

LAMAR ADVERTISING CO/NEW
Form 10-Q
November 03, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2016

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to

Commission File Number 1-36756

Lamar Advertising Company

Commission File Number 1-12407

Lamar Media Corp.

(Exact name of registrants as specified in their charters)

| | |
|----------------------------------------------------------------|-------------------------------------|
| Delaware | 72-1449411 |
| Delaware | 72-1205791 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S Employer Identification No.) |

| | |
|------------------------------------------|------------|
| 5321 Corporate Blvd., Baton Rouge, LA | 70808 |
| (Address of principal executive offices) | (Zip Code) |

Registrants' telephone number, including area code: (225) 926-1000

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Indicate by check mark whether each registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether each registrant has submitted electronically and posted on their corporate web sites, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether Lamar Advertising Company is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether Lamar Media Corp. is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether Lamar Advertising Company is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes No

Indicate by check mark whether Lamar Media Corp. is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes No

The number of shares of Lamar Advertising Company’s Class A common stock outstanding as of November 1, 2016: 82,711,932

The number of shares of the Lamar Advertising Company’s Class B common stock outstanding as of November 1, 2016: 14,610,365

The number of shares of Lamar Media Corp. common stock outstanding as of November 1, 2016: 100

This combined Form 10-Q is separately filed by (i) Lamar Advertising Company and (ii) Lamar Media Corp. (which is a wholly owned subsidiary of Lamar Advertising Company). Lamar Media Corp. meets the conditions set forth in general instruction H(1) (a) and (b) of Form 10-Q and is, therefore, filing this form with the reduced disclosure format permitted by such instruction.

NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain information included in this report is forward-looking in nature within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. This report uses terminology such as “anticipates,” “believes,” “plans,” “expects,” “future,” “intends,” “may,” “will,” “should,” “estimates,” “predicts,” “potential,” similar expressions to identify forward-looking statements. Examples of forward-looking statements in this report include statements about:

- our future financial performance and condition;
- our business plans, objectives, prospects, growth and operating strategies;
- our future capital expenditures and level of acquisition activity;
- market opportunities and competitive positions;
- our future cash flows and expected cash requirements;
- estimated risks;
- our ability to maintain compliance with applicable covenants and restrictions included in Lamar Media’s senior credit facility and the indentures relating to its outstanding notes;
- stock price;
- estimated future dividend distributions; and
- our ability to remain qualified as a Real Estate Investment Trust (“REIT”).

Forward-looking statements are subject to known and unknown risks, uncertainties and other important factors, including but not limited to the following, any of which may cause the actual results, performance or achievements of Lamar Advertising Company (referred to herein as the “Company” or “Lamar Advertising”) or Lamar Media Corp. (referred to herein as “Lamar Media”) to differ materially from those expressed or implied by the forward-looking statements:

- the state of the economy and financial markets generally and their effects on the markets in which we operate and the broader demand for advertising;
 - the levels of expenditures on advertising in general and outdoor advertising in particular;
- risks and uncertainties relating to our significant indebtedness;
- the demand for outdoor advertising and its continued popularity as an advertising medium;
- our need for, and ability to obtain, additional funding for acquisitions, operations and debt refinancing;
- increased competition within the outdoor advertising industry;
- the regulation of the outdoor advertising industry by federal, state and local governments;
- our ability to renew expiring contracts at favorable rates;
- the integration of businesses that we acquire and our ability to recognize cost savings and operating efficiencies as a result of these acquisitions;
- our ability to successfully implement our digital deployment strategy;
- the market for our Class A common stock;
- changes in accounting principles, policies or guidelines;
- our ability to effectively mitigate the threat of and damages caused by hurricanes and other kinds of severe weather;
- our ability to qualify as a REIT and maintain our status as a REIT; and
- changes in tax laws applicable to REIT’s or in the interpretation of those laws.

The forward-looking statements in this report are based on our current good faith beliefs, however, actual results may differ due to inaccurate assumptions, the factors listed above or other foreseeable or unforeseeable factors.

Consequently, we cannot guarantee that any of the forward-looking statements will prove to be accurate. The forward-looking statements in this report speak only as of the date of this report, and Lamar Advertising and Lamar Media expressly disclaim any obligation or undertaking to update or revise any forward-looking statement contained in this report, except as required by law.

For a further description of these and other risks and uncertainties, the Company encourages you to read carefully Item 1A to the combined Annual Report on Form 10-K for the year ended December 31, 2015 of the Company and Lamar Media (the “2015 Combined Form 10-K”), filed on February 25, 2016 and as such risk factors may be updated or supplemented, from time to time, in our combined Quarterly Reports on Form 10-Q.

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PART I — FINANCIAL INFORMATION

ITEM 1. — FINANCIAL STATEMENTS

LAMAR ADVERTISING COMPANY

AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(In thousands, except share and per share data)

| | September 30, 2016 (Unaudited) | December 31, 2015 |
|------------------------------------------------------------------------------------------------------------|--------------------------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 37,479 | \$ 22,327 |
| Receivables, net of allowance for doubtful accounts of \$10,668 and \$8,984 in 2016 and 2015, respectively | 207,507 | 174,398 |
| Prepaid lease expenses | 70,186 | 44,437 |
| Deferred income tax assets | 1,336 | 1,352 |
| Other current assets | 38,734 | 39,218 |
| Total current assets | 355,242 | 281,732 |
| Property, plant and equipment | 3,273,931 | 3,139,239 |
| Less accumulated depreciation and amortization | (2,094,330) | (2,044,102) |
| Net property, plant and equipment | 1,179,601 | 1,095,137 |
| Goodwill | 1,726,724 | 1,546,594 |
| Intangible assets | 601,567 | 402,886 |
| Other assets | 39,386 | 37,395 |
| Total assets | \$ 3,902,520 | \$ 3,363,744 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Trade accounts payable | \$ 17,637 | \$ 17,452 |
| Current maturities of long-term debt, net of deferred financing costs of \$5,403 and \$4,823 | | |
| in 2016 and 2015, respectively | 28,824 | 16,509 |
| Accrued expenses | 110,145 | 115,208 |
| Deferred income | 102,485 | 87,661 |
| Total current liabilities | 259,091 | 236,830 |
| Long-term debt, net of deferred financing costs of \$24,829 and \$23,211 in 2016 and 2015, | | |
| respectively | 2,351,198 | 1,874,941 |
| Deferred income tax liabilities | 1,745 | 2,052 |
| Asset retirement obligation | 210,275 | 206,234 |

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| | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------|
| Other liabilities | 23,905 | 22,628 |
| Total liabilities | 2,846,214 | 2,342,685 |
| Stockholders' equity: | | |
| Series AA preferred stock, par value \$.001, \$63.80 cumulative dividends, 5,720 shares authorized; 5,720 shares issued and outstanding at 2016 and 2015 | — | — |
| Class A common stock, par value \$.001, 362,500,000 shares authorized; 82,928,020 and 82,188,372 shares issued at 2016 and 2015, respectively; 82,711,932 and 82,083,536 issued and outstanding at 2016 and 2015, respectively | 83 | 82 |
| Class B common stock, par value \$.001, 37,500,000 shares authorized, 14,610,365 shares issued and outstanding at 2016 and 2015 | 15 | 15 |
| Additional paid-in capital | 1,705,910 | 1,664,038 |
| Accumulated comprehensive loss | (27) | (1,178) |
| Accumulated deficit | (637,372) | (635,799) |
| Cost of shares held in treasury, 216,088 and 104,836 shares at 2016 and 2015, respectively | (12,303) | (6,099) |
| Stockholders' equity | 1,056,306 | 1,021,059 |
| Total liabilities and stockholders' equity | \$ 3,902,520 | \$ 3,363,744 |

See accompanying notes to condensed consolidated financial statements.

LAMAR ADVERTISING COMPANY

AND SUBSIDIARIES

Condensed Consolidated Statements of Income and Comprehensive Income

(Unaudited)

(In thousands, except share and per share data)

| | Three months ended | | Nine months ended | |
|----------------------------------------------------------------------------------|-----------------------|-----------|-----------------------|-----------|
| | September 30, 2016 | 2015 | September 30, 2016 | 2015 |
| Statements of Income | | | | |
| Net revenues | \$387,516 | \$350,701 | \$1,113,577 | \$997,427 |
| Operating expenses (income) | | | | |
| Direct advertising expenses (exclusive of depreciation and amortization) | 131,778 | 121,676 | 393,228 | 350,859 |
| General and administrative expenses (exclusive of depreciation and amortization) | 67,487 | 59,489 | 200,734 | 179,424 |
| Corporate expenses (exclusive of depreciation and amortization) | 19,359 | 16,654 | 55,432 | 51,734 |
| Depreciation and amortization | 49,307 | 46,441 | 152,729 | 144,396 |
| Gain on disposition of assets | (189) | (5,203) | (12,221) | (7,230) |
| | 267,742 | 239,057 | 789,902 | 719,183 |
| Operating income | 119,774 | 111,644 | 323,675 | 278,244 |
| Other expense (income) | | | | |
| Loss on extinguishment of debt | — | — | 3,198 | — |
| Interest income | (2) | (2) | (6) | (28) |
| Interest expense | 31,102 | 24,709 | 92,469 | 73,953 |
| | 31,100 | 24,707 | 95,661 | 73,925 |
| Income before income tax expense | 88,674 | 86,937 | 228,014 | 204,319 |
| Income tax expense | 3,613 | 972 | 9,730 | 18,278 |
| Net income | 85,061 | 85,965 | 218,284 | 186,041 |
| Cash dividends declared and paid on preferred stock | 91 | 91 | 273 | 273 |
| Net income applicable to common stock | \$84,970 | \$85,874 | \$218,011 | \$185,768 |
| Earnings per share: | | | | |
| Basic earnings per share | \$0.87 | \$0.89 | \$2.25 | \$1.93 |
| Diluted earnings per share | \$0.87 | \$0.89 | \$2.23 | \$1.93 |
| Cash dividends declared per share of common stock | \$0.76 | \$0.69 | \$2.26 | \$2.06 |
| Weighted average common shares used in computing earnings | | | | |

| | | | | |
|----------------------------------------------------|------------|------------|------------|------------|
| per share: | | | | |
| Weighted average common shares outstanding basic | 97,254,125 | 96,541,766 | 97,056,456 | 96,220,306 |
| Weighted average common shares outstanding diluted | 97,881,878 | 96,602,429 | 97,631,606 | 96,284,482 |
| Statements of Comprehensive Income | | | | |
| Net income | \$85,061 | \$85,965 | \$218,284 | \$186,041 |
| Other comprehensive (loss) income | | | | |
| Foreign currency translation adjustments | (328) | (1,713) | 1,151 | (2,916) |
| Comprehensive income | \$84,733 | \$84,252 | \$219,435 | \$183,125 |

See accompanying notes to condensed consolidated financial statements.

LAMAR ADVERTISING COMPANY

AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

| | Nine months ended | |
|-----------------------------------------------------------------------------------------|-----------------------|-----------|
| | September 30, 2016 | 2015 |
| Cash flows from operating activities: | | |
| Net income | \$218,284 | \$186,041 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation and amortization | 152,729 | 144,396 |
| Stock-based compensation | 19,650 | 17,508 |
| Amortization included in interest expense | 3,993 | 3,498 |
| Gain on disposition of assets and investments | (12,221) | (7,230) |
| Loss on extinguishment of debt | 3,198 | — |
| Deferred tax (benefit) expense | (150) | 9,572 |
| Provision for doubtful accounts | 5,831 | 4,845 |
| Changes in operating assets and liabilities | | |
| (Increase) decrease in: | | |
| Receivables | (39,072) | (20,645) |
| Prepaid lease expenses | (21,700) | (19,758) |
| Other assets | 5,923 | (4,494) |
| Increase (decrease) in: | | |
| Trade accounts payable | (761) | (1,327) |
| Accrued expenses | (5,623) | (7,457) |
| Other liabilities | 7,745 | 8,521 |
| Net cash provided by operating activities | 337,826 | 313,470 |
| Cash flows from investing activities: | | |
| Acquisitions | (526,029) | (123,291) |
| Capital expenditures | (78,825) | (80,764) |
| Proceeds from disposition of assets and investments | 7,753 | 8,369 |
| Decrease (increase) in notes receivable | 16 | (28) |
| Net cash used in investing activities | (597,085) | (195,714) |
| Cash flows from financing activities: | | |
| Cash used for purchase of treasury stock | (6,204) | (6,099) |
| Net proceeds from issuance of common stock | 18,278 | 24,633 |
| Principal payments on long-term debt | (15,015) | (11,265) |
| Payment on revolving credit facility | (302,000) | (155,200) |
| Proceeds received from revolving credit facility | 408,000 | 235,000 |
| Proceeds received from note offering | 400,000 | — |

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| | | |
|--------------------------------------------------------------|-----------|-----------|
| Payment on senior credit facility term A-1 loan | (300,000) | — |
| Proceeds received from senior credit facility term A-1 loan | 300,000 | — |
| Debt issuance costs | (9,391) | — |
| Distributions to non-controlling interest | (315) | (1,025) |
| Dividends/distributions | (219,857) | (198,721) |
| Net cash provided by (used in) financing activities | 273,496 | (112,677) |
| Effect of exchange rate changes in cash and cash equivalents | 915 | (2,036) |
| Net increase in cash and cash equivalents | 15,152 | 3,043 |
| Cash and cash equivalents at beginning of period | 22,327 | 26,035 |
| Cash and cash equivalents at end of period | \$37,479 | \$29,078 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid for interest | \$91,952 | \$77,934 |
| Cash paid for foreign, state and federal income taxes | \$11,023 | \$9,412 |

See accompanying notes to condensed consolidated financial statements.

LAMAR ADVERTISING COMPANY

AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

(In thousands, except share and per share data)

1. Significant Accounting Policies

The information included in the foregoing interim condensed consolidated financial statements is unaudited. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the Company's financial position and results of operations for the interim periods presented have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the entire year. These interim condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and the notes thereto included in the 2015 Combined Form 10-K as updated by the Company and Lamar Media's Current Report on Form 8-K, filed on July 11, 2016. Subsequent events, if any, are evaluated through the date on which the financial statements are issued.

2. Acquisitions

During the nine months ended September 30, 2016, the Company completed several acquisitions of outdoor advertising assets for a total purchase price of \$535,029, of which \$526,029 was in cash and \$9,000 in non-cash consideration consisting principally of exchanges of outdoor advertising assets. The purchases included the acquisition of assets in five U.S. markets from Clear Channel Outdoor Holdings, Inc. for an aggregate cash purchase price of approximately \$458,500. As a result of the acquisitions, a gain of \$8,599 was recorded for transactions which involved the exchanges of outdoor advertising assets during the nine months ended September 30, 2016.

Each of these acquisitions was accounted for under the acquisition method of accounting, and, accordingly, the accompanying consolidated financial statements include the results of operations of each acquired entity from the date of acquisition. The acquisition costs have been allocated to assets acquired and liabilities assumed based on preliminary fair market value estimates at the dates of acquisition. The following is a summary of the allocation of the acquisition costs in the above transactions.

| | Total |
|-------------------------------|----------|
| Property, plant and equipment | \$94,965 |
| Goodwill | 180,001 |

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| | |
|------------------------------|---------|
| Site locations | 217,301 |
| Non-competition agreements | 80 |
| Customer lists and contracts | 41,071 |
| Current assets | 4,697 |
| Other assets | 3,169 |
| Current liabilities | |