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OUTFRONT Media Inc. (OUT)

Q4 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the Fourth Quarter and Full Year 2020 Earnings Conference Call. At this time, I would like to turn the conference over to Mr. Greg Lundberg. Please go ahead.

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

Good afternoon, everyone. Thanks for joining our 2020 fourth quarter and full year earnings call. On the call today are Jeremy Male, Chairman and Chief Executive Officer; and Matt Siegel, Executive Vice President and Chief Financial Officer. After a discussion of our financial results, we'll open the lines up, as usual, 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 or 2020 quarterly reports as well as our 2020 10-K, which will be filed tomorrow. We will refer to certain non-GAAP financial measures on this call. Any references to OIBDA made today will be on an adjusted basis and reconciliations of OIBDA and other non-GAAP financial measures are in the appendix of the slide presentation, the earnings release and also on our website.

And I will now turn the call over to Jeremy and Matt.

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

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Thanks, Greg. Good afternoon, everyone and, again, thank you for joining us today.

Let's begin with a quick look at some key figures on slide 3. Total revenues were down 31%, or 29% on an organic basis, slightly better than our guidance. US billboard improved more than we anticipated driven in particular by positive growth in digital billboards. On the transit side where ridership is still lagging, our revenue declines were largely unchanged.

Like you, we are very encouraged by developments surrounding vaccinations, the lifting of restrictions, sports coming back and a gradual return to normal. And we look forward to posting growth in the second quarter and the rest of the year. Our cost initiatives helped drive another contraction in the OIBDA loss rate to 41% and AFFO to 53%. Both of these were nicely ahead of expectations for the quarter due to our better billboard results.

If you turn to slide 4, the overall shape of our recovery out of the pandemic continues to improve on every metric in this table. Also notable here is that we generated improved free cash flow and increased our cash position once again.

Now let's look at revenues in little more detail on slide 5. This is a new view of our US billboard business broken down into a couple of different pieces. Going into the pandemic, we saw digital revenues decline more quickly than static when we told you that digital would likely recover more quickly on the other side. Well, they did, as you see here in the yellow line which returned to growth. It's a great 2020 trajectory, reflecting increasing confidence and some terrific new digital inventory.

You may also recall that last quarter we mentioned that our smaller markets were down just 14%. We thought it might be helpful to show graphically that this contracted to just 4% this quarter, as you can see from the purple line. When you look at our larger markets, the blue line, the performance is lower, reflecting lockdowns and restrictions that have particularly impacted larger cities, including New York and Los Angeles. Clearly, the slope of all of these lines is very positive and everything has been moving in the right direction.

Moving on to slide 6, we show a similar view of US transit. Obviously, it's not the same slope as billboard but it has been heading slowly in the right direction. So far rail audiences have been stubborn to return, but with every week of lower infection rates and increased vaccinations, the potential from meaningful ridership recovery increases. And it's worth noting on the top left of this chart just how strong the performance was in 2019 when we grew transit by 21%.

I'll talk more about recovery later on this call. But first, let's look at the rest of our revenue picture. Taking a closer look at our US numbers on slide 7, billboard was down just 13%, while transit lagged considerably, down 65%. Ridership was and remains the issue.

You can see our national and local on slide 8, down 36% and 24%, respectively. Obviously, transit weighs heavily on these, and the loss rate in local was considerably better on billboard than on transit. National was similar, down on both, but again, more in transit. There were certain important categories that simply [ph] weren't (05:43) in the out-of-home market, entertainment and travel being the most obvious ones.

Slide 9 shows an 11% decline in our total billboard yield, which was another solid sequential improvement, driven by both static and digital. In fact, our digital yield decline was only in the single digits. Digital is hugely important to our growth strategy.

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Slide 10 shows that digital was over 25% of our total company revenues in the quarter, a record level for us. We built some new locations and we're starting to see some early benefits from programmatic, which we are bullish on. Digital and transit remains a story of the low ridership levels. As audiences bounce back, we expect to monetize it as well as we have historically. Our full-motion video screens were one of the most in-demand media products in the market before the pandemic and there's every reason to believe they will be as audiences return.

To complete our revenue picture for the quarter, slide 11 shows our other business. The key takeaway here is an 18% decline in Canadian billboards and their recovery has somewhat mirrored what we've seen here in the US.

So, let me now hand over to Matt.

Matthew Siegel

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

Thanks, Jeremy, and thanks, everyone, for joining our call today.

For the third time this year, we were able to remove around $100 million from our expenses on a year-over-year basis, as you can see on slide 12. The largest contributor was a $50 million reduction in transit franchise expenses, which were lower due to a combination of lower revenue shares and our ability to convert some minimum annual guarantees into revenue shares. We also had a $50 million reduction from the sale of our Sports Marketing business, which drove the decline in posting, maintenance and other. Most of the SG&A reduction was from our continued restrictions on discretionary expenses and other steps we took at the outset of the pandemic. Billboard lease expenses were lower due to lower revenues and also due to our renegotiations with landlords. Lastly, Corporate was down primarily on lower compensation-related expenses.

Before we turn to OIBDA, I want to explain an important presentation change this quarter. We are now classifying lease acquisition costs into our SG&A expenses instead of an amortization expense. These costs are commissions paid to our salespeople for signing billboard leases with advertisers. We felt the time was right to move these into SG&A, and therefore above the OIBDA line, because this better reflects the digitization of our business. This has no impact on AFFO, free cash flow, nor our debt covenants which use a different definition of EBITDA. The appendix of our earnings deck includes eight quarters with this classification and impacts across our segments.

Collectively, our total expense improvement helped trim our OIBDA loss to 41%, as you see on slide 13. What remains noticeable in this year-over-year bridge is how significant revenues are to our OIBDA story given our fixed cost base.

Slide 14 breaks OIBDA down into its components. Transit OIBDA remained slightly negative as it had since the pandemic began, billboards' increased weight including higher margin digital billboards also helped to group's total OIBDA margins up to nearly 25%.

Capital expenditures, on slide 15, were still down significantly from last year driven by reduced growth spending. We added 31 digital billboards to our portfolio during the quarter. Our total CapEx came in just shy of our $55 million guidance. As we look at 2021, we expect total CapEx of around $85 million in total, including $55 million of growth CapEx, which could be back to our pre-pandemic levels and we expect to add 150 to 200 digital billboards to our portfolio this year, similar to 2019.

Slide 16 shows the bridge in AFFO with OIBDA as the biggest factor relative to last year. Most of the other key drivers were relatively flat. For 2021, while it's early days and there's still uncertainty, we're comfortable to be

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penciling in a 25% to 30% AFFO rebound, driven by improved OIBDA, lower interest expense aided by our recent bond refinancing and cash taxes of approximately $2 million. Incorporated into this forecast is the fact that as of January 1, we are paying the minimum annual guarantee, or MAG, to the MTA in accordance with our contract.

Let me take a moment on that. We have and will continue to engage in constructive conversations with the MTA regarding possible changes to the overall scope of equipment deployment and an extension of the term of agreement in light of the impact of the pandemic. When considering all these factors, there's going to be a little bit of a short-term pain for long-term gain for both us and the MTA and we remain excited about the contract overall and we hope to be in a position to share more details with you in the near future.

Though the lower ridership impacts our revenues and causes us to be paying the MAG, there is a silver lining, and that's on equipment deployment. It's more efficient [ph] to ad (11:28) displays when there are fewer people in the system. As I just mentioned, there are lot of discussions going on and things could change, we will provide more information as appropriate. At the moment, you could model 2021 equipment deployment costs in the neighborhood of $125 million to $150 million.

You can see where we stood on the MTA project at year end of slide 17. Notable in this table is that we have commenced deployment of in-car displays on our rolling stock across the subway, Long Island Railroad and Metro-North.

Now, let's turn to our balance sheet on slide 18. With positive free cash flow generated in the fourth quarter, our liquidity improved again, it stands at $1.2 billion. And subsequent to year end we refinanced $500 million of notes due in 2024 with an equal amount due in 2029. The new notes have our lowest coupon to date, 4.250% and the refinancing saves almost $7 million of annual interest expense. Our next maturity is comfortably out in 2025.

Obviously there's still uncertainty but we believe the current economic outlook is good and over time we would expect to deploy this cash strategically. Our capital allocation strategy has not changed, investment in digital and technology, acquisitions and paying dividends. Although we paused dividends on our common stock in 2020 due to the pandemic, the level we paid in common and preferred dividends was in compliance with our REIT requirements. As we move forward in 2021, our board will evaluate our outlook with regards to reinstatement of the common dividend.

In closing, we're obviously happy to have 2020 behind us. The resilience and comeback of our billboards coupled with good cost control sets us up well for the 2021 and 2022 recovery.

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 to our outlook on slide 19. Right now as we look at the first quarter, our total revenue expectation is to be in a very similar range for the fourth quarter, down high-20s to 30% on a year-over-year basis adjusting for the Sports business sale. Not a lot had changed in the world as our business was being booked for the first quarter, but as you would expect, both our US billboard and transit businesses will be strongly in the black for the second quarter. And looking further ahead, while we don't expect to recover our 2019 revenue level in 2021, we do believe we'll make good progress especially on billboard.

As I mentioned earlier on the call, our larger markets will be very important to driving our recovery. You've heard us say many times that we remain firm in our strategic belief in urbanization and the future of big cities.

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Slide 20 shares some anecdotal evidence that big cities are coming back. Interesting to see apartment leasing statistics for Manhattan, after a bleak year, they were up 94% in December. As cities and offices open up further, they may not be exactly as they used to be but they're certainly going to be very different than they are today.

You may have seen comments today from David Solomon at Goldman Sachs saying that their post-pandemic operating mode wasn't going to be vastly different, and he described today's work-from-home environment as an aberration. He wants everybody back at the office.

And The Wall Street Journal has a story today about Facebook's big plans for their new Midtown Manhattan office. Sure, travel patterns may change but we have been sharing data with you showing how fluid audiences are, especially above-ground. The important thing is that our portfolio of assets in key markets means we can follow shifts in urban mobility from the highways to neighborhoods to shopping and business districts, and as the year unfolds increasingly also on public transit.

Slide 21 shows some recent industry research indicating that 68% of consumers are experiencing digital device burnout, while I, for one, have total Zoom fatigue. People are desperate to get out of their homes, and 65% of them do so as much as possible, and nearly half of them notice out-of-home media more than they used to. Even if you're walking away from the office for a day or two a week or whatever, you're still going to be in the out-of-home market. We'll just reach you in new places and with different frequency than the old places.

OUTFRONT is right in the middle of all these changes in mobility. What's so encouraging about this right now is that people feel great when they're out of home, reconnecting with the real world. Brands that use us are therefore reaching people when they're more engaged and more optimistic.

Both GroupM and Magna Global on average see 15% out-of-home growth in the US in 2021 and 9% in 2022. In addition to the pandemic rebound, our mass reach will become increasingly important. Some of today's most popular content platforms are ad-free, linear TV is still a $50 billion business taking 23% advertising share despite its shrinking audience. If we as an industry pick up a small piece of that, we'll be showing great future growth and soon have an industry significantly ahead of pre-pandemic levels.

As the former Publicis Strategist Rishad Tobaccowala said recently, what do brands want when they're choosing a medium? Three of the most important things are personalization at scale, mobility and digital. At OUTFRONT, we do all of that. We break through the noise. We get people's attention and we drive people's digital behavior.

So, in closing, our outlook is positive with the whole world wanting to get out and stay out of their homes, and as a company, we believe we're uniquely placed for the post-pandemic rebound.

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

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QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] We'll go ahead and take our first question from Alexia Quadrani with JPMorgan.

Alexia S. Quadrani
Analyst, JPMorgan Securities LLC

Q

Thank you very much. Just a couple of questions. First on the amended agreement with the MTA. Curious why they didn't give you the same relief in 2021, given ridership levels have been – sort of stayed down, depressed on the MAG. And I'm wondering – I know you said talks are still ongoing but wondering if we should assume this elevated level of payments this year will remain in effect in 2022.

And then just the second question, if you can really just elaborate on your guidance for Q1 just sort of generally, not just transit and the full year. Thank you.

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

A

So Alexia, maybe I'll take the Q1's guidance first, and I'll pass back to Matt on the MTA, and let's work it that way. I guess, firstly, for Q1, it's a little bit like I said in the script, as our business was laying down for Q1, we really haven't seen, I think, some of the changes that we're really now starting to feel in the world. Obviously, it's early days, but I think everyone now feels more positive as we look forward than we did back at the back end of last year. You may recall we said before that typically 70% of our business for Q1 actually books prior to the end of the – end of the year before. So, most of that is taken into account, I guess, in that guidance.

I think it's also worth mentioning that Q1 2020 was pretty good. Our billboard business was up nearly 9% in Q1 of 2020. So, I think it's worth keeping that in comp in mind. And look, I mentioned some of those categories, entertainment, travel, tourism, retail, fitness, then still not around, but look, they loved us before the pandemic, they'll love us again and they will come back. I think it's just a question of timing.

Matt, maybe some – if that helps Alexia.

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

A

Oh, yeah. Sure.

Alexia S. Quadrani
Analyst, JPMorgan Securities LLC

Q

Hi, Matt. Great.

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

A

Alexia, thanks for the question. On the MTA first and I probably don't have to remind everybody on the unprecedented time last year in the second quarter as we were looking at a lot of things to improve and enhance our liquidity, and we have and we had then a really good working relationship with the MTA and we reached what we thought was a mutually beneficial amendment or accommodation then. The contract we have – pre-

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amendment, contemplates ridership changes – low ridership. And that's what we're discussing now – sort of the conversations we're having or about things in that contract and how to deploy them, I mentioned in my prepared remarks, scope and tenor, and we think we can find something that works out for both, us and the MTA.

So, as far as going forward in 2022, we anticipate at this time like in 2022 we'll be back in a revenue share position. We think revenue in 2021 will be higher than 2020 and continue growing as vaccinations and ridership help city get back to where it was in the past. So we think we're in pretty good shape. Again, a short-term problem now, long-term benefit as we work out some mutually beneficial solutions.

Alexia S. Quadrani
Analyst, JPMorgan Securities LLC

Q

Right. Thank you.

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

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Thank you. Jeremy, when you look out into the second quarter, I'm just curious how visibility is and maybe if you if you sort of look at the areas that are less impacted like billboard, maybe small and midsize markets, can you see a month of growth in the pacings or is it too uncertain today.

And then, Matt, is there any way you can help us quantify the impact to EBITDA from moving back to the MG (sic) [MAG]? I don't know if – maybe you can tell us what fourth quarter might have looked like. Anything you can tell us to help think just sort of order of magnitude while we're in this sort of interim transition period would be helpful.

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

A

So, Ben, maybe just commenting a little bit on Q2. I guess, the first thing is that business in general, I think, [indiscernible] (24:00) is laying down later in this environment where we kind of say, absolutely, is that we are obviously against a very weak comp for last year, in fairness, we are undoubtedly going to see all of our business trending positively versus 2020. I think – we don't normally give any real guide post the quarter that we're announcing in. I did make some comments about the positivity generally that we're feeling as we get into the back half of the year and we'll be able to give, I think, more color on Q2 specifically a little bit further down the road.

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Fair enough.

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

A

And, Ben, on your – the MTA question. We'll file the 10-K tomorrow morning, we'll have more details. But on our MTA, MAG, it's about $10 million a month and that's where it was last year, and it goes up with inflation, so in the same neighborhood. As I mentioned, we think revenue in 2021 will be higher than 2020. If you recall, back in the second quarter, everyone was fleeing from the subways, so ridership has increased and some advertisers have come back into the subway. And we think that will continue during the year. That's why I think 2021 will be higher than 2020.

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Hopefully that helps a little bit [indiscernible] (25:50) what you think forecast for the MTA comes out to be. As I mentioned earlier, we think we'll be back on rev share in 2022, not in 2021, and you'll see where we were last year, so [indiscernible] (25:58) extrapolate where we think 2021 will be. And that can, I think, help you back into what the impact of the MAG will be this year.

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Okay. So, in other words, you were paying them something last year on a rev share, so whatever we thought revenues were, we can sort of get to what...

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

A

Yeah.

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

...last year was, and that's the delta.

[indiscernible] (26:14)

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Out of curiosity – sorry, go ahead.

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

A

Remember, from the amendment last year, we were paying them 65% revenue share on revenue in the last – in the second, third and fourth quarter.

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Right.

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

A

This year we're back – all of the amendment, we're back at 55% with the MAG.

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Right, understood. Have you been able to get to agreements with your other transit partners like Boston and San Francisco? I think you had actually had some success getting – keeping the rev share in 2021. I don't know if you had any update there.

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

A

Yeah. The answer is, yeah, we've had some really, really good negotiations with the vast, vast majority of our other transit partners. And it's worth mentioning also that, in some markets, we are now starting to see some revenues come back, so actually, we're not in MAGs. So that – yeah, that's definitely a tick in the box.

And final word maybe on the MTA, look, this is a very long-term contract that can potentially – that has the potential to get longer still, As it is, this contract goes out into the 2030s. And we're talking here about, as Matt said, certainly a bit of a drag this year, back to revenue share next year, it's terrific contract, we believe it will be a real growth driver for us in the future as indeed it was for us in 2019.

Benjamin Daniel Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Thank you.

Operator: We'll take our next question from Ian Zaffino with Oppenheimer.

Ian Zaffino
Analyst, Oppenheimer & Co., Inc.

Q

Hi. Great. Yes, thank you very much. I just wanted to like talk a little bit about the digital billboard business. Return to growth, what I would have thought is maybe it's more urban exposed than maybe it would be a laggard, but we're actually seeing it outperform. Give us a little bit of color on what's happening there and why it's actually doing so well. Thanks.

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

A

Sure. Well, look, I think digital generally is seen as – from an advertiser point of view, as generally a really good thing. You can buy space in a more flexible way, you can be more creative with your messaging, and you can – but later – and we also now have a little bit of tailwind coming through on programmatic. Now, while that revenue piece is relatively small, it is just starting to nudge the needle a bit. Also fair to say that we did put in some great new signs last year. So that is also helping drive absolute growth.

I think what this is really showing is, yes, the flexibility allow people that, as we went into the pandemic – obviously, it's cancelled, and as we showed, it's the biggest falling part of our business, but as business generally improves with vaccinations and herd immunity, et cetera, and our great new signage, we believe it's going to be a real instant growth driver, not just this year but for a number of years to come. And that's why once again we've really turned our organic growth [ph] cap (30:02) back on this year and anticipate and then fully intend to get back to that 150 to 200 level in terms of conversions or new installations.

Ian Zaffino
Analyst, Oppenheimer & Co., Inc.

Q

All right. And then I guess my follow-up would kind of dovetail into that. You're sitting on $700 million-plus of cash. Where should we anticipate that goes? And given how well digitals actually performed, does this make you more encouraged to invest greater in that, or are there other uses of cash, M&A, et cetera, that we should be thinking about as a use of your proceeds? Thanks.

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

A

So – yeah, thanks, Ian. So maybe I'll just say a couple of words and then pass it over to Matt. With regards to our digital conversions in particular, there is a couple of things at play here. The first is in terms of zoning and on – and obtaining permits to sort of build out new digital. And the other point we've always stressed is that in certain markets where there is already substantive digital billboards, you just have to be a little bit careful that you're not eating your own lunch by going out and really – vastly increasing signage opportunity in a particular given city or DNA. So that's a couple of things that sort of, if you like, make it less easy for us just to go out and say, let's go and put whatever, 250 or 300 signs in this year.

Matt, other comments in terms of cash position?

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

A

Yeah. Just adding some numbers to that color, we're using the cash to continue our return to offense. So you heard me, we increased our CapEx spend for 2021 from $55 million to $85 million hoping to drive more digital conversions than we did in past years. We're turning the MTA deployment a little higher again to further our digital installed base. And we've closed a couple of small acquisitions that we put on hold from the pandemic, and we like to do more whether small, midsize, or a little larger. And as I mentioned, our board will continue to look at our business prospects taking into consideration liquidity and our REIT requirements and think about dividend at some point during the course of this year. So we think the cash is our strategic asset and we're happy we have it and we think we'll put it to good use.

Ian Zaffino
Analyst, Oppenheimer & Co., Inc.

Q

All right. Thank you very much.

Operator: [Operator Instructions] We'll take our next question from Stephan Bisson with Wolfe Research.

Stephan Bisson
Analyst, Wolfe Research LLC

Q

Good afternoon. Just two quick ones for me. The first, in the Q1 pacings, can you talk a little bit about how the months played out, did you kind of see sequential improvements starting in January, and perhaps how that's looking in Q2. And then secondly on the MAG. Matt, I think you mentioned it in terms of a monthly MAG. Is that the way it's structured in the contract or is it an annual MAG to us?

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

A

So let me take Q1 and then – and another quick comment on Q2. So in Q1 the pacings were broadly similar, and as I said because we were in a, I think, broadly similar world, all the while that Q1 business was being booked. Q2, I mean, as you would expect, all of the pacings are positive right now. As I said on earlier question, little bit too early to go into any more detail on Q2 right now.

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

A

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And, Stephan, you're right, it's an annual MAG. We think about monthly partially because the check goes out or the wire goes out first of every month. But it's an annual MAG calculated and trued up over the course of the year.

Stephan Bisson
Analyst, Wolfe Research LLC

Q

Okay. Just wanted to confirm. Thanks so much.

Operator: That concludes today's question and answer session. At this time I'd like to turn the conference back over to our speakers for any additional or closing remarks.

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

Thank you very much, everyone, for your questions and for your time today and we look forward to speaking to you as many of the investor events that are coming up over the next few weeks. Thank you very much again.

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

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