Top 10 Things to Know
About Financing Your Digital Billboard
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Many independent billboard operators are switching to LED digital billboards for their attention-grabbing, sharp and vibrant images that deliver messages with impact and generate a greater return on investment than static boards. In fact, an executive at a leading outdoor advertising agency recently announced that his company’s digital billboards, which comprise just 0.4% of the firm’s signs, now generate 17% of the firm’s revenues.* It’s pretty clear why so many independent operators are jumping on the LED digital bandwagon!

Now that you’re thinking about purchasing a digital billboard, you’re probably wondering what financing options are available to help you achieve the best return on your investment. As you review your financing choices, here are answers to 10 questions to help you navigate the application process.

1. Are You Ready for a Digital Billboard?

A digital billboard is an investment that has the potential to generate revenues six to ten times greater than a static board. Every independent operator has at least one prime location, so ask yourself whether that location will bring the greatest and fastest return on your digital LED investment.

For example, a static 14’ x 48’ bulletin in an “A+” location that generates $5,000 per month from one advertiser would have potential “faces” or “views” for messages from eight advertisers as a digital board. That means it could generate as much as $40,000 per month. At that rate, your digital investment could be paid off in one year and deliver many more years of profits. Not all digital boards are bulletins though. A static 12’ x 24’ board that generates $800 in monthly ad revenues is likely to deliver between $5,000 to $8,000 per month once replaced with a digital board. It would pay off in just over 18 months.

The bottom line is:
Consider your best locations, which are those with the highest rates and advertiser waiting lists. They should be the “low hanging fruit” when considering digital.

2. What Is the Difference Between a Billboard Loan and Lease?

Both are ways to finance your billboard purchase. With a loan, you’re buying the sign and you own it, similar to buying a house with a mortgage. With an operating lease, the lease company holds the title, and you have the right to buy the billboard at the end of the lease term at a greatly reduced amount. Under either a loan or a lease, the lender will take a collateral interest in the ground lease and permit.

According to Chris Stark, President of Stark Capital Solutions, the lease document will usually state your monthly payment but will not specify the amount or rate of interest charged for financing. Ask your accountant to calculate the rate of interest for you.

3. Bank or Billboard Financing Company: Which Is Right for Me?

It seems natural to turn to your local banker for financing. After all, you have probably established a strong relationship with your community bank. However, a very small percentage of all digital billboard loans come from local banks. Nevertheless, it’s worthwhile to spend the time to try to educate your banker about the potential profits of digital billboards because your interest rates from a bank will be two to six percentage points lower than those of a specialty finance company.

“Most banks don’t understand the billboard industry, nor do they have the resources to invest in learning about the industry. They will see so few billboard deals in their career that it just does not make sense to dig in and learn the industry,” said Stark. “Many bankers mistakenly view digital and static billboards as risky investments. What they don’t realize is that digital and static billboards have a market value many times greater than the costs they are being asked to finance,” he added. However, if that education includes months of waiting for loan approval, Darrin Friskney, Vice President of Watchfire Digital Outdoor, recommends getting the job done quickly through a billboard financing company. “Most financing companies can approve a loan in a day or two if all your documents are in order. In the billboard business, lost time is lost revenue. By getting financing faster and getting boards up quickly, independent operators can bring in tens of thousands of dollars now, rather than waiting months for a bank loan that saves just a few thousand dollars in interest.”

4. Are There Tax Benefits to Leasing Versus Obtaining a Loan?

There are benefits to both a lease and a loan. We suggest consulting with your financial advisor or certified public accountant to learn what’s best for your business.

**Operating lease benefits**

Monthly payments are 100% tax deductible as an operating expense. You may also be able to write off remaining years of depreciation once your lease terms are met.

**Loan benefits**

Interest payments on the loan are tax deductible. In addition, you are entitled to depreciate the billboard on whatever schedule your CPA advises.
5. What Should I Look for When Shopping for a Specialty Lender?

“It’s critical to have a lender who offers competitive rates and who understands the product and the industry,” says Larry Kovacs, Vice President, All Media Capital. A lender with experience can help to expedite the application process because he understands the issues billboard operators face. Kovacs suggests finding a finance company that is willing to take the extra steps to help an operator select the best location possible for their digital billboard.

“We’ve worked with customers and have recommended leveraging multiple billboards if they have ‘A+’ locations,” said Kovacs. This approach works well when customers have multiple billboards and different locations. Then they’re not selling just one face at one location, which means their advertisers will get better exposure throughout the market.

Chris Stark of Stark Capital suggests that applicants pre-screen several financing firms and talk to their customer references before starting the application process. He recommends operators ask the following questions of prospective lenders:

- What is the interest rate of the loan/lease?
- Is the billboard finally paid off at the end of the term, or are there balloon or residual payments due at the end of the loan/lease?
- Are there penalties for early pay-off?
- How many billboards has the firm financed in the past?
- How long is the process, from submitting financial documents to receiving funding?

6. What Information Will Lenders Expect?

Lenders will want to make sure that you have a good occupancy rate, sufficient cash flow to support your existing billboards, and a good credit history. They’ll also want to confirm that your proposed digital board is in a high-traffic location and verify that the board and its structure comply with local zoning regulations.

Be prepared for full financial disclosure. Ask yourself questions such as: Are the occupancy rates on my existing boards 75% or greater? Is my business strong and nourished by a steady cash flow?

Because of the financial investment required, many lenders prefer applications that have professionally compiled financials prepared by a certified public accountant (CPA). At a minimum, internally prepared financial statements should be supported by current tax returns.

Don Polfliet, President of Falcon Leasing, says, “We require such detailed credit information because we want to provide financing to a larger group of customers.” A lender who sees you have done your homework will be more likely to provide the financing you need to make your growth plan a reality.

However, if you’re new to the billboard industry and have a “killer” location and sound business plan for your digital board, don’t let inexperience hold you back. Take your plan to your bank or specialty lender. Kovacs says that All Media Capital is very aggressive in the market for new lines of credit, and they have high execution percentages. “Our main focus is on-premise locations, but we work with outdoor billboard owners as well.”

Lenders will want confirmation that your financial data is credible. Operators should have details about the price of the entire project, anticipated ad rates charged to customers, and other specifics about their business models.
7. What Documents Do I Need in My Application?

Not all companies require all of these things, but be prepared to offer the following documents in your application for financing:

- Past three years of business tax returns
- Past three years of personal tax returns for individuals owning 20% or more of the business
- Year-to-date income statements for the business
- Personal financial statements for all individuals who own 20% or more of the business
- Brief biography of key company managers
- Description of the loan request
- Detailed listing of your current billboard inventory
- Business projections for your new digital billboard

Some lenders will require that you’ve been in business for a minimum number of years. For example, Falcon Leasing requires at least seven years in the outdoor advertising business to secure a loan.

8. How Will the Loan Be Structured?

Lenders say the terms of financing are structured to fit each customer’s unique needs. Falcon Leasing provides the flexibility to structure agreements to meet cash flow and individual business requirements. General terms are 12 to 60 months. According to Don Polfliet, “Falcon also offers $1.00, 10% and FMV purchase options, and step lease, deferred, or seasonal payments are available.”

“All Media Capital structures commercial equipment loans and leases with terms ranging from 24 to 120 months, and their rates can be as low as 5.75% for 10 years for borrowers with good credit and sound businesses,” says Kovacs.

Stark Capital typically finances billboards over seven to ten years with a fully amortizing loan. If an operator is unable to get full financing for the digital billboard, many financing firms may offer to become an equity investor and own a stake in your billboard.
9. How Long Does the Financing Process Take?

The length of the process varies depending on the complexity of the transaction and the experience of the borrower and lender in financing digital billboards. A bank that lacks an education about LED billboards may require several weeks or even months to complete its approval process. However, operators who have secured previous loans from their bankers or finance companies could speed through the process within 48 hours.

Most firms say a reasonable and fair process should span two to three weeks. Applicants must remember that, from the lender’s perspective, the clock starts ticking only after the applicant has submitted all required documents, which must be deemed complete by the financing firm.

10. How Soon Can I Recoup the Costs of My Investment?

That answer will be dictated by variables that have little to do with financing and are based on the business needs of each individual operator. The rates you will charge to advertisers, the cost of the structure, and the underlying ground lease and operating costs will determine how long it takes to pay off a digital billboard loan or lease.

With that said, a typical loan pays off in five to seven years. But a digital billboard installed in a prime location could pay for itself in as little as 11 months, according to Darrin Friskney. “One operator in a major market had a vinyl board in an “A+” location that generated $5,000 per month. By replacing it with a digital billboard, he can generate between $30,000 and $50,000 per month, which will enable him to pay off his capital investment in less than one year. From then on, it’s pure profit.”

Learn more about financing your digital billboard.
A Watchfire Digital Outdoor representative can help you get started.
Call us at 800-219-0496 or visit watchfiredigitaloutdoor.com.

Our thanks go to the following individuals for their contributions to this guide:
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