OUTFRONT Media Inc.
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Donald Shassian

Good morning, everyone. My name is Don Shassian. I'm the EVP & CFO of OUTFRONT Media. Thanks for taking time today to join me to learn a little bit more about our business. As many of you know, we are the largest operator in the out-of-home advertising industry and we became a REIT last year, when we were split off from CBS Corporation.

While many of you are familiar with what we do, I know that many of you may not be, and I think it would be helpful for everyone if I use our time today to give a little bit of a teach-in on our business to show you that it's relatively easy to compare us to other REIT sub-sectors that you already invest in. And then we'll open it up to Q&A.

Before I start, I want to refer you to our SEC filings including our 10K risk factors that can cause actual results that differ materially from any forward-looking statements that I make today. For these filings, the website also contains reconciliation and certain non-gap financial measures that I may reference.

I'm going to go through talking a little bit about the business model itself. There are a couple of takeaways that I'd like you to get from this. One is that we have very attractive assets for tenants. We have a very high barrier to entry. We have a growing revenue base that is pretty predictable. Very low CapEx intensity and, therefore, a very high conversion of revenue to OIBDA to AFFO, and to dividends. Lastly, there is M&A consolidation continuing in this industry.

First of all, let me talk about the business itself.

The business model is very, very simple. We have only one kind of tenant: it's a business entity that advertises [its] products or services – they lease space on our assets to get the advertising message to consumers. Our goal is to attract as many tenants onto our assets at the highest possible rates, period. The tenants rarely use one form of advertising. If you think about it, they can use our medium, but they can use TV, they can use radio, they can use social. There's a lot of different opportunities out there. They can be doing it for brand awareness. They can be doing it for campaigns. They can be doing things for a longer period of time. They can be doing it for short cycles.

We compete in this marketplace for advertising dollars. In 2014, US advertising market was $165 billion. In the Americas it was $223 billion. Our sector is most commonly called “out-of-home advertising” or “outdoor advertising.” We prefer “out-of-home” because a number of our assets are actually not in the outdoors. They could be in transit underground.

Our competitors are the companies that own media assets: other out-of-home operators, Internet, cable TV, print, radio, and obviously social. In the US, in 2014, out-of-home was $7 billion of revenue. The remainder of the market in the US was $67 billion in TV, Internet $49 billion, print $27, and radio $15. In 2014, out-of-home had approximately 4.2% of the media spend. Over time, that figure steadily increased despite the introduction of the Internet, which went from nothing in 1995 to about 30% of the market share today. Over that same time period, the total advertising market grew at a CAGR of 2.8% and Internet grew its share largely at the expense of TV, radio, and print, which have seen their collective share shrink from 96% to 66%.

Advertising tenants choose out-of-home because it provides several benefits. Mass coverage of the population in a format that delivers an advertisement that cannot be skipped. You cannot change the channel, you can't flip the page, you can't fast-forward it. The ad delivery can be right near point of purchase. It reaches a growing audience that's increasingly mobile – 89% of the US adults today really exposed to out-of-home daily. It's the lowest cost medium for an advertiser to reach 1000 people. It drives increased search and social. And digital displays are giving advertisers more dynamic ways to interact and present their campaigns to the consumer. The industry currently has demographic data on the audience that sees every out-of-home display. This helps advertisers select specific displays based on their location to reach a target audience. We are working, both as a company and as an industry, to develop dynamic new data that gives advertisers greater insights into the audiences that see our displays and how they behave after seeing the advertisement. The goal is to increase the allocation of advertising dollars – we're not competing with others in the industry for the dollars spent in out-of-home – our goal is to try to grow the total pie so that out-of-home gets more total dollars from the media advertising spend.

Our tenants –

– we have 20,000 tenants that are broadly distributed across virtually every industry in the US economy. No individual tenant represented more than 1.6% of our revenue in 2014.

We have local tenants through direct sale between our sales force and the tenant. An example could be a local restaurant that leases space on a road leading into the town. Local is about 55% of our revenue. National tenants are acquired through national advertising agencies that tenants select to do their media allocation decisions on the spend they want to make. An example would be McDonald's that uses a large national advertising agency on their behalf. McDonald's counts for one tenant, even though they could be in multiple locations around the country and multiple franchises. National is 45% of our revenue. The average length of a tenant lease is approximately 2 months. Our longest contracts could be 12 months, but only about 20% of our leases are that length. The average billboard contract is about 6 months, while the average transit contract can be measured in, actually, just weeks.

Our strategy is actually to reduce the average lease length because we believe that creates more occupancy opportunities for brand awareness, campaign awareness, and very quick rifle-shot communications to consumers on product launches.

In 2014, our largest tenant category was the retail sector at 10% of revenues. Health/Pharma was 8%. Entertainment was 8%. A full list of all those categories and verticals is in our 10-K.

Categories can ebb and flow quarter-to-quarter because some companies are advertising for brand awareness – it could be a stream across many, many months – but most are doing a campaign, and not all companies have campaigns in the marketplace 12 months out of the year. It could be a 2 week, a 4 week, an 8 week. They could go silent then come back in. They use out-of-home as a supplement to TV and radio. They can come in with TV for a certain period of time, radio for another period of time, and out-of-home maybe at the back end or throughout that campaign – but as an integral part of how they want to release and communicate.

We see a very strong level of repeat tenants. Customers like Apple have used our assets in virtually every product launch. That said, some tenants come and go based on product launch cycles, as I mentioned. We're always looking to bring in new national and local tenants to increase occupancy and to increase rate. For the entire industry, the tenant mix is somewhat similar. We skew in several larger categories, and we really focus on the top 25 US DMA markets.

To give you a color on 2014, the top out-of-home spenders in the entire industry – McDonald's, Apple, Metro PCS, Verizon, Warner Brothers – they spent about 6.4% of their media on out-of-home. They spent 5.7% on radio, 4.7% on print and Internet, about 78% on TV. But those top big spenders do 6.4%. The top 100 US ad spenders only spent 1.5% on out-of-home, 3.7% on radio, 14% on print, 7% on Internet, and 73% on TV. Google was the second largest increase in dollar spending in out-of-home in 2014. Our strategy is to drive the top 100 to be able to spend more of the pie on out-of-home that you see on some of those top spenders as it is.

Let’s talk about assets that we have.

We have 2 primary assets: we have a physical structure that displays a tenant’s advertisement, and we have a permit that enables us to operate that structure. There are differences between billboard and transit that are very important for you to understand. In billboard, we own an asset, but in transit, we do not necessarily have so, but I'll go through this in a second.

US billboard display structures –

– there’s 46,000 static and digital structures: large bulletins, smaller posters, walls. There's a permit to operate every one of those displays, and that permit has been issued by the municipality or regulatory authority in that community. Over 75% of our billboards are grandfathered under the Highway Beautification Act of 1965. That means that if we left and pulled our billboard out – removed it – the permit comes with it, and it's not likely that an owner who owns that land is going to be able to have somebody come back in and put another billboard on that. It's important for you to understand because it represents a high barrier to entry. We only own about 8% of the land that our structures are on, so 92% we are leasing the land. Again, given the structure of that Beautification Act, there's a barrier to entry – the tension and relationship with the land owner in renegotiating the lease gives us a pretty good influence over the future of that. To the extent they want to play hard ball, we have taken down boards and the permit goes away, and they're left with nothing because the probability of getting something rebuilt, in 75% of our locations, is remote.

Transit displays –

– about 311,000 transit displays. They're much smaller-sized displays. They're on buses, they're on subways, trains, train stations, platforms. We also have street furniture, like bus shelters. About 150,000 displays in bus and rail, and about 11,000 street furniture. These assets are owned by municipalities and what we are doing is we are essentially marketing the advertising – the tenant – onto those displays and we give them a portion of that revenue; usually it's a revenue share.

Contracts can be 5 years up to 8 years with renewal periods. The very important part about this is there's no capital expenditures on our part. To the extent there is, then it comes into a reduced revenue share. Financial payments: that revenue share ballpark, 60%-65% of the revenue goes to the municipality. The contracts either have an automatic renewal feature or they go to RFP. We're constantly monitoring, obviously, our contracts as well as all the rest of the contracts in the rest of the country when they're coming up. Incumbents have a very significant advantage in the knowledge of the assets, the community, the way to maintain those structures, and we approach these new bids and re-bids in a very disciplined fashion.

Internationally –

– about 21,000 displays. Structure's very similar to the US on the billboard side, although there is no similar legislative regulatory environment like the Beautification Act of 1965. We've got about 12,000 billboards internationally, about 9,000 transit. Largest presence is Canada, Mexico, and then 4 smaller markets in South America.

We think about our assets – Jeremy Male, our CEO, likes to call it a pyramid of quality – we've got a pyramid of quality where you've got at the very top of that pyramid really, really, really good location assets – premier assets, top of the pyramid, marque assets. And then as you move down you've got different locations which you want to manage differently, you want to be able to market differently. And obviously at the bottom of the pyramid you've got those you are continually looking at rationalizing, if you would. We try to identify assets to convert from static to digital, based on the economics, primarily starting at the top of the pyramid. Because what you're trying to do is, you're converting a revenue stream today that's in static, and with digital it's about 4x. Cases we're seeing today – we're doing about 100 conversions a year – and the revenue generation going from static to digital is around 4x. Returns are very attractive, in excess of 20%.

We focus on yield –

– profit per display, average revenue per display. Yield – ARPU, I call it – average revenue per display. Same concept I think you use in any other REIT sector, in terms of Revenue Per Available Room or Per Square Foot. To drive yield, we are focusing on the right pricing correlating with the right audience. It's supply and demand, and we really manage the ARPU, or yield, of static and digital on a same-board basis. So as we're converting about 100 static boards to digital, obviously, you're going to see that revenue and that yield go up. But those that are not being converted, how do we – period over period, first quarter to first quarter, second quarter to second quarter, same exact board – how is that average revenue for that period, that quarter, that 4 months, that 5 months, that year-to-date? Constantly push to drive that up.

M&A –

– we've been an active acquirer on the merger and acquisition side. We made a large acquisition, about $690 million, last year. About 33% of this market remains independent. There are many good opportunities. Not all of those are in markets that we're focused on. We are looking at top 25 DMAs, but there are some nice opportunities. Larger transactions are few and far between. There are a lot of "mom & pops" – there's 1 board, 2 boards, 10 boards, 50 boards, 100 boards. Larger transactions really depend on the expectations of the seller and the buyer, obviously, but we are an acquirer of assets that meet our criteria in top 25 DMAs that meet our economic quantitative and qualitative criteria. We are focused on assets that are in our QRS. So in the definition of our business, fixed structure assets are QRS, billboards are QRS, structures on train platforms are QRS, digital displays on walls – Grand Central – QRS. But revenue streams in buses or trains that move is TRS and, likewise, international is TRS. We look at growing value here as growing the QRS, growing our dividend capability and, therefore, from an M&A perspective, our emphasis is looking at QRS-type assets. Would not expect us to be doing things on the international side. Never say never, but our emphasis is really to grow that domestic fixed structure type business.

Technology –

– we are exploring and aggressively pushing on technology to enable digital advertising in transit locations. It's a new platform for advertising. Today you see static conversions to digital on billboard. You don't see a lot of digital on street furniture, in transit displays, down in the MTA. Technology is going to enable us to bring that opportunity to the fore. That creates a huge new opportunity for advertising dollars that today are static in transit to be more digital and much more interactive with the consumer.

QRS/TRS –

– we'll obviously track in a very disciplined way our REIT requirements on a quarterly basis and analyze that every which way we can. Spent a lot of time prior to the spin-off from CBS getting our processes set up and capable to be able to do that and feel comfortable in our ability to manage that.

Business itself –

– total revenues, we are 91% US, 9% international. In total, 72% billboard, 28% transit. Talking about US alone, we're 70% billboard, 30% transit. International is about 86% billboard, 14% transit. The makeup of international Canada is about 52%, Mexico is about 29%, and South America is the 19%.

Lease rates are different on billboards by location. It really depends on the location, the face, the angle of that display. They can very significantly. The payments to the landlord could be very, very small and they could be very, very large. Likewise to tenants, it could be $200 a month for a transit display and could be $2 million a month for something in Times Square. It really depends on location. It can be done on a weekly basis, could be a 4-week basis, or could be multiples of 4 weeks. There's a seasonality to the business as well – advertising dollars are more plentiful in second, third, and fourth quarter, and not as plentiful in the first quarter.

Flow-through is a very important aspect for me and the way we manage this business, from revenue to OIBDA, to AFFO and to dividends. When you think about it from revenue to looking at expenses, we have a couple buckets of expenses. We have a lease and franchise cost – the lease costs we're paying to the landowner, or the transit we're paying to the municipality. On billboards, that could be 30%, on transit that could be 60%-65%. So the margin characteristics of billboard versus transit are quite different. A great set of assets to have because advertisers have different mediums they want to place their advertising on. Second cost we've got is Posting, Site & Maintenance – changing copy, maintenance of boards, quality of those boards. Then you've got SG&A.

On the billboard side we have about 24,000 lease agreements with 19,000 landlords, so no one landlord really has a concentration of those negotiations. Those leases range from monthly to around 8 years. As we renegotiate about 1,700 leases a year, they average about 8-year renewals. The majority of them have an abatement or a termination clause if advertising markets decline significantly, so you're able to go back in and renegotiate those leases. A very small percentage of them have escalators that are built in.

Transit franchise expenses, as I mentioned earlier – it’s a variable cost – billboard was fixed. Transit is variable; it varies with revenue, 60%-65% of revenue is paid to the municipality and it usually has a minimum annual guarantee that should be significantly below what that revenue expectation is and the percentage revenue's going to be.

Posting, Site & Maintenance cost is a fixed cost – it's about 17% of our revenue. SG&A, absent commissions, is a fixed cost, about 18% of our revenue. If you look at our financials, there was a build-up in our SG&A in the past year and a half, as we were being spun off from CBS. We had to build up some capabilities in-house, so you'll see that we carved that out and identify that as stand-alone and we try to put comparable information for you to better understand year-to-year because of those stand-alone costs. Stand-alone costs – like how to build up: a tax department, investor relations, internal audit, IT, financial reporting, treasury. All those functions had to be built up either from scratch or significantly enhanced.

OIBDA margins are about 30% in our business and that's about what it would've been for '14 if Van Wagner, which was a big acquisition we did, was onboard for the full year.

CapEx –

– it's a very low capital intensive business. Maintenance is about 1.5% of revenue. Anything above that is discretionary. You spend maybe about 2.6% on growth, which is static-to-digital or IT investments. Total CapEx about 4.2% of revenue. We've guided this year for about $70 million dollars of CapEx, about [$30] of that is maintenance. The growth CapEx is purely discretionary.

With that low capital intensity, there's a pretty significant flow-through AFFO – about 60% of OIBDA goes to AFFO. AFFO per share is our key financial goal, is maximizing that. Consensus on the Street is about $2.03 of AFFO per share this year.

Dividends –

– we had a 5% increase in our dividend in Q1, on an annualized basis about $1.36 per share. It represents about 67% of the 2015 consensus AFFO. Our plan is to continue to pay obviously 100% of QRS, tax return taxable income, and actually more of that.

When you look at our flow-through, if OIBDA is about 30% of revenue, AFFO is about 18% to 20% of revenue, and the dividends are about 12% to 14% of revenue, so pretty strong conversion all the way through.

Balance sheet –

– we have about $2.3 billion dollars of debt: $800 million term loan, $1.5 billion of senior notes ranging for 5.25% to 5.875%. Average cost of debt is about 4.7%. Leverage on net debt about 4.9x - higher than we would like – we went up with a large acquisition last year. We're looking to drive that down to 3.5x to 4.0x by the end of 2016. We have about $450 million dollars of liquidity.

Financial goals are three –

1) maximize AFFO per share and growing dividends annually; 2) maintain a strong balance sheet in a leverage zone 3.5x to 4.0x; and 3) maximize operational and financial flexibility in everything we do.

That's a very broad perspective I just gave you on the whole business. The highlights, again: we have attractive assets for tenants, we've got a very high barrier to entry, we've got a great growing revenue base – which is pretty predictable, low capital intensity, really good conversion from revenue down to OIBDA, AFFO, and dividends, and there's some M&A opportunities for us.

When you compare us to other REITs – REIT sub-sectors – I think there are some similarities, some differences. We've got a very attractive tenant base. And there's very high barrier to entry, which I think is very, very key. Some very exciting technology developments for continued growth in revenue. And continue to manage our expenses to grow that OIBDA, that AFFO, and grow that dividend. Hopefully that helps. I'd be glad to open up to questions if I can help you.

Audience 1: In terms of getting advertisers to spend more in out-of-home – so this is either a company or an industry question – digital conversion sounds huge, getting data to demonstrate the attractiveness of out-of-home sounds big. After that, what can your peers and you do, or are you able to share strategies that you're working on, beyond those two that seem very attractive?

Donald Shassian: It is that. And a lot of this is being a part of the conversation upfront when they're developing campaigns and making decisions about how to allocate dollars to various mediums, and make sure they understand how we can help. Getting that data and analytics to be able to prove audience and return on investment – very, very key. Digital, clearly, is a very big opportunity. Those are the drivers of this. Creating more opportunities and locations, obviously, you keep doing those and keep pushing on those.

Pricing the boards and our locations appropriately. There has been, I think, as we've looked at this business, some pricing decisions have been the same price because of the same price. Sales people will tell you this board is $2,000 a month because it's always been $2,000 a month. Well, why? "Well, it's always been that way." Well, wait a second, what's the value of that audience? So there are some organic pricing opportunities that we think, based on value of the audience, that we continue to work on that is more meat-and-potatoes. But really growing that pie for the industry as a whole – which Clear Channel and Lamar and ourselves are working on in the industry – to get people to really look at the value of this. Digital and data are very key, making very big investments – all of us – in growing that pie.

Audience 2: Did you mention what same-board growth looks like for you? Where do you think it should be over the long term?

Don Shassian: Same board ARPU, or yield?

Audience 2: Yeah.

Donald Shassian: I think we mentioned, in our first quarter, static was flat, digital was slightly down. This is same-board. For the first quarter, I think we were really down, we are looking at trying to continue to grow that. Static – we haven't talked about projections. We obviously want to grow these, and every board has got a story, so can you get them in a positive range as we've had in prior periods? It's our goal – we think we should be able to do that. That ignores the conversion of static to digital; those are not in the calculation. It's really trying to price them correctly. It's a combination of occupancy and rate, and getting the right tension, and get a nice pressure point. With 45% national, national really can drive things pretty hard and we have a big focus on that, and that can drive the pricing on a lot of these boards. So we think that with our emphasis on national that's going to help us continue to push that same board pricing up.

Audience 3: Can you talk a little bit more about what data you're going to be able to provide to the advertisers to give them more comfort they should have [inaudible]?

Donald Shassian: I'll speak in generalities a little bit, all right, but if you can imagine there's the ability to understand, based on technology that exists today, who's passed by that board and where they go, and where they have been. And you can demonstrate actions of people passing by boards, displays, etc., pretty minutely – within managing, obviously, all the privacy laws and everything else. That can be very attractive to advertisers. You can really see more dynamically than a study will give you of who's passing by demographics wise. It exists.

Audience 3: Is it internal data that you have or is it ...

Donald Shassian: ... It is data that you have to obtain from a variety of sources and through data mining – banging them up and doing a lot of correlations.

Audience 3: Is it internal or are you paying consultants to do this?

Donald Shassian: Industry is working on this together. We're doing some things in-house as well. Okay, last question?

Audience 4: When you put up another billboard is it easy to put one up or...

Donald Shassian: ...It is difficult. You need permits, requirements. Every community's different and while there are more being built and – a friend of mine who's got a space on the New Jersey turnpike who came to me and wanted to have something put up – they happen, and it's not like it's minute, they're happening across the country and we're constantly looking for new locations. When you think about cities in the Midwest, as cities in the Midwest are expanding, and more communities and suburbs are expanding, how are they handling billboard development? We work with municipalities – how do we play with that community and their interests going forward? So they do happen, and it's a big effort of ours.