

## Lamar Advertising (LAMR)

**\$89.75** (As of 01/10/20)

Price Target (6-12 Months): **\$95.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 08/14/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**2-Buy**

Zacks Style Scores:

VGM:C

Value: D

Growth: C

Momentum: C

## Summary

Shares of Lamar have outperformed the industry, over the past three months. Notably, the company enjoys an impressive national footprint and holds a leading position as a provider of logo signs in the United States. Moreover, tenants from diverse industries and valuable permits augur well for its long-term growth. Further, focus on portfolio upgradation will likely enable Lamar to boost occupancy and raise advertising rates at its existing advertising displays in the upcoming period. The company also has decent balance-sheet strength and liquidity to pursue these growth opportunities. However, elevated capital expenditures and expenses related to acquired outdoor advertising assets remain woes. This will likely strain its margins. Also, stiff competition, specifically from national players, might impede its growth momentum.

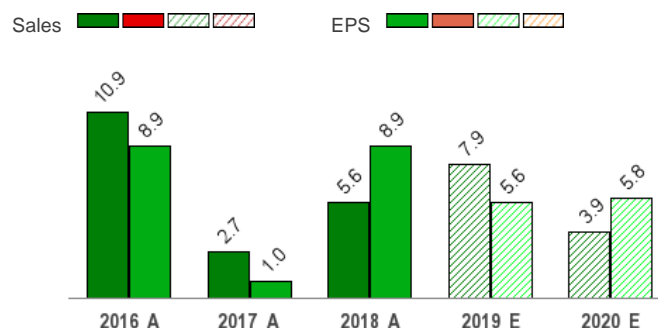
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	<b>\$89.88 - \$71.35</b>
20 Day Average Volume (sh)	<b>297,656</b>
Market Cap	<b>\$9.0 B</b>
YTD Price Change	<b>0.6%</b>
Beta	<b>0.96</b>
Dividend / Div Yld	<b>\$3.84 / 4.3%</b>
Industry	<b><a href="#">REIT and Equity Trust - Other</a></b>
Zacks Industry Rank	<b>Bottom 27% (185 out of 254)</b>

## Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>1.9%</b>
Last Sales Surprise	<b>1.0%</b>
EPS F1 Est- 4 week change	<b>0.0%</b>
Expected Report Date	<b>02/20/2020</b>
Earnings ESP	<b>0.0%</b>
P/E TTM	<b>15.9</b>
P/E F1	<b>14.6</b>
PEG F1	<b>NA</b>
P/S TTM	<b>5.2</b>

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	402 E	467 E	473 E	481 E	1,823 E
2019	384 A	449 A	458 A	465 E	1,755 E
2018	361 A	420 A	419 A	428 A	1,627 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.13 E	\$1.65 E	\$1.65 E	\$1.73 E	\$6.15 E
2019	\$0.99 A	\$1.54 A	\$1.62 A	\$1.68 E	\$5.81 E
2018	\$0.98 A	\$1.52 A	\$1.51 A	\$1.48 A	\$5.50 A

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/10/2020. The reports text is as of 01/13/2020.

## Overview

Headquartered in Baton Rouge, LA, Lamar Advertising Company is one of the largest owners and operators of outdoor advertising structures in the United States. This real estate investment trust (REIT) provides advertising services to restaurants, retailers, automotive, real estate, health care and gaming companies.

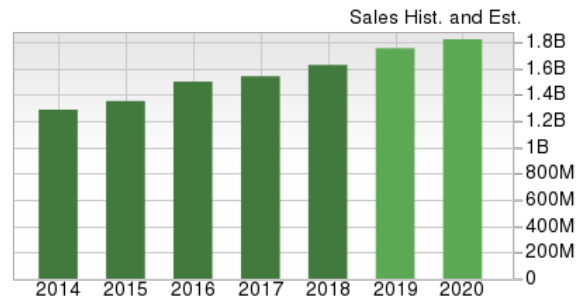
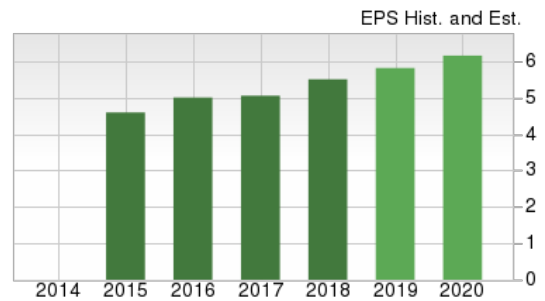
The company's operations include:

- (i) **Billboard advertising:** Most of the company's advertising space are on two types of billboard advertising displays: bulletins and posters. In addition to traditional static displays, Lamar also rents digital billboards.
- (ii) **Logo sign advertising:** Lamar entered the logo sign advertising business in 1988 and has become a preeminent provider of logo sign services in the United States. It installs logo signs that generally advertise nearby food, gas, camping, lodging and other attractions, as well as directional signs to direct vehicle traffic to nearby services and tourist attractions, near highway exits.
- (iii) **Transit advertising:** Lamar entered into the transit advertising business in 1993 in a bid to complement its existing business and maintain market share in specific markets. The company generally enters into transit contracts with the local municipalities and airport authorities, allowing it exclusive right to rent advertising displays to customers, at airports and on buses, benches or shelters.

Lamar has more than 360,000 displays across the United States and Canada. The company offers the largest network of digital billboards in the United States, with more than 3,400 displays. In a bid to reorganize its business operations so as to qualify as a REIT for the taxable year 2014, the company completed a merger with its predecessor in 2014.

On Mar 31, 2018, Lamar initiated a plan to exit the Puerto Rican market by selling all of its assets there. On Apr 16, 2018, the company sold all of its operating assets in Puerto Rico, recording a loss on sale of nearly \$7.8 million for the year ended Dec 31, 2018.

Note: All EPS numbers presented in this report represent FFO per share. FFO, a widely used metric to gauge the performance of REITs, is obtained after adding depreciation and amortization and other non-cash expenses to net income.



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## Reasons To Buy:

- ▲ Lamar enjoys an impressive national footprint and holds a leading position as a provider of logo signs in the United States. The company enjoys a diversified tenant base comprising restaurants, services, retailers and health care companies. Apart from this, the company sources a significant part of its revenues from local business, with a diversified base of tenants. As a result, this source of revenues is less volatile in nature.
- ▲ The company is successfully upgrading its portfolio, increasing occupancy in its existing advertising displays and raising its advertising rates. In fact, it holds significant market share in the U.S. outdoor advertising business, which is encouraging. By 2018 end, the company added 220 digital units in the portfolio. Further, it expects digital deployment to be around 350 units by 2019 end. This will enable the company to enjoy solid revenue growth in the upcoming quarters.
- ▲ The outdoor advertising industry is growing on a secular basis as consumers spend most of their time away from home. Fragmentation of other advertising media and technological advancements in the outdoor segment are aiding the shift to outdoor advertising. Also, outdoor advertising is a low-cost and wide-reaching medium. Therefore, to tap growth opportunities, the company is expanding its footprint. Since the beginning of the year through Nov 5, 2019, the company closed nearly \$215 million in acquisitions. Further, for full-year 2019, it expects total acquisitions to be \$235 million to \$240 million. Such efforts augur well for its long-term growth.
- ▲ The company also has decent balance-sheet strength and liquidity to pursue growth opportunities. In fact, as of Sep 30, 2019, it had \$345.4 million of liquidity, comprising \$322.1 million available for borrowing under its revolving senior credit facility, and nearly \$23.3 million of cash and cash equivalents. Moreover, its debt maturity schedule is well laddered with no maturities until December 2021. Additionally, on May 1, 2018, the company initiated a three-year at-the-market equity offering program to support acquisition plans for 2018 and 2019. For the year ended Dec 31, 2018, the company raised approximately \$42.1 million from issuing 576,002 shares of its Class A common stock under this program. During the nine-month period ended Sep 30, 2019, the company raised net proceeds of nearly \$21.2 million under this program by issuing 266,410 shares of its Class A common stock.
- ▲ Lamar operates in an industry that is characterized by high barriers to entry due to permitting restrictions. This is because the company typically owns permits that allow out-of-home advertising at each location and in fact, the permits are the most prized assets gained in an acquisition. But as there is a control on the permits, inventory as well as the intrusion from other market players, both local and national, are restricted. This provides the company with a solid competitive edge.
- ▲ Shares of Lamar have outperformed its industry over the past three months. In fact, shares of the company have gained 9.6%, over the past three months, as against the industry's loss of 1.4%. Therefore, given the improvement on fundamentals, there is decent upside potential to the stock.

Lamar holds significant market share in the U.S. outdoor advertising business. Diversified tenant base, opportunistic acquisitions, and efforts to upgrade its portfolio are growth drivers for Lamar.

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## Reasons To Sell:

- ▼ An integral part of management's growth strategy is hinged upon the continuous acquisition of outdoor advertising assets. In the regulated outdoor advertising industry, acquisitions tend to be marginally profitable or require considerable subsequent investments. As such, increased capital expenditures and higher expenses related to the acquired outdoor advertising assets could reduce free cash flow and strain margins, hampering the financial performance of the company. In fact, for 2019, the company expects total capital expenditure to be nearly \$128 million. This implies a projected increase of 8.8% from its 2018 spent of \$117.6 million.
- ▼ Although the company enjoys a significant market share in many of its small and medium-sized markets, it also faces competition from other outdoor advertisers and other forms of media in all its markets. Lamar competes against larger companies with diversified operations such as television, radio and other broadcasting media. These diversified competitors have an advantage of cross-selling complementary advertising products to advertisers, which further reduces its profitability. So, despite a significant portion of the company's revenues coming from local business, we believe this competition from national players may partly impede its growth momentum.
- ▼ Although interest rate levels are low presently, any hike in future is likely to be a challenge for the company. Essentially, rising rates imply higher borrowing cost for the company, which will affect its ability to purchase or develop real estate and lower dividend payouts as well. Moreover, the dividend payout might become less attractive than the yields on fixed income and money market accounts.

Higher capital expenditures and expenses associated with acquisition of outdoor advertising assets as well as intense competition from other outdoor advertisers are challenges for Lamar.

## Last Earnings Report

### Lamar Advertising's Q3 FFO & Revenues Beat Estimates

Lamar reported third-quarter 2019 adjusted FFO per share of \$1.62, surpassing the Zacks Consensus Estimate of \$1.59. Moreover, net revenues for the quarter came in at \$457.8 million, which also outpaced the Zacks consensus Estimate of \$453.2 million.

The company's impressive quarterly performance reflected solid top-line growth, aided by increase in both local and national advertising revenues. Further, adjusted FFO per share was up 7.3% and net revenues climbed 9.4%, on a year-over-year basis.

Acquisition-adjusted net revenues increased 3.4%, while acquisition-adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) were up 5.6%. The company witnessed 3.1% increase in local revenues, and 6.9% growth in national/programmatic revenues. Moreover, same unit digital revenues went up 6.9%.

### Quarter in Detail

Operating income improved 10.1% from the prior-year quarter to \$141.4 million. Adjusted EBITDA went up 11.8%, year over year, to \$215.2 million. Additionally, free cash flow of \$138.2 million in the September-end quarter improved 5.7% year over year.

At the end of third-quarter 2019, Lamar had total liquidity of \$345.4 million, of which \$322.1 million was available for borrowing under its revolving senior credit facility, and around \$23.3 million in cash and cash equivalents.

Quarter Ending **09/2019**

Report Date	Nov 05, 2019
Sales Surprise	1.02%
EPS Surprise	1.89%
Quarterly EPS	1.62
Annual EPS (TTM)	5.63

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## Recent News

### Lamar to Manage Transit Advertising in Greater Birmingham Region – Jul 23, 2019

Lamar announced that it has bagged Birmingham Jefferson County Transit Authority's contract to manage advertising across a fleet of 69 buses that cover more than 200 square miles across nine cities.

Specifically, Lamar will secure advertisers as well as handle advertisement executions on bus exteriors. Also, the contract highlights Lamar's continued focus to expand its transit advertising portfolio. In fact, recently, the company was awarded a rail contract in Denver, CO and an extension of multi-year contract in Vancouver, BC.

### Dividend Update

On Dec 2, Lamar announced a quarterly common stock dividend of 96 cents per share. The dividend was paid on Dec 30 to shareholders of record as of Dec 16, 2019.

## Valuation

Lamar's shares have been up 24.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector have rallied 18.3% and 14.4% over the past year, respectively.

The S&P 500 Index has been up 25.6% in over the past year.

The stock is currently trading at 15.01X forward 12-month FFO, which compares to 17.78X for the Zacks sub-industry, 14.88X for the Zacks sector and 18.88X for the S&P 500 index.

Over the past five years, the stock has traded as high as 35.64X and as low as 10.65X, with a 5-year median of 13.52X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$95 price target reflects 15.89X FFO.

The table below shows summary valuation data for LAMR

Valuation Multiples - LAMR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	15.01	17.78	14.88	18.88
	5-Year High	35.64	18.94	16.21	19.34
	5-Year Low	10.65	14.29	12.01	15.17
	5-Year Median	13.52	16.11	13.98	17.44
P/S F12M	Current	4.94	8.06	6.53	3.5
	5-Year High	5.11	8.06	6.61	3.5
	5-Year Low	3.36	5.9	5.2	2.54
	5-Year Median	4.29	6.88	6.04	3
P/B TTM	Current	7.72	2.77	2.82	4.46
	5-Year High	7.72	2.92	2.89	4.47
	5-Year Low	4.75	2.06	1.83	2.85
	5-Year Median	6.29	2.52	2.5	3.61

As of 01/10/2020

## Industry Analysis Zacks Industry Rank: Bottom 27% (185 out of 254)



## Top Peers

EPR Properties (EPR)	Neutral
Gaming and Leisure Properties, Inc. (GLPI)	Neutral
Gladstone Commercial Corporation (GOOD)	Neutral
Innovative Industrial Properties, Inc. (IIPR)	Neutral
Iron Mountain Incorporated (IRM)	Neutral
OUTFRONT Media Inc. (OUT)	Neutral
VICI Properties Inc. (VICI)	Neutral
Clear Channel Outdoor Holdings, Inc. (CCO)	Underperform

Industry Comparison Industry: Reit And Equity Trust - Other				Industry Peers		
	LAMR Neutral	X Industry	S&P 500	CCO Underperform	OUT Neutral	VICI Neutral
<b>VGM Score</b>	<b>C</b>	-	-	<b>C</b>	<b>C</b>	<b>D</b>
Market Cap	9.01 B	2.95 B	24.03 B	1.32 B	4.04 B	11.70 B
# of Analysts	1	4	13	1	4	4
Dividend Yield	4.28%	4.20%	1.78%	0.00%	5.11%	4.69%
<b>Value Score</b>	<b>D</b>	-	-	<b>C</b>	<b>C</b>	<b>D</b>
Cash/Price	0.00	0.02	0.04	0.25	0.02	0.17
EV/EBITDA	19.04	17.48	14.04	13.92	17.48	18.30
PEG Ratio	NA	3.52	2.02	NA	1.35	1.68
Price/Book (P/B)	7.72	1.66	3.32	NA	3.59	1.45
Price/Cash Flow (P/CF)	16.69	14.29	13.52	8.83	13.16	17.61
P/E (F1)	14.59	15.32	18.82	NA	11.34	15.00
Price/Sales (P/S)	5.24	6.74	2.63	0.49	2.31	13.24
Earnings Yield	6.85%	6.52%	5.31%	-5.28%	8.80%	6.66%
Debt/Equity	3.32	0.88	0.72	-3.16	3.06	0.51
Cash Flow (\$/share)	5.38	2.27	6.94	0.32	2.14	1.44
<b>Growth Score</b>	<b>C</b>	-	-	<b>C</b>	<b>C</b>	<b>F</b>
Hist. EPS Growth (3-5 yrs)	5.07%	3.10%	10.56%	NA	5.68%	NA
Proj. EPS Growth (F1/F0)	5.85%	3.96%	7.49%	83.33%	7.34%	13.71%
Curr. Cash Flow Growth	0.28%	13.18%	14.83%	-140.59%	-7.18%	1,073.85%
Hist. Cash Flow Growth (3-5 yrs)	7.98%	18.05%	9.00%	-20.57%	-2.52%	NA
Current Ratio	0.51	1.27	1.23	0.99	0.71	83.01
Debt/Capital	76.86%	46.68%	42.99%	NA	75.39%	33.82%
Net Margin	21.23%	13.72%	11.08%	-13.58%	8.72%	66.78%
Return on Equity	32.10%	4.54%	17.16%	NA	13.54%	7.84%
Sales/Assets	0.31	0.13	0.55	0.46	0.35	0.07
Proj. Sales Growth (F1/F0)	3.90%	4.66%	4.20%	1.55%	4.23%	29.43%
<b>Momentum Score</b>	<b>C</b>	-	-	<b>B</b>	<b>C</b>	<b>A</b>
Daily Price Chg	0.93%	0.28%	-0.33%	0.71%	1.84%	0.08%
1 Week Price Chg	0.34%	0.14%	-0.30%	1.40%	1.38%	0.24%
4 Week Price Chg	3.87%	1.91%	1.71%	12.70%	11.34%	2.92%
12 Week Price Chg	8.74%	-0.38%	6.05%	18.33%	2.44%	9.64%
52 Week Price Chg	24.53%	13.19%	22.39%	-49.01%	39.94%	26.41%
20 Day Average Volume	297,656	538,228	1,580,816	2,038,898	834,193	2,881,410
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	1.54%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	0.00%	2.07%
(F1) EPS Est 12 week change	0.67%	-0.43%	-0.50%	-50.00%	-0.43%	6.60%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

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## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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### Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	C
Momentum Score	C
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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