THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

TGNA - Q1 2019 Tegna Inc Earnings Call

EVENT DATE/TIME: MAY 09, 2019 / 12:30PM GMT

OVERVIEW:

Co. reported 1Q19 total reported Co. revenue of $517m. Expects 2Q19 total reported revenue to increase low-single digits.

CORPORATE PARTICIPANTS

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

John Janedis *TEGNA Inc. - SVP of Capital Markets & IR*

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

CONFERENCE CALL PARTICIPANTS

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

David Carl Joyce *Evercore ISI Institutional Equities, Research Division - MD & Senior Analyst*

David Karnovsky *JP Morgan Chase & Co, Research Division - Analyst*

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

Michael A. Kupinski *NOBLE Capital Markets, Inc., Research Division - Director of Research and Senior Media & Entertainment Analyst*

Se Hyun Kim *Wolfe Research, LLC - Research Analyst*

PRESENTATION

Operator

Good day, and welcome to the TEGNA First Quarter 2019 Earnings Conference Call. This call is being recorded.

Our speakers 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 John Janedis, Senior Vice President, Capital Markets and Investor Relations. Please go ahead, sir.

John Janedis - *TEGNA Inc. - SVP of Capital Markets & IR*

Thank you. Good morning, and welcome to our first quarter earnings call and webcast.

Today, our President and CEO, Dave Lougee; and our CFO, Victoria Harker, will review TEGNA's financial performance and results. After that, we'll open the call for questions.

Hopefully, you've 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 includes 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. - President, CEO & Director*

Thank you, John, and good morning, everyone. Following a record fourth quarter for revenues and free cash flow, we had a productive first quarter of 2019. This includes both organic and inorganic growth supported by our continued strength of subscription revenues as well as the acquisition of 11 local TV stations and the announced acquisition of multicast networks Justice and Quest earlier this week. And M&A is where I'd like to begin.

In March, we announced the largest acquisition since we became a pure play in June of 2017. It's the purchase of 11 Nexstar and Tribune stations in 8 markets being divested as a result of the Nexstar acquisition of Tribune. These stations are an excellent fit with our portfolio, including Big Four affiliates in each of those 8 markets, and that includes two big four affiliates each in Pennsylvania and Iowa, both key presidential battleground states, further strengthening our positioning for the election next year.

They are also a very efficient use of cap space for us as we expand our portfolio. On a UHF discount basis, the stations will increase our reach by only about 2% but will add nearly $100 million of annual EBITDA on a 2-year average basis including the synergies. Victoria will cover the financial details of the transaction shortly, but I want to reiterate our enthusiasm for this acquisition and the value it will create for our shareholders.

Earlier this week, we announced the acquisition of the Justice and Quest networks. We've been minority equity owners of these networks for some time, and we got into them because of their very well thought out programming strategy, which has proven to be very successful and extremely cost-efficient. And over-the-air audiences have increased by more than 48% over the past 8 years, and that's where the majority of the viewing comes on these channels. And these networks will continue to benefit from that secular tailwind.

Moving on now to the financial highlights for the quarter. Our total reported company revenue grew 3% year-over-year to $517 million at the high end of expectations. Revenue growth this quarter was driven primarily by an 18% increase in subscription revenues for a total of $242 million, a first quarter record, as well as organic growth in our sales, digital and content operations. Our subscription business continues to provide us stable and predictable cash flows supported by rate increases in existing and future agreements. Related to that trend, I want to highlight the continued stability of our paid subscribers, a credit to our attractive footprint in large markets and our large portfolio of markets with strong population growth characteristics, such as Texas and the Southeast. Adding to that, between the fourth quarter of this year and the end of 2020 next year, we will have repriced approximately 85% of our subscribers. That combined with our previously announced affiliation agreements with NBC and ABC through early 2021 and late 2023, respectively, give us both stability and clarity of the growth of our retransmission consent revenues and profits.

And while 2019 is not an election year, I want to reiterate that we anticipate a record level of political spending overall next year for all the obvious reasons outlined on prior calls. Our expectations remain that high-margin subscription and political revenues will account for roughly half of total year revenues beginning on -- on a 2-year basis, beginning with the '19, '20 cycle and increasing thereafter.

These predictable revenue and cash flow streams will continue to grow in importance as drivers of our business over time and will enhance our ability to create shareholder value regardless of the economic backdrop.

Now I'd like to provide an update on our content innovation efforts, which are showing results with audience share increases in key large markets. In the November to February ratings period, more than half of our large market stations are up in morning and late local news in the key demographic of adults age 25-54. Daily Blast LIVE, the only live program in syndication, continues to grow. Produced out of our station in Denver, DBL's ratings have increased 31% year-over-year and, again, in age adults 25-54, a significant accomplishment. I am proud that our team's [efforts are] (added by the company after the call) consistently recognized within our industry for producing relevant and creative programming for viewers.

Just a couple of weeks ago, we were honored with 91 regional Edward R. Murrow Awards, more than any media company in America. And many of those 91 awards were a direct byproduct of our disciplined content innovation efforts. In addition, 4 TEGNA stations were awarded Walter Cronkite Awards for excellence in political journalism, more than any other news organization in the country. And KING, our station in Seattle, won a prestigious Peabody award for their ongoing multi-part investigative series of special education in Washington state called "Back of the Class."

We have a portfolio of strong local news organizations across one-third of the country, and that number is growing. And interestingly, these stations own an unparalleled video and audio archive of solved and unsolved crimes, a genre of programming that continues to resonate with audiences on multiple platforms and is partially why we purchased the Justice network. To capitalize on these unique archive assets, or IP, as I like to call it, we recently launched VAULT Studios, a digital initiative leveraging this deep reserve of archived content. VAULT's first investigative podcast series is called BOMBER, leveraging the archive assets from our station in Austin, Texas, debuted in March, and for weeks, was one of the most listened-to News & Politics podcast on iTunes. Looking forward, there will be new business opportunities out of the VAULT initiative and the Justice network acquisition that will allow us to capitalize on its exclusive archive assets.

Returning to M&A, we've had a busy and successful year-to-date, in which we've announced or closed on more than $900 million of attractive assets that fit our strategic plan and financial requirements. As we noted last quarter, we expect 2019/20 free cash flow on a 2-year basis to be 18% to 19% of revenue, and our recent acquisitions further support that guidance.

Additionally, we will pay down debt following the close of the purchase of the 11 Nexstar divestitures, and we expect to return to leverage to below 4x by the end of 2020, absent any further M&A.

We've spoken a number of times about our disciplined M&A process, and this transaction, along with the recent purchases of WTOL and KWES, are prime examples of how we target accretive acquisitions that fit [within our long-term] (corrected by the company after the call) strategy and benefit our shareholders. Going forward, while we await a decision from the SEC on whether to raise the cap, it's worth reminding everyone we still have a lot of room under the cap given the UHF discount still in place. Specifically, following the acquisition of the Nexstar divestiture [stations, our reach] (added by the company after the call) will be at 30.5% on a discounted basis.

In closing, we are pleased with the progress we've made this quarter, highlighted by stable subscription revenue growth and execution of our M&A strategy. Our expanded geographic footprint, favorable mix of subscription and political revenues and consistent content innovation continue to differentiate us and support our growth.

Thank you, and I'll now pass the call over to Victoria.

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

Thanks, Dave, and good morning, everyone. Thanks for joining us. As Dave mentioned, we're excited about both the organic and inorganic growth initiatives we've executed on so this quarter.

In my remarks, I'll cover the expected financial impacts of both, as well as update you on our capital allocation plans going forward.

Before I cover our consolidated financial results, I'd like to review just a few special items with you.

For the quarter, these included $4 million of spectrum repacking reimbursements and a $3 million gain from a real estate sale, both of which reduced operating expenses, partially offset by $4 million in transaction-related fees. Non-operating items included $12 million net income, primarily related to the sale of our remaining interest in Captivate.

I'd also like to give you an update on Premion to provide some color and context. From an operational perspective, Premion market demand is strong, reflected in strong double-digit revenue growth during the first quarter. Our processes and platforms have been strengthened to keep up with this demand. As we anticipated on our last earnings call, during the first quarter, we issued $12 million in cash refunds relating to the specific systems issue which impacted fourth quarter revenue by $16 million. I'm pleased to say the 2018 system issue is behind us, and first quarter campaigns were delivered as expected.

Now onto the first quarter consolidated financial results. Keep in mind that most of my comments today are focused on TEGNA's performance from continuing operations on a non-GAAP basis to provide clear insight into our financial drivers and our operational results. You'll find all of our reported data and prior period comparatives in our press release.

Now for our results. Total company revenue for the first quarter on a reported basis was up 3% year-over-year, which is at the high end of our guidance range. As you've seen from our release, this was driven by subscription revenue, which grew $36 million. Total advertising revenue declined $23 million year-over-year, largely due to the absence of $16 million of incremental revenue from last year's Olympics and Super Bowl, which ran on our 17 NBC stations, and nearly $5 million in political advertising revenue during the same quarter last year.

From a total revenue perspective, excluding the cyclical impact of these three items, revenue was up 8% year-over-year, also at the high end of expectations. Notably, from an advertising and marketing services revenue perspective, when adjusted for Olympics and Super Bowl comps impacts, revenue was flat to last year.

Now to provide some further color on specific revenue category performance trends. Again, adjusted for the Olympics and Super Bowl impacts, several categories were up this quarter, including professional services, banking and home improvement. Other categories, such as auto and education, were low in the quarter, reflecting macro trends in those sectors.

As Dave mentioned, our subscriber growth trends also continue to be solid. As we've discussed before, this stable, high-margin revenue stream produces annuity-like cash flows, which allow us clear forecasting visibility. As a result, we expect another year of healthy revenue growth in 2019 and remain confident in our previous subscription revenue guidance of a mid-teens percent increase for the year.

Moving now to expenses. As expected, our operating expenses were 5% higher this quarter on a GAAP basis or 6% higher on a non-GAAP basis, primarily driven by higher programming fees. As a reminder, these fees include reverse compensation paid to networks. Excluding higher programming costs, expenses were flat.

During the first quarter, non-GAAP corporate expense was $11 million, down nearly $2 million from last year, reflecting our ongoing efforts to streamline our cost of managing the business. As a result, adjusted EBITDA for the quarter, excluding corporate expense, was $164 million, producing a solid 32% margin.

We generated $109 million of free cash flow, roughly 21% of revenue, fully in line with the projections incorporated in our two-year guidance range of 18% to 19%. Also in line with our ongoing commitment to a strong balance sheet and growing firepower, during the quarter we reduced debt by $53 million to $2.9 billion, ending the quarter with net leverage of approximately 4x.

As you saw again this quarter, the strength of our cash flows continues to allow us to both delever and invest in new products and initiatives while funding new acquisitions.

Now turning to M&A. As Dave noted, we have announced acquisitions of more than $900 million already this year, including the Justice and Quest multicast network announced earlier this week and the 11 Tribune and Nexstar stations being divested by Nexstar. As a reminder, this $740 million transaction, which was announced on March 20, represents our single largest acquisition since becoming a pure play in June of 2017, providing us with 11 additional stations in 8 markets. The purchase price reflects a 2018/'19 EBITDA multiple of 7.7x, including run rate synergies, more than 70% of which are mechanical, tied to a retrans contractual after-acquired rates. This multiple equates to 6.7x when including the benefit of tax savings. We expect the transaction to close in the third quarter of 2019 and is being funded through the use of available cash and borrowing under our largely undrawn $1.5 billion credit facility.

Beyond this, TEGNA will pay approximately $77 million in cash for the approximately 85% of the Justice and Quest networks that we do not currently own, valuing them at $91 million. While we previously capture the value of our stake in the multicast channels financial results below the line and equity, following close, we will fully consolidate all of their financial results in our operating P&L.

In summary, both of these acquisitions perfectly reflect the financial profile and strategic fit that are the cornerstones of our M&A strategy. Both are [immediately free cash flow and EPS accretive in less than 12 months] (corrected by the company after the call). All of the acquired stations have strong margins and will produce free cash flow in the same range as our base business, once part of our portfolio.

Now turning to second quarter and full year 2019 guidance.

As a reminder, the second quarter of last year included $26 million of political advertising and approximately $4 million of Premion revenue that was originally booked in that quarter but later adjusted out in the fourth quarter due to the systems issue. Excluding political and the $4 million Premion revenue adjustment, we expect second quarter revenue growth to be at the upper end of mid-single digits. On a reported basis, total revenue is expected to increase low single digits. In terms of expenses, we expect second quarter to increase in the mid-single digits, down slightly excluding programming expense.

Key guidance metrics for our base business for full year 2019 remain unchanged. As a reminder, here are the highlights, which can also be found in our press release and on our IR website.

Full year subscription revenue, up mid-teens percent based on sub trends and timing of MVPD renewals, so 50% up for renewal by year-end and an additional 35% in 2020. This results in fully 85% of our paying subs repricing by the end of next year.

Full year corporate expense of approximately $45 million.

Full year depreciation is projected to be in the range of $55 million to $60 million with amortization of approximately $35 million.

Interest expense for the year is expected to be in the range of $190 million to $195 million.

We expect capital expenditures between $70 million and $75 million, which includes non-recurring CapEx of approximately $35 million to $40 million and about $35 million in recurring projects, including mandatory channel repacking, our headquarters' relocation, which was completed in the first quarter, and a new facility in Houston that was completed in February.

The effective tax rate for the year is expected to be 23% to 25%.

Beyond this, as previously disclosed, we plan no additional share repurchases until we delever from funding the new acquisitions.

As a result of all this, we project free cash flow as a percent of revenue on a 2-year basis to be in the range of 17% to 18% for 2018/'19 and 18% to 19% of revenue for 2019/'20.

Building down on Dave's comments regarding the current M&A environment. TEGNA follows a disciplined capital allocation framework that balances our desire to enhance our growth profile for strategic, accretive acquisitions. We continue our commitment to a strong balance sheet, organic growth and return of capital to shareholders through equity appreciation and dividends. Capital allocation decisions are driven by our focus on maximizing shareholder value, and we consistently allocate capital to those options which offer the highest medium- to long-term returns.

As Dave noted earlier, we continue to participate actively in M&A processes for the assets that are fit for us. We have ample capacity to execute on our strategy further, and even with our recent acquisitions, under the current regulatory framework.

We have demonstrated historically that we can and do drive significant synergies from acquired assets and have the firepower to fund both innovative organic initiatives as well as strategic acquisitions. We remain disciplined investors, laser focused on creating incremental shareholder value.

In summary, our first quarter results as well as our outlook for 2019 demonstrate that we're making significant progress in strengthening and diversifying our revenue and cash flow streams, reaffirming our confidence in our long-term strategy. As a result, the continued growth of less cyclical, highly profitable and cash flow-producing businesses only serves to enhance our ability to create shareholder value. We are very excited about the opportunities ahead.

With that, I'd like to open it up to questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question today we'll hear from Marci Ryvicker with Wolfe Research.

Se Hyun Kim - *Wolfe Research, LLC - Research Analyst*

This is Se filling in for Marci. I had two questions on the regulatory front. The DOJ just recently hosted a workshop into the definition of the TV ad marketplace. Can you share your takeaways on the event and maybe some color on the timeline of what is next in terms of the process? And also, your view on whether the SEC will raise the national ownership cap this year?

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

Se, so yes, the Department of Justice to their credit held a panel last Friday, and the representatives on the panel were an executive from Facebook, the Head of Sales for Comcast, the General Counsel for the NAB and myself. And just for everybody's benefit, that's what Se is referencing. It was a panel on the definition of video marketplace driven by the fact that broadcasters specifically are being held to a, while well-intentioned, quite outdated reality of the actual marketplace. So I give credit to Assistant Attorney General and Head of the Antitrust division, Delrahim, for holding the panel. And the content of the panel was a unanimous view just because we are all in the market and we recognize it is now one interchangeable marketplace out there for advertisers--and there turned out to be zero disagreement about that amongst the panelists. So I would hope that the DOJ heard that message loud and clear. But it is unclear to us and they have not indicated to us what next steps they'll take, but it certainly cannot hurt because they did sort of go backwards on this whole issue as a result of the failed transaction last year that everybody knows about.

On the cap, we're waiting and watching and to see. I know the Chairman wants to do something about it, but we don't have intelligence to be able to confirm that it will get acted on this year. I certainly know we can confirm it's under consideration but don't have confirmation that it'll happen this year.

I think that the other piece of it is you have the quadrennial review coming up next year, and there'll be a lot of action and comments regarding that, and broadcasters will be -- add to that the DOJ definition of market needing to change. The FCC is very open-minded to needing to change their definition of the market. So I think there are a lot of moving pieces that will be a net positive for the industry, but the timing is unclear.

Operator

Next, we'll move to Alexia Quadrani with JPMorgan.

David Karnovsky - *JP Morgan Chase & Co, Research Division - Analyst*

This is David Karnovsky on for Alexia. Could you just discuss a little further the acquisition of Justice and Quest? How much potential do you see in the over-the-air audience? And is there anything you plan on changing for these channels from a programming perspective?

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

So no. Only that as we do create programming in our own markets, that's complementary. Like on this unsolved crime genre, we'll be able to substitute that into the markets where we've put it in. But it is a very lean, cost-effective operation of just a few people, and we're going to continue to run it that way. Separately, we're going to run it out of our Atlanta TV station because the current group is based in Atlanta.

And your other question about -- I apologize, David, was what?

David Karnovsky - *JP Morgan Chase & Co, Research Division - Analyst*

Just the potential you see in the over-the-air audience.

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

Yes. I just think that audience is growing dramatically. You can see it in just the sales results of those multicast networks, which a lot of these direct response advertisers in. It works. So I think what's kind of lost a lot in the marketplace and the discussion around cord cutting is there's actually a lot of cord shaving. And there is also under Nielsen's definition, if you get rid of three cable boxes in your house and go down to the 1 cable box because you still want to keep sports or something like that, you're still registered in Nielsen as a cable or satellite home. But for the consumer, a lot of those consumers will then go find antennas for those other TVs. And so on any TV that is being utilized over-the-air, there are a lot less channels, and then so those channels get a tremendous amount of viewing on those over-the-air sets. So it is just absolute, sort of like our Premion OTT business, we're just drafting on a natural tailwind of a growing audience.

David Karnovsky - *JP Morgan Chase & Co, Research Division - Analyst*

Okay. And then just on your subscription guide. You saw 18% growth in Q1. I think in Q4, you get the partial benefit of some renewals. Just given the full year guide of mid-teen, wondering if this assumes any pickup in subscriber declines over the next few quarters. Or there are some seasonal factors to consider?

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

We always have seasonal factors in our numbers, but as far as our guidance here, we continue to be comfortable with that. We never modeled, even though we were pleasantly surprised last year by a string of months where our total subscribers were up, we never modeled that for this full year. So we are comfortable with our guide.

Operator

And next, we'll move to David Joyce with Evercore.

David Carl Joyce - *Evercore ISI Institutional Equities, Research Division - MD & Senior Analyst*

A couple of questions on the advertising and marketing services side. On the traditional linear advertising, what are you seeing in particular markets? Is there much difference between your larger and smaller markets? Any timing shifts of when ad campaigns are coming to you? And then on the Premion side. Appreciate some of the color earlier, Victoria, on the double-digit growth, where are there pockets of strength? What are some of the things that the marketers are looking for with that over-the-top service?

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

. On advertising and marketing services what's safe right now is for us kind of --, we gave a little color in Victoria's comments on first quarter. It's actually very noisy for us to get actual numbers for categories because of the Olympics incremental discussion, is really an art more than a science for the operations. So it's always difficult for us in Olympic quarters. So looking forward to second quarter, what I'd say is that it's a tale of two cities, no pun intended. Your first question is spot on. For us, we are doing much better in our largest markets than we are in our smallest markets, which is a bit of a turn of the tide from some previous years. And in fact, our best-performing stations right now in traditional advertising are our stations in the top 10 markets, of which we have four. And our smaller markets are performing a lot tougher. We believe some of that is actually really economically driven, to some extent, based on those marketplaces. So I was maybe asked another question, but I'll just offer unsolicited color around categories. In the second quarter, we have far more up categories than down, so we're seeing a lot of health in some tremendous categories, but auto is down. And it's not down dramatically, but it's down, and it's not any secret why. I think it just came out now that the most recent SAAR report was the lowest SAAR since February of 2014. So it's a direct byproduct of sales. So but for auto, we'll probably be seeing one of those strongest performances in years relative to the quarter. But that is what it is on auto.

David Carl Joyce - *Evercore ISI Institutional Equities, Research Division - MD & Senior Analyst*

And anything incremental on the Premion?

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

Yes. And on Premion, what advertisers are looking for, is they are looking for both reaching new audiences that aren't on traditional TV and are spending a lot of their time on over-the-top platforms, and they're looking for targeting. We can offer both Sand we are not using third-party ad exchanges. We're directly sourcing our content from the publishers, from networks like A&E and Discovery. So we're also offering real quality inventory. So those are the three I would highlight in.

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

And just to interject a little bit there, and again, this is sort of in the category of projecting out to the rest of the year relative to Premion. We just talked about the $4 million that came out of the second quarter results relative to the revenue adjustment we made for the systems issue. For the third quarter, that number will be about $6 million and just slightly less than that for the fourth quarter, about $5.5 million. So you need to keep those in mind relative to the total reported results as we go through those quarters. They were all taken in the fourth quarter last year but obviously, impact the quarterly comps as we go.

Operator

And we'll move on to Kyle Evans with Stephens.

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

You mentioned repricing 85% between now and the end of next year. Could you talk a little bit how we should phase those into the model over the next -- coming quarters?

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

Yes, sure. Specifically, Kyle, we'll do 50% this year by the end of the fourth quarter, almost all of that happening towards the middle of the back half of the quarter. And then we'll do 35% at the back end of next year. Roughly.

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

Got it. You have historically given more sub count kind of clarity than your peers. It sounds like the 6 months of growth is now very stable. It sounds like it's very close to zero number. Could you talk a little bit more about what you're seeing by DMA size? And any other trends that you're kind of seeing underneath that flat number?

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

Yes. So the trends are DMA size is absolutely larger is much better than small on two counts, both the traditional MVPDs for us are much more stable in the larger markets than they are in the small. But in the virtual MVPD, that growth has been more of the larger market. Some of that's now starting to trickle out for the smaller markets, but I'm not clear yet whether all the services are going to be offering that out there. And the other trend is, which is no surprise because you can see that the public numbers is, the traditional losses are all on the satellite side, right, almost exclusively. For us, the cable companies are doing a pretty good job hanging in there with the consumers.

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

On Premion. I think Victoria said solid double digits. I was wondering if you guys could put maybe a little tighter growth brackets around that. And then from a higher level, how does operating a scale third-party ad network in over-the-top and streaming TV help inform the rest of your business? What are you seeing there that maybe those that don't have that business wouldn't be able to see?

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

Well, on first question, yes. So we're not -- we said last quarter, we're going to continue. Right now, we're not going to give exact guidance on it because, frankly, we've got good, strong double-digit growth and we'll continue to, but we've got a lot of moving parts in it. So we're -- as I said in the past, we're just kind of letting it grow, and we'll probably in the later quarters maybe give some more guidance. We'll continue to say that we'll exit the year at maybe mid-teens on a margin basis. But I don't think we see any credit for it in our stock price, so we continue to run it as a growth business. But it's doing very, very well.

I think to your question about what we see, and when you say third party, you mean with a new business. It's our business, and what we get to see is a lot of consumer and advertiser trends, right? So to your question, it does sort of help inform us in some of our other sales, go-to market strategies because it's given us a first-hand look at what a lot of consumer and advertiser trends are.

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

Any change to the competitive landscape there for Premion?

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

There are competitors out there, increasing competitors out there as we always model, but at the same time, inventory and demand are both exploding. So there is a lot of room for people out there. I think that will benefit us more over time because here in the early days both in terms of advertiser sophistication, especially at the local market, is that we're not a programmatic buy. There are a lot of competitors out there in our own space, including broadcasters, that are selling ad exchanges, right, third-party ad exchanges, which can look cost-effective to the advertiser. But we believe over time, that space will become commoditized and programmatic, and that's not what we're doing. So that would be my comments relative to the competitive landscape.

Operator

(Operator Instructions) Next, we'll move to Craig Huber with Huber Research Partners.

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

First question. This acquisition of the Justice Network and Quest, can you just size the revenues for us? Is it roughly, say, $35 million of revenues? And how are the margins relative to your corporate average? And I guess, along the same lines, Dave, what was the attractiveness to that acquisition for you?

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

Your revenue numbers would be a little higher than that. We're not going to give exact numbers because we're not going to report it as a segment. But just at a starting basis, they would be a bit higher than that. But they've got nice double-growth characteristics to both revenue and EBITDA. So right now, they're not material to the company, based on the size. But if they were TV stations, we'd be thrilled to have them because of their growth trajectory. To your margin question, they have good solid margins, broadcast-like margins.

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

And then can you comment, Dave, on the 2Q TV ad pacings for your core, excluding the acquisition or anything? Is it sort of flat, slightly up year-over-year? How is that trending, please?

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

So 2Q, it's still early. As I gave color commentary earlier on categories, I'd say that flattish to up a little bit is what we're seeing relatively on a [same station] (corrected by the company after the call) basis. Which is good given what I commented on auto. We have a number of categories that are very healthy. I'll give you a long list of them: media and telecom, services, banking and finance packaged goods, retail is up, utilities, education, home improvement and entertainment. So there's a lot of categories that are solid, but as I mentioned, auto is a weight on it right now.

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

And then your digital advertising trends for your TV stations. How is that sort of tracking? I know there was a lot of noise in the first quarter, but is it sort of up, say, mid-single digits? And how is it tracking, please?

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

We don't break them out, but digital continues to grow nicely.

Operator

Next, we'll move to Kyle Evans with Stephens.

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

Just a quick follow-up. You've mentioned down auto multiple times. Could you put some brackets around that decline?

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

Yes. I'll just say single digits, not high single digits, but it's down low to mid-single digits roughly. But it's early in the quarter, and money is moving around. So that can change, but that would be where I'd put it.

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

Care to take a guess at what do you think it'll end the year at?

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

No, Kyle.

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

Nice try.

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

No. I would just be disingenuous of us. I mean, we -- I don't think they have an idea what their ad budgets are going to be. But again, it's being driven by car sales not by a secular issue in media. And I feel very confident about our broadcasting share of that pie and, frankly, TEGNA's share of that pie.

One thing I would comment on auto is reflective of our earlier comments is it is a small and large market issue for us too there. We actually are seeing really solid sales, Texas especially because, as you may know, in the sector, trucks are selling really well with gas prices and stuff like that. But our smaller markets are really hurting on auto with a one exception of Abilene in San Angelo, where the fracking and oil business is growing so fast that they can't build enough hotels.

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

But keep in mind, in terms of context, it's a much smaller proportion of our total revenue and even of our advertising marketing services today than it was even a year or two ago.

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

Yes. That's the good news.

Operator

Next, we'll move to Michael Kupinski with NOBLE Capital Markets.

Michael A. Kupinski - *NOBLE Capital Markets, Inc., Research Division - Director of Research and Senior Media & Entertainment Analyst*

Going back to Craig's question on the multicast stations. I know this is a relatively small acquisition for you guys, but what is the reason that you decided to consolidate these stations now? Are you planning to build upon the offering, adding more networks? And if you can just give us some thought about the percent of the nation that the current networks cover?

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

We're roughly close to 80% on Justice and growing fast on Quest. I forget the exact number, but part that -- part of the industrial logic is this is utilizing our spectrum, right? So we already own the distribution. We're growing with a number of stations we're purchasing, right? So we get that if it's not on those stations already, it's added distribution and it's added revenue out of the sky for those stations. In terms of diversifying our portfolio, over the years, it's going to continue to grow, right? And these are well-programmed networks, so it's a real simple financial play for us. And it's inside our knitting. We know exactly how to run the business, and it's incredibly cost-efficient. And it's frankly got a very, very nice growth profiles.

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

In terms of the investment, it is obviously operating very well today. It's got very strong margins, so there is no plan for a significant OpEx or CapEx.

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

Yes. It's run very lean, and it will continue to be. So that's one, to your point, one of the really attractive models of it.

Michael A. Kupinski - *NOBLE Capital Markets, Inc., Research Division - Director of Research and Senior Media & Entertainment Analyst*

Got you. And then, Dave, early on, in the past calls and in this call, you indicated about the TV ownership cap and talking about how you thought that it might be lifted. It seems like at least, the FCC indicated that it may take an act of Congress to change the ownership cap. But wondering what your thoughts were about that? And then also with the UHF discount rule in place, does this make UHF stations more valuable than maybe VHF stations? And do you believe that there might be a pipeline of M&A opportunities for UHF stations? Maybe if you could just talk a little bit about the attractiveness of that opportunity?

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

Sure. Look, the act of Congress conversation is not new. I mean, Commissioner O'Rielly, who is in favor of lifting the cap, has said he feels it might take an act of Congress, but that wouldn't stop him from voting on the cap. So that dialogue has been out there for a while. But I think others at the FCC believe they actually do have the authority. And again, the timing, it's not a matter of if but when. We think it will be done.

As far as UHF stations go, it's a good question in the sense that when I talked about we still got 8.5% under the cap, obviously, when I'm buying stations, if we buy UHF, we're sort of getting more. We do look at sort of return on investment per percentage point under the cap. But that wouldn't make us choose a UHF over a VHF. What's more important is the characteristics of the station, and what that asset value is and how it resonates in the market. So we certainly look at that, and we look at acquisitions, but it doesn't -- it does not drive the decision, but I understand the question.

Operator

And next, we'll hear back from Craig Huber with Huber Research Partners.

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

Two follow-ups, if I could. Your company for years has been really good on the cost-containment side, including recently here. I'm just curious on guidance in the first quarter, slightly [down] (corrected by the company after the call) costs, excluding programming. What sort of areas in your company you're attacking to keep that cost base low? Or is it just sort of across the board? And I have a follow-up.

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

Sure. Craig, this is Victoria, and I'm happy to address that. In terms of the corporate, which continues to come down quite nicely really since the time of the spin. In June of 2017, when we stood up the company as a stand-alone broadcast company, we've been attacking the corporate. It has become the shared service center relative to a lot of the back-office functions. So we are consolidating a lot of the non-customer facing aspects of the business, and that has continued to come down over $10 million since that time. We have become more efficient and more effective in terms of how we can bolt on new acquisitions at lower cost right from the start. In terms of the business, each of the stations, they've done a very nice job in terms of managing their P&L, both in terms of creating more efficient, effective position descriptions in terms of the roles themselves as well as working to consolidate some of their purchasing. So it's been a very broad effort in support of really our M&A strategy while creating a lower cost structure.

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

And as we purchase more stations, Craig, our marginal costs in these centralized efforts continue to go down, too. So we're able to apply that to those stations, and in many cases, where we've already got existing centralized shared services, new technology's becoming available that we're applying, which allow us to reduce our OpEx there. Our CapEx has some noise in it because we've got repacking and things like that, some one-time issues. But in terms of normal CapEx at the stations, we've been very much embracing new technologies and cheaper technologies and taking what's really already a very low cost base for CapEx and even getting that down on a per station basis.

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

As a great example of that, we're rolling out [a new ERP system] (corrected by the company after the call) across the company this year. And while that's another new technology, the current iterations allow us to save almost $2 million a year in license fees alone right out of the box once it's implemented. So again, it's new order technology, but it will create a much more efficient, effective financial support platform for the whole company.

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

And just for one more comment on it is not just about cost efficiencies, it's about good allocation of cost. Because in our business, we want from a Six Sigma's perspective, we want all of our cost, in a perfect world, allocating to creating good products and doing a great job with sales. And so the more that we can move all of our cost to those two areas, the better return on investment for all of our expenses.

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

And then Dave, I have a broad question here. As you sort of talk to and visit with your various TV stations and your customers in various markets out there, how are you feeling about the U.S. economy right now? You've talked that a large market versus small market, but do you see any major dichotomy there, separation between the states how well the economy is doing, local small market versus large market, but just in general, how do you feel about the U.S. economy? Put aside what hear from the economists and the pundits out there. What are you seeing out there?

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

In general, I feel fairly optimistic when you look at the unemployment rate and you look at consumer expectations, et cetera. I actually feel very good. I think it's you are starting to see in the TV industry a reflection of two Americas, right? The public dialogue about large coastal cities and big urban centers that are doing well relative to small-town America, I think that growing gap in income and overall health and economy is starting to be reflected in the large and small-market dialogue.

Operator

And that will conclude today's question-and-answer session. At this time, I would like to turn the call back over to Dave Lougee for any additional or closing remarks.

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

Thank you very much. So in closing, we are pleased with the progress we've been making this quarter and highlighted by that sustainable subscription revenue growth and execution of our M&A strategy. So we will continue to build on all of that and have more good news to give you on our earnings call next quarter. Thank you, everyone.

Operator

And that will conclude today's call. We thank you for your participation.
