Good day, and welcome to the TEGNA Fourth Quarter 2018 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, would like to turn the call over to Jeff Heinz, Vice President, Investor Relations. Please go ahead.

Jeffrey R. Heinz  
TEGNA Inc. - VP of IR

Thanks. Good morning, and welcome to our fourth quarter and 2018 full year 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 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've 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, Jeff, and good morning, everyone. 2018 was a great year for TEGNA, and we ended the year on a very positive note, achieving record fourth quarter revenues and free cash flow.

For the fourth quarter, total reported company revenue grew 31% year-over-year to $642 million. Fourth quarter revenue was driven by a $40 million or 22% increase in subscription revenue and a $130 million increase in political revenue.

When excluding political advertising, non-GAAP revenue was still up 5% year-over-year, in line with our expectation of mid-single digits growth.

Our portfolio is evolving towards a higher percentage of subscription and political revenues, and we continue to benefit from the strength of our stations and industry-leading subscriber trends.
Comprising approximately half of total company revenue in 2018, our subscription and political revenue streams, which both experienced record fourth quarters, were key drivers of the 16% increase in full year total company revenue.

Our sub trends continue to be a very positive story and a key driver of TEGNA shareholder value. The combination of continued increases in our existing agreements and the approximately 65% of our subscribers that will have been repriced between the fourth quarter of '18 and the end of this year as well as long-term affiliation agreements with NBC and ABC through early 2021 and late 2023, respectively, give us excellent visibility into the continued growth of these stable revenue and cash flow streams.

And significantly, I'm pleased to be able to report again that TEGNA's paid subscribers, a combination of traditional MVPDs and virtual MVPDs, increased year-over-year for the eighth consecutive month, a trend unique to TEGNA.

I would highlight that these high-margin revenue streams, subscription revenues and political spending, are largely immune to any external macroeconomic pressures giving us natural barriers and strong predictable free cash flow.

Going deeper on political, we achieved all-time records in political revenue of $140 million for the fourth quarter and $234 million for the full year, 51% and 47% higher, respectively, than the prior mid-term election cycle in 2014. As I alluded to last quarter, there are two key trends that reaffirm our confidence for future political growth in 2020.

It starts with a fact that our strong stations are ground zero for political advertisers, as '18 proved. And as '18 also proved, there's a new normal of high voter passion and engagement, and in turn, a new normal in the levels of fund raising and spending. Advertising spending for presidential candidates next year is expected to reach an all-time high, and our local stations, with our strong local news, will continue to be the preferred platform to reach targeted constituents. Simply put, our audiences vote in very high numbers.

These dynamics, combined with our strong presidential station footprint, gives us confidence of an unprecedented high-margin political spending in 2020.

And speaking of our stations, they are the most honored and innovative stations in the country. And we are leveraging their strength for future organic growth in 2019 and beyond.

Our content innovation efforts are expanding and growing the audience as we reach. And on the client side, we continue to expand further into our local markets with an unprecedented suite of customer products through TEGNA Marketing Solutions and our Premion, OTT advertising solution.

Together, our focus on expansion of both our consumer and client base is bringing us new audiences and new dollars.

Moving now to our capital allocation philosophy. We follow a disciplined process in evaluating opportunities to create value for our shareholders. On the M&A front, we are strategic in our analysis and proactive in our pursuit of opportunities. With the completion of the acquisitions of WTOL in Toledo, Ohio, and KWES in Midland-Odessa, Texas. We now cover a third of all U.S. TV households, and as part of our Texas strategy, a state with one of the strongest growth trajectories, if not the strongest in the country. We now cover 87% of Texas.

In the quarter, we also deployed record free cash flow to reduce debt to under $3 billion. And have increased flexibility to capitalize on future internal and external investment opportunities.

Going forward, we'll continue to focus on innovation and execution to drive growth and value creation for our shareholders. Before I turn the call over to Victoria, I'd like to share some a couple of important business updates from the last few months and the beginning of this year. In December, we reached a multi-year carriage agreement with DISH TV, and in January, with Verizon Fios. Both of these agreements underscore the continued strength and growth of our subscription business.
And as I referenced earlier, we renewed our affiliation agreement with ABC, a nearly 5-year agreement through late 2023, to further solidify our very strong top 4 affiliate portfolio.

In closing, 2018 was an exemplary year for TEGNA. Our unique and evolving mix of high-margin subscription and political revenues and strong free cash flows have positioned the company to create value throughout market cycles and reinforce our operational excellence.

As a reminder, we fully expect that our high-margin sub and political revenues will account for approximately half of our total 2-year revenue beginning in ’19 and ’20, and a higher percentage thereafter.

We have best-in-class strategic initiatives in motion to support organic growth, and we continue to maintain a strong balance sheet and we'll continue to execute our disciplined M&A strategy to drive long-term value.

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

Victoria Dux Harker  TEGNA Inc. - Executive VP & CFO

Thanks, Dave, and good morning, everyone. Thank you for joining us.

As Dave mentioned, our record fourth quarter results reinforce our operational excellence as well as confidence in our strategy.

Before I cover our consolidated financial results and capital allocation for the quarter, I'd like to review just a few special items with you. Special items for the quarter included FCC spectrum repacking reimbursements of about $2.4 million, which reduced operating expense. This was offset by nonoperating expense items of $4.2 million, which included $2.2 million of transaction fees primarily related to our Toledo, Ohio, and Midland-Odessa, Texas, television station acquisitions and a $2 million impairment charge related to an equity investment.

Before I discuss our financial results, I'd like to address the Premion refunds that we announced in December 2018. Our internal team proactively identified system issues that affected certain 2018 Premion Audience Select targeting segments and determined they did not deliver correctly. In turn, we corrected the issue immediately and decided to issue full refunds to impacted customers, totaling $16 million for the year.

The financial impact of the adjustments is reflected only in our fourth quarter 2018 results and also includes a total reduction to revenue and EBITDA of $10 million for previously reported quarters.

This adjustment, obviously, was not reflected in our guidance given in November, but does affect the reported growth rates for the quarter.

The cash refunds issued to customers will impact the free cash flow during the first quarter only by roughly the same amount.

Now onto the fourth 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, which provides clear insight into our financial drivers and operating results.

Also, as a reminder, our advertising marketing services revenues exclude political advertising, which we've broken out separately. You'll find all of our reported data and prior period comparisons in our press release.

Now for the results. Total company revenue for the fourth quarter on a reported basis was up 31% year-over-year, which is at the midpoint of our 30% to 32% guidance range provided last quarter.

As you’ve seen from our release, this was driven by political and subscription revenues, which grew $130 million and $40 million,
respectively.

Total revenue without the benefit of political was up 5% year-over-year, despite being negatively impacted by political displacement.

Also, keep in mind that the 31% total company's revenue growth rate is on a reported basis, including the $10 million Premion revenue adjustment from prior period.

It's important to note that after that adjustment, revenue growth would’ve been 33%, ahead of guidance.

As Dave mentioned, the net year-over-year subscriber growth trends we've seen over the past 8 months give us great confidence in the ability and stability of our subscriber base. As we've discussed before, these sticky and high-margin subs produced annuity-like cash flows, which allow us strong forecasting visibility.

We expect another year of healthy revenue growth in 2019 and are providing subscription revenue guidance percentage increase in the mid-teens for the year.

Turning now to political advertising.

As Dave noted, our full year 2018 political revenue of $234 million was a highest level in TEGNA's history thus far, including any presidential election year, and 47% higher than the prior midterm election cycle.

Political revenue in the fourth quarter was also a record $140 million, net of $5 million in Premion adjustment, substantially higher than the 2014 elections, up fully 51%.

As expected, strong demand for political advertising leading up to the election impacted the level of nonpolitical TV advertising. Advertising and marketing services revenue was 7% lower in the quarter compared to the fourth quarter last year, due entirely to crowd out.

When adjusted for this, advertising and marketing services revenue was up slightly, an improvement from prior quarters.

Notably, December, which was not impacted by crowd out, experienced an even stronger advertising and marketing services growth rate, up low to mid-single digits.

Additionally, the out of period Premion adjustment is worth 3 points of advertising and marketing services.

When adjusting for both political displacement and the Premion adjustment, advertising and marketing services revenue in the fourth quarter was up low single digits.

Now to provide some further color on specific revenue category performance trends. Several categories were up or flat within the quarter when adjusting for political crowd out. Retail, services, medical, media, telecom, entertainment and home improvement were all positive.

Other categories such as automotive, restaurants and packaged goods were lower in the quarter but showed improvement from prior quarters.

Lastly, we continue to see strong demand for Premion, evidence that this unique offering remains a solution for advertisers looking to gain OTT inventory access and Premiere targeting and reporting capability.

Moving now to expenses. Given our record political advertising, we expected to see higher fourth quarter non-GAAP operating expenses driven by cost of sales. Beyond this, our operating expenses were 16% higher this quarter on a GAAP basis, primarily driven by higher programming fees.
As a reminder, these fees include reverse compensation paid to networks, which increased alongside growth and subscription revenues.

On a same-store basis, excluding higher programming costs, investments in Premion, content transformation and increased cost of sales tied to revenues, costs were only up less than 2%.

On a full year basis, operating expenses increased 11% year-over-year, equivalent to about 1% increase on a similar same-store basis, when you exclude the aforementioned items.

During the fourth quarter, corporate expense was $11 million, down from $12 million last year. For the full year, corporate expenses on a non-GAAP basis and excluding depreciation were down 11% year-over-year, totaling $47 million, in line with guidance of under $50 million. Adjusted EBITDA for the quarter was a record $273 million, fully up 61% and well ahead of consensus.

Adjusted EBITDA excluding corporate expenses was $284 million, producing a very healthy 44% margin. As a result, we generated $167 million of free cash flow, a record for the fourth quarter. Our record free cash flow quarter was driven by significant high-margin political as well as subscription revenue. In continuing our commitment to maintain a strong balance sheet, we reduced debt to $2.9 billion, ending the quarter with net leverage of approximately 3.9x. The strength of these cash flows will continue to allow us to pay down debt and invest in new products and initiatives while funding new acquisitions.

Now turning to first quarter and full year 2019 guidance. In an effort to help you forecast our future growth, we're providing several key quarter ahead and year ahead financial guidance metrics.

As a reminder, this quarter, we won't have the benefit of Olympics revenue across our NBC stations and political advertising as we did last year, both of which we over indexed in.

Also, Super Bowl this year aired on CBS stations versus NBC last year. Our CBS portfolio reaches 2/3 of the households that our NBC portfolio reaches.

As a result, we expect first quarter total reported company revenue growth to increase low single digits, excluding the comparative impacts of cyclical events like the Olympics, Super Bowl and political revenue. We expect revenue growth to be up in the mid- to high single-digits range.

From an expense perspective, we expect first quarter to increase mid-single digits or flat to up slightly excluding programming expense.

However, excluding Premion investments and acquisitions, all other operating expenses are projected to be down mid-single digit percent.

Now here are some key organic guidance metrics for the full year and 2019. We expect to see full year subscription revenue up mid-teens, based on sub trends and the timing of MVPD renewals, which occur in the back half of the year.

Corporate expense is expected to total approximately $45 million. Our expectation for depreciation is in the range of $55 million to $60 million and amortization to be up roughly $35 million. We expect interest expense to be in the range of $190 million to $195 million. We anticipate capital expenses between $70 million and $75 million, which includes recurring CapEx of about $30 million to $40 million and about $35 million in nonrecurring projects, including $17 million in mandatory channel repacking, our headquarters relocation and a new facility in Houston. And our effective tax rate is projected to be about 23% to 25%.

We project free cash flow of 17% to 18% of revenue on a 2-year, 2018 to 2019 basis and 18% to 19% of [average] (added by company after the call) revenue for 2019 to '20.

Lastly, we expect to end the year with leverage of approximately 4x. As a reminder, over 90% of our debt is fixed at attractive rates.
and, therefore, not at risk in a rising interest rate environment.

Building now on Dave’s comments regarding the current M&A environment. TEGNA continues to follow a disciplined capital allocation framework that balances our desire to enhance our growth profile through strategic, accretive acquisitions with our commitment to a strong balance sheet, organic growth and return of capital to shareholders through dividends, delevering and opportunistinc share repurchases.

Capital allocation decisions are driven by our focus on maximizing shareholder value. And we consistently allocate capital to the options that offer the highest medium- to long-term returns. As Dave said, we continue to participate actively in M&A processes for assets that fit for us within current industry regulatory constraints. We demonstrated we can drive synergies from the right assets and have the financial and balance sheet strength to fund them.

However, we’ll always remain disciplined as to valuation with our primary objective being to create incremental to shareholder value on top of what we can achieve organically.

In summary, our current results as well as our outlook for 2019 demonstrate we are making strong progress in diversifying our revenue and cash flow streams and reaffirm our confidence in our long-term strategy. As a result, the continued growth of less-cyclical profitable businesses only serves to enhance our ability to create shareholder value.

We continue to believe that stability and growth potential of our business is underappreciated and are excited about the opportunities ahead.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we will take our first question from Marci Ryvicker with Wolfe Research.

Marci Lynn Ryvicker Wolfe Research, LLC - MD of Equity Research

I actually have 2 topics. So, the first one is on Premion. And I just want to know or understand exactly what happened. And I think I get the financial impact for the fourth quarter where you took a $16 million charge for the year, $10 million was related to previous quarters, so only $6 million for the fourth quarter. Victoria, I did not understand what you said about the first quarter impact, if there is one. And then does any of this change or your outlook on Premion for 2019 or beyond?

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

Marci, so let me take, sort of, what I'll call, the first and third question there, and then Victoria can talk about the first quarter issue. But simply put, one of the products that we launched last year did not fully deliver the impressions that we promised, even though total impressions were delivered. That was discovered internally. And we immediately reported it ourselves and made the decision rather than try to go back to what impressions were delivered and not, what was the right thing to do was simply give full refunds to our advertisers, and that's what we chose to do. So the issue has been fixed. And all 2019 campaigns will be delivered as sold. So now I'll talk about the future of the business. Actually, we're more bullish now on it than ever. For obvious reasons, with consumer change to OTT platforms, the opportunity is bigger than it's ever been, right? And so, we are really, really excited about what we're seeing. We, obviously, did have a little hiccup at the end of the year. So, we're recalibrating what the year is going to look like. We're not going to provide guidance at this time. We broke that out last year to give the market a sense in the size and growth since it was new to TEGNA, but we don't report it as a separate line item. But the business is performing very, very well. And we can see very strong double-digit growth in the business this year. And we expect to exit the year with a mid-teens margin on the business overall.
Victoria Dux Harker  
**TEGNA Inc. - Executive VP & CFO**

And Marci, just to follow up on your point. You had it exactly right relative to the P&L impact for the fourth quarter, it was $10 million for prior periods and about $6 million for the fourth quarter. That P&L impact was taken in the fourth. So, we didn't push it back to prior periods. And it had the results of impacting what would've been a [33% growth rate] (corrected by company after the call). My point was, so the first quarter there's no further P&L impact. It was just a reminder that the actual refunds being given to advertisers would flow through into the first quarter, and it's roughly in the double digits, sort of, $10 million to $12 million, some of it is cash, some of it's make wholes. But just a reminder, for your modeling purposes that, that would occur on a cash basis in the first quarter.

Marci Lynn Ryvicker  
**Wolfe Research, LLC - MD of Equity Research**

Okay. And then my second question is unrelated. But Dave, given Nexstar, Tribune and now Cox has been acquired by Apollo. How do you think about the M&A pipeline for TEGNA, specifically, and maybe for the entire environment for the space?

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

Yes. Well, you didn't ask, but I will say, I think, a private equity in our space reinforces the value of the broadcast business model, which I think is another positive understanding of the future value of the sector. I won't speak specifically to the Nexstar divestitures, but there is a lot in the pipeline right now. And we're not concerned about the pipeline over time, Marci. We think it is a much better chance than not that this year the cap will be raised by the FCC. And whatever the number is, let's ballpark it between 50 and high-70s, let's say, either way, it's going to open up the opportunities for new collaborations and combinations. So, in the scheme of things, that cap change is probably not very far away. So overall, we're not concerned in the long term.

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

You gave a lot of crowd out adjusted numbers for the quarter, Victoria. Could you help us understand exactly how you're calculating those numbers?

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

I'll take that one, Kyle. So, bottom line it's a rough estimate, Kyle. Obviously, it's a little bit of an art more than a science. But we roughly put it to be about 7 points against advertising and marketing services. So as your next question, sort of, where do we see how the quarter was without it?

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

Yes.

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

Yes, so we actually saw some more sequential improvement, especially when we look at December. December was up in sort of a low mid-single digits, which had none of those impacts. Auto, when we do the adjustments for the political piece, just continue to sequentially improve a little bit and improved a little bit more. And in the fourth quarter, it wasn't up for the quarter, but it wasn't down much. And it was up in December exiting the year. And we saw a lot of strength and a lot of other categories where we hadn't before. So overall, based on what we can tell, when you exclude for crowd out, it was positive trends.

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

And Kyle, just as a reminder, we had, in our previous earnings call, we had estimated that 7% to 8% in terms of the crowd out, and that's basically what we saw, so we're just reconciling for you. And these buckets, basically, net of that crowd out that we previously had estimated, that's what the impacts would have been. So, in total, our advertising and marketing services, up low to mid-single digit, net of the out of period Premion adjustment, it was worth about 3 points of that.
Kyle William Evans  Stephens Inc., Research Division - MD

Okay, Dave, you just said you thought we could get cap raise, I think as we all kind of collectively thought we would get it last year. And we were wrong. Can you probability weight that? And maybe talk about what do you think has changed? Or what might the committee be thinking differently? (technical difficulty)

Okay. So my question was, why do you think Pai and the commission are going to do the cap raise this year? We all kind of expected it last year. And we didn't get it, we're all wrong. Just kind of trying to get the probability of what your thoughts on the cap rates a little bit more.

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

Yes. I think last year, there was a lot of noise in the system about one particular transaction, obviously, that had gone through the pipeline and gotten a lot of noise, both in the press and in the DOJ and even at the FCC, that kind of potentially slowed that down. But now I think it's important to the commission to -- actually, they've got a quadrennial review coming up the end of this year anyway. And I think they want to do it separate from that. And they need to do it separate from that. And I think they don't want to get into the political cycle of 2020. So, I think that the commission would be poised to act this year. And your probability of waiting out, put it well over 50% in our view. I apologize for the technology problems, by the way. Sorry, Kyle.

Kyle William Evans  Stephens Inc., Research Division - MD

I'm glad I didn't cause them. We used to hear quite a bit about Hatch and G/O. I know you guys have consolidated those. There's a name change. I saw a kind of a reduction in force in the 3Q. Can you give us an update on your digital marketing services businesses?

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

Yes, the only reduction in force was just a reallocation of resources towards the products that were created a higher margin. So, we just downsized a couple of small products that weren't producing good yield for us. But we have [reorganized] (corrected by company after the call) what used to be called G/O Digital and Hatch into one coordinated group for our clients. And from a -- both a go-to-market strategy and fulfillment, called TEGNA Marketing Solutions, which I referenced in the script. (technical difficulty)

As Victoria referenced in her script, we moved to a new corporate headquarters. As part of our corporate downsizing, everything's has been working perfectly until this call. So with that, let's continue.

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

Yes. Simply put, I think the infamous transaction last year that didn't go through created a lot of noise in the system and the press, at the DOJ, and then sort of created a little bit of paralysis at the FCC values, that is my word. But this year, we have much better than 50-50 confidence that they will do something with the cap this year and they want to do it presumably well ahead of the election cycle next year.

Victoria Dux Harker  TEGNA Inc. - Executive VP & CFO

Kyle, just to close the loop on your question on reductions in force that was in the third quarter, it wasn't just at the G/O Digital, we also have the ongoing back office consolidation and streamlining that we're doing. So, there were also reductions of force related to that.

Operator

And we will take our next question from Steven Cahall from Royal Bank of Canada.

Steven Lee Cahall  RBC Capital Markets, LLC, Research Division - Analyst

Can you hear me okay?

Victoria Dux Harker  TEGNA Inc. - Executive VP & CFO

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

Yes, we can.

Steven Lee Cahall  RBC Capital Markets, LLC, Research Division - Analyst

Okay. Great. Two for me. Maybe first your 2019, '20 free cash flow outlook as a percentage of revenue, it looks to be pretty strong. I was just maybe wondering if you could let us know what your political assumption was in there, because I'm guessing that's driving some of that. And then one of your peers called out some weakness at one of the auto OEMs. I was wondering if you could maybe just touch on auto as a category a little bit. And if there is anything particular you're seeing at the OEM level worth calling out?

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

Yes, let me take the second first. At the OEM level, we've actually seen some good players being up in the Tier 1 side. But the Dodge, Jeep or Chrysler is probably the one you've heard called out before, that's been affecting us all year because without that, the category would be positive in of itself. And your other question was around...

Steven Lee Cahall  RBC Capital Markets, LLC, Research Division - Analyst

Political.

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

Yes, around political. So, we're not guiding to political as to a number. But you would be right, as I said in my script, that we believe it's going to be a very strong year for political, which is high margin. As is our subscription revenue business, which we're going to see some significant increases on as well.

Operator

And we will take our next question from Dan Kurnos with The Benchmark Company.

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

Dave, it's sort of a timely question here. Just on Premion with kind of the refunds you had to issue due to the sort of the tech issue or whatever you experienced. You're not seeing any backlash in the marketplace from that. There's no lack of confidence, I'm assuming. And even though you're not giving guidance, can you, at least, sort of, directionally help us think about expectations for growth for Premion this year?

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

Yes. Actually, well -- I actually appreciate the question, because the fact of the matter is, our clients were very appreciative the way we've handled it. And many of those clients had already booked orders for this year and have kept them and other clients have come back with even larger orders. As you would probably know, trust and credibility in the digital advertising space is at a premium -- and that's always been, frankly, one of the hallmarks of our business because unlike competitors who outsource to third-party programmatic services and others, we get our inventory direct from a select group of publishers that we prequalify. So, our advertisers are 100% confident that they'll be advertising in the kind of environments they want to be advertising in. So, it's actually, certainly, wasn't a way we wanted to build their trust, got to do over again, but it's turned into -- very much into a positive. As I said earlier, to Marci's question, just why we recalibrate. We're not at the point of giving guidance relative to the full year, but like I said, we're confident, very strong double-digit growth overall. And the demand for the product is stronger than ever for sort of the obvious consumer marketplace reasons.

Victoria Dux Harker  TEGNA Inc. - Executive VP & CFO

Just to give a little more color to Dave's points, and I've answered Marci relative to the cash refunds, which will be flowing through into the first quarter, just case in point, although most of them are through agencies, most of the buys that we did get a number of request for credits and/or make goods instead of cash. So it's sort of corroboration of their continued confidence in the product. And so the total number of, from a cash refund standpoint, will be lower than the P&L impact.
Got it. That's helpful. Dave, look, obviously, you guys outpacing the industry from a sub perspective. I'm assuming that's mostly because of your large market footprint. But we've heard varying degrees of problems from the satellite providers, and there's been some flow through on linear for some of your peers. But generally speaking your sub trends have been healthy. You guys have clearly outperformed that. What gives you sort of the confidence and/or visibility that embedded in your guidance, which I think -- it's pretty reasonable on the retrans side that sub trends sort of stay healthy through the balance of this year?

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

Yes. So to be clear, we're not saying for sure that we'll continue to see year-over-year growth in total subs, right? But I think what we're clearly seeing is that, wherever the industry is at, where there's going to be a growing CAGR gap between us and the industry writ large, and that because of our large market profile, we'll have a lot more stability than people really assumed, because it is a quite a different story for our large markets compared to our smallest markets. And the smallest markets aren't much of our sub count overall. But it's -- again, we're not saying positive. Overall, we're just saying that we're going to have a different trajectory than a lot of others.

And then just maybe one more, if I could, since you're in opine on the FCC mode today, I guess. Just out of curiosity, do you suspect that they will eventually rule on Gray's acquisition of Sioux Falls, because that could theoretically set precedent for you guys to go after two Big Fours in the market, even though, clearly there are economic benefits to Gray making that acquisition, and it's clearly a much smaller percentage of revenue in that market.

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

Yes, I have no point of view or opinion on specific matter involving another company, Dan.

And then in general they will actually start allowing two Big Fours in markets, it was really more of the general question.

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

Yes, I can't speak to that as a result of that. I think the two Big Fours in market have been more a little bit held back temporarily by some more of DOJ activities. But on that front, it was heartening to hear the head of the anti-trust division is going to hold a public hearing, I think, on May 3, if I recall, suggesting that broadcasters may have a point that the current DOJ anti-trust division's definition of the video marketplace is outdated. And that as, for instance, the big internet players should be considered when considering the definition of markets. So I think it portends to be a good sign on potentially releasing that log jam on the two Big Fours over time.

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

If you could please provide some commentary on other aspects of the addressable advertising, like where you are on the TIP Initiative? When do you think that will start having an impact on your ad sales? And then, just more broadly, are you seeing shift of advertisers who had been allocating to digital wanting to come back to TV for the broad reach?

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

Yes. To the back end of that question, I don't think we know yet because I don't think we have yet -- we're going to, but I don't think we've yet successfully solved the problem for all the agencies as an industry. The good news is, we can. But it's taking, obviously, technology to get there, which is why TIP Initiative has been so important. The TIP Initiative has been very successful in creating open standards. So that it's not -- no single platform is the gatekeeper. On the buy side, the agencies have been using a company called Hudson MX, which they have -- they're starting to put a lot of money through. It's now incumbent upon us to start to create the same efficiencies on our end. But I think you'll see -- I can't say how much dollars we'll move this year in '19, but I know that there is a lot of consensus amongst the broadcast groups. It's really about the large markets in the near term where the big national dollars are. And I think there is a very growing consensus amongst those companies as well as the agencies that it's in our mutual best interest to get this figured out. So, I
think the TIP Initiative has been working sort of on the technology piece. And now we need to work on the business rules and business terms as an industry.

Operator
And we'll move onto our next question from Craig Huber with Huber Research Partners.

Craig Anthony Huber Huber Research Partners, LLC - CEO, MD, and Research Analyst
My first question, if I could. What percent of you're paying subs up for renewal this year? And what about next year, please?

David T. Lougee TEGNA Inc. - President, CEO & Director
By the end this year, mostly in the fourth quarter. At the end of the year, Craig, about 50%.

Craig Anthony Huber Huber Research Partners, LLC - CEO, MD, and Research Analyst
What about next year, please?

David T. Lougee TEGNA Inc. - President, CEO & Director
Yes. And then next year, about another 35%, I believe. So, between the end of this year and the end of next year, which is important to note to the question asked earlier about our free cash flow as a percent of revenue, we'll be repricing 85% of our subs between the end of this year and the end of next year.

Craig Anthony Huber Huber Research Partners, LLC - CEO, MD, and Research Analyst
And just so I am clear. Are you suggesting nearly all that 50% is in December this year? Or is there some more earlier on?

David T. Lougee TEGNA Inc. - President, CEO & Director
I'm not. I'm not. So, there is a little bit of it that will be at the beginning of the quarter, less than half. So there will be some impact on the fourth quarter, majority of it that won't be impacted until next year.

Craig Anthony Huber Huber Research Partners, LLC - CEO, MD, and Research Analyst
So I'm just clear. Does that mean it's almost all in the fourth quarter? It's sort of a technical question.

David T. Lougee TEGNA Inc. - President, CEO & Director
Yes, there'll be no impact on any of those subs in any quarter but the fourth. But of the 50%, probably about 1/3 at most will impact the fourth quarter.

Craig Anthony Huber Huber Research Partners, LLC - CEO, MD, and Research Analyst
I see. Okay. Maybe I missed this, but your total paying sub count in the latest period, what was that percent change year-over-year, please? With and without the OTT subs.

David T. Lougee TEGNA Inc. - President, CEO & Director
Actually, I don't have the break out right now with or without the OTT. But I'll give it -- the total numbers in -- it was -- again, we're -- these are interim -- put up in arrears, but we've been averaging in different months between plus 1.5% to plus 0.4%. They've been varying month by month.

Craig Anthony Huber Huber Research Partners, LLC - CEO, MD, and Research Analyst
Okay. And also can you could just talk a little bit further, if you would, the outlook for core advertising in the first quarter year-over-year? I know -- I think a year ago, you said the Super Bowl and Olympics was $24 million incremental a year ago. But may be with or without that adjustment, I'm curious how things are pacing for ad revenues?

David T. Lougee TEGNA Inc. - President, CEO & Director
Yes. So, the Olympics, last year -- and again, it's a little bit of an estimate, but we put that at about $14 million incremental for us last year, Craig. And then remember, that's what we get our NBC stations minus what we lose on our CBS and ABC stations. And then the
Super Bowl was on NBC last year, which we have more homes. So, we did about $2 million more last year on the Super Bowl than we did this year. So, the net impact for the 2 events together, we're putting a roughly $16 million as a negative impact quarter-to-quarter.

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

And then how's the core advertising?

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

Again, we got a lot of noise because of the Olympics. But overall, notably, we're positive in January and March. And auto, which continues to incrementally improve. We're positive in those months. With auto, we think we're probably exclusive of sports events around flattish on auto for the quarter. And notably, media and telecom is a lot of turnaround from us. I don't know about the industry, but we've got a lot more competition in the video space with the AT&T, Charter and Cox now. So -- and home improvement, banking, finance, medical, packaged goods and travel, tourism, are all very, very strong as well.

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

And then my last question. If I could just sneak it in, Dave. You've mentioned, you're expecting subscription revenues up mid-teens this year. What about net retrans for the year?

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

Expect that to be up in low double digits as well.

Operator

And our next question will come from Michael Kupinski from NOBLE Capital Markets.

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

Other broadcasters have indicated a CapEx to upgrade to ATSC 3.0. At this point, have you allocated any CapEx to upgrade the stations?

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

We have. We got a few stations in for this year. We're already part of the Phoenix test. We got about $2 million total allocated right now, that might float a little bit based on the timing of some market tests. We're prepared to be opportunistic as we see the opportunity to move to a change markets.

Victoria Dux Harker TEGNA Inc. - Executive VP & CFO

Mike, when I talked about the recurring versus nonrecurring CapEx, the bulk of the $35 million or so nonrecurring was the $17 million repack. But there was a little bit of this Dave mentioned as well.

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

Got you. And how many stations will you have upgraded then?

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

I don't have the number of the top of my head. I think it'll be around 5 to 6, probably, by the end of the year, if I recall. So, we're counting Phoenix, which we did last year. But that number could change, again, depending on opportunities. Even adding a few stations at list will not have a significant impact on CapEx overall if we have to, we'll, pull some dollars from somewhere else to do it.

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

Got you. And of course, you just renewed your ABC contract. Can you update the timeline for the other networks?
David T. Lougee  **TEGNA Inc. - President, CEO & Director**

Yes, we've got CBS up at the end of this year. And then, as I said before, we've got NBC up in early '21 and ABC in '23 and Fox, which is less than 2% of our homes, is actually up middle of this year.

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

And just as a reminder, if people weren't writing that down, we have it updated on the website on our investor presentation.

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

Yes.

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

Got you. And in the company's guidance, corporate expenses for 2019 still coming down a little bit. Is that still pulling through the corporate headquarters and reductions there? Is there any other color that you can add there?

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

No, it is. It's basically the ongoing consolidation and the back-office support. In addition, once we fully run it through the double rent for our new operating facility here at corporate headquarters, that's another $2 million or so reduction year-over-year in expense.

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

So we should still see our corporate expenses in 2020 to be kind of flat to down?

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

Yes, yes, yes.

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

Yes, yes.

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

Okay. And then following up on Marci's question about the M&A environment. The company previously talked about swap opportunities. Can you talk about station swaps at this point? Is that still on the table?

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

Yes, I think it is. To the earlier question about the Big Four opportunity, I think there is a little bit of the paralysis on that relative to issues I said earlier, probably slowed that down a little bit. I also think because there is vertical M&A happening out there right now and there are opportunities that groups are kind of looking at that vertical M&A. But I do think more and more you may see opportunities for groups to do things together. But they've got overlaps that there needs to be divestitures, and swaps could be a way to get that done. But I think right now, because of the vertical M&A focus, and I think a shared industry belief that the cap is going to get raised as the people are focused much more on vertical right now.

Operator

And our next question will come from Doug Arthur with Huber Research.

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

There was a lot of discussion, I think, about political in 2020. Given the heated environment, could you see a better kind of off-year political number in 2019 than you have traditionally? Or is that not realistic?
David T. Lougee  
**TEGNA Inc. - President, CEO & Director**

We're not -- it's a great question, Doug. We're not forecasting it. As good as our presidential footprint is, we don't have a lot of exposure to the very early primary markets right now. We got a little bit of money in Maine from New Hampshire. But we're not in Des Moines, we're not in Boston, and Manchester. So, I think if you're in those markets, you see stuff in the fourth quarter this year. But I wouldn't be surprised, if towards the end of the year, there is even presidential spending for states after that, that starts in December, but we're not counting on it.

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

Okay. And then Victoria, the -- in terms of the cadence of subscription and retrans, you had a nice step up in the fourth quarter. You cited escalators in OTT. I mean, what sort of was the primary driver of the pickup in growth in the fourth quarter? I mean, clearly most of your big renewals are on the come at this point?

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

Yes, we had a renewal relative in that period. I think we've previously discussed that externally as well.

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

Yes. Yes, we had a Dish agreement of -- as well as the FIOS agreement, but the Dish agreement was retroactive to its expiration date, which did affect the quarter, Doug.

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

Okay. So Dish and Verizon were, I get it were Q4 impact. And I mean, is the OTT -- I mean you -- obviously, you've talked a lot about the sub impact of that. Is that a meaningful driver of these numbers at this point?

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

It's not a huge number overall to our dollars. But it's meaningful to the gap with traditional MVPDs, to Craig's question earlier, because it is helping. Our traditional sub losses are not the same as other companies, but again because of our large market exposure. But we also have more virtual MVPDs than others. But on a relative basis, it's not that large.

Operator

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

James Charles Goss  
**Barrington Research Associates, Inc., Research Division - MD**

The -- I think back to the time as of network television viewing was declining in terms of numbers of people viewing individual shows. And there was a scarcity premium for the advertisers that caused them to pay higher prices. I'm wondering if all of the trends you're seeing, including the OTT subscription aspect that's stabilized your viewing, has had any impact on ad rates.

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

I think at ad rates are a function of supply and demand and the quality of the programming, Jim. So, I think as it relates to network programming, per se, it's absolutely true that there are more and more options for consumers, for scripted programming, right? And so I can't speak to the networks' ad rates, but we still get very good rates for premium prime time programming. But a lot of that programming, it doesn't have the same ratings that once did a few years ago, right? So -- but the big events still do, right? You still get a great premium for the Grammys, the Oscars and live sporting events like the NFL, et cetera. So, on a cost per point basis and a cost per viewer that we still get very good rates, because even with reduced ratings of network programming, it's still by far the broadest reach vehicle to advertisers. And as a reminder, tying that question together with the subscription trends, individual cable channels are losing distribution at very fast paces. So, there's a growing CAGR and gap and delta of distribution between broadcasters and cable channels. And that's got implications on where ad dollars go overall. And a reminder for us that network prime, exclusive of sports, is now down to like around 11% of our total revenue, 11% to 12%. So, we're not as affected by that. Our local news is really not as exposed to some of those same trends. And we continue to get very good rates for that.
James Charles Goss  
Barrington Research Associates, Inc., Research Division - MD

Okay. And sort of in a related vein. Aside from the local news and some of the dayparts, you've had programming initiatives like Daily Blast Live and a few other things. Can you talk about how that is capturing a bigger share of the potential ad dollars, net of whatever programming cost you might have? And also, are there other program initiatives you are working on to sort of supplement the initiatives you've announced at this point?

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

Yes, we are looking at other program initiatives, and none to be announced yet at this point. But we do have some interesting ones in the pipeline. We are going to be very focused on targeted content opportunities because we do see some unique opportunities in the marketplace. We'll probably be talking more about on upcoming calls. DBL is doing well. You have to be patient with shows like that. Looking at the ratings last night, of that around our markets, in fact, seeing some nice growth in daytime, which is not an easy place to find an audience. Performance is better in some parts of the country than others, it would appear, but it's growing. And so for us, it's not a significant investment. And of course, it's replacing prior programming costs. So, we're being patient with it. And we also think that as we do M&A, the ability to leverage that initiative along with our strategic initiatives is very cost effective and strategic play for us.

Barton Crockett  
DCFStocks LLC

I just wanted to see if you were able to provide a little bit of quantification around your comment that your subs are growing. Could you give us a sense of how much? And let's say, if there's been any change in the pace of growth over the past few months? And could you unpack a little bit about what's happening with traditional versus the new kind of online bundles? I think your revenues or subs are counted on something of a lag. Is there anything you see, you know this gets to a point you can't really raise earlier about the projection for the year. But is there anything you see that would cause that trend in sub growth to be somewhat different as we look into the first quarter?

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

Yes. We think we're only about 2- to 3-month lag. I mean we do have seasonal cyclicality. It's always worth noting, but it doesn't look exactly like the MVPDs, right? So, you also have to take that into account. We've got people in the Tampa's and Phoenixes that are there in the winters and not in the summers. And so we've got some cyclicality, and it doesn't always look like the MVPDs for that reason, plus we're on 60-day lag sometimes. But in terms of the overall trends. So, yes, our traditional is declining, although the rate of the decline is not increasing. So starting about a year ago, the virtual MVPD subs. And so we're seeing, again, over the last 8 months, a pretty steady trend. 8 months ago, we had a plus 0.3. We had a month with a plus point 1.1. We had a plus 1.5. We had a plus 0.4. You have all the months, and the last 8 months had been in that range. And it's not been a downward trend, right? So but I -- but that being said, based on what the MVPDs have been reporting on the traditional side, we're prepared for the fact there could be some increase in the rate of decline in the traditional. And we take that into account into our assumptions. But my earlier point is, regardless, our trends will be better than people think. Did that help?

All right. And with this, no more questions, thank you, everyone, for joining us. And to conclude, we had a very successful year as indicated by the results we just went through. Our evolving mix to these higher-margin revenue streams that we just talked about in detail and our sustained execution of our organic and inorganic growth opportunities and initiatives position us to grow significant share value for our shareholders.

So, we look forward to speaking with you on our first quarter earnings call on a different phone system. If you have additional questions, please reach out to Jeff Heinz at (703) 873-6917. Thank you, everyone.