

## Lamar Advertising (LAMR)

**\$67.60** (As of 08/26/20)

Price Target (6-12 Months): **\$72.00**

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:C

Value: C

Growth: C

Momentum: D

### Summary

Lamar's lower-than-expected performance in second-quarter 2020 reflected the adverse impact of the coronavirus pandemic on the company's business. The company has also revised its guidance for the current year in light of the current crisis. Moreover, a dent in advertising values and reduced advertising expenditures by customers amid the coronavirus pandemic is likely to impede the company's revenue growth and cash flows in the near term. Also, its high debt level remains a concern. Furthermore, the company's shares have underperformed the industry over the past year. Nevertheless, the company enjoys an impressive footprint of outdoor advertising assets and holds a leading position as a provider of logo signs in the United States. Moreover, the company is likely to benefit from its portfolio upgradation efforts.

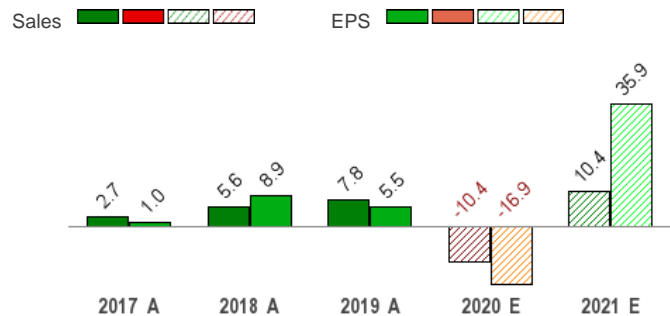
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$96.82 - \$30.89
20 Day Average Volume (sh)	558,285
Market Cap	\$6.8 B
YTD Price Change	-24.3%
Beta	1.33
Dividend / Div Yld	\$2.00 / 3.0%
Industry	<a href="#">REIT and Equity Trust - Other</a>
Zacks Industry Rank	Bottom 13% (218 out of 252)

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



Last EPS Surprise	-6.9%
Last Sales Surprise	-6.1%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	11/03/2020
Earnings ESP	0.0%
P/E TTM	12.7
P/E F1	14.0
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	1,735 E
2020	407 A	348 A	389 E	414 E	1,572 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	\$0.95 A	\$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 08/26/2020. The reports text is as of 08/27/2020.

## 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:

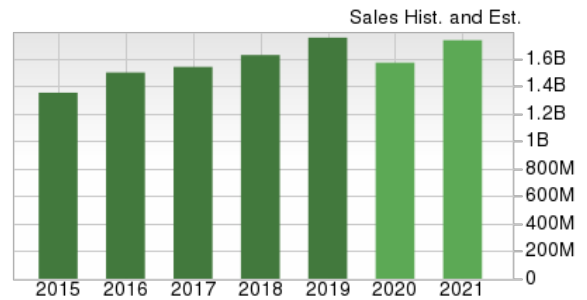
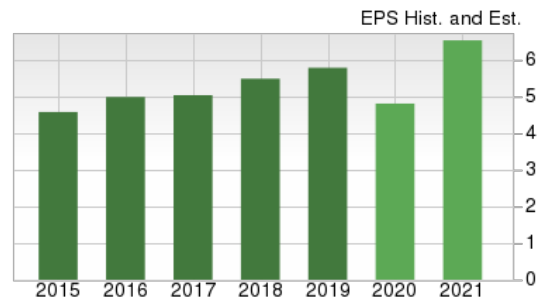
(i) **Billboard advertising:** Most of the company's advertising space are on two types of billboard advertising displays: bulletins and posters. In addition to traditional static displays, Lamar also rents digital billboards.

(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 385,000 displays. Currently, the company has more than 3,610 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.



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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. 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. Moreover, the company ended second-quarter 2020 with 3,610 digital units, denoting an increase of 68 units from the end of 2019.
- ▲ 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 \$26.2 million in the first half of 2020, while it 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.

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## Reasons To Sell:

- ▼ Outdoor travel has taken a hit as the coronavirus pandemic has compelled people to stay indoors, leading to a dent in advertising values. The company's second-quarter performance was significantly affected due to the decline in demand for the company's services and fall in customer advertising spends. Moreover, given the current choppiness in the economy and uncertainty about the reopening amid still high infection rates, any notable turnaround is unlikely in the near term.
- ▼ Lamar's total debt to total capital of 79.6% is high. Moreover, the coronavirus-induced slowdown will impede revenue growth and affect cash flow from operations. Also, in August, Moody's has downgraded the company's long-term rating to B1 from Ba3 with a speculative grade as the rating agency believes 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 28, 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. Also, the company made no repurchases under its stock-repurchase program in the second quarter.
- ▼ 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 have depreciated 6.7% compared with the industry's decline of 4.4% over the past 12 months. Moreover, the trend in estimate revision does not indicate a favorable outlook for the company. The Zacks Consensus Estimate for 2020 FFO per share remained unchanged over the past month. Therefore, given the above-mentioned concerns and lack of positive 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's Q2 FFO & Revenues Miss Estimates

Lamar reported FFO per share of 95 cents for the second quarter, down 38.3% from the prior-year quarter's \$1.54. Moreover, the figure missed the Zacks Consensus Estimate of \$1.02.

The company's second quarter results reflect the adverse impact of the coronavirus pandemic on the company's business.

Net revenues for the quarter came in at \$347.7 million, marking a 22.5% decline from the prior-year quarter. Moreover, the revenue figure missed the Zacks Consensus Estimate of \$370.3 million.

The company took measures to boost its liquidity and lower its operating expenses. To cut costs the company granted temporary franchise fee relief and workforce reduction, during the second quarter.

The company revised its guidance for the current year, reflecting the impact of the coronavirus pandemic on its operations.

### Quarter in Detail

Acquisition-adjusted net revenues for the second quarter decreased 23.4% year on year to \$347.7 million. Also, acquisition-adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) plunged 36.4% to \$133.2 million.

Operating income plummeted 54% from the prior-year quarter to \$66.5 million, while adjusted EBITDA went down 35.9% to \$133.2 million. Additionally, free cash flow of \$88.1 million in the June-end quarter dipped 33.7% year over year.

### Balance Sheet

At the end of second-quarter 2020, Lamar Advertising had total liquidity of \$1.1 billion. This comprised \$737.2 million available for borrowing under its revolving senior credit facility, \$171.8 million available under the Accounts Receivable Securitization Program and \$177.1 million in cash and cash equivalents.

### Outlook

Lamar Advertising has revised the 2020 guidance to account for the impact of the coronavirus crisis. It now projects 2020 adjusted FFO per share at \$4.16-\$4.56. The company had earlier estimated the ongoing year's adjusted FFO per share in the \$6.05-\$6.20 band.

Quarter Ending **06/2020**

Report Date	Aug 06, 2020
Sales Surprise	-6.12%
EPS Surprise	-6.86%
Quarterly EPS	0.95
Annual EPS (TTM)	5.33

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## Recent News

### Dividend Update

On May 28, Lamar announced a quarterly dividend of 50 cents per share, reflecting a reduction from its earlier payment of \$1 per share. The dividend was paid on Jun 30, to stockholders of record of Lamar's Class A and Class B common stock as of Jun 22, 2020.

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## Valuation

Lamar's shares have been down 6.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector declined 4.4% and 2.8%, over the past year, respectively.

The S&P 500 Index has been up 23.1% over the past year.

The stock is currently trading at 11.36X forward 12-month FFO, which compares to 19.14X for the Zacks sub-industry, 16.65X for the Zacks sector and 23.37X 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 13.43X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$72 price target reflects 12.10X FFO.

The table below shows summary valuation data for LAMR.

Valuation Multiples - LAMR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	11.36	19.14	16.65	23.37
	5-Year High	15.98	19.28	16.65	23.37
	5-Year Low	5.39	14.32	11.6	15.25
	5-Year Median	13.43	16.11	14.26	17.58
P/S F12M	Current	4.06	8.31	6.23	3.81
	5-Year High	5.26	8.37	6.67	3.81
	5-Year Low	1.77	5.97	4.97	2.53
	5-Year Median	4.32	7	6.06	3.05
P/B TTM	Current	6.07	2.44	2.52	4.71
	5-Year High	8.19	3.03	2.91	4.71
	5-Year Low	2.75	1.81	1.72	2.83
	5-Year Median	6.41	2.51	2.53	3.76

As of 08/26/2020

## Industry Analysis Zacks Industry Rank: Bottom 13% (218 out of 252)



## Top Peers

Company (Ticker)	Rec	Rank
Clear Channel Outdoor Holdings, Inc. (CCO)	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	4
VICI Properties Inc. (VICI)	Neutral	3
EPR Properties (EPR)	Underperform	5

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	-	-	3	4	3
VGM Score	C	-	-	C	D	D
Market Cap	6.81 B	1.96 B	23.69 B	537.43 M	2.37 B	12.16 B
# of Analysts	1	4	14	2	3	5
Dividend Yield	2.96%	3.74%	1.65%	0.00%	0.00%	5.22%
Value Score	C	-	-	B	C	C
Cash/Price	0.03	0.06	0.07	1.34	0.30	0.40
EV/EBITDA	14.01	14.07	13.37	14.36	12.40	16.71
PEG Ratio	NA	3.94	3.04	NA	2.02	1.52
Price/Book (P/B)	6.07	1.35	3.17	NA	2.36	1.34
Price/Cash Flow (P/CF)	10.83	10.91	12.78	9.23	6.86	18.02
P/E (F1)	14.38	15.25	21.63	NA	20.22	14.03
Price/Sales (P/S)	4.07	4.92	2.50	0.24	1.51	12.49
Earnings Yield	7.13%	5.89%	4.44%	-110.43%	4.95%	7.11%
Debt/Equity	3.74	0.92	0.75	-2.52	3.88	0.74
Cash Flow (\$/share)	6.24	2.05	6.94	0.12	2.39	1.26
Growth Score	C	-	-	C	D	D
Hist. EPS Growth (3-5 yrs)	4.74%	0.73%	10.41%	NA	2.68%	NA
Proj. EPS Growth (F1/F0)	-16.90%	-2.49%	-4.92%	-43.75%	-65.24%	9.73%
Curr. Cash Flow Growth	17.20%	3.36%	5.22%	-50.62%	14.70%	9.29%
Hist. Cash Flow Growth (3-5 yrs)	8.39%	12.74%	8.50%	-32.20%	0.86%	NA
Current Ratio	1.13	1.62	1.34	1.10	1.75	99.57
Debt/Capital	78.90%	48.09%	44.18%	NA	73.73%	42.69%
Net Margin	16.38%	10.49%	10.25%	-26.63%	2.03%	46.09%
Return on Equity	23.81%	3.32%	14.66%	NA	2.96%	4.80%
Sales/Assets	0.28	0.13	0.50	0.37	0.28	0.07
Proj. Sales Growth (F1/F0)	-10.35%	0.00%	-1.45%	-30.89%	-27.15%	26.59%
Momentum Score	D	-	-	F	D	D
Daily Price Chg	-1.64%	-1.11%	-0.18%	3.60%	-1.92%	-0.52%
1 Week Price Chg	-3.28%	-1.15%	-1.45%	-11.67%	-2.88%	-1.79%
4 Week Price Chg	0.76%	-0.55%	2.10%	26.07%	8.55%	6.35%
12 Week Price Chg	-3.57%	-4.99%	3.61%	16.16%	0.18%	3.97%
52 Week Price Chg	-10.84%	-20.99%	3.61%	-56.27%	-40.74%	4.50%
20 Day Average Volume	558,285	599,912	1,883,291	2,532,125	1,778,286	3,199,504
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.93%	11.35%	0.00%	0.37%
(F1) EPS Est 12 week change	0.00%	-0.07%	3.41%	11.35%	-13.45%	-3.91%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	26.56%	0.00%	-7.25%

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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	C
Growth Score	C
Momentum Score	D
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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