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TGNA - Q4 2017 Tegna Inc Earnings Call

EVENT DATE/TIME: MARCH 01, 2018 / 1:30PM GMT

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PRESENTATION

Operator

Good day, and welcome to the TEGNA Fourth Quarter 2017 Earnings Conference Call. This call is being recorded. Our speaker for today will be Dave Lougee, President and Chief Executive Officer; and Victoria Harker, Chief Financial Officer. At this time, I would like to turn the call over to Jeff Heinz, Vice President, Investor Relations. Please go ahead.

Jeffrey R. Heinz - *TEGNA Inc. - VP of IR*

Thanks. Good morning, and welcome to our fourth quarter and 2017 full year earnings call and webcast. Today, President and CEO, Dave Lougee, and our CFO, Victoria Harker, will review TEGNA's financial performance and results. After that, we'll open up the call for questions. Hopefully, you had the opportunity to review this morning's press release. If you have not yet seen a copy of the release, it's available at tegna.com.

Before we get started, I'd like to remind you that this conference call and webcast include forward-looking statements and our actual results may differ. Factors that may cause them to differ are outlined in our SEC filings. This presentation also includes certain non-GAAP financial measures. We have provided reconciliations of those measures to the most directly comparable GAAP measures in the press release and on the Investor Relations portion of our website.

With that, let me turn the call over to Dave.

David T. Lougee - *TEGNA Inc. - CEO, President & Director*

Thank you, Jeff, and good morning, everyone. So, this has been an incredibly busy time for TEGNA. In 2017, we completed our transformation into a pure-play media company by, as you know, successfully completing the spin-off of Cars.com and the sale of CareerBuilder. We now have all our capital and human resources deployed with a laser focus on our strategic initiatives: growing and expanding the products we offer, the markets we are targeting and expanding the share we take out of those markets.

Our fourth quarter revenue was up 9% year-over-year on a non-GAAP comparable basis, which is in line with our guidance. Subscription revenue was up 23% and, notably, we began to see significant stabilization of our total paid subscriber universe with a ramp up of paid subscribers from our new OTT deals. Specifically, we saw positive reversal of subscriber trends in the fourth quarter. Excluding the impact of AT&T U-verse, as we've discussed in past calls, paid subscribers in our markets in the top 10 DMAs were actually up in the fourth quarter on a year-to-year basis, a very meaningful development given our portfolio. I can address this, obviously, in more detail during the Q&A section.

And our sales and marketing initiatives have grown consistently, particularly Premion. Premion, as I talked about before, a new high-growth, over-the-top advertising services division that we started at the very end of 2016, continues to open new markets and opportunities for TEGNA. As a reminder, Premion allows local, regional and national customers to directly and transparently place advertising in premium, longform, live and on-demand video programming that is delivered across a broad array of streaming devices, including smart TVs, mobile devices and desktops.

By the end of 2017, Premion achieved more than $30 million in revenue for the year, above the high end of our guidance. The Premion team has executed more than 8,000 campaigns for more than 1,000 clients and more than 200 markets, which covers approximately 99% of the U.S. population. Premion will continue to expand its ad services platform by increasing penetration in local TEGNA markets, and we're expanding our sales force in some major regional markets as well. For full year 2018, we expect to double our revenue from Premion's business.

Separate from those revenues, we'll be building on Premion's leadership position in this OTT advertising space to branch out into new services for our agency and content partners, including an OTT data management platform, or DMP as it's known. And we will continue to make strategic investments that extend our footprint in the OTT advertising ecosystem, such as our recent investments in Tubi and Vizbee.

Moving to the content side of our business. Our transformation efforts are yielding proven practices that we're now implementing across the company. We are targeting specific audience segments where they consume media, creating unique content that is compelling, relevant and sticky, a key strategy for the future as we look to retain and grow audiences across multiple platforms. As a result of our original programming initiatives, we recently announced with Sony Pictures Television a multiyear exclusive distribution agreement for all TEGNA-owned first run programming, such as "Daily Blast LIVE," which crowd-sources its content in real-time from viewers through social media. And "Sister Circle," our live daily talk show designed for African-American women, which is a large and traditionally underserved daytime audience. "Sister Circle" is also distributed nationwide each day on targeted cable channel, TV One.

During 2017, we also completed our first wave of wholesale non-incremental transformations of our local news operations. Our most recent example is "Get Up DC" on WUSA here in Washington, D.C., which targets an urban audience, delivering weather, traffic and news that morning viewers need to hear, but with a very unique twist. Reese Waters, a D.C. native and a hip, unique and funny talent, is the centerpiece of this very different morning show. His sharp wit, insights and uniquely D.C. observations are part of a successful effort to bring us new audiences. "Get Up DC" is just one example of programs and content that have come out of our very disciplined Innovation Summit process. Each quarter, we bring together our top innovators from around the company and around the country for a facilitated summit that breaks down all creative barriers, so teams can identify, incubate and launch new pilot programs. We've had six summits, with participation of nearly 200 innovators. From those summits, we have launched 46 pilots, 13 of which have been greenlit, including very well received program such as VERIFY and our digital-first investigations team that have produced award-winning products like the recent "Selling Girls" initiative. We've got our digital brand HeartThreads out of those summits as well as several new innovative daily new programs like "Get Up DC."

Our innovative work is being recognized. We were named Multiplatform Broadcaster of the Year by Broadcasting & Cable, and we won more investigative awards in 2017 than any other local media group in the country. Great investigative work is both a differentiator for us and central to our company's stated purpose of serving the greater good of our communities. That purpose permeates all we do and is a source of pride and a north star for all our employees every day.

Now turning to M&A. Two weeks ago, we closed on our purchase of Midwest Television in San Diego. The Midwest acquisition was very attractive to us as an M&A target and something we had our eyes on for a while. San Diego is a very stable market, and the station has strong loyal viewership and dominant ratings. In addition to mechanical synergies, we'll be bringing to bear the many multiple benefits and systems and initiatives and products, such as Premion, to increase their financial performance.

And the regulatory landscape is continuing to move in our favor for our stated M&A strategy. Just a few weeks back, the FCC fended off a stay of its rule changes for in-market consolidation. As we said before, this will benefit TEGNA in particular. For the most part, we own only one station in the majority of our markets and are still the largest independent owner of Big 4 affiliates in the top 25 markets, where this consolidation has yet to take place unlike in the very small markets. We're uniquely positioned to optimize our portfolio and station economics by consolidating two Big 4 stations through swaps as well as purchases. As always, we evaluate all potential transactions with the same disciplined and opportunistic lens we've always used.

Now before I turn the call over to Victoria to discuss more detail on our financial results, I want to make a few comments about 2018. The year is off to a great start. For the Super Bowl, our NBC stations took the #1 spot among all NBC affiliates for ratings in Buffalo and share in Minneapolis. And in the key adult 25 to 54 demographic, TEGNA stations had four of the top 10 NBC affiliates in Super Bowl ratings. For the Olympics, a similar story, which wrapped up on Sunday. Our Denver and Minneapolis stations were the #1 and #2-rated stations respectively among all NBC affiliates in primetime in that adult 25-54 demographic, and we had four of the top seven.

Turning to political advertising. The prospects for political advertising tied to the 2018 mid-term elections continue to look very good for broadcasting overall and specifically for TEGNA. As you see in the news each day, there is unprecedented voter engagement for the upcoming mid-term elections and a corresponding record level of fundraising. Across our portfolio, our markets featured 19 of the 36 gubernatorial governor races. And as of right now, eight of those races look very competitive. And of the 34 Senate races nationwide, our markets have 16 of those races. And as of right now, eight of those, or half, look to be very competitive. And since our footprint covers 1/3 of the country, we'll have 1/3 of all house races with many of the competitive seats there as well. And raising the stakes further, which we think will be a new dynamic this year, we're now just three years away from the next round of redistricting of House seats, which comes with the census, which will add to the spending and state-level races up and down the ballot in each of our states. As the Democrats have decided that's a battle they have not engaged in the past and are now going to pump a lot of money into.

As I've said before, because our political revenue comes from a handful of large markets, we have more of a challenge forecasting this revenue with a precision, let's say -- for instance, a group with a very large number of very small market stations can. But that said, we are very optimistic about 2018 full year political revenue as we've had meaningful improvements to our competitive footprint in recent months such as the addition of the competitive Senate seat in Arizona as just one example.

And with that, I'll pass the call to Victoria.

Victoria Dux Harker - *TEGNA Inc. - Executive VP and CFO*

Thanks, Dave. Good morning, everyone, and thank you for joining us. As Dave mentioned, we are executing well on our content and growth initiatives while enhancing our business through accretive strategic acquisitions and organic investments. Coupled with our balanced capital allocation strategy to delever and return capital, we're creating shareholder value while generating the financial firepower to continue to accelerate our growth.

Before I cover our consolidated financial results and capital allocation for the quarter, I'd like to review a few special items with you. During the fourth quarter, we reported a one-time deferred tax benefit of $221 million, resulting from the new federal tax legislation, which increased EPS by $1.02. As a result of tax reform, we expect the 2018 combined federal and state effective tax rate will be between 23% and 25%, producing cash tax savings of approximately $35 million for the year, which we will continue to invest in the business as well as in organic growth opportunities.

During the quarter, we also benefited from a $16 million after-tax equity investment gain, primarily due to the sale of Livestream. This benefited EPS by about $0.07 a share. As we discussed last quarter, Hurricane Harvey caused significant damage to our Houston station. During the fourth quarter, we experienced costs related to running temporary operations there, which were more than offset by insurance proceeds. As a result, we recognized an after-tax gain of approximately $4 million or $0.02 per share. Beyond these items, we also recognized costs related to the redemption of $280 million of our 2019 notes, which we announced last quarter as well as transaction-related fees of about $6 million or $0.03 a share. All in, special items for the quarter totaled $235 million or $1.08 per share.

Moving now to the fourth quarter consolidated financial results. Keep in mind, all of my comments today will be focused on our performance from continuing operations on a non-GAAP basis in order to clearly provide financial insight into the drivers and results of our business. You can find all of our reported data and prior period comparatives in both the text and the tables contained in our press release. Also, please recall, as has been true for the past few quarters, we now report only one consolidated Media Segment, which also includes a small Digital Marketing Services business previously reported in the Digital Segment prior to the Cars.com spin last year. As a result, our comparison to 2016 were negatively impacted by the termination of our transition services agreement with Gannett and the absence of revenue from Cofactor. As a result of these items, revenue comparisons were unfavorably impacted by $16 million again this quarter. Quarterly comparisons through 2018 will be negatively impacted until we lap these changes midyear.

As we've noted before, TEGNA's even- to odd-year results are significantly impacted by the cyclical drivers of Olympic and political spending driven by our high concentration of NBC stations and traditionally favorable political advertising footprint. For context, during the fourth quarter of 2016, our stations generated $81 million more in political advertising than the fourth quarter of 2017. So as anticipated, excluding the impact of political advertising as well as terminated Digital Marketing Services and the sale of Cofactor, total company revenue for the fourth quarter was up more 9% year-over-year on a comparable basis, well within the guidance we provided last year. On a reported basis, total revenue for the fourth quarter was down 10%, due primarily to the $81 million political delta, also well within the range we provided last quarter.

Breaking total revenue down just a bit further. Subscription revenue growth for the quarter was up 23% year-over-year, reflecting benefits from agreements negotiated with traditional MVPDs in 2016 as well as the start of OTT subscriber revenues that Dave referenced. Advertising and marketing services revenue increased 3% this quarter on a comparable basis, again, excluding discontinued Digital Marketing Services revenue. This is the best quarterly year-over-year growth in 2017. On a reported basis, advertising and marketing services revenue was 2% lower than the fourth quarter last year.

Now turning to expenses. Total company expenses on a non-GAAP basis were 6% higher year-over-year, due primarily to substantially higher programming fees, including first-time reverse compensation fees paid to NBC for 11 of our stations, which began earlier in 2017. Excluding programming costs and terminated digital businesses, adjusted operating expenses were down 2%. Excluding corporate expenses of $12 million, adjusted EBITDA for the quarter was $181 million, producing a margin from our business operations of approximately 37%. For the full year, also excluding corporate expenses, adjusted EBITDA was $684 million, resulting in a margin of 36%.

Now turning to liquidity and capital allocation during the fourth quarter. Capital expenditures from continuing operations for the quarter totaled $13 million, reflecting investments in our news content and infrastructure development as well as systems efficiency enhancements and maintenance. Looking ahead, we expect recurring capital expenditures in 2018 to be approximately $35 million to $40 million and approximately $45 million of nonrecurring items as we've previously disclosed, including mandatory channel repacking, our planned headquarters' relocation and a new facility in Houston.

Now turning to capital allocation. As we mentioned last quarter, net cash proceeds of $244 million from the CareerBuilder sale, combined with the remaining $40 million Cars.com distribution, were put to work early in the fourth quarter to redeem $280 million of our 2019 fixed-rate notes, reducing interest expense by approximately $3 million per quarter through the third quarter of 2019.

Subsequent to the disposition of Cars.com and CareerBuilder, TEGNA's free cash flow from continuing operations was $22 million in the fourth quarter compared to $98 million in the third quarter, which you may recall had been significantly impacted by a one-time $33 million channel share payment received in the third quarter. In addition, the fourth quarter was impacted by a $49 million increase in planned interest and tax payments. Keep in mind that almost 25% of the cash tax impact this quarter relates to the Cars.com and CareerBuilder businesses prior to the spin and sale of those assets. As a result, at quarter end, total debt was $3 billion, producing net leverage of approximately 4x, which was prior to funding the Midwest Television acquisition, which didn't occur until February 15. In addition, under our expanded $300 million 3-year share buyback program, we repurchased $15 million of shares in the fourth quarter at an average price of $13.54 per share.

Before I touch on first quarter revenue guidance, I'd like to expand a little bit more on Dave's comments on the Midwest Television acquisition, which we closed mid-last month. As we previously discussed, the purchase price of $325 million was financed through cash on hand and borrowing under our existing credit facility. This transaction represents an attractive, tax-adjusted purchase price multiple of 6.6x, the estimated average 2017 and 2018 EBITDA, including expected run rate synergies and tax benefits. The annual run rate EBITDA synergies are expected to be driven by mechanical revenue and cost efficiencies while the revenue synergies will be driven by retransmission rate step-up in conjunction with leveraging of TEGNA's strategic initiatives within the San Diego market, digital marketing, products and pricing capabilities. Given the late close, the Midwest transaction's impact to the quarter will be minimal and will have a minimal impact on our net leverage ratio, increasing it initially by about two-tenths of a turn and then returning to about four times by the end of 2018.

Before I address first quarter revenue guidance, I also want to note that we're comfortable with the full year 2018 outlook we provided on Investor Day last May based on what we know currently about the political landscape this year. During the first quarter, total company revenue comparisons will, again, be favorably impacted by increased advertising and marketing spend with the Olympics and Super Bowl occurring in the same quarter this year on our NBC stations. Keep in mind, not all Olympic or Super Bowl spending is entirely incremental, and we anticipate that the incremental factor for the first quarter of 2018 will be less than historical trends. This is the result of fewer unwired deals, which in the past have been 100% incremental for us as well as the competition for those advertising dollars from having a Super Bowl and Olympics on the same network in the same month. We'll have better insight into this after the quarter closes.

We expect non-GAAP total company revenue in the first quarter, excluding the terminated digital business, to increase 10% to 12% year-over-year, driven by Olympics, Super Bowl and subscription revenue growth as well as nominal impact from the Midwest stations. On a reported basis, we project total company revenue for the first quarter will be up high-single digits year-over-year. As a reminder, the first quarter advertising and marketing services revenue is generally the lowest revenue quarter of the year with a natural seasonal sequential decline in quarterly returns from the fourth quarter to the first quarter. This is no different in 2018 for the base business prior to tent pole events like the Olympics and the Super Bowl.

Regarding subscription revenue trends for the first quarter, as we've noted in the past, only approximately 6% of our MVPD subscriber base was renewed at the end of 2017. While there will be annual escalators beyond this during the year, the lower percentage of our subscriber renewals will not drive a significant year-over-year growth. By comparison, approximately 15% of our MVPD subscriber base are up for renewal in 2018 and almost half, or 48%, renewing in 2019. In addition, the terminated digital business will once again negatively impact the quarter's revenue by approximately $11 million.

Now let me turn the call back to Dave for some final remarks.

David T. Lougee - *TEGNA Inc. - CEO, President & Director*

Thanks, Victoria. We are very proud of all that the team's accomplished in 2017. And I want to thank all of our TEGNA colleagues for their passion, persistence, innovation and integrity. Though we are already well into the new year, as you can see, we've entered 2018 from a position of strength. Our strategic DNA allows us to move quickly and opportunistically with changes in consumer and advertising trends. And our strong balance sheet gives us the flexibility to invest opportunistically in both organic and inorganic growth. All that, combined with our scale and dual cultures of strategy and execution, will create shareholder value for 2018 and beyond.

And with that, operator, let's open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) First question comes from John Janedis of Jefferies.

John Janedis - *Jefferies LLC, Research Division - MD & Equity Analyst*

Dave, thanks for the color on the paid subscribers. I know you talked about the top 10 being up, but with YouTube now in more than 90 markets, do you see an opportunity for a similar trend in the small to midsize markets? Because I know -- in the past, you discussed the small versus large market phenomenon. So, hoping for an update there.

David T. Lougee - *TEGNA Inc. - CEO, President & Director*

Yes. Thanks, John, for the question. It remains to be seen. To take the last point first, we are continuing to see the trend where the large markets have a very different profile on subs than the smallest markets. And I've confirmed with other operators what our theory about that is, is that most of those are rural markets where people are living on lower incomes and without the income growth and just the cost of the cable bill is a much bigger part of their life. And notably, they're cutting the cord in those markets without the availability of the OTT services. They have not really launched out there in those markets. So, we will wait to see. But what I can say and with much more conviction than I could have three months ago because we really saw the ramp up in the launch of the services is that -- I'll put a number out there. I'm going to let you know that we're finishing the year with almost 600,000 OTT subs. And the vast majority of those, John, are in the top markets. So for us, as I said, we've got four stations in the top 10 DMAs. In the aggregate, they were up more than 0.5% year to year. So that's OTT and traditional as well. And there's now population growth. I think, actually, you have some homes even taking two services. And in most -- in our case, those markets, which are most major American cities, have higher income, higher affluence, less price sensitivity. But the net of it, though, for us is a very, very positive trend. But to your point about the smaller markets, for us it remains to be seen.

John Janedis - *Jefferies LLC, Research Division - MD & Equity Analyst*

All right. And then maybe separately -- look, as you know, there seem lot of cross currents in the ad marketplace. So, I don't know if it's possible, but if you strip out events, how would you characterize the underlying marketplace on the ad side? Are there any regions to call out? And I think you said this, but just to reconfirm, the Midwest asset, that is in the guidance, correct?

Victoria Dux Harker - *TEGNA Inc. - Executive VP and CFO*

Yes.

David T. Lougee - *TEGNA Inc. - CEO, President & Director*

Yes. Minimal impact, but yes. Yes, so you're asking about sort of the underlying ad market, John? Just to be clear on the question.

John Janedis - *Jefferies LLC, Research Division - MD & Equity Analyst*

Correct.

David T. Lougee - *TEGNA Inc. - CEO, President & Director*

Yes. We still have to finish the quarter and sift it out a little bit. But I would say what I think what you heard from others, it's not stronger than fourth quarter. Fourth quarter was probably the strongest quarter of the year. But I'd say, underlying it all, it's kind of a flattish ad market. I think as we look -- it's a little noisy for us when we break out the Olympics and stuff, but that's kind of how it looks to us right now.

Operator

(Operator Instructions) Our next question comes from Alexia Quadrani of JPMorgan.

Alexia Skouras Quadrani - *JP Morgan Chase & Co, Research Division - MD and Senior Analyst*

Just a couple of questions, sort of follow-ups. I think you mentioned the Olympics this year were a little bit less incremental. I guess is that always the case? I mean, how does that compare to, I guess, your experience, the Olympics, the last Winter Olympics that you guys experienced? And then you did highlight your distribution renewals going into '18, with more to come, I think, in '18 -- end of '18, '19. How should we think about -- do you have a range on how we should think about sort of gross retrans for 2018 given that?

David T. Lougee - *TEGNA Inc. - CEO, President & Director*

Yes, Alexia, thanks. I'll take them in reverse order. I think you're exactly right. So, we -- we're living off the escalators of the deals we did at the end of '16 and a few subs that we generated at the end. I think a good range on the top line for us on retrans for the year is probably low double digits. As I said before, this sifting out, this noise between the virtual MVPDs and the traditionals, but we are actually now feeling as once we were kind of cautiously optimistic/maybe worried, now we're feeling it's early and I've got to be careful about this, right? But we got really some optimism about -- especially for our portfolio, given the large market stations that they were going to have a significantly good development. Yes, on the Olympics. Let me address Victoria's points in a little more detail. Because we have large market NBC stations, they have gotten in the past and did some this year, overflow revenue from network sales that go to the O&Os and to us. Basically, us and a couple of other stations and other groups because, really, we fill most of the top 20 markets for NBC. So that's money that other groups of small stations don't get. Now those dollars are down this year roughly $4 million. And those are 100% incremental dollars that sort of dropped in from heaven. So, they just -- they weren't there. So, we're -- I'll give a number. We think we're going to finish at roughly $38 million for the Olympics this year compared to $42 million. That drop is entirely related to that $4 million of 100% incremental money. So, whereas incremental back and forth -- and by the way, that's also compared to -- we did $25 million in 2010. So, it's a -- we're still $13 million over that for comp basis. But for the division in 2014, and remember -- so it's the incremental on the NBC stations subtracting the losses that you have on your non-NBC stations. For the division, our incremental, which is not an exact science, but it's pretty close, we had it back in '14 probably just under 50% for the division. And this year, we'll have it just under 40%. And just to add to that, Alexia, what that says is, when you take out that loss of that money from heaven, as I called it, our TEGNA sales for the Olympics were exactly flat to '14.

Operator

The next question comes from Dan Kurnos of Benchmark Company.

Daniel Louis Kurnos - *The Benchmark Company, LLC, Research Division - MD*

David, maybe kind of a higher-level question. People are looking at the space and what's happened with some of your peers and a lot of the reinvestment in initiatives, and I think people are kind of trying to gauge what's going on from margin profile. Obviously, reverse has been a little bit higher, I think. But generally speaking, you guys are investing in Premion, you've already talked about that and kind of the payout that you're expecting to see there. But can you just kind of walk us through a little bit more holistically on how we should think about your margin profile over the next 12 to 24 months? And you've talked in the prepared remarks about sort of reinvesting, I guess, all of the upside from the tax cuts. So just -- if you can help us kind of think about how long your spigot will be on, when all of that turns to profitability? And you did talk about some of those initiatives. But just any more granularity you can give so people can feel comfortable with sort of the expense guide on a go forward I think will be really helpful.

David T. Lougee - *TEGNA Inc. - CEO, President & Director*

I'm going to turn it over to Victoria.

Victoria Dux Harker - *TEGNA Inc. - Executive VP and CFO*

Sure. And Dan, keeping in mind, we talked back on Investor Day of EBITDA margin on a recurring -- in terms of recurring business operations in the range of 39% to 42%. With the growth and the acceleration of Premion, we would probably at this point guide for the lower end of that range. And because it is developing quite quickly and we're reinvesting in that business in order to take share. I think that post 2018 into 2019, depending on what we see in other markets or other opportunities with partnerships, we would likely see that start to stabilize a bit in terms of margin on Premion and digital in particular. But I think we're very comfortable with that range.

David T. Lougee - *TEGNA Inc. - CEO, President & Director*

And Dan, I'll give you granularity on Premion. So, as we said in the past, unintentionally running that at a zero margin because we are grabbing market share and it's just the right long-term thing to do for the company. But I think by year-end, we'll have that in the low single digits as a margin and growth ramping up next year for Premion. That would give you a little help by that. But that's by year-end, not for full year.

Victoria Dux Harker - *TEGNA Inc. - Executive VP and CFO*

And just to close -- no, as I said, just to close that out and based on what we see today, as Dave mentioned, in terms of political, obviously, it's a different political environment given the margins in political that would impact that for the year...

David T. Lougee - *TEGNA Inc. - CEO, President & Director*

One way or the other, right.

Victoria Dux Harker - *TEGNA Inc. - Executive VP and CFO*

One way or the other.

Daniel Louis Kurnos - *The Benchmark Company, LLC, Research Division - MD*

Yes, I think we all unfortunately remember what happened in '16 too well. So, I understand everyone's hesitance around political. Just any -- Dave, just also on the M&A environment. It sounds like nobody's really being delayed because of the push out on the Sinclair-Tribune close. I assume that you probably fall in that camp. Obviously, you did something more recently than anyone else. But just relative to what you see out there and your ability to go after the in-market consolidation, it sounds like things are kind of quiet on the available asset front. So just kind of your thoughts there and timing and when all of that might pick up?

David T. Lougee - *TEGNA Inc. - CEO, President & Director*

Yes. I would just -- obviously, we don't talk about any specifics. But on your last point, I would just tell you, no, that's not the case -- there are active conversations and -- on multiple fronts.

Operator

The next question comes from Craig Huber of Huber Research Partners.

Craig Anthony Huber - *Huber Research Partners, LLC - CEO, MD, and Research Analyst*

Just for extra clarification here. In the first quarter, do you have a number for us how much

Super Bowl added, I guess, incremental?

David T. Lougee - *TEGNA Inc. - CEO, President & Director*

Yes. The Super Bowl is $10 million incremental, Craig. And that's actually -- it's a little bit lower than it was in -- when we had it last on NBC, but that's only because we had our home team, the Seattle Seahawks, and that added $1 million because they were in the game. So, we're actually -- and that revenue is exact -- taking that background, it was exactly flat to '14.

Craig Anthony Huber - *Huber Research Partners, LLC - CEO, MD, and Research Analyst*

Okay. And then my next question, in your guidance for the first quarter, when you say GAAP total company revenue up, call it, high single digits, how much in there -- can you just give us a dollar amount, I guess, I'm trying to figure out here the acquisition that you did in San Diego? How much on a full -- what's the annualized revenues? Let me just start there, please.

Victoria Dux Harker - *TEGNA Inc. - Executive VP and CFO*

We haven't broken that out at this point and it doesn't -- because we have any -- we just closed. We have -- when we announced the deal, we talked about the fact there would be EPS accretive within 12 months or so. It's just 1 station, obviously, so it's not material in the terms of the size of whole portfolio and it's nominal in terms of the first quarter.

Craig Anthony Huber - *Huber Research Partners, LLC - CEO, MD, and Research Analyst*

If you can give us, like, what the 2017 revenues were for the full -- you purchased?

Victoria Dux Harker - *TEGNA Inc. - Executive VP and CFO*

I think the for the TV station absent the radio stations, it was in the mid-50s-ish. [Note added by the company after the call: Based on 2016 BIA/Kelsey data at the time the acquisition was announced, gross time sales revenue from Midwest Television, Inc's television station is approximately $55 million, excluding retransmission, digital or other revenue.]

David T. Lougee - *TEGNA Inc. - CEO, President & Director*

Yes. But those are obviously very different numbers for us given our synergies and stuff, so.

Victoria Dux Harker - *TEGNA Inc. - Executive VP and CFO*

Exactly. Right.

Craig Anthony Huber - *Huber Research Partners, LLC - CEO, MD, and Research Analyst*

And then, also, can you also tell us how auto advertising did in fourth quarter year-over-year? And how it's tracking in current quarter, please?

David T. Lougee - *TEGNA Inc. - CEO, President & Director*

Yes. So auto for us was flat in the fourth quarter, Craig. And are you asking about how it looks in the first quarter? Is that the second part of the question?

Craig Anthony Huber - *Huber Research Partners, LLC - CEO, MD, and Research Analyst*

Exactly.

David T. Lougee - *TEGNA Inc. - CEO, President & Director*

And the answer is yes, about the same. It's about flat -- it's flattish in the first quarter.

Craig Anthony Huber - *Huber Research Partners, LLC - CEO, MD, and Research Analyst*

And then my final question, please. What is your preliminary outlook, I guess, for net retrans percent change this year, please?

David T. Lougee - *TEGNA Inc. - CEO, President & Director*

We haven't guided to that in the past, but we will have growth, Craig. And we will have growth this year, next year and going on.

Operator

The next question comes from Kyle Evans of Stephens.

Kyle William Evans - *Stephens Inc., Research Division - MD*

A couple of follow-ons to previous. Could you talk a little bit about -- you mentioned flat auto in 1Q. Is it impossible to tease that apart from the sports events that you had in there? And what's the look forward into the 2Q? I know it's still early, but any look forward there would be helpful.

David T. Lougee - *TEGNA Inc. - CEO, President & Director*

Yes, Kyle, I actually don't have that teased out although I can tell you, actually, that auto was a much lower percentage of Super Bowl and Olympics than in years past. So, it's actually sort of a drag on what it would be for us for a pace relative to. But I will say, we have a lot of categories that are up in the fourth quarter and in the first as well. To your point about second quarter, it's just way too early. Money -- the big agency business is placed so late these days, we just -- we don't have any meaningful insight to give on second quarter.

Kyle William Evans - *Stephens Inc., Research Division - MD*

This is maybe nitpicky, but you mentioned you saw some homes taking two services in your commentary on the OTT migration. What kind of visibility do you have there?

David T. Lougee - *TEGNA Inc. - CEO, President & Director*

Some of it's from the providers, some of its conversations with some of providers themselves and just the fact that subs went up. Total subs went up for us in those top 10 markets. So, it's hard to come up with a theory that just being -- it could be that there's just brand-new homes that didn't have it before. But we know from one of the providers, at least one of them, that they've got a lot to do in some of the major markets, but I doubt that's the case with all the others. Like DIRECTV NOW, I would think that's not going to be the case. And that's actually, probably, the biggest player out there.

Kyle William Evans - *Stephens Inc., Research Division - MD*

Got you. And I know you don't report national versus local, but just kind of any commentary on what you saw between those two chunks of core in both 4Q and current quarter.

David T. Lougee - *TEGNA Inc. - CEO, President & Director*

Yes. I think local trends are better than national, both in fourth and first.

Kyle William Evans - *Stephens Inc., Research Division - MD*

National a positive number in both quarters?

David T. Lougee - *TEGNA Inc. - CEO, President & Director*

I think -- well, I don't actually have that break out in front of me, to be honest with you. But I just -- likely, national was down slightly in the fourth quarter, offset by our local gains.

Operator

The next question comes from Marci Ryvicker from Wells Fargo.

Marci Lynn Ryvicker - *Wells Fargo Securities, LLC, Research Division - MD & Senior Analyst*

Victoria, you talked about reinvesting the $35 million excess cash from tax reform. Is that all going to Premion? Or is it going across your businesses?

Victoria Dux Harker - *TEGNA Inc. - Executive VP and CFO*

Across all of the business. And also, we have -- we drew about $220 million onto the revolver to pay for Midwest. So, as we get those cash tax savings, obviously, we'll use some of that to retire the amount drawn under the revolver. But it's a broad-based reinvestment in creating more firepower as well as in our products and services.

Marci Lynn Ryvicker - *Wells Fargo Securities, LLC, Research Division - MD & Senior Analyst*

Okay. And then can you give us the comparable figures for Q1 '17 so that we all have the right numbers when we do our models for the GAAP and the non-GAAP guidance you gave for revenue?

Victoria Dux Harker - *TEGNA Inc. - Executive VP and CFO*

You mean total company revenue?

Marci Lynn Ryvicker - *Wells Fargo Securities, LLC, Research Division - MD & Senior Analyst*

Yes. Just so that -- I mean, you have high single-digit GAAP revenue growth for Q1 '18. So what's the right Q1 '17 number? And then the non-GAAP 10% to 12% revenue increase. What's the non-GAAP Q1 '17 number?

Victoria Dux Harker - *TEGNA Inc. - Executive VP and CFO*

Hold on.

David T. Lougee - *TEGNA Inc. - CEO, President & Director*

We're working on it, Marci.

Marci Lynn Ryvicker - *Wells Fargo Securities, LLC, Research Division - MD & Senior Analyst*

Okay. Then I'll ask you, do you have a pro forma political number for '14? Just so we can compare it to '18?

David T. Lougee - *TEGNA Inc. - CEO, President & Director*

Yes, yes. For the quarter you're asking, Marci?

Marci Lynn Ryvicker - *Wells Fargo Securities, LLC, Research Division - MD & Senior Analyst*

For the year, pro forma political '14.

David T. Lougee - *TEGNA Inc. - CEO, President & Director*

For the year. Yes, we do. It was $160 million for the year.

Marci Lynn Ryvicker - *Wells Fargo Securities, LLC, Research Division - MD & Senior Analyst*

And that was in Midwest?

David T. Lougee - *TEGNA Inc. - CEO, President & Director*

No, no. Good question. And also, I will just give you more color to just -- we'll probably do around $10 million in political in the first quarter, which is identical to what we did in '14. But don't read that much into that in terms of as the year's going to come up the same. It's not really that much of a predictor where the year will be. But nevertheless, I would give that color that it looks like we're going to -- maybe it's coincidentally and the first quarter identical to '14 on political.

Victoria Dux Harker - *TEGNA Inc. - Executive VP and CFO*

Marci, and to your question to the comps for 2017. The total revenue for the first quarter was $459 million. And you have to back out of that $10 million for the discontinued G/O businesses. So the adjusted would be $448 million.

Operator

The next question comes from Barton Crockett of FBR Capital.

Barton Evans Crockett - *B. Riley FBR, Inc., Research Division - Analyst*

It's Barton from B. Riley FBR. I wanted to just probe a little bit more on the net retrans, which I know you don't want to speak to too specifically, but it is clearly a huge concern for people in the sector right now. And I'm wondering if you could give us a little bit of qualitative, which is, is the reverse comp growing faster than the net retrans revenues? And are you still in the 50%-plus kind of zip code in terms of your share of the retrans that you're able to maintain? And how can you describe kind of the pace of reverse comp renewals coming up? I mean, when do we see some more kind of negotiations that maybe we should think about there?

David T. Lougee - *TEGNA Inc. - CEO, President & Director*

Yes, so let me take the last one first, Barton. So we have our ABC stations up at the end of this year, which is a pretty small piece of our portfolio. Then we have CBS at the end of '19. And then the biggest part of our portfolio is NBC, which isn't until '21. So you can see, we don't have big -- we've got some ladders, and we're going to have a lot of subs up to go over that. So -- but the bottom line is, net retrans is growing. So it continues to grow. And the -- we said in the past, the 50% number is a good range.

Barton Evans Crockett - *B. Riley FBR, Inc., Research Division - Analyst*

Okay. So at this point, when you say it's growing, I mean, it sounds like maybe it's growing in the ballpark of the gross or -- is that how I kind of interpret the steady margin commentary?

David T. Lougee - *TEGNA Inc. - CEO, President & Director*

Yes, the -- it's pretty much in line with growth. That's right.

Barton Evans Crockett - *B. Riley FBR, Inc., Research Division - Analyst*

Okay. All right. The other thing I was curious about is on the Olympics, which is a recurring thing for you with your NBC exposure. One of the things we've noticed with NBC is that while their total ratings were down maybe mid- to high single digit or low double digit across all platforms, it was down a lot more on the NBC broadcast network with a lot of viewers going online or going to the sister networks. And what does that mean for a TV station operator like you guys? Is that a meaningful issue that you're not getting some of the derivative views that maybe NBC is able to capture? Does that put more pressure on your Olympics revenue than maybe NBC is seeing?

David T. Lougee - *TEGNA Inc. - CEO, President & Director*

Yes -- no, it's actually -- it's a good question, Barton. I think -- look, we actually have a very cooperative and collaborative relationship with NBC on this. In fact, Mark Lazarus has reached out to me as the head of the NBC affiliate board to collaboratively think about lessons from this Olympics. What you -- those other screens and other views and other Olympics have actually been additive. I think a theory is -- because the American athletes, for whatever reason, didn't do very well, so people knew by primetime that there wasn't a great American story. And it works in the inverse. When you know -- if you know that an American did great in the figure skating and the fact figure skating was live and skiing was live, but the non-live events, if you know the American did well, that actually increases viewing. So my theory of the case this year is that -- I thought they did really -- I actually thought NBC did a really good job producing it and a nice job of working with IOC and getting the main events in prime as they will in Japan in two years. But I think the -- basically, poor performance of the U.S. team at large was the biggest factor. But we're going to be working with NBC in scrubbing the data and all that. They're -- we are aligned with them. Prime is enormously important to them, right? So it is not -- yes, they sell these multiplatform views and all that, but prime is still so disproportionately important to them that we are aligned.

Barton Evans Crockett - *B. Riley FBR, Inc., Research Division - Analyst*

But do you get any monetary benefit from the secondary platform views? Or is that kind of a goose egg for you?

David T. Lougee - *TEGNA Inc. - CEO, President & Director*

We don't with the Olympics. We do with most other NBC events, but we don't particularly with that right now. We get some digital revenue there, NBC Olympics.com site, which is actually very good, has a lot of traffic and some localization. So we do get off of that platform. But obviously, no. So if something's running on the NBC Sports cable channel, we have no monetization of that and never have.

Operator

The next question comes from Barry Lucas, Gabelli & Company.

Barry Lewis Lucas - *Gabelli Research, LLC - Senior Analyst*

I don't want to beat the political horse to death but -- too much, but was there any unusual -- really unusual races that were positives or negatives in 2014? And if you would care to, would you mind throwing a dart at this year's total?

David T. Lougee - *TEGNA Inc. - CEO, President & Director*

On the last question, hell no. From the 2016 experience, Donald Trump -- we just have too much variability, it's irresponsible for us to do it. And -- but to your color, what I'd say is that 2014 we had a murderers' row lineup of Senate races. We don't have that same line up this year. However, we do have, what looks to be, a better lineup of gubernatorial races, significantly better, and a lot more money is going to the governor's races this year as a proportion than it did a few years ago. So that may have the effect of being a toss there. I think what the wildcard is -- for us is, right now we don't have baked in a competitive Senate seat in Texas, for instance. Although, we're getting significant primary spending money on the Republican race right now in the first quarter, that's the kind of variable. If somehow that race went competitive, then it -- given that we're in 85% of the state, that would have a dramatic impact on our numbers. So I would say -- relative to the portfolio, based on how we're weighted, I think the governors' races offset the loss of Senate seats although like I said, the Arizona Senate seat, we got two Senate seats in the last six months when Al Franken resigned and then Jeff Flake announced he wasn't running. So better than it was. But I think, overall, it looks very good.

Operator

There are no further questions at this time. Please continue.

David T. Lougee - *TEGNA Inc. - CEO, President & Director*

Okay. Well, thank you very much for your time. And we look forward to speaking with you on our first quarter earnings call. And again, if you have additional questions, please call the man you know, Jeff Heinz at (703) 873-6917. Thank you, everyone. Have a good day.

Operator

Ladies and gentlemen, this does conclude the conference call for today. You may now disconnect your line and have a great day.

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