be back in her office in the city. How is she going to get there? She's going to be taking commuter rail. So it may take a little bit of time, but we're confident that audiences will be back.

And don't forget also that what we're doing with the commuter rail in particular will actually be going through this fabulous digitization project. So as we've done on the subway, we've created huge value. Digital revenues were up 89% last year. Our transit revenues went through the roof last year. And so, there's an amazing incremental added value through that digitization, which we believe certainly in the shorter term could make up for some of that advertiser deficit. Okay. [indiscernible] (34:22).

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

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Thank you.

Operator: We will now take our next question from Stephan Bisson from Wolfe Research. Please go ahead.

Stephan Bisson
Analyst, Wolfe Research LLC

Q

Good afternoon. Just a couple for me. First on the New York City MTA and the adjustment to the minimum annual guarantee that's being added on in the outer years, that's just to the MAG and not necessarily a cash payment made on top of what would be out in those periods, correct?

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

A

Stephan, it's right. We're going to increase the MAG on an amortized basis on the deficit we create this year. It's likely to result in a higher cash payment just based on how the recoupment calculation works.

Stephan Bisson
Analyst, Wolfe Research LLC

Q

Okay. Got it. And then, just a little bit on trends, how is July, I guess, relative to June? And then, as we think about moderate size markets versus larger markets, is it still outperforming some of the moderate markets, given the effect of COVID seem to be less severe or is there a second dip that's really taking effect?

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

A

So, I think as we sort of – look, yeah, for the most part, we've seen incremental improvement month by month. So that's a positive sign and that's why we feel confident in guiding north of Q2 for Q3. When we look into geographies, the geographies that were most difficult for us in Q2 and you know what are likely to be keeping the brakes on as also in Q3, are the Northeast, okay, which obviously very exposed to transit, which will take longer to come back, so Boston, New York and Washington. But similarly, we have a big billboard business here in New York also and then on the West Coast. So, San Fran has been difficult and obviously LA. Just between New York and LA in total revenues, that's 40% of our revenue. So they do weigh more heavily in that mix than a number of other – of our geographies, particularly when we look down to Southeast and the Midwest.

Stephan Bisson
Analyst, Wolfe Research LLC

Q

Got it. And then lastly, I know it's a little bit big picture and there isn't a lot of clarity in the next couple months, but larger picture versus the prior recession in 2008-2009, could you highlight some of the structural differences in the business that kind of position you a little bit better in terms of recovery process?

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

A

Well, if you look back over the years since 2008-2009, I guess the first thing is that, while it took two or three years to get back to 2008-2009 revenues, since then, out-of-home were structurally growing from that time. So, we were taking an increased share of the advertising pie. Interestingly, what sort of drove the growth there, particularly, the uptick coming out of the recession as I mentioned in my prepared comments was the fact that actually national went down fast, but it came back fast as well.

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I think other structural differences from where we were then is that actually right now, we have a much more significant portion of our revenues coming from digital. And the other big piece of change, so we got a lot of digital screens out there, but we've also got audience stay there that is unparalleled sort of compared to then. We have data – so we have the data, we have the insight, and we're also, I think going to see a big uptick from that automation and how we trade our inventory. I think part of that will also be driven by this change that we've seen in our business. Everything digital has speeded up and I'm sure that will be the case.

Interesting, I was talking to someone who works for one of the major corporations in Germany the other day. And he said that three years ago, 2% of his digital revenues were traded in an automated/programmatic way. And now that is, for him 25% of his revenue is being traded in that way. Now look, I don't necessarily, believe that we were absolutely going to follow that line, but I do think that as we start to open our pipes to take digital ad dollars, we're going to be taking dollars, not just from dollars that were going or destined to go out-of-home, that will be coming out the digital pie. So I think, yeah, the answer is, I think there's a number of things that are different and I think we can look forward to that recovery as it comes.

Stephan Bisson
Analyst, Wolfe Research LLC

Q

Great. Thanks so much.

Operator: We'll now take our next question from Jim Goss from Barrington Research. Please go ahead.

James Charles Goss
Analyst, Barrington Research Associates, Inc.

Q

Thanks. You mentioned you were able to maintain pricing integrity in billboard rates. I wonder if you might go to that a little bit more. But also on the transit side, I wonder if you could characterize the current ridership demo as some numbers have come back. Is the demographic fairly good at a more senior level and will that protect the pricing rather than being a volume and level of ridership type of issue, but also have a scarcity value aspect, sort of like the TV networks have as being the biggest factor in a small environment and still being able to get better pricing than it might have otherwise? Is the pricing issue a little more complex because of those terms?

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

A

Yeah. I mean. Hi, Jim. Thanks for the question. It is a little bit more complex. I mean when ridership went down to 0.5 million on the subway, it's fair to say that there that the absolute skew was towards frankly workers that have to be out and it's a good time to thank all those people, isn't it, for looking after us over that time. And look, there's still a bit of a skew now when you look into that 20%. There's probably less of that more age white collar city type workers than were before, but that will comeback. So that will come back over time.

And when we look to the other part of your question, when we look at – you talked about our billboard pricing, so what we'd try to do is just make smart use of space that is available. So I'd prefer to keep the price of a board at $100 and give someone a little bit of over show by utilizing some inventory that wasn't sold. So in other words, was available rather than taking that $100 down to $90 and I think that just makes smart common sense and we don't want people getting comfortable with rates that are lower than we've been utilizing in the past.

James Charles Goss
Analyst, Barrington Research Associates, Inc.

Q

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Okay. And then you were just talking about your view that cities would come back stronger. But at the moment, the trend does seem to be favoring suburban markets over cities. Does that cause you to potentially rethink any of your business orientation from when you may get into M&A again or try to expand your position and to have somewhat less of an urban view than you may incline to right now?

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

A

Yeah, interesting question, Jim. Actually, it was fascinating to see that earlier this week, Facebook leased the entire post office by Penn Station. And that's a massive office space and I think it's actually a very bullish indicator for big cities. As I said earlier on the call, I continue to believe that big cities are – while there may be a blip, I believe that big cities will absolutely come back. And I think when you look at the people that are in those big cities, which is that young urban audience, the one that advertisers reach, that's where they're going to be. They ain't going to be out in Westchester, whether it happens to be, they're going to want to be here in the city.

Now to the next part of your question in terms of, would we particularly look to reorientate our billboard business? Look, we have 20,000 leases that's setting on for forever. So they are with us for a while. Would we contemplate acquisitions that are not within the top 25? The answer is we might. And indeed, we've actually undertaken some acquisitions in the past, tuck-in acquisitions where not all of the assets have been within that sort of top tier main profile. But I would suspect that it's not going to be an absolute strategy change of ours that have might just be occur naturally through opportunities that might arise from the crisis situation that we've seen now. We have alluded to it a couple of times. We do think that the strength of our balance sheet that we have now will be – put us in a good position to be opportunistic, should any opportunities arise for us over the coming weeks and months.

James Charles Goss
Analyst, Barrington Research Associates, Inc.

Q

All right. Well, I appreciate your thoughts.

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

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Thank you, Jim.

Operator: All right. And we have no further questions. That concludes our question-and-answer session for today. I would now like to turn it back over to our presenters for any additional or closing remarks.

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

Thanks, Ally, and thanks to everyone on the call today and for your questions and time that you've given us. We look forward to speaking with many of you at the investor events that are coming up over the next few weeks. Thanks very much indeed.

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

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