

Lamar Advertising (LAMR)

\$72.86 (As of 06/16/20)

Price Target (6-12 Months): **\$77.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/14/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: F

Summary

Lamar Advertising slashed its dividend for the current quarter from a dollar to 50 cents per share. Although the company's first-quarter 2020 funds from operations (FFO) per share improved year over year, it currently faces headwinds amid the curtailment of advertising expenses by companies due to the coronavirus pandemic. Also, stiff competition, specifically from national players, might impede its growth. Moreover, the company's shares have underperformed the industry over the past year. However, the company is expected to benefit from its portfolio upgradation efforts over the years. Moreover, Lamar operates in an industry characterised by high barriers to entry which gives it a solid competitive edge. Furthermore, Lamar is making concerted efforts to boost balance-sheet strength and liquidity to sail through these uncertain times.

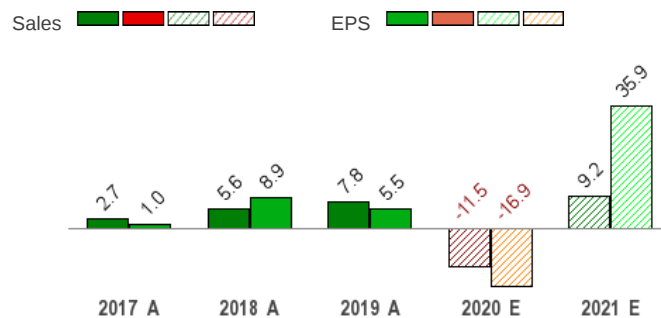
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$96.82 - \$30.89
20 Day Average Volume (sh)	895,391
Market Cap	\$7.3 B
YTD Price Change	-18.4%
Beta	1.38
Dividend / Div Yld	\$2.00 / 5.5%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Bottom 31% (174 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-0.9%
Last Sales Surprise	4.2%
EPS F1 Est- 4 week change	-4.1%
Expected Report Date	08/05/2020
Earnings ESP	0.0%
P/E TTM	12.3
P/E F1	15.1
PEG F1	NA
P/S TTM	4.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	418 E	488 E	491 E	500 E	1,696 E
2020	407 A	361 E	396 E	425 E	1,553 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	\$1.12 A	\$1.02 E	\$1.18 E	\$1.50 E	\$4.82 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 06/16/2020. The reports text is as of 06/17/2020.

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:

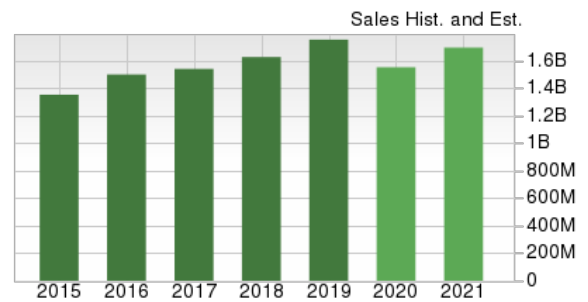
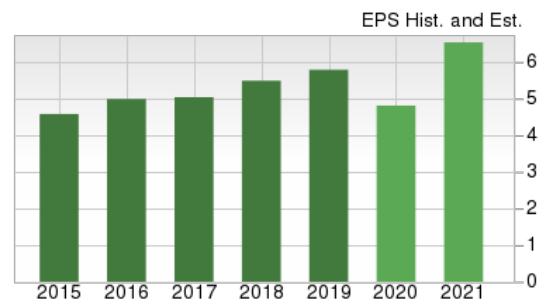
(i) **Billboard advertising:** Most of the company's advertising space are on two types of billboard advertising displays: bulletins and posters. In addition to traditional static displays, Lamar also rents digital billboards.

(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.

The company has its operations spread across U.S. and Canada. Its portfolio comprises 390,000 displays. Currently, the company has more than 3,600 digital billboards.

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 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. This generally leads to less volatility in revenues.
- ▲ Over the recent years, the company has made efforts to upgrade its portfolio, increasing occupancy in its existing advertising displays. It holds significant market share in the U.S. outdoor advertising business, which is encouraging. The company ended first-quarter 2020 with 3,589 digital units, denoting an increase of 47 units sequentially.
- ▲ 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, the company's expansion activities over the recent years bode well for long-term growth. 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.
- ▲ 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.

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.

Reasons To Sell:

- ▼ Efforts to curb the coronavirus spread are affecting the broader economy, forcing many businesses to curtail their advertising expenses. With customers staying at homes, there is a dent in advertising values, which will likely hurt top-line growth in the near term.
- ▼ Lamar's debt position is a concern as the total debt to total capital of 80.8% deteriorated sequentially. Moreover, the coronavirus-induced slowdown will impede revenue growth and affect cash flow from operations. Also, Moody's has downgraded the company's long-term rating to Ba3 from Ba2 with a speculative grade as the rating agency believes that the outdoor advertising activities remains heavily dependent on consumer spending which is expected to remain subdued for now.
- ▼ Solid dividend payouts remain the biggest attraction for REIT investors and Lamar had remained committed to that. However, on May 29, 2020 the company slashed its dividend for the current quarter to 50 cents per share from its earlier payment of \$1 per share. The company had previously noted that its plan to pay quarterly distributions in an aggregate amount of \$4 per share in 2020 needs to be evaluated quarterly.
- ▼ 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. 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 Lamar Advertising have depreciated 10.3% compared with the industry's decline of 4.3% 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 4% south over the past month. Therefore, given the above-mentioned concerns and downward estimate revisions, there is a limited upside potential to the stock.

Dent in advertising values amid coronavirus pandemic is a pressing concern. Moreover, high debt level and stiff competition from several advertising channels pose challenges.

Last Earnings Report

Lamar Q1 FFO Misses Estimates, Revenues Beat

Lamar reported FFO per share of \$1.12 for the first quarter, up 13.3% from the prior-year quarter's 99 cents. However, the figure narrowly missed the Zacks Consensus Estimate of \$1.13.

This year-over-year improvement reflects healthy net revenue growth.

Net revenues for the quarter came in at \$406.6 million, marking a 5.8% increase from the prior-year quarter. Moreover, the revenue figure surpassed the Zacks Consensus Estimate of \$390.2 million.

Quarter in Detail

Acquisition-adjusted net revenues for the first quarter increased 4.4% year on year to \$406.6 million, while acquisition-adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) grew 8.7% to \$159.8 million.

Operating income improved 6.4% from the prior-year quarter to \$96.6 million, while adjusted EBITDA went up 9.4% to \$159.8 million. Additionally, free cash flow of \$97.1 million in the March-end quarter improved 17.4% year over year.

Balance Sheet

At the end of first-quarter 2020, Lamar Advertising had total liquidity of \$608.5 million, of which \$111.9 million was available for borrowing under its revolving senior credit facility, and \$496.6 million in cash and cash equivalents

Lamar Advertising made use of \$535 million under its revolving credit facility to bolster liquidity. On Feb 6, 2020, the company completed a \$2.35-billion refinancing transaction, consisting of the issuance of an additional \$1 billion in new senior notes and restatement of senior credit facility.

Outlook

Lamar Advertising earlier withdrew its 2020 guidance in the wake of the coronavirus crisis. It intends to reissue the guidance during the second-quarter earnings conference call in August.

The company had earlier projected 2020 AFFO per share of \$6.05-\$6.20, suggesting 4.3-7% year-over-year growth.

The company also expects a fall in capital expenditure from \$130 million to about \$58 million this year.

Quarter Ending 03/2020

Report Date	May 07, 2020
Sales Surprise	4.20%
EPS Surprise	-0.88%
Quarterly EPS	1.12
Annual EPS (TTM)	5.92

Recent News

Lamar Advertising Slashes Q2 Dividend on Coronavirus Scare – May 29, 2020

Lamar has announced a quarterly dividend of 50 cents per share, reflecting a reduction from its earlier payment of \$1 per share on Mar 31, 2020. This dividend will be payable on Jun 30, to stockholders of record of Lamar's Class A and Class B common stock as of Jun 22, 2020.

Per management, the company witnessed an upswing in the customer activity in the first quarter but the business environment remains uncertain for the remainder of the year. Taking this into account, the company had previously noted that its plan to pay quarterly distributions in an aggregate amount of \$4 per share in 2020 needs to be evaluated quarterly. This is because efforts to contain the spread of coronavirus are hurting the broader economy, forcing many businesses to curtail their advertising expenses, with customers staying at homes most of the time.

Lamar chief executive Sean Reilly noted that "We plan to evaluate our dividend plans on a quarterly basis, giving consideration to our liquidity, our leverage and the operating environment that we foresee. We fully intend to honor our obligation as a REIT to pay out at least 90% of our full-year taxable income."

Valuation

Lamar's shares have been down 10.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector declined 4.3% and 11.8%, over the past year, respectively.

The S&P 500 Index has been up 7.1% over the trailing 12-month period.

The stock is currently trading at 12.97X forward 12-month FFO, which compares to 19.47X for the Zacks sub-industry, 16.49X for the Zacks sector and 22.09X for the S&P 500 index.

Over the past five years, the stock has traded as high as 15.98X and as low as 5.39X, with a 5-year median of 13.45X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$77 price target reflects 13.71X FFO.

The table below shows summary valuation data for LAMR.

Valuation Multiples - LAMR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	12.97	19.47	16.49	22.09
	5-Year High	15.98	19.47	16.49	22.11
	5-Year Low	5.39	14.32	11.57	15.23
	5-Year Median	13.45	16.08	13.98	17.49
P/S F12M	Current	4.54	8.39	6	3.44
	5-Year High	5.26	8.39	6.65	3.44
	5-Year Low	1.77	5.91	4.95	2.53
	5-Year Median	4.31	6.89	6.06	3.02
P/B TTM	Current	6.45	2.44	2.38	4.27
	5-Year High	8.19	3.01	2.91	4.56
	5-Year Low	2.75	1.8	1.71	2.83
	5-Year Median	6.4	2.5	2.53	3.66

As of 06/16/2020

Industry Analysis Zacks Industry Rank: Bottom 31% (174 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Clear Channel Outdoor Holdings, Inc. (CCO)	Neutral	4
EPR Properties (EPR)	Neutral	3
Gaming and Leisure Properties, Inc. (GLPI)	Neutral	3
Gladstone Commercial Corporation (GOOD)	Neutral	3
Innovative Industrial Properties, Inc. (IIPR)	Neutral	3
Iron Mountain Incorporated (IRM)	Neutral	3
OUTFRONT Media Inc. (OUT)	Neutral	3
VICI Properties Inc. (VICI)	Neutral	3

Industry Comparison Industry: Reit And Equity Trust - Other				Industry Peers		
	LAMR	X Industry	S&P 500	CCO	OUT	VICI
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	3	3
VGM Score	D	-	-	D	D	C
Market Cap	7.34 B	2.04 B	22.00 B	574.78 M	2.30 B	10.48 B
# of Analysts	1	4	14	2	3	5
Dividend Yield	5.49%	4.04%	1.92%	0.00%	9.54%	5.32%
Value Score	D	-	-	F	C	D
Cash/Price	0.07	0.06	0.06	0.67	0.22	0.34
EV/EBITDA	14.60	14.68	12.79	15.01	12.04	16.27
PEG Ratio	NA	3.77	3.00	NA	1.94	NA
Price/Book (P/B)	6.45	1.36	3.04	NA	2.18	1.36
Price/Cash Flow (P/CF)	11.67	11.37	11.81	9.88	6.68	17.69
P/E (F1)	15.23	16.18	21.70	NA	17.52	14.14
Price/Sales (P/S)	4.13	5.11	2.34	0.22	1.28	11.20
Earnings Yield	6.62%	5.75%	4.33%	-113.82%	5.71%	7.06%
Debt/Equity	3.91	0.92	0.77	-2.76	3.79	0.87
Cash Flow (\$/share)	6.24	2.03	7.01	0.12	2.39	1.26
Growth Score	C	-	-	C	F	B
Hist. EPS Growth (3-5 yrs)	5.40%	2.02%	10.87%	NA	5.96%	NA
Proj. EPS Growth (F1/F0)	-16.90%	-2.81%	-10.58%	-59.09%	-60.94%	6.89%
Curr. Cash Flow Growth	17.20%	4.13%	5.46%	-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	1.46	1.83	1.29	1.26	1.22	69.43
Debt/Capital	79.65%	48.50%	45.06%	NA	79.12%	46.65%
Net Margin	20.35%	12.85%	10.53%	-18.00%	7.80%	39.66%
Return on Equity	31.25%	3.98%	16.06%	NA	12.61%	4.65%
Sales/Assets	0.30	0.13	0.55	0.42	0.32	0.07
Proj. Sales Growth (F1/F0)	-11.45%	0.00%	-2.59%	-29.98%	-21.74%	26.69%
Momentum Score	F	-	-	A	C	C
Daily Price Chg	-0.23%	2.40%	1.81%	1.65%	-1.30%	-2.01%
1 Week Price Chg	-6.23%	-6.10%	-7.25%	-7.75%	-20.14%	-3.04%
4 Week Price Chg	9.86%	18.31%	8.30%	34.51%	8.36%	29.76%
12 Week Price Chg	78.45%	32.17%	28.43%	175.85%	39.70%	70.63%
52 Week Price Chg	-10.34%	-14.87%	-3.34%	-75.20%	-39.00%	-1.67%
20 Day Average Volume	895,391	908,809	2,618,631	3,666,264	2,801,048	6,294,753
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-4.07%	0.00%	0.00%	14.39%	0.00%	-0.75%
(F1) EPS Est 12 week change	-20.57%	-4.53%	-14.98%	-667.74%	-68.64%	-5.51%
(Q1) EPS Est Mthly Chg	-8.33%	0.00%	0.00%	-20.34%	0.00%	-0.89%

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.

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	F
VGM Score	D

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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