04-Nov-2020

OUTFRONT Media Inc. (OUT)

Q3 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Please stand by. Good day and welcome to the OUTFRONT Media Third Quarter Earnings Conference Call. At this time, I would like to turn the conference over to Gregory Lundberg. Please go ahead.

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

Hey. Good afternoon, everyone. Thanks for joining our 2020 third quarter earnings call. We hope that you're safe and well. 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 the 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. 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 2020 quarterly reports, including our third quarter 10-Q which will be filed tomorrow.

We will refer to certain non-GAAP financial measures on this call. Any references made to OIBDA will be on an adjusted basis, and reconciliations of OIBDA and other non-GAAP financial measures are in the appendix of the slide presentation, the earnings release, and also on our website.

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

Jeremy John Male

Chairman & Chief Executive Officer, OUTFRONT Media Inc.

Thank you, Greg, and thanks for joining us today. I hope that many of you are safely back in your offices. I've been spending quite a bit of time in ours over the past few months and I'm pleased to say that Midtown is looking a bit more like normal. Things certainly feel better than they did last quarter and this is reflected in our numbers on slide 3.

Total revenues were down 39% or 37% on an apples-to-apples basis after our Sports Marketing disposal and well within our guidance range. We saw a better billboard performance than expected, while transit is recovering more slowly, given continuing low ridership. Once again, we were able to take over $100 million out of our quarterly cost structure, helping improve the year-over-year decline in OIBDA and AFFO.

Importantly, if you look at slide 4, you can see that we have good sequential improvement on virtually every metric with the exception of transit. I'm not going to go through all of these figures at the moment, but notable here are the significant sequential improvements in U.S. Media billboard revenues, our adjusted OIBDA and AFFO.

Let's now go into more detail, beginning with total revenues on slide 5. As I just mentioned, we disposed of our Sports Marketing operation during the quarter. It was a good business for us but as you know, was non-core for us and will benefit from the scale of its new owners.

The figures you see here included in our other revenues in 2019 and there's additional color on this in the appendix. While the impacts of the pandemic during the quarter were less pronounced than they were in the second quarter, they still weighed on our U.S. Media and Canada in broadly similar fashion.

In U.S. Media, let's get on slide 6, billboard revenues were down 23%, a 14 points improvement from the loss rate last quarter. Transit was down 69%, a 7 points improvement.

I'll go into the drivers of this differential later on the call, but you can see one of them on slide 7, which is our local and national mix. National drives the majority of our transit revenues, while local drives the majority of our billboard revenues. Overall, local revenues were down 28%, while national were down 48%, both of these improved from last quarter, but it was local advertising that led the way.

Turning to slide 8. Our billboard yields were down 21% in the quarter and this was driven far more by demand than rate. There was no pronounced differentiation in the performance between static and digital yields.

Looking at our other business on slide 9, Canadian billboard revenues were down 28%, a better result than last quarter and driven by similar factors to the US. The organic figures removed Sports Marketing and I'll also point out that prior-year other revenues had $6 million of non-recurring third-party digital equipment sales.

The last topic on revenues I'd like to cover is digital on slide 10. Total revenues were down 37%, right in line with the rest of the business and a bit better than last quarter with improvement in the decline for both billboard and transit. This is quite a big change from this time last year, when we told you that total digital grew 28% driven by digital billboards up 15% and transit up a very strong 77%. As that business recovers, we remain convinced that digital will continue to be a key growth driver for our business.

Let's now shift over to Matt and he'll walk you through the rest of our financials. Matt?

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Matthew Siegel

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

Thanks, Jeremy and good afternoon, everyone. Our overall expense structure performed very much like last quarter with $108 million reduction or 34% year-over-year and you can see on slide 11. Once again, this reflected continued attention by our teams to eliminate variable and fixed costs.

Let's look at these in detail on slide 12. Billboard lease expense was once again down due to lower revenues on displayed, where there is a variable lease component. It was also reduced from proactive discussions with our landlords and to-date negotiations have reduced our fiscal year 2020 billboard lease expense by $16 million, more than half of that will carry over into 2021. I'll note that you won't see all of this in OIBDA, but you will in the AFFO due to lease accounting.

Transit franchise expense declined as we were successful in working with our transit partners in shifting to revenue sharing instead of minimum annual guarantee payments. Ridership across the country is still at very reduced levels compared to pre-pandemic, particularly in rail systems which accounts for majority of our transit advertising dollars.

I know that many of you might ask about what happens to these agreements in 2021 and what I can say at this time is our team is in the midst of fluid conversations with our transit partners regarding the level of ridership and its implications.

Posting, maintenance and other expenses were down from lower overall business activity as well as $9 million due to the sales force marketing and over $5 million from equipment sales, Jeremy mentioned earlier.

SG&A expenses decreased primarily due to continued restrictions on discretionary expenses, workforce reductions, employee furloughs, and temporary reductions to certain employee-based salaries. SG&A also decreased $4 million from the sales force marketing. One offset was again a higher provision for doubtful accounts related to COVID-19, but it's worth mentioning that collections went well in the quarter and we reduced our days sales outstanding.

Lastly, corporate costs remain at low levels, reflecting temporary reductions to certain base salaries, partially offset by the impact of market fluctuations on an equity-linked retirement plan offered to certain employees.

Please turn to slide 13 for a look at OIBDA change year-over-year. In the chart, you can see we were able to offset 60% of the revenue decline through expense reduction. We have a large fixed-cost structure, especially in billboard lease costs, so future improvements in revenue will have a strong [indiscernible] (00:08:48) to OIBDA. Overall, OIBDA was down 51% this quarter compared to a decline of 85% last quarter, so we're on our way back.

Slide 14 shows that billboard did better this quarter. Transit was only slightly negative despite the fact that we actually recommenced our digital display rollout during the quarter. Overall, OIBDA margins came in at 24%, not quite back to our 29% historical annual run rate, but a good step closer.

Capital expenditures on slide 15 were still down significantly from last year in both maintenance and growth. While our digital billboard count increased by 41 this quarter, our expected fourth quarter digital build-out leave us to increase our annual forecast to approximately $55 million compared to a prior $50 million.

Slide 16 shows that our AFFO turned positive this quarter. This was mostly driven by the higher OIBDA into a lesser extent by small teams in our other drivers.

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Turning to slide 17. As usual, you can see our dividend coverage. It's also worth noting that we were free cash flow positive again in the third quarter. Our board evaluates our capital allocation on an ongoing basis and our stated intention remains that we will meet our minimum REIT distribution requirements. So, we continue to evaluate this as our business improves.

We remain in a strong financial position as you can see on slide 18. There's still a lot of uncertainty in the economy and the actions we took earlier this year provide us with ample liquidity of $1.2 billion of cash and liquidity. Our next significant maturity is in 2024 and then maturity that nicely laddered thereafter with our longest maturity dated 2030.

Our higher net leverage at 6.1 times obviously reflects lower OIBDA due to the pandemic, which does not adversely impact our ability to access [indiscernible] (00:10:45) liquidity and we expect to cycle out as OIBDA improves.

Now, let's turn to slide 19 for an update on the MTA, where displayed deployment picked up as we announced last quarter. Our net adds were 827 displays compared to just 97 in the second quarter. Transit revenues were again not sufficient for us to recoup any deployment capital this quarter. We have deployed $314 million of total capital to-date, all subject to recouping from future revenues except the roughly $30 million spent so far under the previously disclosed amended deployment plan.

In closing, our balance sheet remains in a good place to deal with this uncertainty and we're pleased to see the recovery of audiences above ground, where our billboard business doing better over time. Most industry observers expect a positive 2020 for out of home and OUTFRONT will be key driver of that. We also expect to pick up our billboard and acquisition activity to selectively take advantage of attractive opportunities and continue growing our presence in our preferred markets around the country.

Let me now turn the call back over to Jeremy.

Jeremy John Male

Chairman & Chief Executive Officer, OUTFRONT Media Inc.

Thank you, Matt. And now let's turn our attention to our outlook on slide 20. Back in May, when we gave guidance for the second quarter, we were confident that spring breaks the trough our business and that our revenues would improve in each future period. That is what happened and you see it on our numbers today. The trend continues and as we look at the fourth quarter, we expect total revenues to be down in the low 30% range.

Relative to the third quarter, we expect the sequential improvement will largely be driven by billboard and improving picture in both local and national. This guidance reflects what we've been talking about since March regarding the return of audiences, which is a pre-requisite for the return of revenues.

As you [audio gap] (00:12:58) from the data, we and others have shared regarding street level mobility and indeed what we'd likely [audio gap] (00:13:04) people are increasingly out and about. The billboard audience is back.

Transit, however, is still lagging. It's a different story. While buses and street furniture are delivering an aboveground audience, commuter rail and subway systems, which drive the majority of our transit revenues still have very low ridership.

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The chart on slide 21 shows the recent ridership across our subway and commuter rail systems. As you can see here, on average the ridership is only 28% at the same week last year. Transit ridership, which is obviously our audience, needs to increase further, the transit revenues to begin any sorts of substantial recovery.

But we absolutely believe that ridership and revenues will recover. Much has been written about the future of cities and the transit system that support them. And countries that some [indiscernible] (00:14:10) Amazon announced new office space in New York, Dallas, Denver, Detroit, Phoenix and San Diego. And it's worth mentioning again that Facebook is making a major real estate investment in Midtown Manhattan. OUTFRONT has assets in all of these and other major markets. We are big believers and continue to have enough patience and we attract these audiences to advertisers.

While talking about geographies, it's also important to remember that we have assets in smaller markets and these main street markets are recovering more quickly right now. Outside of our top 15 markets, third quarter revenues were only down 14% and local down around 10%.

While our largest cities have a substantial local business, they are disproportionately reliant on national categories like entertainment, movies and TV. Revenues from these three categories were down over 60% in the quarter and impacted our total results by 10 points.

Now, these categories will obviously come back. They have been consistently among our top performances, top customers for years. As national advertising recovers more generally, we're likely to see a steeper growth trajectory in our biggest city similar to that, to which we saw back in 2010. Transit and our major market performance drove our superior growth pre-pandemic and we are absolutely convinced that they will drive superior growth post-pandemic.

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

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QUESTION AND ANSWER SECTION

Operator: Of course. Thank you. [Operator Instructions] We will take our first question from Alexia Quadrani from JPMorgan.

Alexia S. Quadrani
Analyst, JPMorgan Securities LLC

Q

Hi, I guess, just two questions. The first one, if you could provide a bit more color on the Q4 guidance that you just touched on, Jeremy. If you can give a bit more color in terms of what we expect by the – by both transit and billboard. That would be appreciated.

And then my second question really just on the transit side, ridership has improved, but still well below normalized levels per that chart you just showed us. Should we assume that we just won't see a full recovery in the transit business until we see ridership kind of return to normal and just sort of a modest kind of improvement as we go, but clearly not a step function, I guess, until we're sort of post this pandemic? Is that a fair assumption? Thank you.

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

A

Okay. Thanks. Thanks, Alexia. And maybe just to look at Q4. As we said, definitive step in the right direction both national and local continuing to prove with – continue to improve, which is obviously positive.

We do still very much have that headwind of TV, movies, entertainment that we've talked about and there's a huge category for us this time last year. And so, obviously, they're not coming back anytime soon, but come back they will as we move forward.

So, when we look into the guidance that we're giving now, we have actually seen some improvement in the number of categories. Maybe worth noting, one that's certainly looking stronger in Q4 is auto and auto is a category that actually has been declining for us over the last couple of years, so that's really good to see.

Just coming to your second question. Yeah, I think, it's right to say that we won't get that sort of, I think, you said, that real sort of step up improvement, until we see those audiences increasing. I don't think we necessarily have to get audiences back to 100% of where they were for us to be delivering the sort of revenues we were before. And part of that is due to the fact that we're obviously still investing at digital displays, which are very attractive to audiences generally and advertisers. Maybe we would expect to that to give a further lift to transit as we go along.

But I do think Alexia, until such time as we see a significant pick up in audiences then transit will be challenged. And it is likely in the near-term that our transit revenues are to some extent are going to track that ridership increase as we go forward.

Alexia S. Quadrani
Analyst, JPMorgan Securities LLC

Q

Okay. Thank you very much.

Operator: We'll take our next question from Ben Swinburne from Morgan Stanley. Please go ahead.

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Benjamin Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Thank you. Good afternoon. Maybe first, Matt, could you help us think about expenses in the fourth quarter, the year-over-year trends we should assume and just any help on the Sports Marketing asset sale and how that might impact expenses in the fourth quarter?

And then for Jeremy or Matt or both of you, I'm just wondering how you are thinking about your investment plans heading into 2021. You may not be able to communicate on that specifically, but as we think about capital spending, your appetite for M&A, and even things like new transit deals, we saw that there was some Port Authority business you picked up. I'm just wondering, as you sit here and look at the outlook, do you feel confident to be able to put more money to work in the business opportunistically or do you still want to wait and see if things sort of stabilize further? Thank you.

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

A

Ben, thanks. Good afternoon. On expenses, I think, fourth quarter is going to be more of the same as we've seen in the third quarter and the second quarter.

One of our reduction and decrease has been variable cost components, a lot of the transit [indiscernible] (00:20:54) benefits from lower revenue. All of our transit agreements are on revenue shares and when revenues are depressed the costs go dramatically down. And a lot of the operational measures we've taken should extend into the fourth quarter. On the Sports Marketing question, we have about $15 million of expenses in the fourth quarter for 2019 related to Sports Marketing, so obviously, that comes out as well. So, I think, you'll see kind of slightly improved revenue, of course, but the expense base is still about the same.

Benjamin Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

And, Matt, just a quick follow-up if you can. What's the revenue hit from Sports Marketing in Q4, just so we have the whole picture?

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

A

I think expense is actually about $15 million. I think the revenue dropped higher than that in the mid-teens.

Benjamin Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Got it. Thank you.

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

A

Not a big EBITDA contributor from where it was a couple of years.

Benjamin Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Right.

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

A

Maybe, Ben, I'll sort of jump in on the investment side. We switched off after the capital expenditure, in terms – which is principally about digital in the second quarter, really just reflecting caution given limited outlook.

We're now in a position where we have strong, healthy balance sheet, and we're certainly looking now to be ramping up our digital billboard investments to levels that we have seen last year – but next year. So, that implies kind of couple of hundred boards and then CapEx slightly in that $70 million, $80 million range next year. And why would we do that? Well, the fact is that Matt and I sign off every proposal for digital conversion, but still making great returns. And we think it's – that organic growth is dollars that are very well spent. We're also continuing to keep our eye out for other investment opportunities in terms of tuck-in acquisitions. We're looking at a couple right now, not significant dollars but both assets that would be, we think, a great fit to our business as we go forward.

And you mentioned the Port Authority. Obviously, the big – the really big piece of the Port Authority was the airport business, that was the vast majority of that bid. And we saw the Clear Channel announcement earlier this week. By the way, we're not in the airport business and we didn't bid for those airport assets. What we did bid for was the ability to develop billboards on the Port Authority property in New York State. And we'll be addressing that as we go along, so that was a nice win. And we think that over time, we'll be able to develop some great locations through that win.

Benjamin Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Thank you.

Operator: We'll now take our next question from John Janedis from Wolfe Research. Please go ahead.

John Janedis
Managing Director, Senior Media Analyst, Wolfe Research, LLC

Q

Thanks. I have two questions. One is improved after audience measurement was seemingly tailwind coming into the year. So, can you talk a bit about how you expect to benefit from this going forward? And then, separately, within the revenue outlook, does that include any incremental impact from possibly further COVID-related restrictions? And can you give us a breakout at billboard versus transit at the 4Q? Thank you.

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

A

So, let me take the sort of second part of that. We've obviously given some color on billboard and transit for 4Q. But beyond that color, we don't typically give incremental guidance at this stage.

Whenever we look at guidance, we take into account what we can see at the time. We're obviously aware of the climate that we have right now. And we're hopeful that given the climate that we have and without any significant further lockdowns that we'll be able to deliver certainly the performance that we just guided to earlier on the call. It's interesting, because with regard to audience measurement, what we now have as an industry and certainly within our own smart council, we have the ability to go down billboard by billboard and say, absolutely what the audience [indiscernible] (00:26:23) at that billboard location prior to COVID levels.

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So, particularly in the – when everyone was in the depths of despair, the perception was that all the billboard revenue is going away and actually we were able to affect – well, no, actually, it hasn't. At that location, it is actually 75%. So, it actually was a great way for us to say to our advertisers, look, the audiences are still out there and we were able to actually to retain a lot of [indiscernible] (00:26:55) so actually having that degree of granular information billboard by billboard.

John Janedis
Managing Director, Senior Media Analyst, Wolfe Research, LLC

Q

Thank you.

Operator: We'll now take our next question from Jason Bazinet from Citi. Please go ahead.

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

Q

Okay. So, I just had a quick question on the mapping of sort of the year-over-year changes or trajectory of the rail audience slide on 21 versus revenues. If investors were sort of playing along and following those weekly numbers, is there sort of one-for-one mapping in your view between those numbers getting better and it flowing through to revenues, or do you think there's going to be a little bit of a lag where the marketers want to make sure that the audience is sort of there before they begin to redeploy dollars at sort of comparable levels to the audience trends? Thanks.

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

A

Yeah. And well, I guess, the first thing is that we've never seen these sort of audience changes before certainly within rail systems, which is our prime area of interest. So, we can't say exactly how that can – will pan out. But we suspect that there will be a slight lag between audiences coming back and revenues returning.

That's one other point that we need to take into account when we're thinking about transit. Now there's obviously that we've got a reasonably sized piece of our transit, which actually isn't impacted by those audience numbers that you saw that are above ground. So, for example, [indiscernible] (00:28:38) and bus shelters, et cetera and that we would expect for them to be recovering in a much more at the sort of rate that we're going to be seeing in our billboard business rather than – certainly rather than the rail business.

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

Q

And is that something that you'd offer up sort of a mix of that sort of below ground versus above ground on the transit side?

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

A

I think that, yeah, Greg and Matt will be able to provide a little bit more – a bit more color to that...

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

Q

Okay.

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

A

...to [indiscernible] (00:29:16).

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

Q

Perfect. Thank you.

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

A

Thank you, Jason.

Operator: [Operator Instructions] And we'll take our next question from Jim Goss from Barrington Research. Please go ahead.

James Charles Goss
Analyst, Barrington Research Associates, Inc.

Q

Thanks. Jeremy, you were just talking about something I was interested in, the granular billboard by billboard measurement. I'm wondering how quickly those measurements are reflected in pricing of those billboards. Given that we had this steep decline as the pandemic emerged and the billboards in particular come back quite well, at least, relatively speaking. Is the pricing adjustment going to be on the billboard-by-billboard basis in continual discussion with the advertising clients? Can you talk a little about how their process is working, given the dramatic changes we're having this year?

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

A

Sure. Well, I guess, the important point is now that billboard audiences are sort of back to kind of pre-pandemic level. So, we're kind of level setting out in terms of audience, so really the granularity of that was more important when obviously audiences were being more severely impacted as I mentioned. Actually, it is very helpful to be able to say exactly what was going on with our audiences.

But for the most part, billboard audiences are back to 100%, but you get a little bit of geographic variation. So, for example, in Times Square right now, they wouldn't be at pre-pandemic levels, but in other markets across the US are actually beyond pre-pandemic levels, in part reflecting car usage versus transit ridership.

So, as I say, I think it's something that we've moved through now. I think it's – obviously, as with any other media, we're selling an audience and the fact that the audiences are now back is great. But we're still in a market where there's a little bit of macro impacts and certainly there's the impact of some of those important categories for us that we talked about earlier on, in particular, TV, movies and entertainment. And when you look at our billboard portfolio, in particular, we're the biggest player by quite a long way in both New York and LA, which are very disposed to those media advertising dollars. So, it's reasonable that until those categories come back, there's going to be a couple of markets, where we're just more challenged than others.

James Charles Goss
Analyst, Barrington Research Associates, Inc.

Q

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And one other thing. Slide 19, you were outlining the MTA deployment. And it sounds like there's been a significant step-up in those deployments. Is there any guidance you might provide in terms of how Q4 will develop and how it's going to move into next year?

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

Hi, Jim. It's Matt. We stepped up effectively at the end of June, we started our deployments and it took our teams and our contractors off the line at the end of March and we did very little in the second quarter. The 800-plus we just did in the third quarter probably reflects the pacing that keep going in the fourth quarter. We do expect to start putting screens on subway cars during the fourth quarter, so maybe the number of screens will be a little higher over smaller. But I think the same sort of pace and same sort of spend.

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

Okay. And finally related to that, are there safety steps being taken to provide comfort to riders to return or is it sort of out of necessity and getting around New York City, in particular, that will bring them back?

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

The MTA has been doing a pretty good job of keeping their trains clean. Letting people know they're clean. They're taking care of the lights and other things. A lot of politicians and celebrities have been either riding the subway or making the case for it. Hopefully, we can see increased ridership partially because of that and benefit everybody.

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

Maybe I could just jump in there as well. What we're seeing at the moment in Manhattan is that, it's fair to say that office workers have been slow to get back into their offices. We saw some data from CBRE that suggests that people in offices are still sub 20%.

So, I think for ridership to really start substantively increasing, we're going to need to see more people back in their offices. And when we do, we will be seeing the growth in that high value audience that we've been selling so successfully for many years.

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

Okay. Thank you very much.

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

Thanks, Jim.

Operator: And we have no further questions. That does conclude today's question-and-answer session. I would now like to hand it back over to our speakers for any additional or closing remarks.

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Jeremy John Male

Chairman & Chief Executive Officer, OUTFRONT Media Inc.

Thanks very much, operator. And thank you all for your questions and your time today. We look forward to speaking with many of you during investor events over the coming weeks. Thank you very much again.

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

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