Good day and welcome to the TEGNA Second Quarter 2020 Earnings 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 Doug Kuckelman, Head of Investor Relations. Please go ahead.

Doug Kuckelman - TEGNA Inc. - Head of IR

Thank you. Good morning, and welcome to our second quarter 2020 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 up the call for questions.

Hopefully, you’ve had the opportunity to review this morning’s press release. If you’ve not yet seen a copy of our 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.

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

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

Thank you, Doug, and good morning, everyone. In the middle of the ongoing COVID-19 pandemic, our second quarter performance reflects the resilience of our employees as well as TEGNA’s ability to execute on our 5-pillar strategy. I remain incredibly proud of all of our colleagues across the country for serving and supporting our viewers, customers, and each other during these extraordinary times as we continue to work to create long-term value for all our shareholders as well as all of our stakeholders.

Obviously, the second quarter was a profound time in our country. The death of George Floyd in Minneapolis is, we believe, a seminal moment of clarity regarding systemic racism in our country. And TEGNA is right at the epicenter of the story.
station in Minneapolis, rose to the occasion with balanced and nuanced coverage, with many of our journalists there working night and day, often in very trying conditions.

We have major stations in most of the cities with the largest amount of protests and public engagement, including, but not limited to, Atlanta; Louisville, Kentucky; Portland, Oregon; Seattle; Washington, D.C.; and of course, Minneapolis. In those markets and others, our journalists covered the demonstrations and brought their communities together, creating greater awareness of racial issues and facilitating honest discussions about race and inequality through both daily news as well as many significant prime-time specials.

Throughout their coverage, they remained committed to highlighting diverse viewpoints while their communities, and the nation, searched for answers, knowledge and understanding. I want to thank our journalists for their courage, their thoughtful and nuanced coverage and their ongoing commitment to their communities.

Diversity and inclusion are core company values, but we're taking further proactive steps to address and combat systemic racism in our country, especially given the platforms we have. Among many things, this includes better systems of accountability for how people of color are represented in our content, and significantly improving the development pipeline and hiring for editorial and leadership positions in our newsrooms and our entire company.

This is and will be an area of heightened focus for our Board and management. We are working together to ensure our company reflects the diversity within the communities that we serve in order to better serve those same communities. To further embed that commitment and accountability into the governance of our company, each of our 4 Board committees are going to be taking on specific areas of oversight for the way TEGNA approaches diversity across a number of dimensions.

Turning to COVID. TEGNA’s established culture of innovation and execution allowed us to act quickly and decisively navigate the pandemic. Our employees have continued to utilize innovative approaches to our work through these unprecedented circumstances. They've done a marvelous job informing and uniting our communities during a time of dislocation and isolation.

I'm especially proud of the balanced “Facts Not Fear” editorial brand and philosophy from day 1 of the pandemic. That philosophy has clearly resonated with our audiences across all platforms. And combined with our VERIFY franchise that helps sift fact from fiction among a sea of misinformation and disinformation, our coverage has been a welcome antidote to the anxiety-ridden experiences provided by some national news as well as many social media outlets.

Turning now to what we've seen across our TV and digital viewership over the last few months. We've continued to experience significant increases in ratings and traffic across all our platforms. Overall TV viewing for TEGNA has increased and continued to stay high across demographics for both our daytime and late news time slots. Digital platforms saw an even greater rise in consumption, setting records this year across key digital metrics, such as visitors, video views and monthly active users.

In June, we had 76 million unduplicated multi-platform visitors, our second highest month only behind March, the beginning of the pandemic, when we had a record 87 million. ComScore rankings have us in the top 50 digital U.S. properties each month between February and June, higher than many major digital sites, including, but not limited to, Reddit, BuzzFeed and LinkedIn. This reflects the critical role our local content operations play in the communities we serve, further strengthening our value to clients in the quarters to come as we deliver important, relevant content.

Also in the quarter and in late July -- and into July, we completed the relaunch of the Justice Network multicast channel, now called True Crime Network. And as part of that, we introduced a free ad-supported OTT streaming service for that network that’s now available for Apple TV, Amazon Fire as well as Apple and Android apps for mobile and tablet. Viewers are now able to stream hundreds of hours of True Crime stories on demand.

Now as live sports return this fall, we're going to benefit from a large number of unusual events that we would not normally see in the back half of the year that have been rescheduled from the second quarter. Our strong and large portfolio of NBC stations will now benefit, for instance, from the Indianapolis 500 family. We have the host city -- the host NBC market of Indianapolis now as part of our acquisition.
We'll have the U.S. Open Golf Tournament and the Kentucky Derby taking place in August and September. And then the Stanley Cup playoffs in September and possibly into early October. The NBA on ABC is now back on air, and we look forward to airing regular season and many playoff games on our many ABC stations in the months ahead.

Considering these events would not typically take place in the second half of the year when we will also experience extraordinary political advertising demand, we will benefit from having this additional high-value content and inventory in the coming months. These are all Big 4 network events notably, and our recent acquisitions have expanded our intentionally concentrated Big Four reach, so we can now deliver these events to a wider audience than ever before.

As I mentioned earlier, TEGNA continued to execute well on our 5-pillar strategy in the second quarter. This was evidenced by the continued strength of our subscription revenues, which we still expect to be up mid-20s percent for the full year and our new expectation for political revenues to be at least $370 million for the full year. As political races take shape into the second half of the year, it’s apparent that our political footprint will perform even better than we had initially anticipated, partially due to the benefit from recent additions to our strategically constructed portfolio. I’ll touch on political in more detail in just a moment.

Non-political advertising trends have not yet completely returned to pre-COVID levels, but we are convinced we are well positioned for the rebound in the ad market. These revenues decreased -- our advertising and marketing services revenues decreased 21% in the quarter, but as I’ll talk about in the moment, had a very nice trend overall. And while it may sound strange to be down 21%, it was a very strong result given the consumer economy basically stopped for a period of time at the end of March.

Notably, our client base is resilient due to our exposure to large markets where advertising trends tend to be driven more by sizable companies and brands with large balance sheets that are better positioned to resume advertising than many small local businesses, though our sales and marketing teams are doing a great job helping numerous local businesses get back on their feet.

Now I’d like to spend a minute discussing the key drivers of our second quarter performance in more detail. Our subscription revenues grew 37% in the quarter due to rate increases, acquisitions and corresponding rate synergies from our new stations, all reflecting as well that 50% of subscribers repriced in the fourth quarter of last year.

This growth highlights a solid underpinning of our business in spite of a modest and not unexpected acceleration in sub declines very modest given COVID-19 and the absence of any live sports in the quarter. And notably, we did not see any acceleration in sub declines from April to May, which was a pleasant surprise to us. These revenues have grown substantially in recent years and have proven their resiliency in economic downturns and are once again and in turn, the cash flows they help produce.

On the ad side, our ad sales teams have taken a very innovative approach to helping businesses get back on their feet as well as harnessing new dollars from verticals that did do well and we’re in a position to do well during COVID. Following our decision last year to bring our national sales in-house instead of using an outside third party, the strategic benefits of this new integrated One TEGNA sales team led to revenue share gains in [every one of our very largest markets where there are audited numbers in the market] (corrected by company after the call).

As we noted on our last quarterly call, on the expense side, we took very swift expense actions at the beginning of the crisis and continued to manage all nonessential costs to protect our product, employees as well as the long-term health of our business.

At the beginning of the second quarter, we announced a temporary action that all employees would take a 1-week furlough or a temporary pay cut in the quarter, all with the goal of maintaining full employment and health care benefits of our current workforce during this difficult time. And I’m pleased to say nobody has lost their job or health care benefits due to the COVID crisis. This, combined with other actions, resulted in savings of almost $40 million in the quarter from our original plan.

Many of the new efficiencies that we’ve learned will carry through as permanent ongoing practices that will benefit our future cash flows. Additionally, our proactive financing decisions, which Victoria will cover shortly in more detail, have provided us with increased flexibility during these unprecedented times.
So our focus on consistent growth drivers over the past few years, such as subscription and political revenues, also continue to yield durable cash flows that enable us to weather this environment well. As a reminder, there are a number of positive dynamics we expect to drive our financial performance over the next several years.

Our first half results already reflect the tailwind from the 50% of our subscriber base that was repriced last year. And we have significant further opportunity for growth in the back half of this year with approximately 35% of subscribers to be repriced at the very tail end of this year. These deals continue to increase the predictability of future cash flows with further upside over time.

Now for political advertising. Political was up significantly in the first half of the year compared with the prior presidential year ’16 as well as above 2018 on a same-store basis. As we’ve spoken about before, our portfolio has been strategically constructed to take advantage of increasing “even” year political spending with stations in the increasingly large number of high-yield, high-spend battleground and swing states, including, but not limited to, Arizona, Colorado, Georgia, Iowa, Maine, Michigan, Minnesota, North Carolina and Pennsylvania.

As political races have taken shape, we are increasingly confident in the outlook for our political revenues reflected in our revised expectations for at least $370 million of 2020 full year political revenues. This [strength] (added by company after the call) is not just a reflection of the presidential race but also multiple state and congressional races that bode well for all future even year political spending.

Thirteen of the Senate seats up for grabs are competitive or potentially competitive right now inside TEGNA markets. There were also 30 House races in our markets currently defined as toss-ups or just lean Democrat or lean Republican, in other words, competitive. And due to shifts in recent months, we could see up to an additional [18] (added by company after the call) House races come into play for us as competitive.

And we have 2 large states in play that we haven’t seen before: Georgia, where we have stations in Atlanta and Macon, and we're going to see some presidential spending there and 2 Senate seats; and finally, Texas, where TEGNA has 12 stations serving 87% of the state. Too early to tell where Texas will end up, but there’s now presidential spending going on the books for the first time in my career.

Returning to non-political advertising, the improvements we have made to the business over the past few years position us well for when the economy more fully reopens. Our OTT advertising platform Premion is benefiting from the secular tailwinds of additional viewing on streaming services. And while temporarily slowed somewhat in 2Q, it still well outperformed more traditional advertising services and is now back to experiencing significant year-over-year growth in this quarter that we’re in right now.

Our 2Q results during an unprecedented downturn also reflect the strategic and purposeful reshaping of our business and revenue streams over time. The key pillars of our strategy have us well-positioned to perform in whatever external challenges we may have ahead of us. And as we continue to navigate through the current crisis and into the recovery, our Board and management team remain relentless in our pursuit of long-term shareholder value through every avenue.

We look forward to continuing to update you on the great things happening at TEGNA through our focus on supporting our team members and communities, delivering trusted news, relevant content and executing on our strategy to create value for shareholders. I'll now pass the call over to Victoria to cover our financials in more detail. Victoria?
Now turning to the second quarter consolidated financial results. As a reminder, my comments today are primarily focused on TEGNA’s performance on a consolidated non-GAAP basis, providing you with visibility into the financial drivers of our business trends as well as our operational results. You’ll find all of our reported data and prior period comparatives in our press release.

As we shared with you last quarter, we, like most businesses, suspended our 2020 financial guidance in March, pending greater clarity on COVID-19 market impacts. Over the past several months, we’ve continued to refine our outlook for the balance of this year in order to help with forecasting. I’ll share several key cash-impacting metrics for the full year later in my remarks.

For the second quarter, total company revenue was up 8% year-over-year driven by our acquisitions completed late last year as well as continued growth in subscription revenues and political advertising spending. Excluding the impact of political advertising, total revenues was up 5% year-over-year.

In terms of the subcategories of revenue, the breakdown was as follows. Subscription revenue increased 37% year-over-year, reflecting growth from both our base business and our newly-acquired stations. This was the result of step-ups in retransmission rates for the 50% of subscribers repriced in the fourth quarter of 2019 as well as mechanical subscription revenue synergies achieved through our recent M&A. This continued growth in our high-margin subscription revenue, coupled with our political footprint, provides us with steady, sizable EBITDA and free cash flow, resulting in a much more resilient portfolio now more than ever, another proofpoint for one of the key pillars of our strategic plan.

Advertising and marketing services finished the quarter down 21% compared to last year, primarily due to the non-political advertising cancellations related to COVID-19 economic contractions. That said, we’ve seen sequential, positive progress since the onset of the pandemic, including an improvement by more than 20 percentage points from April to June.

Now to provide some further color on specific advertising sector performance trends. As you’d expect, some categories performed well, including insurance, pharmaceutical, home services, which were all up above last year. Home improvement, education and financial services also performed better, outpacing aggregate trends. Not surprisingly, the categories which struggled the most in this shelter-in-place environment were entertainment, travel and tourism, restaurants, automotive and retail, all of which were down relative to last year.

Now turning to expenses for the second quarter. As you saw detailed in our press release, these include $8 million in expense-related special items driven by fees related to our successful activism defense, offset by a portion of proceeds from a CareerBuilder divestiture.

Our operating expenses for the second quarter were 24% higher on a year-over-year basis, driven predominantly by our recent acquisitions, which included 13 new stations, the Justice [Network -- recently rebranded as True Crime Network] (added by company after the call) - and Quest [multicast] (added by company after the call) networks as well as programming fees, which include reverse compensation associated with higher subscription revenues. Excluding acquisitions and programming expenses, non-GAAP operating expenses were down 5%.

As we discussed last quarter, at the onset of the COVID-19 pandemic, we responded swiftly to implement cost containment measures, including reducing all non-essential costs and discretionary capital expenditures in order to protect the long-term health of our business. Note that these measures were in addition to the continued streamlining of our business processes and company-wide efficiency efforts.

As you’ve heard me discuss previously, many of these have been underway for some time as part of our culture of thoughtful cost management through operational leverage, benefiting our existing stations as well as new M&A. As a reminder, some examples of these efforts include consolidation of our master control, traffic streaming and monitoring platform, creation of shared service centers for all back-office support functions, a company-wide financial system consolidation and automation of sales support processes. The implementation of our new ERP financial system is now nearing completion, which will bring our newly-acquired stations onto the same financial platforms as the rest of our stations, allowing for more holistic analysis, reporting and forecasting of results.

To produce the company-wide cost savings achieved specifically during the second quarter, we implemented temporary 1-week employee furloughs, pay reductions and a hiring freeze against the backdrop of travel restrictions and reduced discretionary spending. As a result, we achieved a meaningful $38 million cost reduction compared to budget this quarter, over and above our previously projected cost takeout efforts.
As a result of all of these drivers, reported adjusted EBITDA for the quarter was $124 million. All of our newly acquired stations as well as our existing ones contributed well for the quarter despite a loss of high-margin advertising and marketing services revenue due to COVID-19. Interest expense of $52 million, while higher than last year due to the acquisitions in the back half of 2019, was also lower than we previously had anticipated.

Before providing more detail on our operating results for the quarter, I’d like to remind you the steps we’ve taken to create a strong and resilient balance sheet well before the current market volatility. As you recall, in the second half of last year, we completed $2.1 billion in refinancings at historically low interest rates while extending maturities, including our $1.5 billion revolving credit facility through 2024. It’s important to note that the revolver has our only financial covenant, which caps leverage at 5.5x based on a trailing 8-quarter EBITDA calculation.

More recently, on June 11, we also completed a 15-month extension of the first scheduled revolver leverage covenant step-down from 5.5x to 5.25x due to occur at the end of September with subsequent step-downs taking place as scheduled after that time. This not only provides us with increased financial flexibility but allows for greater forecast certainty. You’ll also note in our financial statements that after the $25 million term loan maturity was paid down in June, we now have very little debt due over the next 18 months, including $75 million in September and $350 million in 2021.

At the end of June, cash on hand was $173 million, which has continued to grow significantly since the end of March when we temporarily paused accelerated debt reduction cognizant of market volatility. Beyond this, unused capacity under our $1.5 billion revolving credit facility contributed more than $650 million to liquidity with $835 million drawn. This resulted in total debt of $4.12 billion for the quarter, producing net leverage of 4.76x, which is 4.73x as defined by our revolver covenant calculations.

Despite these significant COVID-19 impacts in the quarter, we generated fully $96 million of free cash flow, 17% of total revenue in the second quarter. Receivable collections remained strong, and cash benefited from the deferral of $30 million of federal income tax estimated payments, which will now be paid in the third quarter as part of the government response to COVID-19 through the CARES Act. We project we’ll remain free cash flow positive each quarter for the balance of this year.

Throughout our history, TEGNA has remained prudent and forward-looking in our capital allocation decisions, never more important than during this recent period of uncertainty. We’ve reprioritized some investments and recently restarted our accelerated debt reduction and continued to deliver our regular quarterly dividend to shareholders.

We were also diligent in evaluating areas for reduced or delayed expenditures and have scaled back on our CapEx with longer-term benefits given the current forecasting challenge. As I mentioned before, many of our operational efficiency efforts were underway well before the onset of the pandemic proving now to be an increasingly [important] (added by the company after the call) part of our ongoing strategy.

We shared last quarter that we would continue to monitor economic conditions and carefully evaluate whether to reinstate our forward-looking guidance. With recent spikes in COVID-19 cases, the full impact of the pandemic remains uncertain as we are all so well aware. However, there are a few areas I’d now like to provide more color on regarding our outlook for the rest of this year to help frame expectations of future results.

First, as Dave shared earlier, we still expect subscription revenue growth of mid-20s range for the full year, reflecting the resiliency of these contractual revenues. Second, we also expect full year political advertising revenue to now be at least $370 million, supported by the expanded competitive footprint in presidential, U.S. Senate and U.S. House races.

Third, we now project full year total capital expenditures to be $45 million to $50 million for the year, including approximately $20 million to $24 million of nonrecurring spend, a $17 million reduction from our prior guidance of $62 million to $66 million.

In terms of our net leverage ratio, we expect to be at 4.5x or less by the end of the year, well below our financial covenant of up to 5.5x. As a reminder, all of TEGNA’s debt is unsecured, and we enjoy very low interest rates, thanks to our recent refinancings.
Fourth, we now expect full year interest expense to be in the range of $210 million to $215 million, approximately a $10 million reduction to our prior guide. Finally, we project our effective tax rate will remain in the range of 23.5% to 24.5% despite the timing differences in our cash tax payments due to the CARES Act I previously discussed.

We obviously will continue to monitor the COVID-19 recovery macroeconomic impacts to our business but hope that these full year cash metrics help provide greater context and color for your forecasting. And with that, we'll now turn it over to Q&A for your questions.

**QUESTIONS AND ANSWERS**

*Operator*

(Operator Instructions) We’ll take our first question from Dan Kurnos with The Benchmark Company.

**Daniel Louis Kurnos - The Benchmark Company, LLC, Research Division - MD & Senior Equity Analyst**

Dave, very impressive political guide, I think higher than most of what all of us were expecting. You gave some really good color. I guess just trying to understand pro forma. You mentioned a few races. And obviously, you've been hesitant to come out and give a number. So that feels like there's some more upside to that. So just trying to get a sense of what gives you confidence right now to take your number to where it is? How things are breaking, books, dollars and fundraising levels?

And then secondly, maybe -- actually, I'm going to ask an interesting question kind of on connected TV. I've heard a lot from Roku, Trade Desk on connected TV in the back half of the year and it seems that Premion would be really well positioned to benefit from that kind of trend. So maybe you could just talk a little bit about what you're seeing on that front. It would be helpful.

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

Thanks, Dan. Let me take the second one first. Yes, you're absolutely right. I mean I didn't want to go too long in my script, but you're absolutely right. Connected TV, OTT, generally streaming services and the increase in that, which is really additive to the broadcast business by the way because they're still -- they're not doing what live linear TV does with those big events, but they have obviously got a lot of additive services. That's a great tailwind for Premion. It's always proven to be true. We've got -- all that is, is added inventory. And then advertisers will seek it out even more. So it's -- Premion, as I said, is doing very, very well, and we have tremendous amount of partners, and we'll continue to look for even more.

On the political side, a number of factors give us confidence in the new hire. Now obviously, the number on the books, we know you know what's on the book, how we're pacing. But the more -- but also, we've got a pretty good handle on history, as I've talked about in previous -- the '14 to '18 midterm increase, which was almost 50% for us as well as the increase, was a reflection of really pre-Donald Trump and post-Donald Trump spending levels. And so now you're adding on a presidential race, and I think -- recall, I think we did $280 million in '18 on a pro forma basis when you talk about all the acquired stations. So now you had a presidential race on top of that.

What's changed since we gave our previous, at least then, is 2 things happened. When Biden got the nomination that one time, looked like Bernie Sanders might get it. When Biden got it, that put a bunch of states into play that weren't necessarily going to be in play. And then between COVID and George Floyd, as the president's polling numbers have declined, it's brought even more states into play. So on the President, just talking presidential, the footprints widened.

That trend has done the same thing in the Senate and the House. It took a number of seats that 5 months ago looked solidly Republican and have put them in play, both in the Senate and the House. And as you know, the money that will go into the Senate to try to get control, the Senate will be stratospheric. We've got 2 Senate seats in Georgia, as I mentioned. We've got almost all of the hot seats out that are out there for the Senate.
If you look at the toss-up column, there’s 4 seats. So that’s 5 seats in the toss-up column and we’ve got 4 of them, Arizona, Colorado, Maine and North Carolina. But now we got 2 Senate seats in Georgia that are competitive, which are obviously massive states, Iowa. We’ve got Michigan. And now we’ve got seats that -- even Mitch McConnell’s seat in Kentucky, which is likely Republican, his opponent is raising an enormous amount of money without state money from other people, same with Lindsey Graham’s opponent in South Carolina.

So a long-winded answer of saying the fundraising is huge for all the obvious reasons, for the passion in the system. And the last 4 months have only, you all know, increased that passion. Passion turns into fundraising, and it’s also moved races more into our competitive column.

And we also really are benefiting from our new footprint. Being in Pennsylvania, Indiana, looks like it now might be in play as well. But our new stations in Pennsylvania and Iowa and even in Alabama have just helped us. So we are very bullish on political, as you can tell.

Daniel Louis Kurnos - The Benchmark Company, LLC, Research Division - MD & Senior Equity Analyst

Could I just marry the 2 for a second, just in terms of what you might be seeing on Premion? And just housekeeping wise, would that just fall into the general AMS bucket? Or would you record that separately as a political breakdown?

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

You talking about political from Premion?

Daniel Louis Kurnos - The Benchmark Company, LLC, Research Division - MD & Senior Equity Analyst

Yes.

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

Are you talking about -- yes, we booked the political on Premion in regular political, so the numbers I’m giving you in terms of the strength of Premion excludes Premion political billing.

Operator

We'll take our next question from Alexia Quadrani with JPMorgan.

Alexia Skouras Quadrani - JPMorgan Chase & Co, Research Division - MD and Senior Analyst

Just a couple of questions. Thanks for all the color you gave on advertising. And it sounds like, between the return of sports and obviously, political is going to be a much healthier back half than we had thought. But any more color you can give us maybe on the sort of the nonpolitical, more traditional advertising market? I think you called out a few of the categories that stayed weak, but I guess any more color you can give us in terms of what’s working? What’s not? And how is it trending versus what you maybe have anticipated?

And just a quick follow-up. I apologize if I missed this, but I think you said on the sub declines, you had no acceleration from April to May. I’m curious if you had mentioned or you could tell us how it’s trended right now through August.
David T. Lougee - TEGNA Inc. - President, CEO & Director

Yes. Let me take the sub declines first. So we bought -- we basically, if you look at it this way, from the end of the year to the end of the first quarter, we -- the declines accelerated by about 1 point. And from the end now of the first quarter to the end of the second quarter, we -- it's accelerated by just under 1 point, which was better than we had forecasted. So I knew there were numbers out there on other earnings calls of minus 7, we are not minus 7.

And we -- again, there was 0 accelerating. We did see some modest acceleration from, frankly, even pre-COVID. But we -- I personally expected to see more, Alexia, because just people are at home, it's easier to cut the cord when you're sitting around all the time and streaming services, et cetera. But they proved to be more resilient than I thought.

Especially, the cable companies are doing a really good job. I think Comcast and Spectrum are specifically doing a really good job, hanging on to their customers and worked. But for one large satellite provider, these numbers would have been significantly different. But -- so anyway, the declines have been less than we had worried relative to COVID. We'll have to take a follow-up on that, if you want, Alexia.

And on the advertising side, as I said, the pacing, the rate of decline, advertising basically stopped in April, right, and across all categories. But then we, frankly, our local sales teams did a great job getting to a lot of local businesses that had -- in the services category that were able to operate, but they may have not had marketing strategies, so we put marketing strategies in place.

So we've -- as I said in previous calls, we've really expanded our services footprint. And in the quarter, recruitment, plumbers, electricians, retirement homes, alarms, security, bankruptcy, air conditioning and heating, we got tremendous amounts of increase of dollars in those categories that we went and got. And add to that some categories, despite the weakness in retail and auto and things like that, where there were some increases in categories like insurance and in education, home improvement, obviously, banking and finance.

As it relates to overall trends, advertising and marketing services was literally 20 points better in June than it was in April. I think on the last call, somebody had said, "Were you looking at minus 50% in April?" I said no. And it was -- AMS was significantly lower than that, but low 40s would not be inaccurate. So you can kind of guess where June was.

But I will say we don't normally give pacing on the quarters we're in. But given these unique times, just to give you a sense, we finished July now minus 12% in AMS to show you the level of improvement we're seeing. So now in the next few months, we've got political displacement to combine with those issues in the categories, but I just -- I did -- just to give people confidence on what the trends are in advertising shows you how far we've come from April.

Operator

We'll take our next question from Kyle Evans with Stephens.

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

Thanks for that July pacing number. That was definitely my question. Could you talk a little bit about your auto outlook and kind of the Tier 1 versus Tier 3 expectations you have for the balance of the year? And I've got some follow-ups.

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

Yes, Kyle. I mean I don't -- I wouldn't have -- we're not really doing a forecast by category per se. We're just following along, if you will. But obviously, it fell deeply in April, like very deeply. But like every -- and in fact, it improved by more than 20 points from April to June as a category, but still not below the median on our categories by quite a bit, but it has continued sequential improvement. And July is more than double-digit points better than June.
As it relates to Tier 1, Tier 1 and Tier 2 are doing better than Tier 3 for us, and they have all the way along and that continues to be the trend, not a massive -- no, I take that back. In the third quarter, it’s actually a pretty good difference. It’s a pretty good difference, which speaks to -- when I said earlier, which is why on our overall AMS numbers, our largest markets are helping carry the day. So we’re really seeing it as well, in addition to the share increases in those markets that I referenced.

Kyle William Evans - Stephens Inc., Research Division - MD
Got it. And the simple math is that you have about 15% renewing next year in ‘21 for ‘22. Except for that, I think you said in the 1Q call that you have some 2 years. So just on housekeeping, is that 15% close enough for those -- most of the bottoms-up?

David T. Lougee - TEGNA Inc. - President, CEO & Director
I’m sorry. Kyle, I’m sorry. Are you saying 15% of our subs in ‘21?

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

David T. Lougee - TEGNA Inc. - President, CEO & Director
Is that what you’re asking? No, it’s closer to 30%. ‘21 is closer to the 30%.

Kyle William Evans - Stephens Inc., Research Division - MD
No. Sorry, you had 50% last year, 35% this year, which means there will be 50% still hanging in the out year? Is it...

David T. Lougee - TEGNA Inc. - President, CEO & Director
No, you’re assuming -- I think what you might be assuming is that everything is a 3-year deal.

Kyle William Evans - Stephens Inc., Research Division - MD
That’s exactly what I’m asking. So it’s 30%, not 15%?

David T. Lougee - TEGNA Inc. - President, CEO & Director
So they’re not. That’s right. Right now, the estimate, right, based on -- could be off by a few points based on what sub trends are between now and then, but that’s right. We’re looking at 30% at the -- right now at the end of ‘21 -- by the end of ‘21.

Kyle William Evans - Stephens Inc., Research Division - MD
Got it. Got it. And then lastly, where would you want your leverage to be before you would get serious about looking at other station acquisitions?
Victoria Dux Harker - TEGNA Inc. - Executive VP & CFO

Well, that’s a very good question. Actually, it has, I think, less to do with leverage, which is not really constraining us. We have plenty of firepower. It has much more to do, frankly, in this environment with valuations and how feasible valuations are and how well they can be conducted given market volatility.

But there’s nothing that constrains us from either a policy or the covenants themselves in terms of doing M&A, particularly tuck-in at this point in time. Obviously, our priority is paying down debt and getting to lower leverage levels, which we are doing fairly rapidly and had been prior to March with COVID-19, as you saw from our last quarter. But there’s not -- there’s no sort of philosophical or covenant reason we need to get to a particular number in terms of leverage.

Operator

We’ll take our next question from Doug Arthur with Huber Research.

Douglas Middleton Arthur - Huber Research Partners, LLC - MD & Research Analyst

Victoria, on subscription revenues, they’re up 37-plus for the year’s 6 months. Did you say you continue to say mid-20s for the full year?

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

Yes.

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

Yes. That was our prior guide, and we had just said we were still comfortable with that prior guide.

Operator

And we’ll take our next question from Jim Goss with Barrington Research.


Okay. A couple of things. One, just going further on the leverage idea. You do have a step-down in the covenants. Can you talk about the pace of further leverage reductions? And what do you expect to get to over the next year or 2?

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

Sure. And just to clarify, Jim, so I said in my comments that we just, in the beginning of June, renegotiated a 15-month extension of our first step-down. So we -- instead of going from 5.5x to 5.25x in terms of the covenant restrictions at the end of September, that will be 15 months out. And then it will be the normally scheduled step-downs that occur after that.

In terms of where we are right now, you saw we were at 4.7 at the end of this quarter. We have already restarted accelerated paydowns, predominantly the revolver at the moment because that’s the drawn amount. The interest cost is fairly low, and we expect to be at 4.5x or less. And a lot of that will just be depending on the pace of political and from a cash availability standpoint, but we are leaning into deleveraging quickly.
Can you do that much more next year on a -- in a nonpolitical year where the capabilities might be a little less? Or will that sort of hold for another year?

Victoria Dux Harker - TEGNA Inc. - Executive VP & CFO
We haven’t -- no, no. We’ll continue to pay down debt. It won’t be necessarily at the pace given the cash that’s produced. Remember, political’s paid upfront. So not only they’re high margin, but the cash is paid upfront. But it will just be depending on the pace of the business. But as we’ve said, in terms of the best use of capital at the current environment is to pay down debt.

Okay. And you talked about positioning your portfolio to take advantage of swing states effectively so you can get the most political ad over cycles. Generally, do you think the swing states tend to be fairly consistent year-to-year, though you did mention Texas is now getting more Presidential ads?

And so are you able to take advantage of that? Or is there some inertia that creates the environment for you to do what you’re saying you’re doing? And also, then the crowding out and displacement with the raised political expectations, could you talk a little bit about it? Is there anything more to say in that score?

David T. Lougee - TEGNA Inc. - President, CEO & Director
Jim, I’ll take that. On the last one, on crowd out, we continue, I think, every year to get better at pricing relative. And also some years, you may have a vast disproportionate of the spending in a handful of markets, which actually really makes it harder to manage the inventory, but it’s so widespread where the spending is this year. I think we’re going to be able to manage crowd out a little better than previous years because of the disbursement of the inventory but remains to be seen.

As it relates to the footprint, yes. So the -- if a state is a swing state for presidential, it tends to be a swing state for Senate, right? And then states like Pennsylvania, Iowa tend to -- right now, tend to be pretty competitive on other seats. And then Texas is now a place where the House spending had several Republicans decide not to run for reelection because they’re worried about their seats, so the House itself could be a big factor for us and I think will be in every even year election. So I’d go -- you go back to that $280 million that we did in ’18, and I think that’s going to be -- you’re going to see strong numbers on every midterm going forward.

Okay. Last thing, changes in the FCC post election, is there likelihood -- any likelihood any issues would be addressed once the election is over? And what would be on the table, say, with a Republican win versus a Democratic win?

David T. Lougee - TEGNA Inc. - President, CEO & Director
Jim, it’s honestly too early to tell. It’s also got to do with who goes in as FCC commissioners. So obviously, there’ll be different dynamics on both sides of the aisle. But I do believe I’m a little bit optimistic that on the Democratic side, which has been typically less helpful in the past and regulatory matters that there’s now younger and younger staffers, both in Congress and on the eighth floor of the commission that understand some of the needs for why the consolidation makes sense. So maybe a little overly optimistic on that, but we’re not banking on anything at this point relative
to the cap, regardless of which party takes over. And -- but we'll go ahead and see. And the NAB, our trade association, has -- in recent years, has done a very, very good job on managing whichever administration is in play.

Steven Lee Cahall - Wells Fargo Securities, LLC, Research Division - Senior Analyst

I'd love to get your view on whether sub declines are impacting retrans or reverse comp. Just thinking about the 50% that you did at the end of last year, and then you're probably getting into the 35% this year. So is that either making MVPDs a little less convivial? Or are any of the national networks seeming more aggressive? Or is it just kind of business as usual?

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

So you're asking on both sides of the equation, Steve, to negotiate with MVPDs and negotiating with networks?

Steven Lee Cahall - Wells Fargo Securities, LLC, Research Division - Senior Analyst

Yes. I'm just trying to understand if the acceleration of sub declines has kind of impacted those discussions on both sides.

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

Yes. I think -- so I'll just say, so we haven't negotiated anything of size yet since COVID started. But I'll simply say what we've seen in recent years as sub trends increased is that the value proposition of strong Big Four affiliates has only increased, right? So the existence of any meaningful linear system is dependent on the Big Four. So ironically, as sub trend -- as sub declines have increased, the Big Fours have only increased in importance in value because every consumer wants them. The big events I just talked about are on them. So we like our chances.

What people forget a lot, I think if you look at the ARPU and a lot -- for a lot of the MVPDs, they are on the revenue side. They're shedding a lot of non-necessary cable channels in the consumer side, whether it's secondary channels or if I'm not a sports fan, maybe it's a sports tier, but not the Big Four, right?

And there -- I think there's a lot of cord shaving going on. You get a lot of customers now that have not -- they're not cord cutters, but they got less channels and they're paying for less channels, but we're there and we're getting paid the same. And remember, our rate increases are more than offsetting sub declines.

On the network side, we haven't negotiated a newer deal. We will be, obviously, at the end of this year. We've got a good relationship with that network. We bring a lot of value to them. We'll see where they are on the content side and what programming they've renewed and what they look like in terms of the value proposition of what they're going to offer.

And other than that, I wouldn't speak to that negotiation. But I think just given our scale with that network and the value we bring to them on ratings, over-indexing on ratings that we're in a good position relative to that deal.
Great. And then could you talk about maybe college sports and NFL a little bit? Some of your peers have quantified that as a percentage of revenue or ad sales. So would just love to get a little bit of color given that there might be some shakiness, at least on the college sports side as to whether that's a material aspect to your advertising business?

Yes. I would say college is pretty immaterial for us. For NFL, basically all football all in would be, of our total revenue, very low single digits, okay, for the course of the year. But we're also, as I mentioned earlier, we've now got -- there is a demand for live sports, so we've got a lot of new live sports in the third and fourth quarter we didn't used to have.

So you look at the ratings right now, the NBA Finals on ABC are going to be selling at a far different rate, I think, than what we had before. There'll be a political window. These other events I spoke about, you might -- a U.S. Open Golf Tournament. We might not have talked about that a lot in years past, but that will have now a very high-end audience. It's on all day with a tremendous amount of inventory. And in a world of COVID, that stuff has a lot higher viewing. So we've got some offset, especially because we own a lot of NBC, right, because they've got all these additional events in the third and fourth quarter.

And then just last one for me. And sorry if I missed this in the prepared remarks. Could you maybe talk about your increase in political spending? How much is that candidate spending versus like the PAC or issue advertising, which I know typically gets a much higher price?

You mean -- I mean a percentage of the increase, you mean of our guide?

Yes, qualitative or quantitative, yes, either one. Just trying to understand how much of this is like the candidate fundraising and how much of this is all the other money that kind of circles around that.

Look, the majority of it every year will be issues -- what we say issue. Technically, when we say issue, that includes PAC spending for candidates, right? So candidate spending itself, money raised by Joe Biden or Donald Trump won't be the majority of the spending. It will be the PACs contributing, whether it’s to Senate majority, political committees, Republican committee.

And remember, the lowest unit rate is limited to the candidate ad. So the vast majority will be -- let's call it PAC spending. We will also see a significant amount of statewide ballot issues like we do every year, and that actually adds up to a significant amount of dollars.
Craig Anthony Huber - Huber Research Partners, LLC - CEO, MD and Research Analyst

I’ve got a few questions. Just to be clear, the pro forma ad revenue number adjusting for the acquisitions in the June quarter, the core number, was that down, say, 33%, 34% year-over-year?

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

A little lower than that, Doug, just a little lower than that.

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

Okay. And then...

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

What did you say, 33%, 34%?

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

I said 33% to 34%.

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

What did you say? Yes, low end of that.

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

Low end of it. And then my next question, the down 12% number you mentioned for the month of July, I assume that -- does that include the small -- the acquisitions in there when you say that number?

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

I'm sorry. So yes, that is pro forma for the acquisitions. The AMS numbers I just gave you are pro forma for the acquisition, same-store basis. That minus 12% in July is same-store basis with the acquisitions and that's the final.

Operator

Thank you. This concludes the call. Thank you. This concludes today's call.

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

Thank you. Thank you, operator.
Operator

I would now like to turn the conference back over to the speakers for any additional remarks.

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

Thanks, Shelby. Just once again, I want -- to conclude, I again want to reiterate our commitment to protecting our employees, supporting our clients and serving our communities and again, thanking all of our TEGNA colleagues across the country for their courage and their great work during extraordinary times.

We are executing on our strategy, as I said before, to create long-term value and on our mission to serve audiences with important local news, information and entertainment, and we'll continue to do so. If you have any additional questions we were unable to cover today, please reach out to Doug Kuckelman, (703) 873-6764. Thank you.

Operator

This concludes today's call. Thank you for your participation. You may now disconnect.