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Apr 15, 2020

## Lamar Advertising (LAMR)

**$48.97** (As of 04/14/20)

Price Target (6-12 Months): **$52.00**

| | | |
|---|---|---|
| Long Term: 6-12 Months | **Zacks Recommendation:** (Since: 08/14/19) Prior Recommendation: Outperform | **Neutral** |
| Short Term: 1-3 Months | **Zacks Rank:** (1-5) | **3-Hold** |
| | Zacks Style Scores: | VGM:C |
| | Value: C \| Growth: B \| Momentum: F | |

## Summary


Lamar Advertising recently withdrew its 2020 guidance and informed about the board's re-evaluation of dividend policy and detailed liquidity measures. Focus on portfolio upgradation will likely enable Lamar to boost occupancy. Furthermore, the company is making concerted efforts to boost balance-sheet strength and liquidity to sail through these uncertain times. However, efforts to curb the coronavirus spread are affecting the broader economy, forcing many businesses to curtail their advertising expenses with customers staying at homes rather than shopping or dining outside. Elevated capital expenditures and expenses related to acquired outdoor advertising assets are concerns. Also, stiff competition, specifically from national players, might impede its growth tempo. Also, its shares have underperformed the industry over the past year.


## Price, Consensus & Surprise

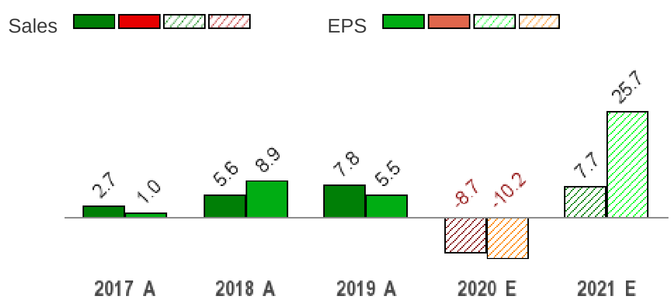

## Data Overview

| | |
|---|---|
| 52 Week High-Low | **$96.82 - $30.89** |
| 20 Day Average Volume (sh) | **1,569,321** |
| Market Cap | **$4.9 B** |
| YTD Price Change | **-45.1%** |
| Beta | **1.40** |
| Dividend / Div Yld | **$4.00 / 8.2%** |
| Industry | **REIT and Equity Trust - Other** |
| Zacks Industry Rank | **Top 34% (87 out of 253)** |

| | |
|---|---|
| Last EPS Surprise | **-2.4%** |
| Last Sales Surprise | **-0.5%** |
| EPS F1 Est- 4 week change | **-17.5%** |
| Expected Report Date | **05/07/2020** |
| Earnings ESP | **0.0%** |

| | |
|---|---|
| P/E TTM | **8.5** |
| P/E F1 | **9.4** |
| PEG F1 | **NA** |
| P/S TTM | **2.8** |

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




## Sales Estimates (millions of $)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|---|---|---|---|---|---|
| 2021 | 418 E | 488 E | 491 E | 500 E | 1,726 E |
| 2020 | 390 E | 330 E | 362 E | 405 E | 1,602 E |
| 2019 | 384 A | 449 A | 458 A | 463 A | 1,754 A |

## EPS Estimates

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|---|---|---|---|---|---|
| 2021 | $1.17 E | $1.77 E | $1.74 E | $1.82 E | $6.55 E |
| 2020 | $1.13 E | $1.08 E | $1.38 E | $1.63 E | $5.21 E |
| 2019 | $0.99 A | $1.54 A | $1.62 A | $1.64 A | $5.80 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 04/14/2020. The reports text is as of 04/15/2020.

## Overview

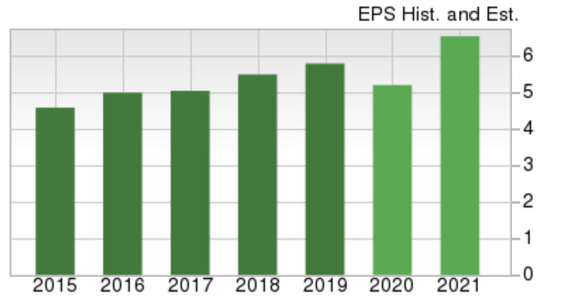
Headquartered in Baton Rouge, LA, Lamar Advertising Company is one of the largest owners and operators of outdoor advertising structures in the United States. This real estate investment trust (REIT) provides advertising services to restaurants, retailers, automotive, real estate, health care and gaming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

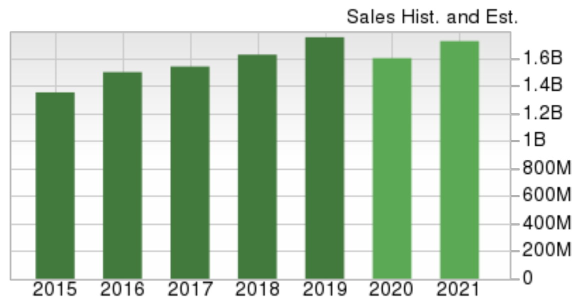
The company's operations include:

(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.




As of Dec 31, 2019, the company owned and operated nearly 157,800 billboard advertising displays in 45 states and Canada, as well as more than 3,500 digital billboard advertising displays in 43 states and Canada. As of the same date, the company also operated more than 151,200 logo sign advertising displays in 24 states and Canada. 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.

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.*

## Reasons To Buy:

> 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.

- 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. The company ended 2019 with 3,542 digital faces in the air, reflecting an increase of roughly 335 faces for the full year. Notably, 205 of those were new-builds and 130 were by acquisition. In 2020, the company intends to accelerate its efforts in new-build activity and aims for approximately 250 new-build units. This is expected to enable the company to enjoy solid revenue growth in the upcoming quarters.

- 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. Lamar completed acquisitions worth $226.3 million in 2019. The company integrated the Fairway, Ashby Street and Mid-America acquisitions, adding nine new markets across the states of North and South Carolina, Georgia, Arkansas, Kansas, Illinois and Wisconsin. Such efforts augur well for its long-term growth.

- To address its liquidity situation in light of the current uncertainty, in March, the company made use of its $750-million revolving credit facility and drew down $535 million from it, giving it liquidity and financial headroom. Consequently, the company had about $490 million in cash in hand after the payment of its first-quarter dividend and the drawdown. It has no scheduled amortization in 2020, while its remaining debt outstanding is interest-only. Moreover, its next maturity is the $175-million accounts receivable securitization due December 2021. Further in February, in an effort to strengthen the balance sheet, Lamar announced completion of $2.35 billion in refinancing transactions through its wholly-owned subsidiary, Lamar Media Corp. The efforts helped lower Lamar Media's cost of debt, extend its debt maturities, boost its liquidity and free cash flow, and reduce exposure to floating interest rates.

- 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.

## Reasons To Sell:

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.

- Efforts to curb the coronavirus spread are affecting the broader economy, forcing many businesses to curtail their advertising expenses with customers staying at homes rather than shopping or dining outside. LAMR is also likely to bear the brunt of this situation and is likely to experience a decline in top line growth.

- 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 expenditure 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. However, due to the coronavirus pandemic, the company has decided to lower its capital expenditures to about $58 million for 2020, down from the prior projection of $130 million. Out of the $58 million, $26 million is earmarked for maintenance capital expenditures. The company has also kept on hold its acquisition activities.

- 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.

- Shares of the company have plummeted 45.2% over the past 12 months compared with the industry's decline of 13.1% over the past 12 months. Moreover, the trend in estimate revision does not indicate a favorable outlook for the company. Notably, the Zacks Consensus Estimate for 2020 FFO per share moved 16.6% south over the past month. Therefore, given the above-mentioned concerns and downward estimate revisions, there is a limited upside potential to the stock.

## Last Earnings Report

**Lamar Q4 FFO & Revenues Grow Y/Y**

| Quarter Ending | 12/2019 |
|---|---|
| Report Date | **Feb 20, 2020** |
| Sales Surprise | **-0.51%** |
| EPS Surprise | **-2.38%** |
| Quarterly EPS | **1.64** |
| Annual EPS (TTM) | **5.79** |

Lamar reported adjusted FFO per share of $1.64, up 10.8% from the prior-year quarter's $1.48. However, the figure missed the Zacks Consensus Estimate of $1.68.

The year-over-year improvement reflects healthy top-line growth, highlighting an increase in national/programmatic revenues and same-unit digital revenues.

Net revenues for the quarter were $462.7 million, marking an 8.1% increase from the prior-year quarter. The revenue figure, however, lagged the Zacks Consensus Estimate of $465 million.

For 2019, the company reported adjusted FFO per share of $5.80, up 5.5% from $5.50 in 2018. Net revenues for the year were $1.75 billion, reflecting 7.8% growth year over year.

**Quarter in Detail**

Acquisition-adjusted net revenues for the fourth quarter increased 2.7% year over year, while acquisition-adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) grew 4.7%. The company witnessed 7.7% growth in national/programmatic revenues. Moreover, same-unit digital revenues went up 4.6%.

Operating income improved 8.3% from the prior-year quarter to $141.4 million, while adjusted EBITDA went up 10.4% to $215.6 million. Additionally, free cash flow of $135.3 million in the December-end quarter improved 7.3% year over year.

At the end of fourth-quarter 2019, Lamar had total liquidity of $413.5 million, of which $387.3 million was available for borrowing under its revolving senior credit facility, and $26.2 million in cash and cash equivalents.

## Recent News

**Lamar Advertising Withdraws Guidance Amid Coronavirus Scare – Apr 2, 2020**

Lamar Advertising withdrew its 2020 guidance and informed about the board's re-evaluation of the dividend policy and detailed liquidity measures.

The company had earlier projected 2020 adjusted FFO per share of $6.05-$6.20, suggesting 4.3-7% year-over-year growth. Moreover, evaluation of Lamar's previously-communicated plans to pay quarterly distributions in an aggregate amount of $4 per share in 2020 became essential as the long-term health of the company needs to be prioritized at this moment. This is because efforts to curb the coronavirus spread are affecting the broader economy, forcing many businesses to curtail their advertising expenses with customers staying at homes rather than shopping or dining outside.

To address its liquidity situation, the company in March made use of its $750 million revolving credit facility and drew down $535 million from it, giving it liquidity and financial headroom. Consequently, the company had about $490 million in cash in hand after the payment of its first-quarter dividend and the drawdown.

With efforts to improve the liquidity position and strengthen the balance sheet, the company remains well poised to meet its obligations. It has no scheduled amortization in 2020, while its remaining debt outstanding is interest-only. Moreover, its next maturity is the $175-million accounts receivable securitization due December 2021.

**Lamar Announces Refinancing Transactions & 2020 Distribution Plan - Feb 7, 2020**

In an effort to strengthen balance sheet, Lamar announced completion of $2.35 billion in refinancing transactions through its wholly owned subsidiary, Lamar Media Corp. The transections help in lowering Lamar Media's cost of debt, extend its debt maturities, boost its liquidity and free cash flow and reduce its exposure to floating interest rates.

Further, the company announced that, subject to the approval of its board of directors, it expects to make regular quarterly distributions to stockholders in 2020 in an aggregate amount of $4.00 per share. This marks a 4.2% hike over total distributions paid in 2019 of $3.84 per share.

Regarding refinancing transactions, the company disclosed that it included the sale of $1.0 billion in aggregate principal amount of new senior notes, through an institutional private placement. This comprised $600 million in aggregate principal amount of 3 3/4% senior notes due 2028 and $400 million in aggregate principal amount of 4% senior notes due 2030.

Moreover, Lamar closed on an amended and restated credit facility. This consisted of a 5-year, $750 million revolving credit facility for replacing its existing $550 million revolving credit facility as well as a new 7-year, $600 million Term Loan B. Notably, the initial pricing on the revolving credit facility and Term Loan B is 150 basis points over Libor with a 0% floor on the benchmark.

The proceeds are mainly intended to be used for repaying Lamar Media's existing Term Loan A and Term Loan B, redeem senior notes, and partly make borrowings repayment under the existing revolving credit facility, and for general corporate needs. As a result of these transactions, Lamar's cash flow is expected to increase by more than $60 million in 2020.

**Dividend Update**

On Feb 27, Lamar announced a quarterly cash dividend of $1 per share. The dividend was paid out on Mar 31 to shareholders of Lamar's Class A and Class B common stock as of Mar 16, 2020.

## Valuation

Lamar's shares have been down 45.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector declined 13.1% and 25.5%, over the past year, respectively.

The S&P 500 Index has been down 14.4% over the trailing 12-month period.

The stock is currently trading at 8.75X forward 12-month FFO, which compares to 16.21X for the Zacks sub-industry, 13.07X for the Zacks sector and 18.03X for the S&P 500 index.

Over the past five years, the stock has traded as high as 15.98X and as low as 6.76X, with a 5-year median of 13.55X. Our neutral recommendation indicates that the stock will perform in line with the market. Our $52 price target reflects 9.29X FFO.

The table below shows summary valuation data for LAMR.

**Valuation Multiples - LAMR**

| | | Stock | Sub-Industry | Sector | S&P 500 |
|---|---|---|---|---|---|
| P/E F12M | Current | 8.75 | 16.21 | 13.07 | 18.03 |
| | 5-Year High | 15.98 | 18.1 | 16.19 | 19.34 |
| | 5-Year Low | 6.76 | 14.32 | 11.23 | 15.19 |
| | 5-Year Median | 13.55 | 16.08 | 13.95 | 17.45 |
| P/S F12M | Current | 2.66 | 7.2 | 4.93 | 3.04 |
| | 5-Year High | 5.26 | 8.14 | 6.65 | 3.44 |
| | 5-Year Low | 2.21 | 5.91 | 4.93 | 2.54 |
| | 5-Year Median | 4.32 | 6.87 | 6.03 | 3.01 |
| P/B TTM | Current | 4.17 | 2.48 | 2.08 | 3.65 |
| | 5-Year High | 8.19 | 3.01 | 2.89 | 4.55 |
| | 5-Year Low | 2.75 | 1.8 | 1.69 | 2.84 |
| | 5-Year Median | 6.4 | 2.51 | 2.51 | 3.64 |

As of 04/14/2020

## Industry Analysis **Zacks Industry Rank:** Top 34% (87 out of 253)


## Top Peers

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

## Industry Comparison Industry: Reit And Equity Trust - Other

Industry Peers

| | LAMR Neutral | X Industry | S&P 500 | CCO Neutral | OUT Neutral | VICI Neutral |
|---|---|---|---|---|---|---|
| **VGM Score** | C | - | - | C | B | D |
| Market Cap | 4.92 B | 1.95 B | 19.79 B | 354.48 M | 1.82 B | 7.96 B |
| # of Analysts | 1 | 4 | 14 | 2 | 3 | 7 |
| Dividend Yield | 8.17% | 4.87% | 2.16% | 0.00% | 12.03% | 7.01% |
| **Value Score** | C | - | - | B | B | D |
| Cash/Price | 0.01 | 0.03 | 0.06 | 1.17 | 0.03 | 0.29 |
| EV/EBITDA | 11.26 | 13.69 | 11.74 | 14.68 | 10.90 | 12.37 |
| PEG Ratio | NA | 3.56 | 2.15 | NA | 0.59 | 1.05 |
| Price/Book (P/B) | 4.17 | 1.21 | 2.65 | NA | 1.61 | 0.97 |
| Price/Cash Flow (P/CF) | 7.84 | 10.38 | 10.40 | 6.10 | 5.29 | 13.43 |
| P/E (F1) | 8.83 | 12.80 | 17.72 | NA | 5.30 | 10.17 |
| Price/Sales (P/S) | 2.81 | 4.60 | 2.06 | 0.13 | 1.02 | 8.89 |
| Earnings Yield | 10.64% | 7.83% | 5.46% | -122.37% | 18.84% | 9.84% |
| Debt/Equity | 3.24 | 0.84 | 0.70 | -3.22 | 3.11 | 0.60 |
| Cash Flow ($/share) | 6.24 | 2.03 | 7.01 | 0.12 | 2.39 | 1.26 |
| **Growth Score** | B | - | - | B | B | C |
| Hist. EPS Growth (3-5 yrs) | 5.22% | 2.75% | 10.92% | NA | 5.92% | NA |
| Proj. EPS Growth (F1/F0) | -10.17% | 0.71% | -2.65% | -5.11% | 2.29% | 12.84% |
| Curr. Cash Flow Growth | 17.20% | 3.51% | 5.93% | -50.62% | 14.70% | 9.29% |
| Hist. Cash Flow Growth (3-5 yrs) | 8.39% | 12.74% | 8.55% | -32.20% | 0.86% | NA |
| Current Ratio | 0.46 | 1.30 | 1.24 | 1.02 | 0.67 | 116.25 |
| Debt/Capital | 76.40% | 45.72% | 42.36% | NA | 75.69% | 37.32% |
| Net Margin | 21.21% | 15.04% | 11.64% | -13.54% | 7.86% | 61.01% |
| Return on Equity | 32.37% | 4.47% | 16.74% | NA | 12.51% | 6.99% |
| Sales/Assets | 0.30 | 0.13 | 0.54 | 0.42 | 0.33 | 0.07 |
| Proj. Sales Growth (F1/F0) | -8.65% | 1.04% | 0.00% | -20.15% | -8.81% | 33.08% |
| **Momentum Score** | F | - | - | F | D | D |
| Daily Price Chg | 3.53% | 1.90% | 2.56% | 8.57% | -1.33% | 2.41% |
| 1 Week Price Chg | 33.04% | 22.89% | 16.01% | 55.58% | 34.91% | 24.53% |
| 4 Week Price Chg | 0.66% | 12.49% | 11.39% | 8.57% | 9.35% | 30.42% |
| 12 Week Price Chg | -47.65% | -24.71% | -19.33% | -74.92% | -56.70% | -35.61% |
| 52 Week Price Chg | -39.57% | -22.19% | -11.64% | -85.77% | -47.20% | -22.82% |
| 20 Day Average Volume | 1,569,321 | 1,161,464 | 3,452,738 | 5,464,985 | 3,194,089 | 7,052,445 |
| (F1) EPS Est 1 week change | 0.00% | 0.00% | 0.00% | -28.47% | 0.00% | -0.26% |
| (F1) EPS Est 4 week change | -17.54% | -1.64% | -6.42% | -496.77% | -8.86% | -0.26% |
| (F1) EPS Est 12 week change | -18.23% | -3.06% | -8.69% | -516.67% | -7.56% | -1.76% |
| (Q1) EPS Est Mthly Chg | -39.02% | -2.23% | -11.08% | NA | -27.21% | -2.42% |

## 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.

| | |
|---|---|
| Value Score | C |
| Growth Score | B |
| Momentum Score | F |
| VGM Score | C |

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.

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.

## Disclosures

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