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PRESENTATION

Operator

Good day, and welcome to the Third Quarter 2021 TEGNA Earnings Conference Call. This call is being recorded. Our speakers for today will be Dave Lougee, President and Chief Executive Officer; and Victoria Harker, Chief Financial Officer. At this time, I would like to turn the call over to Doug Kuckelman, Head of Investor Relations. Please go ahead.

Doug Kuckelman ***TEGNA Inc. - Head of IR***

Thank you, and good morning, and welcome to our third quarter 2021 earnings call and webcast. Today, our President and CEO, Dave Lougee; and our CFO, Victoria Harker, will review TEGNA's financial performance and results. After that, we'll open up the call for questions. Hopefully, you've had an opportunity to review this morning's press release. If you have not seen a copy of the release, it's available at tegna.com.

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

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

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

Thank you, Doug, and good morning, everyone. During the quarter, TEGNA capitalized on continued momentum across our business, building on the trends that have accelerated throughout the year. Strong execution, improved subscriber trends and broad strength in advertising fueled another record quarter. We achieved record third quarter total company revenue, subscription and advertising and marketing services revenues and remain on track to meet or exceed our full year 2021 financial guidance for all key metrics. Our performance this quarter and expectations for growth going forward are the direct result of consistent performance supporting the 5 pillars of TEGNA's value creation strategy.

As a reminder, our 5 strategic pillars are: one, execute as a best-in-class operator; two, pursue accretive M&A opportunities, including adjacencies; three, actively drive growth opportunities through organic innovation; four, leverage our balance sheet for value creation; and five, generate strong free cash flow and make capital decisions that support our balanced capital allocation process. These pillars serve as the North Star for our long-term business decisions and our strong results year-to-date are a validation of our strategy and ability to maximize value for shareholders in any market environment. Victoria will cover our results in more detail, but to provide you with context for some of the highlights.

Total company revenue was up 2% year-over-year, driven by record third quarter AMS revenue and record third quarter subscription revenue. These results stand for themselves, but are even more compelling when you consider the record $116 million of political revenue we achieved in the third quarter of last year. Advertising and Marketing Services or AMS revenue was up 12% compared to the third quarter of 2019 on a pro forma basis. Even when excluding the positive impact of Olympics, AMS was still up 7% on a 2-year basis compared to 2019, again, on a pro forma basis. Our advertising market strength and growth at Premion put us well ahead of pre-COVID AMS levels, more than offsetting current supply chain issues that are significantly impacting the auto category, and AMS trends remained strong here in the fourth quarter as well.

Victoria will cover advertising categories in more detail, but I do want to highlight the broad-based strength this quarter across even more categories, which supported our record third quarter AMS revenue. Sports betting is now our seventh largest category and rising, growing more than 200% over the third quarter of last year, and we expect its growth to further diversify our AMS revenue. Online sports betting didn't exist in our markets 3 years ago, but has since expanded rapidly. We've now got legalized online betting in [14] (corrected by the company after the call) states that we reach, and 3 more are going to be added in the coming months in our footprint with Maryland, New York and Louisiana coming online in the coming months.

Premion, our first-to-market and industry-leading OTT ad platform continues to deliver differentiated OTT solutions to both local and national advertisers. We continue to experience very strong growth in both revenue and the number of advertisers Premion serves. We expect to see significant advertising demand growth over the next 3 to 5 years as consumer adoption and streaming grows in the AVOD space. Ongoing systems, processes and technology enhancements are also driving operational and financial efficiencies at Premion as the business continues to scale. Premion recently received 2 industry awards in the ad tech category during the Cynopsis Digital Awards, including Best Audience-Based Buying Platform and Outstanding Brand Safety, reflecting the value-add solutions that Premion provides to customers in an innovative and brand-safe way.

Turning now to subscription revenue. This predictable revenue stream is a key driver of our underlying growth and durability of our business model. Subscription revenue grew 16% year-over-year in the third quarter, consistent with the 16% growth rate we saw in the first and second quarters of this year. Net subscriber trends are showing improvement for both traditional and virtual subscribers, now at a rate more than 150 basis points better than year-end 2020.

Last year, we repriced approximately 35% of our subscribers at leading Big 4 affiliate rates, and we have an additional 30% of our subscribers up for renewal by the end of this year. The strong performance of our high-quality local station brands continue to support our high-margin predictable subscription revenue streams. TEGNA's local and national programming in combination remains some of the most trusted and desired content across our 51 markets.

Victoria will cover our key fourth quarter and full year guidance metrics in detail, but I wanted to note that while we have been dark with DISH since October 6, DISH subscribers represent less than 10% of our paid total subscribers. And so despite that disruption as of today, we remain on track to meet or exceed all our key guidance metrics. TEGNA stations also play a critical role in political marketing strategies as the preferred medium to reach targeted constituents in battleground states and every state across our platform. Looking ahead to next year, TEGNA is set up to benefit from an expected record midterm political advertising year and we have raised our internal estimates for next year quite a bit. Nearly all of the U.S. Senate and gubernatorial races that are expected to be the most competitive will be occurring within our footprint.

To provide some color on elections next year, we expect Senate races in our footprint in Arizona, Georgia, Florida, North Carolina, Ohio, Pennsylvania, New Hampshire and Wisconsin [to be some of the most competitive](added by company after the call), half of which are open seats where we expect significant competition. Notably, the Kelly seat in Arizona and the Warnock seat in Georgia are both repeats of last year's general election, and both seats saw historic spending levels.

At the local level, we expect to see more engagement for the upcoming gubernatorial races given the heightened awareness of local issues due to the pandemic, including safety and education, as well as anxiety around the economy. Engagement and spending at the local level are far higher than they were 4 years ago. And as evidence of that is this year's $50-plus million of state and local off-year spending we're going to have compared to $31 million pro forma in 2017.

Now turning to capital allocation. As a reminder, TEGNA's business mix is weighted toward high-margin, durable subscription and political revenues on a 2-year basis, which generates strong free cash flow. Augmenting this high-quality cash flow is the continued momentum of AMS revenue driven by the broad-based advertising strength I referenced earlier. These cash flows fuel our ability to return value to shareholders through thoughtful capital allocation decision-making. We continue to expect to achieve the high end of our 2020 to 2021 free cash flow as a percentage of revenue guidance of 21.5% to 22%.

As we announced in September, our significant progress on deleveraging, strong performance year-to-date and strength of future cash flows drove our decision to update the expected timing for completing our share repurchase program. This comes on the heels of the significant increase to our quarterly dividend of 36%, which was paid in July and October. We continue to be active in our approach to capital allocation, and our Board evaluates all additional capital allocation options to maximize value for our shareholders. And as always, we remain thoughtful in our expense management efforts, staying focused on generating incremental savings through our continued cost management and efficiency efforts.

Now to update you on several strategic initiatives underway at TEGNA. Since its launch in 2015, our stations' VERIFY reporting has fought misinformation and disinformation helping viewers and users distinguish between true and false information. During the quarter, VERIFY continued to expand across platforms, now averaging more than 5 million unique monthly visitors year-to-date through September and is on a significant path up. This represents a 90% increase in monthly visitors from the same period last year.

Locked On, our leading local sports and podcast network, who daily shows for all Big 4 professional sports leagues and major college programs, also continued to grow during the quarter. Podcasts were downloaded and/or viewed more than 75 million times year-to-date through the end of the third quarter, a 36% increase over last year. Locked On now also has a large video presence with more than 90 shows on YouTube, and the network recently expanded its original video content with the launch of an "Insiders" program starring retired professional players.

Turning now to our ESG efforts. We continue to make significant progress on our diversity, equity and inclusion objectives and are ahead of schedule in progressing on our 2025 goals. As a reminder, these quantifiable goals were developed in 2020 and publicly disclosed at the beginning of this year. And they hold us accountable for increasing Black, Indigenous and People of Color representation across our content teams, content leadership and management roles. We take seriously the important role we have in ensuring our coverage and storytelling reflects all of the communities we serve. Our innovative Inclusive Journalism program is designed to help us accomplish this through unconscious bias, inclusive reporting and leadership training.

Equally important is measuring that progress. And to that end, we are working with an independent research firm to audit our broadcast, digital and marketing content across all of our 49 newsrooms by the end of this year. These audits provide actionable feedback to ensure we are making continued progress on fostering a culture of inclusivity and representing the diverse communities we serve and again, hold us accountable. Our stations and journalists were honored last week at the Edward R. Murrow Awards, and we're especially proud of the team at WWL in New Orleans, who received the Large Market Excellence in Diversity, Equity, and Inclusion award for "The Talk", a look at the Black experience in New Orleans. This is the first time this award has been granted by the RTDNA and we're proud that WWL is the inaugural winner. In total, TEGNA stations received 10 National Murrow Awards, more than any other news organization in the United States.

Delivering news that matters and speaks to the heart of each of our communities is at the center of each and every one of our newsrooms. We are proud of the determination and resilience of our engaged employees that enable us to fulfill our mission every day and they do it well.

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

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

Thanks, Dave, and good morning, everyone. As Dave just discussed, our third quarter financial results included record third quarter total revenue driven by subscription revenue and AMS revenue. This performance reflects the ongoing resilience and growth generated by our business model, resulting from strong execution across all 5 pillars of the strategic plan.

As you've already seen, our continued strong financial and operational performance provides us with multiple capital allocation opportunities, which we are already being pursued in parallel, given our very strong cash flows, reduced leverage and resulting firepower. This is evidenced by several recent announcements, including our plans to accelerate share repurchases on an opportunistic basis and our previously announced 36% increase to our dividend, all while continuing to make investments in both traditional broadcast as well as OTT products and platforms.

I'll further address our future plans for capital allocation in more detail in just a few minutes. But first, let's take a look at the drivers of our third quarter financial performance. As a reminder, my comments today are primarily focused on TEGNA's performance on a consolidated non-GAAP basis to provide you with 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.

For the third quarter, total company revenue was up 2% year-over-year, in line with our previously announced guidance range. As a reminder, TEGNA achieved these historically high third quarter results, which were even stronger than the same quarter last year despite being up against $116 million of record political ad revenue last year.

To provide you with additional color on our strong revenue performance during the quarter, here are some details by category. Third quarter subscription revenue increased 16% year-over-year driven by subscription rate increases from renewals and contractual rate escalators in existing agreements. As a reminder, our multi-year network affiliation agreements, which encompass approximately 94% of our Big 4 subscribers begin their next renewal cycle at the end of 2022, continuing through the beginning of 2024. As you've seen, these renewals continue to provide a clear line of sight into the financial trajectory of these high-margin revenue streams.

Third quarter record AMS revenue finished the quarter up 22% compared to third quarter of last year, driven by broad-based strength across nearly all advertising categories. Notably, when compared to 2019 on a pro forma basis, third quarter AMS was up fully 12%, despite the ongoing supply chain issues impacting the auto industry and other sectors. Third quarter AMS revenue did benefit from Summer Olympics, though not significantly, given both pandemic and time zone challenges. Excluding the estimated incremental impact of the Olympics, AMS was up fully 7% compared to 2019.

Now to provide you with some additional color on how the key advertising categories performed this quarter. AMS showed gains across most categories, supported by strong advertising demand. All categories were up double digits over last year with the exception of automotive advertising. The strength in AMS above 2019 was broad based, including services, health care, home improvement, sports betting, insurance, banking and finance, packaged goods and education categories. Beyond this, the advertising market continues to strengthen, with fourth quarter AMS also pacing significantly ahead of last year, with all categories up again except auto year-over-year. More notably, when compared to the fourth quarter of 2019, AMS is up as well. We expect these positive trends to continue, supporting strong and accelerating AMS revenue in the fourth quarter and into next year.

Now turning to expenses for the third quarter. Non-GAAP operating expenses were $545 million, up 6% compared to the third quarter last year, driven by higher programming fees and Premion growth-related expenses. Excluding programming costs and Premion, non-GAAP operating expenses were up 2% when compared to the same quarter last year, driven by revenue growth. On a pro forma basis, operating expenses without the impact of programming and Premion were down 2% below 2019 level, reflecting the ongoing impacts of our efficiency, automation and expense reduction efforts.

As a result, our third quarter adjusted EBITDA of $244 million was down just 6% year-over-year or approximately $15 million, driven by the absence of record $116 million high-margin political revenue seen in the third quarter of 2020. Compared to the third quarter of 2019, adjusted EBITDA was up fully 56%, driven by the growth in AMS revenue and net subscription profits as well as the continued execution of thoughtful expense management. Adjusted EBITDA margin was 32% this quarter.

Turning now to our balance sheet, which continues to benefit from disciplined expense management and thoughtful capital allocation decisions. As I mentioned earlier, now that we've achieved the debt reduction targets we established after closing our 2019 acquisitions, we have a number of additional tools to create ongoing shareholder value and a track record of doing just that, through our organic and inorganic investments, dividends and share repurchases.

TEGNA ended the quarter with total debt of $3.4 billion, producing net leverage of 3.39x, more than a full turn below last year, achieving our previous full year guidance of low 3x by end of year, one quarter earlier than planned. We expect to end the year with net leverage of approximately 3.2x. As a reminder, our only financial covenant is related to our $1.5 billion revolver. And we obviously have plenty of headroom under its 5.5x leverage cap and do not have any debt maturities remaining for several years.

To create further balance sheet efficiency and reduced interest expense, we plan to refinance the remaining $137 million of our 2024 notes at the beginning of December, using funds available under the revolving credit facility. This will reduce interest expense by approximately $4 million in 2022 and is neutral to net leverage. Even with this draw, we continue to have plenty of capacity under our revolving credit facility, which provides us with significant financial flexibility. As of September 30, there was more than $1.3 billion of unused borrowing capacity under our $1.5 billion revolver. As you've seen throughout our history, we continue to generate strong free cash flow, driven primarily by our high-margin durable subscription and political revenue and the thoughtful management of our balance sheet.

We achieved free cash flow of $137 million in the third quarter. As a result, we are not only reaffirming our 2020 to 2021 forecasted free cash flow as a percentage of revenue of 21.5% to 22%, but now fully expect to achieve the high end of that range. As Dave mentioned, earlier this year, we meaningfully increased our return of capital to shareholders through a 36% increase in our quarterly dividend, which was already paid in July and again in October of this year. As a reminder, we also updated the expected timing of our opportunistic $300 million share repurchase program in September, which we will complete 1 year earlier subject to blackouts.

As we've discussed before, we will continue to assess capital allocation options through the lens of maximizing value for our shareholders. This includes expanding our audience reach and services to support customers across all of our local station brands and platforms. To this end, we continue to evaluate all opportunities, including organic and inorganic investments, quarterly dividends and share repurchases, all while continuing to reduce our leverage to target levels as we have done throughout our history.

As you saw in our third quarter release, we provided guidance on key financial metrics for the fourth quarter and remain on track to meet or exceed our full year 2021 key guidance metrics. To help model other near term expectations, we've also provided several fourth quarter financial guidance metrics in our press release, including the following. For the fourth quarter, we expect total company revenue to be down year-over-year mid to high teens percent, again, driven by the absence of $264 million political revenue, partially offset by continued growth in AMS and subscription revenue. We expect operating expense in the fourth quarter to increase in the low to mid-single digits percent range compared to fourth quarter 2020, driven by increased programming expenses associated with higher subscription revenue. Excluding programming costs, we expect fourth quarter operating expenses to be flat to down year-over-year.

For full year 2021, we expect subscription revenue to be up mid to high teens percent based on MVPD renewals completed at the end of 2020 as well as improving subscriber trends. As a reminder, we repriced approximately 35% of subscribers in the fourth quarter of 2020 and approximately 30% of the subscribers are up for renewal in the fourth quarter of this year. For full year 2021 EBITDA and free cash flow, we will also continue to benefit from the more than $50 million of targeted annualized cost reduction initiatives that have been underway for the past 24 months, with more to come in the quarters ahead as we continue to expand on these efficiencies.

Turning now to an update on our key full year 2021 guidance elements. Corporate expense is expected to be in the range of $44 million to $48 million. Depreciation is projected to be in the range of $62 million to $66 million. Amortization is projected to be in the range of $60 million to $65 million. Interest expense is expected to be in the range of $187 million to $192 million. We expect capital expenditures to be in the range of $64 million to $69 million, which includes nonrecurring capital expenditures of approximately $20 million to $22 million. This is comprised mostly of UHF/VHF transitions as well as the continuation of the centralization of our streaming facility. We continue to forecast an effective tax rate in the range of 24% to 25%.

As I stated earlier, we've already achieved our year-end net leverage target of low 3x and expect to close out the year at approximately 3.2x. Finally, as I mentioned earlier, we expect to achieve the high end of our 2020 to 2021 free cash flow range of 21.5% to 22%. Altogether, we expect both the fourth quarter and the full year to finish with the same strength and momentum as we've seen all year. I'll now turn the call back over to Dave for a few additional remarks before we take your questions.

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

Thank you, Victoria. Before we turn to Q&A, I want to address one topic that I'm sure you're all interested in. As we stated in our press release on September 21, we have received and the Board has been actively considering acquisition proposals. We are carefully evaluating these proposals against our stand-alone prospects. Meanwhile, and importantly, our team remains sharply focused on the continued day-to-day execution of our business and strategy as evidenced by the strong quarter we have just reported. As I'm sure you understand, that is all we will say at this time, so we won't be taking questions on this topic during Q&A.

And with that, operator, could you please now open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will now take our first question from Dan Kurnos of The Benchmark Company.

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

Great. Thanks. Maybe just obviously, the supply chain has been a big focal point. Can you guys just touch a little bit more as we go into Q4, just obviously, furniture, other smaller categories being impacted, but it sounds like the rise of sports betting largely offsetting that. Auto may be a little bit worse. Just maybe talk through with a little bit more granularity kind of what you're seeing in your expectations. And also if you are anticipating any impact on the Premion side of the business?

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

Dan, yes, as it relates to the fourth quarter, actually, we still see the broad growth against all our categories except auto. And auto, I would not say is getting worse. I mean it's been bad all along here for quite some time. So I don't see any real movement in one direction or the other on auto, it remains negative. But as I said about the third quarter and it's true with the fourth too, everything else is up. So as far as supply chain issues hitting anything else, we're not really seeing impact. We're seeing nothing, notably just good trends including retail.

As it relates to Premion, yes, Premion is doing great. But yes, auto is a big category in Premion. So it's been impacted, too, obviously, not quite the same way dimensionally just given the tailwinds of Premion as a business. But every advertising business is affected by auto and Premion is definitely no exception to that, but Premion is doing fantastic.

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

Got it. Super helpful. And then your Q3 political was a pretty big number, Dave, for a nonpolitical year. Obviously, we all saw what happened in Virginia and New Jersey. I know that you will not, at this point in time, go out on any limb for next year, but just how do we start thinking about the read through? You gave us some sort of state-by-state color, but just relative to 2020, just how do we think about reading through for your expectations?

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

Well, I think let me start with the big picture, and then I'll go a little granular about the why. So on the what I would say, look, that all the trends show -- and I'll talk a little bit more about the -- a little more granularity, but all the trends show just more record engagement, right? Virginia was just another example of that. So when we look at all forecasts out there, our trends this year just on fundraising on a comparative race basis to 4 years ago, we're viewing it now that it used to be -- you compare midterms to midterms and presidential to presidential, and that's still the case. But we're not going to be surprised if the amount of spending in the ecosystem next year is not that far south of 2020.

Now what that will mean exactly for us is all a function of footprint and what states go cold and go hot. But as I've said multiple times, we've got all the competitive Senate seats. I mean, I think we've got up next year. This is our big governors year, right? So we've got -- we have a -- I think we've got 7 out of the 9 competitive seats on the governor side, and we have a total number of races on the governor of 24, right? So -- I'm sorry, up 24, and we've got 7 of the 9 competitive. And we've got 24 Senate races too, and 9 of them are listed as competitive, and we've got almost all of those. So it is a great footprint for us.

But the other thing, I think, really matters is when you're talking about this year's political, that's not really being driven -- obviously, the Virginia Governor's race was big. That's not the big driver of our growth over 4 years ago. It's local stuff. Ballot issues, for instance, just in Maine, for instance, a clean energy initiative was kind of neck and neck with the Virginia's Governor's race for the top spending in the quarter. And I think the reason for that, I touched on it briefly in my script -- in my remarks, in my scripted remarks, just think about it from what's happened since 2019. COVID totally engaged a whole new population in local races. They've been engaged in national races before. But after COVID, and you saw in this Virginia's Governor race, the school board, the district attorney, right? The -- every elected local official.

In Georgia, it's going to be the Secretary of State given all the election issues stuff. That kind of energy and ad spending didn't exist in this decade, right? But now people have been woken up to the importance of their local government. So I think we're going to see an enormous long tail of local spending beyond the same frothiness we're going to see in the competitive federal seats.

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

That is really a helpful color, Dave. Thanks for all the incremental granularity there.

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

Thanks, Dan.

Operator

We'll take our next question from Doug Arthur of Huber Research.

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

Two questions. Dave, President Biden finally made a couple of nominations to the FCC. Any kind of thoughts on the personnel, what it means, how the nomination process goes and what the implications are regulatory if they're approved down the road? And then I got a follow-up.

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

Yes. First of all, I'll probably use this opportunity to, first of all, just congratulate Commissioner Rosenworcel on her nomination as well as Gigi Sohn for her nomination as well. I think in this political environment, and I read recently, it's unclear how that nomination process is going to go. I think that there's some speculation Republicans will perhaps oppose the new commissioners nomination, presumably Commissioner Rosenworcel won't have problems with the chair. But there is, I think, some uncertainty in the near term, what the commission is going to look like, whether it's going to be 2-2 or even 2-1 or something for a period of time. So all that does is put a little more uncertainty in the process for a period of time, Doug. So I think it doesn't provide in the near term, a lot of clarity around anything.

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

Okay. And then on ad categories, listening to Fox last night, obviously, they called out sports betting, which is a big platform for them. But they also talked about travel getting better. Have you seen that as well?

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

Yes, yes. Same with entertainment, too. So these COVID impacted categories are definitely coming back nicely. In fact, we're seeing some of them above even 2019 levels.

Operator

We'll take our next question from Jim Goss of Barrington Research.

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

All right. A little bit more on this political, Dave. Some were speculating that Youngkin in Virginia, for example, was maybe a little bit more centrist than some of the extreme positions that have come out and maybe that's been appealing to candidates. And I was sort of curious if you think that if there is some more moderation, a little more centrist-type look in the country rather than the divisive issues we've had lately, if that would have a negative impact on your political spending because it might not be quite as contentious as it has been recently.

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

I would disagree with that, Jim. I think the Youngkin race is a prime example of that. He definitely as Republicans go is a centrist, and McAuliffe is, whatever you believe McAuliffe is and yet the spending was through the roof. So I think that even with centrist candidates, it's a fight, it's an incredible -- apparently an existential fight for each party to win these seats. So no, I don't see that as a problem.

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

Okay.

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

If anything, Jim, it might be the opposite, right? If either party runs a fringe candidate and makes the race noncompetitive, right, then it's -- that hurts us from a spending standpoint. So both parties put up people closer to the center than to the wing of their parties, that's a good thing in terms of spending because it makes the races more competitive.

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

All right. Well, maybe at the next conference call, you might -- I assume you're looking at all of these individually, it might be interesting to hear your insights on all these races.

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

Okay. Would be glad to

. Yes.

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

And on the sports betting issue, that's a brand-new category, and I know it's coming in with the absence of a lessening of traditionally a very strong category in auto. But can you define at all how that's affecting CPMs? I mean, in some ways, a new category would be like having political come in where the issue is that demand supply for those ad spots and the impact on pricing. And it sounds like this is at the early stage of emerging that way. Maybe you could speak to that potential.

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

Yes. No, it's a good question, Jim. Look, it's any -- at the end of the day, pricing is a function of the aggregate demand, right? So how many dollars are in the system, and it's very much that we're a little bit like airline pricing. We've gotten as an industry, but it's a company especially been very sophisticated over the -- gotten much more sophisticated over the years about yield management relative to pricing. So any new category that comes in and adds dollar to the system is absolutely a positive on CPMs just as the temporary departure of auto is a negative. So -- but the net -- it's really about the net. So the bottom line is when net advertising is up, you can presume that CPMs are up as a result because of the overall supply and demand equation. But yes, sports betting has been a very good thing for the ecosystem and has a lot of very nice upside.

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

Okay. And finally, just one quick follow-up on Premion too. Are you still looking for additional partners as you try to expand the reach to 100% of the country?

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

Yes. As we've said in the past, when I say we're searching for them, but we are open to them, we do have inbounds. But we're also -- Gray is and has been a tremendously good partner, and we're still onboarding more of their stations. And with their Meredith acquisition, we'll be adding more stations to their footprint relative to what we're doing. So we are -- we've got some organic adds from our side going on through their acquisition.

Operator

(Operator Instructions) We'll take our next question from Craig Huber of Huber Research Partners.

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

Let me start with some housekeeping questions, if I could. You talked about political. Was your pro forma 2018 political $280 million? Is that the case?

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

Yes. exactly right, Craig.

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

Okay. Cool. And then net retrans in the past, Dave, you guys have talked about you expected it up mid to high 20s this year? If you could confirm that I appreciate it and also maybe a preliminary outlook for net retrans for next year?

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

Yes. So we don't guide quarterly on net retrans, but we'll update you on that soon, but it's doing very, very well. And as for next year, since we've said, we've got a number of deals up at the end of this year like we did last year, we probably won't be guiding on net retrans until after the [end] (corrected by company after the call) of the year, Craig. But yes, it will be up next year.

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

Sorry, I was talking about full year '21 up mid to high 20s. Is that still a case you're expecting?

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

Yes, we'll be close. We will be close, very close.

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

So just to understand everybody else, DISH, you're not thinking it's going to be a material impact to your overall outlook for retrans, you reaffirm that or your net retrans in the bottom line, is that right?

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

We simply said is -- I'm just going to stick with what I said which simply is that as of today, all of our key guidance metrics remain on track.

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

Okay. And then I believe last quarter, Dave, you told us that your net retrans subs were down the low 4% in the second quarter year-over-year. What was that number in this third quarter, please?

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

Now closer to the mid-3s, Craig. And it's a combination of traditional and virtuals. The decline in traditionals has slowed a little bit for us and the virtual conversion rate is now higher. So there's sort of more virtual players. You also include in virtual CBS All Access, which is a -- that's got some growth. But some of the other providers are doing very well, too -- so -- on the virtual side. So it's just a combination of the two, an overall sub trends right now down mid-3s, which is, as we said, about 1.5 points better than a year ago.

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

And I'd like to ask about Premion, if I could. In the past, Dave, you talked about -- you thought it could be up 45% to 50% of revenues this year. Is that still your expectation? Or has auto clipped that to some number perhaps below that? And how much was it up in the third quarter?

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

Yes. We don't break out quarters, Craig. So it's just -- it was up very nicely. And the answer is we continue to shoot for 45% to 50%. And a lot of money comes into the fourth quarter, like it does on the traditional side of the business. We don't have exactly the week-to-week visibility to Premion the way digital is built, but we continue to believe we'll do very well.

Operator

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

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

Just one quick kind of follow-up on legalized sports betting. What inning do you think we're in, Dave? And is there kind of a land claim spike that goes on that you think will taper off in the future? How do you think that kind of demand curve for advertising will look longer term?

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

I don't -- it's a great question. I don't know exactly long term, but I think if it was just to stay the way it is today in terms of products, then you could say there's a battle for customer acquisition that maybe tapers off after 4 or 5 years. But I think there's going to be new products, right? I mean, I think even though we have online gambling today, we really don't have live betting much. And if live betting gets more and more consumer adoption and with the technology providers, too, I think that's potentially another growth engine to the whole sector. But it's a good question. But yes, I think at some point, over time, years ahead, there's the customer acquisition battle might cool down a little bit. But I -- we don't have visibility so it doesn't -- certainly not any time soon.

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

So early innings is safe to say.

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

Early innings. That's right. Remember, too, less than half of the states have legalized online. And for us, that includes Texas, which right now is not on board for '22, but just think about that since we're in 87% of the state and obviously, a very sports passionate population. So I think my own view is, this will be like state lotteries, 30 years ago, it's only a matter of time until states do it.

Operator

We'll take our next question from Steven Cahall of Wells Fargo.

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

And I joined a little late, so sorry if any of these are repeats. But maybe first, just a follow up on Kyle's question on sports betting. I'm wondering if you look at this at all on a per household basis, kind of like you might do with political because obviously, you've got some stations in places where it's not legal yet. So just wondering if you have any metrics on the kind of per household advertising in sports betting today and then to help us think about that opportunity as to where that could go over time.

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

Yes. I don't -- maybe members of our teams may have -- I'm sorry, I'm getting feedback on the call. Am I the only one hearing it?

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

Sounds good to me, Dave.

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

Okay. Good. Then I'm the only one hearing it. We look at it from the standpoint of DMAs, which is basically a proxy for households, right, obviously. So we do look at it that way. There may be members of our team that are analyzing on a per household basis. I haven't seen it. But again, market size is a proxy. I think there are -- we're trying to, I think, get -- figure out what type of psychographic and age and demo characteristics are predictors of whether a market might get more than others. But so far, what we see, as a market lights up, it's very hot. That doesn't seem to be very much. So what I guess -- what I'm saying is it suggest as it portends that it's probably a pretty similar per viewer by market.

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

Yes. And then I think the Q4 guide is for non-programming costs flat to down. Any view on maybe what non-programming expense does in the next year or so? You've taken a lot of costs out of the business. But I imagine some T&E is going to start to come back. So how do we think about that trend?

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

I'll let Victoria take that one.

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

Yes. I mean, obviously, we're not ready to guide relative to next year. We have a number of initiatives that continue to drive expense reduction, efficiency, automation kinds of things. I don't know that it would rise to the level of the $50 million annual takeout that we have said previously, but a lot of those will continue in the base business. Obviously, offset a little bit by COVID-related T&E kinds of impacts, which do come back as everyone starts to travel and...

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

Some. But we'll never go back to the T&E level we had pre-COVID. So we have -- we are -- there's definitely, as we've mentioned on previous calls, we've got a lot of built-in permanent efficiencies we learned through COVID that will be maintained.

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

And just remember, we've brought on 4 new VERIFY other types of businesses, which have come on board in the last year. So they will also be contributing to expense with revenue production that didn't exist last year.

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

Great. And then last one for me, kind of a sticky one on the DISH blackout. I think it's rare to see one during football season, certainly one of any duration. I mean should we expect that maybe DISH is using your acquisition interest a little bit against you to try to let things out and get a little bit better deal? Or just any other commentary that would help us frame what the risk and opportunity is on that renewal?

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

Yes, Steven, I'm not obviously going to comment on a negotiation or speak to the motivation of the other party at a negotiation. Other than I would say blackouts with DISH, unfortunately, are not uncommon as I think is very well known, right? They've currently got 200 stations blacked out in the last year. So it's not as rare as potentially it should be. But otherwise, we're not going to comment on a negotiation.

Operator

We will now take our next question from Barton Crockett of DCFstocks.

Barton Crockett

Okay. Great. I wanted to ask about the auto headwinds. And really just to get a sense of how big of an impact that is, if there's any way to give us a sense of how much as a percent of ad revenues, these kind of supply problems have impacted your advertising. If you were to compare auto that you're seeing now versus maybe 2019 before the pandemic and everything got unusual. How much of a percent headwind is that with the thought that when auto normalizes, maybe that could come back?

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

I'd put it this way. I wouldn't give absolute dollars, Barton. But for AMS in the third quarter, I think we reported, right, we're up 21%, 22%; pro forma, it's 22%. But ex auto, that would be -- if auto was just normalized, it would be plus probably close to 28%, 29%.

Barton Crockett

Okay. Great. That's helpful. And then one kind of follow-up on kind of the local presence of your TV stations. I was wondering if you could comment on the audience trends in local news with the thought that, that is obviously a key kind of support for things like political and for your franchise and the new cycle has been through some gyrations between COVID coming and easing and the economic and kind of political things. So what can you tell us about the news audience trends at this point?

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

Yes. Obviously, those vary by market, both in terms of station performance and the dynamics of the market and what the local issues are. But obviously, we did see an incredible surge in the heart of COVID, right, so for that March to sort of September time frame in 2020 and then some of that pulled back as, frankly, when the heightened local news issues sort of dropped out a little bit. People started going back to normal a little bit. And when the Delta variant came back, things -- people pulled back. And there's some -- clearly, our daytime numbers vary by that. Morning news continues to be down because so many people are still working from home and working on a different time frame, but that's actually benefited the late news cast, especially in our 10:00 news market. So we see different trends between 10:00 and 11:00 news cast.

But -- so it's changed a little bit the mix and remains to be seen what that will look like because I don't think we're ever going back to the way it exactly was pre-COVID. But all the topics I mentioned to you last year relative to local issues and the elections next year, will also be a driver of interest in those news cast. That didn't use to be the case as much. But now you see those local issues like these school board issues that were so prominent here in Northern Virginia and the Virginia gubernatorial race I think you're going to see that become a massive cultural or political battleground issue next year, and that is good for local news ratings.

Okay. I think that's all.

Operator

Yes, I'd like to hand it back to you, Dave, for any additional or closing remarks.

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

Thank you, operator, and thanks, everybody, for taking the time to join us today. So for TEGNA, the continued execution of our 5-pillar strategy I referenced before, it's been manifesting in multiple consecutive quarters of record results, and we expect to drive continued financial performance in the fourth quarter and year ahead.

We look forward to continuing to update you on our progress in delivering long-term value to our shareholders, furthering our DE&I efforts I spoke so much about and serving our communities and consumers through impactful trusted and innovative content and advertising solutions as our teams do so well. If you have any additional questions, please reach out to our Head of Investor Relations, Doug Kuckelman at (703) 873-6764. Thank you, everyone, and have a good day.

Operator

Thank you. That now concludes the call. Thank you for your participation. You may now disconnect.