Lamar Advertising (LAMR)

Updated March 11th, 2024 by Samuel Smith

Key Metrics

Current Price:	$117	**5 Year CAGR Estimate:**	2.0%	**Market Cap:**	$12.1B
Fair Value Price:	$94	**5 Year Growth Estimate:**	1.7%	**Ex-Dividend Date:**	3/14/24
% Fair Value:	125%	**5 Year Valuation Multiple Estimate:**	-4.4%	**Dividend Payment Date:**	3/28/24
Dividend Yield:	4.4%	**5 Year Price Target**	$102	**Years of Dividend Growth:**	4
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Rating:**	Sell

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 $12.1 billion market capitalization.

On February 23, 2024, Lamar Advertising Company (NASDAQ: LAMR) announced its financial results for the fourth quarter of 2023. In the fourth quarter of 2023, the company reported a GAAP EPS of $1.46, surpassing expectations by $0.11. Diluted Adjusted Funds from Operations (AFFO) per share increased by 9.9% to $2.10 compared to $1.91 for the same period in 2022. Revenue amounted to $555.9 million, marking a 3.8% year-over-year increase and beating expectations by $8.23 million. Adjusted EBITDA for the quarter reached $268.2 million, up from $252.3 million in the fourth quarter of 2022, reflecting a 6.3% increase. Cash flow provided by operating activities also saw growth, reaching $254.2 million for the quarter, compared to $244.5 million in the fourth quarter of 2022. Free cash flow increased to $180.3 million in the fourth quarter of 2023 from $159.3 million for the same period in 2022, marking a 13.2% rise. Looking ahead, the company expects net income per diluted share for fiscal year 2024 to be between $5.02 and $5.07, with diluted AFFO per share projected to be between $7.67 and $7.82, compared to the consensus estimate of $8.32.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
AFFO/S	$4.08	$4.59	$5.00	$5.05	$5.50	$5.80	$5.10	$6.59	$7.38	$7.47	***$7.80***	***$8.50***
DPS	$0.00	$2.50	$2.75	$3.02	$3.56	$3.84	$2.00	$4.00	$5.00	$5.00	***$5.20***	***$5.60***
Shares[1]	95.5	96.7	97.4	98.3	99.6	100.5	100.9	101.3	101.7	102.1	***102.1***	***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 took a slight hit from COVID-19 headwinds in 2020 but has recovered nicely since then.

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 1.7% annualized clip over the next half decade.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/AFFO	13.1	13.1	13.4	14.7	14.2	15.3	16	18.7	13.1	12.7	***15.0***	***12.0***
Avg. Yld.	0.0%	4.2%	4.1%	4.1%	4.6%	4.3%	2.5%	3.2%	5.2%	5.3%	***4.4%***	***5.5%***

[1] 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 AFFO results. We see the current valuation as being above fair value, which we've estimated at 12 times AFFO due to the choppiness of earnings and the leveraged, acquisition-focused business model. At today's multiple of 15 times 2024 expected AFFO, we see a headwind to total returns in the years to come from multiple contraction.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	0%	54%	55%	60%	65%	66%	39%	61%	68%	67%	***67%***	***66%***

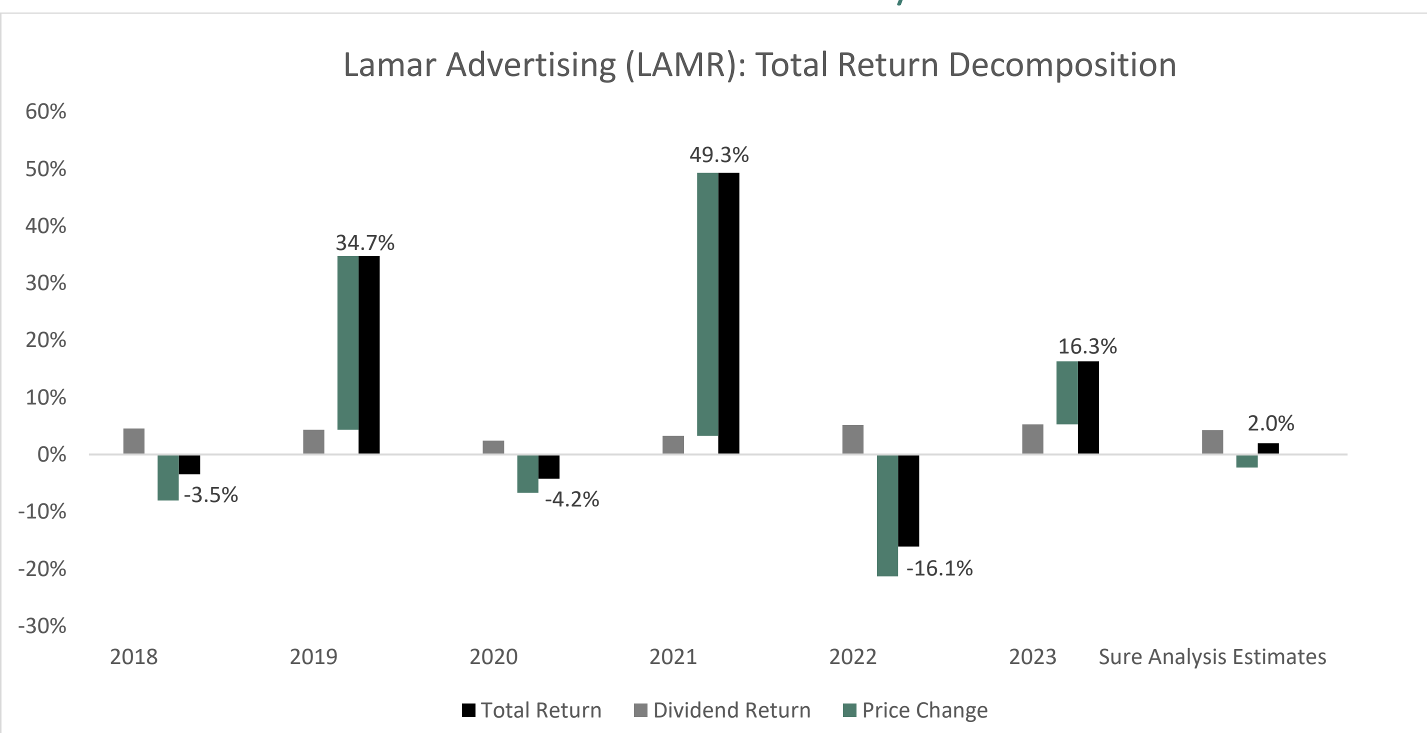
Lamar's quality metrics have been remarkably stable considering the amount of change the trust has gone through in the past decade in terms of strategy and converting to a REIT. Margins have crept a bit higher over time and while we see some operating leverage on its expense base, gross margins have 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 4.4% yield. 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% annualized over the next half-decade.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	1,287	1,353	1,500	1,541	1,627	1,754	1,569	1,787	2,032	2,111
Gross Profit	834	880	975	1,000	1,065	1,164	1,011	1,211	1,365	1,414
Gross Margin	64.8%	65.0%	65.0%	64.9%	65.5%	66.4%	64.5%	67.7%	67.2%	67.0%
SG&A Exp.	300	314	346	339	372	403	359	327	351	345
D&A Exp.	258	191	205	211	225	250	251	271	349	293
Operating Profit	275	374	424	451	468	511	401	519	562	670
Operating Margin	21.4%	27.7%	28.3%	29.2%	28.7%	29.1%	25.6%	29.0%	27.7%	31.7%
Net Profit	254	263	299	318	305	372	243	388	439	496
Net Margin	19.7%	19.4%	19.9%	20.6%	18.8%	21.2%	15.5%	21.7%	21.6%	23.5%
Free Cash Flow	345	367	414	398	447	490	508	608	615	605
Income Tax	(110)	22	13	9	11	(4)	5	9	17	10

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	3,319	3,364	3,899	4,214	4,545	5,941	5,791	6,047	6,475	6,564
Cash & Equivalents	26	22	36	115	21	26	122	100	53	45
Goodwill & Int. Ass.	1,880	1,949	2,364	2,537	2,835	2,905	2,827	2,982	3,242	3,207
Total Liabilities	2,337	2,343	2,829	3,111	3,413	4,761	4,589	4,830	5,280	5,347
Accounts Payable	16	17	18	18	21	15	12	16	20	18
Long-Term Debt	1,900	1,891	2,349	2,557	2,889	2,980	2,887	3,014	3,313	3,341
Shareholder's Equity	981	1,021	1,070	1,103	1,132	1,180	1,203	1,217	1,195	1,216
LTD/E Ratio	1.94	1.85	2.20	2.32	2.55	2.52	2.40	2.48	2.77	2.75

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	7.5%	7.9%	8.2%	7.8%	7.0%	7.1%	4.1%	6.6%	7.0%	7.6%
Return on Equity	26.5%	26.2%	28.6%	29.2%	27.3%	32.2%	20.4%	32.1%	36.4%	41.1%
ROIC	8.8%	9.1%	9.4%	9.0%	7.9%	9.1%	5.9%	9.3%	10.0%	10.9%
Shares Out.	95.5	96.7	97.4	98.3	99.6	100.5	100.9	101.3	101.7	102.1
Revenue/Share	13.51	14.04	15.36	15.67	16.42	17.48	15.55	17.64	19.99	20.67
FCF/Share	3.62	3.81	4.24	4.04	4.51	4.88	5.03	6.00	6.05	5.93

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