



Lamar Advertising (LAMR)

Updated May 10th, 2021 by Samuel Smith

Key Metrics

Current Price:	\$106	5 Year CAGR Estimate:	-2.0%	Market Cap:	\$10.7B
Fair Value Price:	\$66	5 Year Growth Estimate:	3.5%	Ex-Dividend Date:	6/19/21 ¹
% Fair Value:	161%	5 Year Valuation Multiple Estimate:	-9.1%	Dividend Payment Date:	6/31/21 ²
Dividend Yield:	2.8%	5 Year Price Target	\$78	Years of Dividend Growth:	0
Dividend Risk Score:	D	Retirement Suitability Score:	D	Last Dividend Increase:	NA

Overview & Current Events

Lamar Advertising traces its lineage back to 1902 when Charles Lamar helped form a small poster company in Florida. Since that time, the business has grown exponentially into an advertising giant with ~350,000 outdoor displays in nearly every state, Canada and Puerto Rico. The trust changed its corporate structure to become a REIT in 2014 and today, it trades with a \$10.7 billion market capitalization.

Lamar reported Q1 2021 results on 5/04/21. Net revenue fell by 8.8% to \$370.9 million, net income came in at \$38.3 million, and adjusted EBITDA fell by 4.6% to \$152.4 million. Adjusting for acquisitions, net revenue decreased by 8.2% and EBITDA decreased by 4.5%. That said, the trust's financial position is solid with \$765.1 million in total liquidity (\$710.6 million available on the revolving senior credit facility, \$11.4 million available under the Accounts Receivable Securitization Program, and approximately \$43 million in cash and cash equivalents).

Meanwhile, total operating expenses decreased by 9.0% and operating income also decreased \$7.6 million to \$88.9 million, compared to \$96.6 million in the year-ago period. The company raised its guidance range for full-year diluted AFFO per share to between \$5.40 and \$5.60.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
FFOPS	\$3.31	\$3.25	\$3.62	\$4.08	\$4.59	\$5.00	\$5.05	\$5.50	\$5.75	\$5.10	\$5.48	\$6.50
DPS	---	---	---	---	\$2.50	\$2.75	\$3.02	\$3.56	\$3.84	\$2.00	\$3.00	\$4.00
Shares³	93	94	95	96	97	97	98	100	101	101	101	105

At times in the past, Lamar has struggled to grow. However, over the past decade Lamar has been busy growing organically and through acquisitions, fueling strong FFO-per-share growth. The trust is experiencing strong growth tailwinds after growing AFFO/share by 8.9% in 2018 and is carrying new acquisitions from 2019 and reduced COVID-19 headwinds into 2021.

We see revenue as the main driver of growth as Lamar grows organically and through acquisition, as the additional revenue should provide some leverage on the trust's largely fixed expense base, improving margins, providing extra FFO/share growth. Lamar has significant debt, so interest expense consumes a significant amount of operating income. However, it has done a nice job in recent years of keeping its debt at manageable levels. Overall, we expect FFO per share to grow at a decent 3.5% annualized clip over the next half decade.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/FFO	8.3	11.9	14.4	13.1	13.1	13.4	14.7	14.2	15.3	16.0	19.3	12.0
Avg. Yld.	---	---	---	---	4.2%	4.1%	4.1%	4.6%	4.4%	2.5%	2.8%	5.1%

¹ Estimate

² Estimate

³ In millions

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Lamar's price-to-funds-from-operations ratio has moved around a lot in the past decade due to choppy FFO results. We see the current valuation as being above fair value, which we've estimated at 12 times FFO due to the choppiness of earnings and the leveraged, acquisition-focused business model. At today's multiple of 19.3 times 2021 FFO, we see a headwind to total returns in the years to come from multiple contraction.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	---	---	55%	55%	60%	65%	67%	39%	55%	62%

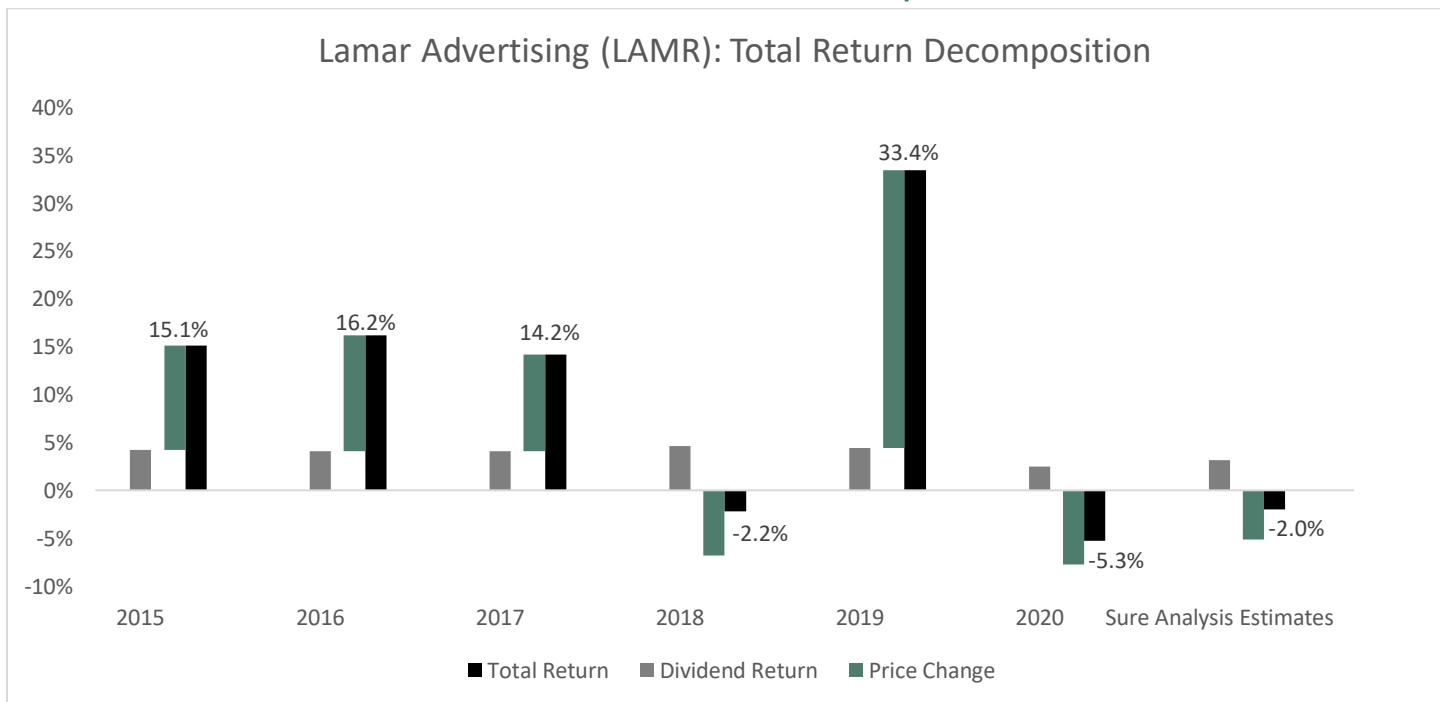
Lamar's quality metrics have been remarkably stable considering the amount of change the trust has gone through in the past decade in terms of strategy and converting to a REIT. Margins have crept a bit higher over time and while we see some operating leverage on its expense base, gross margins have plateaued. The trust's balance sheet remains significantly leveraged, and that should remain the same. Interest coverage has improved markedly in recent years and with a solid FFO growth outlook, it should only improve further.

Lamar is somewhat susceptible to recession but during the Great Recession, its FFO-per-share dipped only briefly before recovering. Its immense size is certainly a competitive advantage, and its long operating history and brand it has built over the past century is certainly a long-term asset. Lamar's competitive positioning should continue to improve with its acquisition-heavy strategy moving forward.

Final Thoughts & Recommendation

Lamar offers investors a well-covered 2.8% yield along with solid growth prospects. We believe management will continue to grow the dividend in the years to come, though growth will slow as the recent headwinds have pushed management to redouble their efforts to deleverage instead of investing in new acquisitions. Overall, we view shares as a sell as the income looks decent, but total returns are only expected to be -2.0% annualized over the next half decade.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	1,131	1,180	1,246	1,287	1,353	1,500	1,541	1,627	1,754	1,569
Gross Profit	722	761	809	834	880	975	1,000	1,065	1,164	1,011
Gross Margin	63.8%	64.5%	64.9%	64.8%	65.0%	65.0%	64.9%	65.5%	66.4%	64.5%
SG&A Exp.	249	264	289	300	314	346	339	372	403	359
D&A Exp.	300	296	301	258	191	205	211	225	250	251
Operating Profit	173	201	220	275	374	424	451	468	511	401
Operating Margin	15.3%	17.0%	17.6%	21.4%	27.7%	28.3%	29.2%	28.7%	29.1%	25.6%
Net Profit	7	8	40	254	263	299	318	305	372	243
Net Margin	0.6%	0.7%	3.2%	19.7%	19.4%	19.9%	20.6%	18.8%	21.2%	15.5%
Free Cash Flow	212	270	289	345	367	414	398	447	490	508
Income Tax	6	8	23	(110)	22	13	9	11	(4)	5

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	3,427	3,514	3,402	3,319	3,364	3,899	4,214	4,545	5,941	5,791
Cash & Equivalents	34	59	33	26	22	36	115	21	26	122
Goodwill & Int. Ass.	147	160	162	170	174	190	202	236	255	241
Total Liabilities	1,904	1,953	1,923	1,880	1,949	2,364	2,537	2,835	2,905	2,827
Accounts Payable	2,588	2,652	2,469	2,337	2,343	2,829	3,111	3,413	4,761	4,589
Long-Term Debt	13	14	13	16	17	18	18	21	15	12
Shareholder's Equity	2,159	2,161	1,939	1,900	1,891	2,349	2,557	2,889	2,980	2,887
D/E Ratio	839	862	933	981	1,021	1,070	1,103	1,132	1,180	1,203

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	0.2%	0.2%	1.2%	7.5%	7.9%	8.2%	7.8%	7.0%	7.1%	4.1%
Return on Equity	0.8%	0.9%	4.5%	26.5%	26.2%	28.6%	29.2%	27.3%	32.2%	20.4%
ROIC	0.2%	0.3%	1.4%	8.8%	9.1%	9.4%	9.0%	7.9%	9.1%	5.9%
Shares Out.	93	94	95	96	97	97	98	100	101	101
Revenue/Share	12.14	12.60	13.15	13.51	14.04	15.36	15.67	16.42	17.48	15.55
FCF/Share	2.27	2.89	3.05	3.62	3.81	4.24	4.04	4.51	4.88	5.03

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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