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PRESENTATION

Operator

Good day, and welcome to the Q4 and Full Year 2023 TEGNA Inc. Earnings Conference Call. (Operator Instructions).

As a reminder, this call is being recorded. I would now like to turn the call over to Kirk von Seelen, Vice President and Treasurer. You may begin.

Kirk von Seelen - *TEGNA Inc. - VP & Treasurer*

Thank you, operator. Good morning, and welcome to our fourth quarter and full year 2023 conference call and webcast. My name is Kirk von Seelen, and I am TEGNA's Treasurer.

Today, our President and CEO, Dave Lougee; and our new CFO, Julie Heskett, will review TEGNA's financial performance and results and provide TEGNA's full year and quarter ahead outlook. After that, we'll open 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 the release, it's available at tegna.com.

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

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

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

Thank you, Kirk, and good morning, everyone. Coming out of the merger termination last May, we've been laser-focused on returning capital to shareholders, driving increased efficiencies and evaluating opportunities for future growth.

As our announcements this morning show, we have the necessary assets, the team and the industry-leading balance sheet required. By leveraging the strength of our assets and our culture, we've proven time and time again, our ability to navigate challenging market and industry dynamics. We saw the current industry trends coming, and we positioned the company accordingly.

Our portfolio of leading local station brands are in predominantly large, economically thriving metropolitan areas. They generate high-margin revenues and durable, predictable cash flows. Local broadcasting remains an essential distribution channel for irreplaceable, local and national content. The vast and powerful reach of our broadcast distribution is a growing advantage compared to more fragmented competitors in the ecosystem, most specifically cable channels and programmers. As glaring evidence to that, a reminder that the most recent Super Bowl distributed on our CBS stations was the most watched live event, since the moon landing, something that's still sinking in even with me.

We now have network affiliate agreements covering almost all of our Big 4 subscribers through late 2026 or beyond. The majority of these subscribers are now tied to a variable payment model, when it comes to our reverse compensation payments, tying payments to subscriber counts. That fact, combined with the completed renegotiation of retrans agreements for approximately 30% of our traditional subscribers, give us enhanced visibility into our revenues and future cash flow, which Julie will provide more detail on later.

Now to capital allocation, which has always been a key pillar of our strategy. Following the merger termination last May, you may recall, our Board and management team committed to nearly $800 million of share repurchases, and increased our dividend by 20%. This morning, we're announcing a new comprehensive capital allocation framework, outlining our capital return commitments with predictable, durable and sustained shareholder value creation going forward.

Under this new framework, we expect to return 40% to 60% of free cash flow over the next 2 years in the form of buybacks and dividends, with the remaining free cash flow expected to be used for organic investments, bolt-on M&A, and prepare for long-range debt maturities. We expect to maintain our industry-leading balance sheet with no near-term maturities and very attractively priced fixed rate debt, while continuing to return significant capital to shareholders.

As we outlined in our release, based on our current projections, we expect to generate free cash flow in the range of $900 million to $1.1 billion during the period of 2024-2025, 2-year period. Applying our new capital allocation framework to this guidance, we expect to return $1.3 billion to shareholders, since the merger termination last year through 2025.

As outlined in our release, TEGNA has also received approximately $153 million in pretax cash proceeds for our interest in the sale of BMI. While these proceeds are not included in our free cash flow guidance, they will be included under the newly announced capital allocation framework.

On the cost side of our business, we have a proven history of operational excellence and innovation, and that's also a pillar of our durable cash flows going forward. We're leveraging our scale and embracing new technologies like AI to drive new efficiencies across our company, providing further financial flexibility. Initial benefits of these initiatives are expected to occur in the second half of this year and completed by 2026.

Turning to our financial performance. Julie will cover our fourth quarter and full year 2023 performance in greater detail, but to provide a few highlights. First, we met or exceeded all of our full year '23 annual guidance metrics. In the fourth quarter, advertising and marketing services revenue continue to see sequential improvement, driven by improving trends in automotive and services, our 2 largest ad categories. Auto has steadily recovered and is generating strong year-over-year growth for the sixth consecutive quarter.

We've got some big events in 2024 that leverage our portfolio of large market Big 4 stations that are in the right geographic regions and states. This includes our portfolio of CBS stations, which recently aired the Super Bowl I highlighted earlier.

This summer, another big event for us. The NBC Olympic Games across our portfolio of NBC stations, which as a reminder, we're the largest affiliate partner for NBC. And we're thrilled, they'll be in Europe, with a time zone affording great live coverage for our audience.

Now, as for 2024 political, our stations continue to play a fundamental role in political marketing strategies for all large races, whether at the national or state level. Our stations are in nearly 3/4 of the battleground states, including Arizona, Georgia, Michigan, North Carolina and Pennsylvania. As for Congress, we'll, of course, have elections for every house race across our markets, including very competitive seats in Arizona, California, Colorado, Connecticut, Iowa, Maine, Ohio, Oregon, Pennsylvania, Virginia and Washington State. That's a long list, and I gave you a long list for a reason.

In terms of competitive U.S. Senate seats, our footprint has fewer races than in 2020 or 2022, with 4 of the 17 races currently considered competitive. But that number could increase, if the race in Texas remains close with all 11 of our Texas stations potentially benefiting. And just outside our headquarters in Northern Virginia, Maryland also has a lot of interest with 2-term governor -- Republican governor, Larry Hogan, just recently jumping into the race, which could boost spending here for our CBS affiliate WUSA in D.C.

In the gubernatorial races, 5 out of 11 total races are in our footprint, including highly competitive North Carolina and New Hampshire benefitting from our strong station in Southwestern Maine and Portland. In summary, as in the past, political spending will be very healthy and glad to take more questions on that in a bit.

Now for a few recent strategic actions at TEGNA that highlight our efforts to capitalize on consumer and advertising trends. First, in February, we announced the acquisition of Octillion Media, a proven connected TV platform that further enhances Premion's capabilities in serving local and regional advertisers. Both Premion and Octillion will benefit from each other's strengths.

Octillion's cutting-edge and proprietary tech platform will boost Premion's product innovation. Octillion is already helping brands and agencies in key categories like home goods, automotive and quick-serve restaurants, helping them reach the right consumer on the right channel through precision marketing and their platform. We're thrilled to welcome them to the Premion and TEGNA team. Premion reports up to Tom Cox, our new SVP of Digital and Chief Growth Officer; and Tom is with us here this morning to take any questions you have on the new future of Premion.

In sports, given our portfolio of strong stations in big prosports markets, we are very well positioned for the shift currently happening in local sports distribution. As you recall, last October, we announced an agreement with the San Antonio Spurs. And more recently, we completed agreements with the Dallas Mavericks and Milwaukee Bucks to bring additional games to some of our stations' broadcast schedules. Look for some more announcements to come as the Diamond Sports situation plays out.

As we look for additional ways to reach local audiences, we also closed on a strategic investment in 6AM City, a local media digital brand that sends daily newsletters each morning to subscribers across 26 different markets. As part of the agreement, 6AM City will be including news and weather from our stations in their product as well as promoting our stations morning newscast and integrating headlines from our Locked On local podcast and video sports business into that 6AM City service.

Finally, before I turn it over to Julie, a comment or two about who we are as an organization, as we embark on this new chapter of TEGNA. We remain focused on delivering on our commitments to all stakeholders. In 2023, we made further progress on embedding equity and inclusion as a cultural and business imperative at our company, ensuring our content teams and editorial decision-making is inclusive as a key strategic priority, enabling us to represent the perspectives and experiences of all of our audiences in the many communities we serve across this country, while fostering trust in those same communities.

We are a company with a passion and a purpose. The purpose of serving the greater good of our communities. Our local newsrooms are doing hard, very important work in a very challenging environment. and I want to thank them, every one of them, for all they do everyday.

I encourage you to review our 2023 Impact Report that highlights all efforts to serve the greater good, which you can find now on our website.

With that, I'll now turn the call over to Julie to walk you through our results in more detail.

Julie Heskett - *TEGNA Inc. - Senior VP & CFO*

Thanks, Dave. Good morning, everyone, and thank you for joining us. Before I discuss our fourth quarter and full year 2023 financial results, I would like to reiterate our Board and management team's ongoing focus on capital allocation, as Dave highlighted earlier.

As you've heard from us in the past, we manage our business to create long-term shareholder value. Our predictable and dependable free cash flow as well as industry-leading balance sheet generate significant return of capital to shareholders through ongoing share repurchases and dividends.

As you recall, following the merger termination in May of 2023, we committed to quickly returning nearly $800 million of capital to shareholders, which accumulated over the pendency of the deal. As of Thursday, February 22, we achieved that commitment when our second $325 million ASR program completed. As a result, we have repurchased approximately 50 million shares or 22% of outstanding shares since May of 2023.

In addition, we also increased our dividend by 20% in May last year, resulting in a 63% increase, since March of 2021. We expect to revisit our dividend with the Board on a regular basis. Now that we've completed the return of capital we committed to last year, we are pleased to announce our new comprehensive capital allocation framework to support long-term shareholder value creation. Under this new framework, we expect to return 40% to 60% of our 2024 and 2025 free cash flows to shareholders in the form of share repurchases and dividends. The remaining free cash flow may be used for organic investments, bolt-on M&A and preparing for future debt retirement.

To facilitate repurchases, the Board has authorized a new 2-year $650 million share repurchase program. In addition, to the new capital allocation announcement, we are providing a 2-year free cash flow guidance range of $900 million to $1.1 billion cumulatively for 2024 and 2025. Based on our free cash flow outlook and capital allocation framework, we expect to return at the midpoint of our ranges $500 million of capital to shareholders in share repurchases and dividends over the next 2 years. We are also committing to approximately $350 million in the first year of 2024, which is incremental to the previously announced ASR program that completed last week.

Altogether, this represents an expected return of capital to shareholders of $1.3 billion, at the midpoint, since the date of the merger termination through year-end of 2025. In addition, we recently received $153 million of pretax cash proceeds from the sale of our interest in BMI that will be included in the newly announced return of capital to shareholders and/or pursuit of bolt-on M&A, as you've seen with our recent acquisition of Octillion Media.

Further, our financial discipline, coupled with low leverage below 3x and a manageable debt structure, position us with an extremely strong balance sheet. All of our debt is fixed rate at an attractive 5.2% on a weighted average basis and includes no near-term bond maturities until March of 2026. In January, we amended and extended our revolving credit facility, rightsizing it to $750 million and reducing the fees of undrawn balances by half.

Let's now take a look at the drivers of our fourth quarter and full year 2023 financial performance, which met or exceeded all of our full year guidance metrics. My comments today are primarily focused on TEGNA's performance on a consolidated non-GAAP basis to provide you with the visibility into the financial drivers of our business trends as well as our operational results. You can find all of our reported data and prior period comparatives in our press release.

As you are aware, our fourth quarter results were impacted by the temporary disruption of service with a large distributor during our retransmission consent negotiations. The disruption in service began on November 30, and was successfully resolved on January 13. Absent the unexpected disruption, our fourth quarter results would have met or exceeded consensus and finished within our guidance range.

Total company revenue for the quarter was down 21%, primarily due to the absence of cyclical political revenue from midterm election in 2022 as well as the temporary service disruption I just mentioned. For the full year of 2023, total revenue finished at $2.9 billion, down 11% year-to-year due to the cyclical reduction of political ad revenue from the midterm election cycle in 2022.

In addition, the absence of Winter Olympics and Super Bowl airing on our large NBC portfolio in 2022 versus the Fox Super Bowl, our smallest portfolio in 2023, also had an impact on the even-to-odd year comparison.

Now for some additional details on the components of our revenue. Full year 2023 subscription revenue of more than $1.5 billion was in line with prior year, driven by rate increases, partially offset by subscriber declines as well as the temporary disruption of service I've mentioned. Excluding the service disruption, subscription revenue would have been up 2% compared to 2022.

As Dave noted, we renewed approximately 30% of traditional subscribers, since November's earnings call and expects to renew 20% at the end of this year, and another 45% in 2025. Beyond this, 2024 in January of this year, we successfully renewed our affiliation agreement with NBC, which covers 20 TEGNA markets across the United States, including 10 of the top 25 markets. The 20 markets renewed serve more than 21 million households and covers nearly 17% of the U.S. As a reminder, TEGNA is the largest independent owner of NBC affiliates.

Moving to advertising and marketing services, advertising trends in the fourth quarter showed sequential improvement compared to third quarter, partially due to political crowd out in the fourth quarter of 2022. Nonetheless, advertising trends showed continuous sequential improvement throughout the entire year of 2023. Underlying trends, excluding Premion for the fourth quarter were up mid-single digits above last year. Nearly all categories of advertising trends were positive in the fourth quarter, including automotive, services, retail, home improvement, entertainment, media and telecom, travel and tourism, and packaged goods.

Now turning to Premion, which continues to strengthen its position in the convergent TV marketplace through additional local advertising, who advertisers who are increasingly allocating dollars to streaming advertising. During the quarter, Premion continued to innovate with its sales conversion attribution offering. This solution enables advertisers to directly link their streaming advertising spend to business outcomes, which demonstrates Premion's superior return on ad spend.

Similar to previous quarters throughout 2023, Premion revenue was down year-over-year, impacted by the loss of a large national account in fourth quarter of 2022, which we've now cycled through. However, Premion local revenue was up year-over-year in the fourth quarter. Premion's primary focus on the growth is local OTT revenue, where it is uniquely positioned to win.

Premion local revenue growth remained strong and finished up double digits for the full year. In February, Premion announced and simultaneously closed on the acquisition of Octillion Media, a next-generation demand-side platform focused on local streaming advertising. We are enthusiastic as the acquisition will expand our capabilities by combining Octillion's cutting-edge technology with Premion's advertising solutions. Ownership of these technologies will further enable product innovation, improve operational efficiencies and drive accelerated growth. The transaction is expected to be accretive to TEGNA's free cash flow and EPS within 12 months.

Turning now to expenses. For the quarter, non-GAAP operating expenses of $577 million were down 2% compared to fourth quarter of 2022. Excluding programming costs, non-GAAP operating expenses for the quarter were down 4% compared to 2022, driven by lower variable cost of sales for digital revenue and operational expense management improvement.

Adjusted EBITDA was $177 million, producing a 24% margin for the quarter. For full year, non-GAAP operating expenses of $2.3 billion were up slightly year-over-year, driven by higher programming costs, mostly offset by lower variable cost of sales with digital revenue and operational expense management improvements. Full year adjusted EBITDA was $742 million, producing a 26% margin.

We continue to generate strong free cash flow, $130 million for the quarter, and $459 million for the full year, driven primarily by our high-margin durable subscription revenues and continued thoughtful expense management. We ended the year with total debt of $3.1 billion and cash of $361 million. Net leverage ended the year at 2.8x, well below our 3x full year guidance.

Turning to our forward-looking outlook. As I mentioned earlier, we are providing a 2-year free cash flow guidance range of $900 million to $1.1 billion cumulatively for 2024 and 2025. This is the first time we're providing a 2-year guide to reflect confidence in the visibility and durability of our cash flows.

To discuss some of the drivers of this outlook, 2024 will be a strong year at TEGNA, driven by our favorable portfolio of stations in key markets, benefiting from the always robust presidential election cycle, the Summer Olympic Games in Paris, and Super Bowl that just aired on CBS. Also driving our outlook is the renegotiation of network agreements Dave mentioned earlier, with 93% of our Big 4 subscribers under long-term network agreements through late 2026, we expect the growth of reverse compensation fees going forward to be negligible.

The majority of our reverse compensation payments are variable, tied to subscribers, providing financial stability with downside protection during this evolving media landscape. TEGNA's high-margin subscription and political revenues produce annuity-like EBITDA and free cash flow, which comprised more than 50% of our total revenues.

Lastly, as Dave noted, building on our track record of being a best-in-class operator, our transformation initiatives to improve operational efficiencies and reduce costs are underway. We expect benefits of these efforts to occur in the back half of 2024 and will continue through 2025. We will provide updates to sizing of these initiatives in coming quarters.

Let me give you an overview of full year 2024 guidance elements. Corporate expense is expected to be in the range of $40 million to $45 million. Depreciation is projected to be in the range of $56 million to $60 million. Amortization is projected to be in the range of $46 million to $48 million. Interest expense is expected to be in the range of $170 million to $173 million. We expect capital expenditures to be in the range of $62 million to $67 million. We forecast an effective tax rate in the range of 23.5% to 24.5%.

Finally, we expect to end 2024 with net leverage below 3x. In an effort to help forecast our near-term results, I'll provide quarter ahead financial guidance metrics as follows. We expect first quarter total company revenue to be down low- to mid-single-digit percent year-over-year due to lower subscription revenue, which includes being dark with a distributor at the beginning of the year. We forecast operating expenses for the first quarter to increase in the low single-digit percent range compared to first quarter of 2023, driven by increases in stock-based compensation and programming expenses.

With that, we'll now turn to Q&A and take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Dan Kurnos with the Benchmark Company.

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

Great. A lot to unpack here. Really appreciate all the color, guys, and really like the 2-year cash guide -- free cash guide.

Julie and Dave, look, just given what you guys said about kind of your unique dynamics on the reverse side here with negligible reverse compensation growth, given the variable nature, I guess, how do we think about kind of net in general from here, given the conversations people are having about rate versus sub attrition and given how much you guys have up for renewal?

And then on core, since you guys flagged the Olympics, and we do have political in the back half of the year, which could drive rates up, I guess, how are we just thinking about kind of core trends as we go through the year?

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

Yes. So I think -- as you know, we don't guide on net retrans. But I was -- what I would say is, when Julie says about the reverse comp side, negligible, growth being negligible, I would even add to that negligible at best.

So we now have a rightsizing of the relationship to that size of the model. So what I would say about net retrans is that it will be stable, right, on a go-forward basis, and this helps stabilize that for us as a company.

So again, we don't guide to it, but simply put, internally, one of our huge foundations relative to the cash flow guide we put out and the durability and sustainability of our model is that net retrans, and we'll have more chances to reprice that obviously at the end of this year, but we don't -- that number is what out any subs being up until the -- toward the back half of this year.

And I'll let Julie take it on core.

Julie Heskett - *TEGNA Inc. - Senior VP & CFO*

Yes. As far as advertising trends, we saw 2023 be sequentially improving throughout the year. We are seeing some softness on the national side as we're into first quarter of 2024, but we see local hanging on really strong and believe that the full year of advertising, both with the Super Bowl as well as the Olympic (inaudible) events this year, we will see advertising and marketing services flat to up throughout the year.

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

And Dan, I'll just add to that, as Julie has spoken about over time, really, since COVID, services has just continued, I mean, it's clearly an economic phenomenon, engine across the company -- the country, the entrepreneurship and the creation of sustainable small, but really good, healthy midsized business in the services, we have done a great job finding those businesses and being a marketing arm for them, and it's turned into just an extraordinarily large category for us now, and that is just very, very durable and growing.

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

Super excited to hear about what you're doing with Premion here, Dave, but I'll leave that for other people.

Operator

Our next question comes from Steven Cahall with Wells Fargo.

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

I've got a few. So maybe just first on the reverse stuff. I agree, very interesting commentary there. I know you won't comment on any of your specific terms with your Big 4 agreements, but you're particularly heavy to one, where we thought has always been variable.

I'm just wondering, if you've also been able to convert numerous others that have previously been fixed to variable reverse comp as well that's giving you that minimal increase in your reverse expectation ahead?

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

Steven, yes. As you can appreciate, we never talk about individual negotiations with networks. All I would say is, so we had more than 1 agreement up last year. You've never heard us say before that the majority is -- we've said we've had a mix. But you've never heard me say before that we have a majority of our subs tied to a variable model, so I'll just leave it at that.

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

That's fair enough. I can conclude it from there.

And then just on the Q1 guide, I know the blackout is dragging some of the revenue down year-on-year. It seems like that political should be up year-on-year. I think you're starting to comp some of the headwinds you had at Premion. So I'm curious if distribution would be up year-on-year, ex the blackout, and if total revenue would be up year-on-year, ex the blackout?

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

Well, on total revenue, on the advertising side, it's a little hard for us to know what the blackout cost us as it always is during those blackouts. It has some impact. So there's a little bit of noise in that. And I'll let Julie speak to retrans.

Julie Heskett - *TEGNA Inc. - Senior VP & CFO*

So our first quarter guide, just again, total revenue down in that low-to-mid range does include the blackout of DIRECTV. Excluding that, we would size DIRECTV, you heard in the fourth quarter so you can do your assumptions on the first quarter.

And Premion, while it has cycled the large account last year, there are still headwinds on the national side of advertising in general. And first quarter always, being our lowest advertising quarter throughout the year, we would expect those growth rates to ramp through the year, not necessarily in Q1.

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

Got it. And then finally on capital allocation. If I just take the midpoint of your free cash flow guide and the midpoint of your percentage that you'll do in dividends and buybacks, that's $500 million over 2 years. And then you've got the BMI proceeds as well. So that would imply that it's over $600 million, but still less than your new authorization. So am I just thinking about all of those components correctly? And then to get to the 2-year authorization, you just need to be at the higher end of your free cash flow guidance and your cash deployment guidance. Is all that correct?

Julie Heskett - *TEGNA Inc. - Senior VP & CFO*

Steven, it's Julie. Yes, I think you are thinking of all of that correctly. And I just want to reinforce our capital allocation framework, which should provide a clear line of sight for consistent and predictable shareholder returns, but it does include 3 different components: shareholder return, organic investments, and M&A opportunities.

And so, we'll always be smart in how we use our cash, and we will always look for return on investments as well as cost of debt and making decisions what we do with the remaining 50% of that guidance.

Operator

Our next question comes from Craig Huber with Huber Research Partners.

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

Can you just go a little more in depth about the small acquisition you did next to Premion? What it brings to you guys, the technology, et cetera? And then just what it means for your revenues in that segment, please? And I have a follow-up.

Tom Cox - *TEGNA Inc. - SVP, Digital & Chief Growth Officer*

Sure, Craig. This is Tom Cox, good to be with you all this morning. So super excited about what Octillion brings to us moving forward on the Premion side. A couple of things I'd mention off the top. So owning our technology allows us to exercise more operational control on the delivery of campaigns. So that's a distinct advantage.

Second, it enables us to drive greater innovation and product throughput. We're not relying on third parties to build the next generation of product that we need and our advertisers are looking for. And third, it allows us to improve our overall EBITDA margins because you're not paying the expense associated with those third-party vendors.

I would also say, to your question around revenue growth, Octillion is a small, but powerful company. And we expect that we'll be integrating Octillion through much of this year. But once the company is integrated into Premion, you have a unique marriage of a great sales platform, leveraging our rich broadcasting history and our hometown advantage in many of our markets, with a cutting-edge technology, and we're very bullish on what that can do both for revenue growth, as well as EBITDA growth beyond the remainder of this year and into next.

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

And then Julie or Dave, whoever wants to answer this. Premion, again, just got a little more depth here about your outlook for revenue growth this year and how you think it will sort of phase in over the course of the year? It sounds like you think it will -- the trends will improve as the year goes on, but I don't want to put words in your mouth.

Tom Cox - *TEGNA Inc. - SVP, Digital & Chief Growth Officer*

Correct. Correct, Craig, this is Tom again. We expect the trajectory on Premion revenue will improve throughout the year. A couple of things I would mention. First, we have fully cycled against that national account. As Julie alluded, there is the same sort of dynamics from a national and local perspective that we're seeing on the linear side in the Premion business, which isn't surprising because, remember, what Premion is really designed to do is take advantage of the converged linear plus streaming ecosystem that we're working in. So many of the customers that Premion have or has today overlap strongly the TEGNA linear portfolio.

We do expect revenue improvement throughout the year. And obviously, the faster we can get Octillion integrated into Premion, the more that revenue trajectory can improve as we bring more innovative products to market.

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

And if I could just squeeze in 1 more, if that's okay. Advertising, Dave, of just (inaudible), for the whole company in the first quarter, just go through a little bit further what your outlook is there for the first quarter? What's the Super Bowl benefit you guys on a year-over-year basis? The underlying trends there is auto getting worse or better versus what we saw in the fourth quarter, for example, or after the election in the fourth quarter?

Julie Heskett - *TEGNA Inc. - Senior VP & CFO*

Yes, absolutely. So first quarter, automotive continues to be strong. The underlying trends there continues to be strong, not as strong as we saw in the back half of 2023, but still...

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

Cycling against better comps, yes?

Julie Heskett - *TEGNA Inc. - Senior VP & CFO*

Yes, but still up mid-single digits. We also have other categories that continue to remain strong, such as services, which we talk about every single quarter, specifically home services, but also legal services. Health care is also trending favorably in Q1. And our digital revenues are projected to be up in Q1 as well.

And Super Bowl is approximately 1 percentage point of our total revenues in Q1, where we've sized that in the past, it's approximately $10 million of incremental revenue.

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

But I would say -- I'll just add to that, Craig. Our underlying trends are pretty good. We've got noise in the system on the national, local side that we talked about a little bit, and with Premion, but -- and we obviously had -- we had an outage for 45 days with a major distributor that doesn't help. But on the underlying trends appear to be pretty favorable on advertising, really large for us.

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

Okay. Just to be clear, my last thing here. The Super Bowl, you think it's $10 million incremental in the first quarter versus it being on Fox last year? Is that what you're saying?

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

That's a good guide.

Operator

Our next question comes from James Goss with Barrington Research.

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

Okay. A couple of other points of clarification with Octillion. It mentions the connected TV. And is this somewhat of an installation from subscriber churn to this faster-growing area right now? And also, does this extend to the partnership [TEGNA Gray] as affiliated with you in Premion, so it would relate to any of their involvement in that sector as well? Is this a part of Octillion or separately?

Tom Cox - *TEGNA Inc. - SVP, Digital & Chief Growth Officer*

Correct, James. So this is Tom again. A couple of thoughts. So yes, it's very core. The Premion business is designed to take advantage of the migration of advertising dollars from linear to streaming. Where we are uniquely positioned in that change or that shift is that we leverage our strong network of local station.

So as I've shared with you all in the past, between the Gray stations, the TEGNA stations as well as Premion's direct sales force, we have what we sort of characterized as feet on the street and markets reaching about 80% of U.S. households across the country. And that is a formidable and very powerful sales force. And really bringing Octillion's technology in just allows us to deliver better and more innovative product to that sales force.

And yes, to your second question, Gray, as a strategic partner, investor in Premion will also be able to take advantage of the Octillion platform. And super excited to bring to Gray all the benefits that TEGNA will also benefit from.

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

All right. Secondly, you did mention bolt-on M&A potential. And I'm wondering if it's -- if Octillion is the sort of thing you had in mind or if you're also talking about station acquisitions, if any of those are available? And on a related basis, do you think their regulatory environment could change at all if there was a change in administration? And would that benefit some of the M&A plus options you might have?

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

This is Dave again. I'll take both of those. Yes. So Octillion is exactly the type of bolt-on -- when we talk about bolt-on M&A, exactly that, right, something that doesn't flex the balance sheet really at all. And with that, we can help drive our businesses, either existing ones or the ones that we build organically like Premion to the future. So that's the right spot on, relative to the bolt-on acquisition topic.

From a regulatory standpoint, we'll see, Jim, obviously, historically, Republican administrations are typically more deregulation than Democratic ones. And clearly, this particular Democratic administration, this particularly Democratic FCC, has been obviously quite rigid on keeping rules or even rolling back rules some where they were, and I'll leave it at that. But yes, I think the change in administration is potentially an opportunity.

Also the question would be, even if there was the same administration, whether there might be a change in leadership, too. So it remains to be seen. We're watching closely. But to your earlier conversations, at the moment, I don't think we'll never say never, but given where we are at the cap, I wouldn't say our focus is on station M&A.

Operator

(Operator Instructions) Our next question comes from David Karnovsky with JPMorgan.

David Karnovsky - *JPMorgan Chase & Co, Research Division - Analyst*

Just given the added visibility on distribution and the variable model on the affiliate side, how do you think of the key drivers of the $200 million range in your free cash flow guide? Is that primarily building in for variability around advertising?

And then a second question, Dave, you've noted TEGNA's recent carriage of local sports. Some of that's moving over from RSNs to San Antonio Spurs for instance in your footprint. As you've gone through some recent distribution renewals? I'm just interested to hear how MVPDs are looking at this content, whether that's a factor at all in negotiations, just given how outsized RSN fees have been in the past?

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

Yes, I'll take the second one first, Dave. Look, I don't want to talk about any distribution deals, but I'll just academically put it this way. Obviously, local sports is amongst the most valuable content to consumers. And so if you just take that upstream relative to distributors, it's very valuable to distributors as well.

There might have been a loss of -- a gap in value between what distributors had been paying under the old model. And so I think there's this change in ecosystem relates to some kind of more rationalization of that from the distributor standpoint. But I'll just simply answer the question and say it, it certainly has value to distributors. Now might -- some out there wish that they could be going off those fees and never pay anymore, certainly so. But they absolutely have value to distributors and we do know that.

Julie Heskett - *TEGNA Inc. - Senior VP & CFO*

And I'll take the first question about the range of our free cash flow guide and what factors would play into that. And I would say it's multifaceted, mostly around economic environment. So advertising would be 1 trigger of that range. Subscriber trends would be another factor. We do continue to forecast subscriber declines. But for the next 2 years, that is definitely a factor that may impact that.

And then the third.

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

Political advertising, too, right? Because as you know, unlike some of our peers that might have 100-plus stations in a lot of small markets, we're more concentrated in large. So our delta, as you've seen in previous election cycles, we flexed up we've had $55 million come out of nowhere for 2 Senate runoffs in Georgia 4 years ago, and we've seen it go the other direction when a very hot Senate race goes cold, when a candidate blows themself up, so we can have sometimes a significant range of what political might be.

Operator

There are no further questions. I'd like to turn the call back over to Dave Lougee for closing remarks.

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

Thank you, operator, and thank you, everyone, for the call this morning.

As we said with our announcement this morning, we are now producing it for the first time, a 2-year free cash flow guide that we -- is driven by our very sustainable and durable business model. We look forward to talking to you more in the quarters ahead as we talk about results in the year going forward, and appreciate your interest. Thank you, and everyone, have a good day.

Operator

Thank you for your participation. This does conclude the program. You may now disconnect.
