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TGNA - Q3 2019 Tegna Inc Earnings Call

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OVERVIEW:

Co. reported 3Q19 total reported Co. revenue of $552m. Expects 4Q19 total Co. revenue to be up mid-single digits.

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PRESENTATION

Operator

Good day, and welcome to the TEGNA Third Quarter 2019 Earnings Call. This call is being recorded. Our speaker for today will be Dave Lougee, President and Chief Executive Officer; and Victoria Harker, Chief Financial Officer.

At this time, I would like to turn the call over to Mr. John Janedis, Senior Vice President of Capital Markets and Investor Relations. Please go ahead, sir.

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

Thank you. Good morning, and welcome to our third quarter earnings call and webcast. Today our President and CEO, Dave Lougee; and our CFO, Victoria Harker, will review TEGNA's financial performance and results. After that, we'll open the call for questions.

Hopefully, you've had the opportunity to review this morning's press release. If you have not seen a copy of the release, it's available at TEGNA.com.

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

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

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

Thank you, John, and good morning, everyone. As you saw in our earnings release this morning, the TEGNA team has been actively executing across a number of fronts to create shareholder value. Our operating results reflect a positive trajectory in several of our key long-term growth drivers, and we're excited about the strong momentum we have going into 2020 and beyond. We remain on track for our recently updated and improved full year guidance, which now includes the Dispatch purchase as well as the Nexstar divestiture stations. These two pivotal transactions, which both closed in the quarter, not only strengthened our geographic diversity and portfolio of Big Four stations in key battle ground states politically, but also reinforce the success of our thoughtful and disciplined approach to our M&A and broader capital allocation strategy.

In addition, Premion continues its strong growth with significant upside. I'll provide more details on our acquisitions and growth drivers later in the call.

For the third quarter, TEGNA's total reported company revenue was $552 million, up 2% year-over-year. Revenue growth was driven by acquisitions, subscription revenue and advertising and marketing services, which more than offset a $60 million reduction in political advertising compared with last year.

Our subscription business continues to generate growth and provide us with stable cash flow to contractually recurring revenues. Notably, the agreement that we recently reached with one of our largest distributors, Spectrum, begins a process to which 85% of our subscribers will be repriced by the end of 2020, increasing the visibility of future cash flows. And finally, as Victoria will discuss later, our advertising and marketing services revenues also continue on an improved trajectory in the third quarter, our second consecutive quarter with underlying growth on a year-over-year basis, as demand from advertisers has broadened across several categories.

We have identified and executed on significant M&A opportunities in our industry, and while it is early days, we will meet or exceed financial expectations on these acquisitions just as we have in the past. Each of these stations come with unique characteristics, culture and operations, but thanks to our experienced and proven integration team, we've been able to efficiently and seamlessly integrate each of them into the TEGNA network without any business interruptions. Our M&A strategy continues to be proven through the multiple acquisitions we have successfully completed. As the mechanical synergies we can generate increase with the growth of our already top of the market Big Four retrans rates. Through our commitment to operational excellence and high quality local journalism, we have built a reputation as a partner of choice for independent broadcasters. And still have ample headroom under the FCC cap due to the efficiency of our accretive acquisitions in terms of cap space used. And after closing these two most recent acquisitions, the Dispatch purchase and the Nexstar divestiture stations, we are on pace to delever rapidly, expecting to reach around 4.1x leverage by the end of next year.

With the support of our strong balance sheet and healthy free cash flow, we are positioned to benefit as a long-term consolidator, and we'll continue to analyze opportunities to create shareholder value through M&A when the right opportunities present themselves.

As I mentioned earlier, subscription revenue continues to provide us with growing and increasingly predictable cash flows. We are particularly enthusiastic to enter this period, in which the vast majority of our subscribers are up for renewal. The 85% of our subs that will be renegotiated and repriced between now and in the next year, combined with the recently announced Fox agreement, we enter this process with clear visibility into all our affiliate relationships, having locked in all of our Big Four network affiliate agreements into 2021 and well beyond.

Turning to the political front. As you might expect, we remain very bullish about 2020. Through our recent acquisitions, we have strategically expanded our portfolio to include more key political markets and are primed to benefit from absolute record levels of expenditures. Broadcast TV remains a trusted, vetted outlet for political advertisers to reach voters, a key differentiator relative to digital platforms, and specifically our high quality broadcast assets and stations paired with Premion, our OTT ad platform with more than 100 publishers and unique targeting capabilities, offers us the ability to offer political campaigns, the ability to target voters across the country, not just in TEGNA markets.

As a reminder, we still expect the subscription and political revenues I just discussed to make up approximately half of our total 2-year revenue beginning with the '19-'20 cycle and an increasing percentage thereafter. A dynamic that will allow us to drive shareholder value regardless of variability in the spot advertising market.

Now I would like to share some updates on our strategic content and programming initiatives. In the third quarter, we continue to see growth and recognition for our high-quality content initiatives, including TEGNA's Vault Studios' fourth podcast production called BARDSTOWN reached #2 on Apple's podcast charts and #1 in Apple's TRUE CRIME category after a successful launch this quarter, a category that's among the most popular among podcasts. Our daily live syndicated show called Daily Blast LIVE continued to achieve strong year-over-year growth throughout its markets and target audiences, now spanning 61 markets, including 15 of the top 25 and adding 15 new non-TEGNA markets this year. Because we own and produce this show, back to my earlier point about mechanical synergies, we add Daily Blast programming to our newly acquired stations at zero additional cost. TEGNA was the only local station this year to receive news and documentary Emmys, which recognize our outstanding regional news efforts at WXIA in Atlanta and investigative reporting at KING-TV in Seattle.

By leveraging our existing assets to drive innovation and utilizing disciplined acquisitions of closely adjacent assets such as multicast networks, Justice Network and Quest, we continue to monetize growth in various forms of TV viewership and distribution.

We remain committed to investment in high-quality monetizable content and are pleased with the value these initiatives have delivered thus far to our shareholders as well as to our local and national advertising clients.

In closing, I'd like to highlight several key milestones that we've achieved since we last spoke. We closed on two significant acquisitions, now reaching nearly $1.5 billion of acquisitions for the year that are immediately accretive to free cash flow and are expected to be EPS accretive within 1-year of the close and as I mentioned earlier, very efficient in terms of use of cap space.

We reached an agreement on a multiyear carriage agreement with Spectrum. We extended our affiliation with Fox for 6 stations on a multiyear agreement. We announced and executed the creation of integrated in-house national sales force, part of our plan to embrace automation for the more commoditized side of our business and create more high-tech solutions for our national clients. And finally, we strengthened our balance sheet and added financial flexibility by issuing $1.1 billion of senior notes as well as amending and extending our $1.5 billion revolving credit facility, both with very favorable terms. As a you can see, our strategy is working, and we are executing across our business to achieve organic growth and acquire value creating assets.

And although we have demonstrated this through our performance to date, we also have the ability to deliver additional value going forward, with significant repricing of our subs, as I mentioned earlier, anticipated record political revenues and accretion of our recent acquisitions beginning to flow through. This is an exciting time at TEGNA, as we look to next year and beyond. We remain on track to hit our financial and leverage targets and remain very well positioned for continued profitable growth and value capture going forward.

I'll now pass the call over to Victoria to cover our financials in more details. Victoria?

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

Thanks, Dave. Good morning, everyone, and thanks for joining us. As Dave mentioned, we're excited about both our strong operational execution as well as the cap position and high value acquisitions we closed during the quarter. In my remarks, I'll cover the impacts of both and update you on our planned capital allocation going forward.

Before I cover our consolidated financial results, I'd like to review just a few special items with you. For the quarter, these include acquisition related fees of $20 million and one-time costs related to taking our national sales efforts in-house, including third-party contract termination and transition cost of $5 million. These one-time operating expenses were partially offset by FCC's Spectrum repacking reimbursements of $5 million. Lastly, we also recorded about $6 million in tax related one-time benefits.

Now onto the third quarter consolidated financial results. Keep in mind that most of my comments today are focused on TEGNA's financial performance on a consolidated non-GAAP basis, resulting in the -- result of our base business and the newly acquired station groups for the period of time we owned them during the quarter. This provides clear insight into our financial drivers, our business trends and operational results. Finally, on an ongoing consolidated basis, you'll find all of our reported results and prior period comparatives in our press release.

Now for our third quarter revenue results on an as-reported basis. Total company revenue for the third quarter was up 2% year-over-year. As you've seen from our press release, this was primarily driven by acquisitions as well as continued growth in subscription revenue as well as advertising and marketing services. Excluding political advertising impacts, total revenue on an as-reported basis was up 14% year-over-year. As a reminder, our revenue fully reflects results in the third quarter of 2018, which includes $60 million of political advertising revenue, creating a high year-over-year comparison, not uncommon to our -- even-to-odd year cyclical trends.

As Dave mentioned, our subscriber trends continue to be relatively stable, producing high margins and new realized subscription revenues with clear forecasting visibility. Notably, the retransmission carriage agreement recently reached with Spectrum, one of our largest distributors, kicks off a renewal cycle for about 85% of our subscribers, which we'll reprice by the end of 2020, also serving as a key revenue growth driver and cash flow driver in the years ahead.

Now turning to advertising and marketing services. As expected, advertising and marketing services revenue increased 12% year-over-year on a reported basis, primarily due to the impact of acquisitions this year. Excluding this impact, advertising and marketing services revenue was up year-over-year for the second consecutive quarter, driven by stronger demand from advertisers across the broader range of categories.

As always, there are puts and takes across sectors in our advertising results. The stronger categories this quarter, which reflected growth year-over-year included professional services, insurance, banking, media and telecom, home improvement, travel and tourism and utilities. Other categories such as auto, retail and restaurants were a bit softer in the quarter.

Moving now to expenses. Our operating expenses were 12% higher this quarter on a year-over-year basis, driven primarily by the newly-closed acquisitions and higher programming fees. This is partially offset by lower year-over-year expenses related to lower political ad spending this year as well as the ongoing streamlining of our business processes.

As a reminder, programming fees also included reverse compensation paid to networks. Excluding programming costs and incremental expenses related to acquisitions this year, all other operating expenses were down 4%.

During the third quarter, corporate expense was $10 million, down $2 million from last year, reflecting our ongoing work to streamline back-office operations.

As a result, as reported adjusted EBITDA for the third quarter was $157 million, producing a very healthy 28.5% margin. On this, we generated $105 million of free cash flow, roughly 19% of revenue, in line with our recently increased annual and free cash flow guidance of 18% to 19% of revenue on a 2-year basis. As previously discussed, we continue to use our free cash flow and $1.5 billion revolving line of credit for investments such as new products and initiatives as well as to fund acquisitions, including the Dispatch and NexStar divestiture stations.

Our debt during the quarter increased by approximately $1.2 billion to $4.2 billion, producing net leverage of 4.9x. On a related note, on September 13, we successfully completed a $1.1 billion offering of a 10-year senior notes at an historically low 5% interest rate. The net proceeds were used to repay approximately $320 million of our October 2019 maturities, $290 million of our 2020 notes and replenished nearly $400 million of the drawn revolver, which we've also extended 1-year to August of 2024 with no change to its $1.5 billion capacity.

With this financing, we created flexibility and with this enhanced coupled with the strength of our cash flows in 2020 from our new stations as well as political, we're well prepared for significant acquisitions as well as organic investments.

Turning now to M&A. As Dave noted, we've been actively participating in industry consolidation this year, reflected in the acquisition of 2 leading TV stations and 2 radio stations from Dispatch Broadcast Group for $535 million and the Nexstar divestiture stations for $740 million during the quarter. In addition, we successfully closed the $77 million acquisition of multicast networks, Justice and Quest last quarter.

As a reminder, the Dispatch transaction provides us with #1 rated TV stations in both Indianapolis and Columbus for a -- which closed at a 7.9x multiple, including run rate synergies. The Nexstar divestiture stations contributed 11 local television stations, including 8 Big Four affiliates, which we acquired at a 2018/2019 EBITDA multiple of 6.7x, including run rate synergies and tax savings.

All of these transactions are immediately free cash flow accretive and are already well on track to being EPS accretive within 12 months, reflecting our strong financial discipline and the value of investing in opportunities, which are both financial and strategic, the cornerstone of our M&A strategy.

In fact, as a result of our recent completed transactions, we now project free cash flow of 18% to 19% of revenue on a 2-year basis, a notable increase from the 17% to 18% range previously provided, and 18% to 19% of revenue for 2019/2020.

Lastly, we have a long-term track record of meeting or exceeding synergy targets reflected in our purchase price, and will continue to make investments that are attractive from both a valuation and an operating synergy perspective.

Now turning to fourth quarter, and a relook at our full year 2019 guidance. In an effort to help forecast for the balance of the year, we are providing several key quarter ahead financial guidance metrics and updating previous full year projections.

We expect total fourth quarter company revenue to be up mid-single-digits. However, excluding the $140 million political revenue from last year's fourth quarter, we expect revenue growth to be up in the high 20s range. From an expense perspective, we expect fourth quarter operating expense to increase in the mid- to high 20s driven by acquisitions and higher programming fees. Net of programming expense, we project expense to be up in the mid-20% range. Beyond this, we've now updated our full year 2019 key guidance metrics, following the close of the Dispatch purchase and acquisition of Nexstar divestiture stations. As a result, I'm pleased to say we're well on track for a very strong year.

Here is some additional color, reflecting those projections for 2019. We expect to see full year subscription revenue up high-teens. However, [corporate] (added by company after the call) expenses are expected to be lower by $2 million to approximately $43 million, a decrease of $2 million from the prior guidance of $45 million. Depreciation is projected to be in the range of $61 million to $63 million, up from the $55 million to $60 million range we expected to see as of the second quarter. Interest expense for the year is expected to be in the range of $203 million to $205 million. We expect capital expenditures of $82 million to $84 million, which includes non-recurring CapEx of approximately $40 million to $45 million, including mandatory channel repacking, our Q1 2019 headquarters' relocation and a new facility in Houston, which was completed in February. This also includes CapEx related to the new stations. Finally, due to the active management of our tax rate, we are now expecting the 2019 effective tax rate to be 23% to 24%, at the lower end of our prior guidance range of 23% to 25%.

Building now on Dave's comments regarding the current M&A environment. As we previously discussed, TEGNA follows 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.

Capital allocation decisions are always tightly aligned with maximizing shareholder value, and we dynamically allocate capital to the options that offer the highest returns as we and our Board regularly analyze all opportunities to generate long-term value.

As Dave noted earlier, we have ample capacity under the cap to execute on our strategy and continue to actively pursue assets that are a fit for us within current industry regulatory constraints. Our recent acquisitions demonstrate the efficiency of our buying power. We [acquired about $1.3 billion of TV stations] (corrected by company after the call), we acquired approximately $500 million of revenue and $200 million of EBITDA annually on a 2-year average basis, while only using 3 points of cap headroom.

Including our recent acquisitions, we are at about 32% with the UHF discount and are 7% under the cap, which provides us with significant flexibility to be an active participant in future M&A.

Our strong free cash flow allows for rapid delevering, already underway as I previously discussed. And provides for increased firepower, further creating capacity as a consolidator.

Given the efficiency of these acquisitions and immediate EBITDA and free cash flow contributions, we added less than 1 turn of leverage this quarter. And subsequently, our strong free cash flow is being used to reduce debt. As a result, our net leverage is expected to decrease to approximately 4.1x by the end of 2020, creating significant firepower for potential acquisitions.

As a reminder, as previously disclosed, we plan no additional share repurchases until we delever from funding these new acquisitions. In summary, our third quarter results, as well as our outlook for the full year 2019, demonstrate that we have made strong progress in diversifying our revenue and cash flow streams, reaffirming our confidence in our long-term strategy. As a result, the continued growth of less cyclical profitable businesses enhances our ability to create shareholder value with even greater transparency with M&A providing an important opportunity to leverage our operating scale through enhanced content and efficiencies.

As Dave noted, we've been really busy since we last spoke to you, and we remain laser focused on keeping up that execution as we enter a period in which we expect significant value creation due to the repricing of our retransmission agreements and the 2020 political spending ad cycle.

On the M&A front, we will continue to look at opportunities that benefit from ongoing industry consolidation, and look forward to updating you on the various ways we are generating and returning value to our shareholders.

In closing, I want to point out what a unique time this is for TEGNA. The combination of our recent refinancing, the expansion and amendment of our revolver, the pending 2020 election year and the new stations along with our base together position us to close out 2019 strong and enter 2020 even better, poised for continued growth with significant firepower for future investments and growth.

And with that, I would like to open up the call now to questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question will come from the line of Vasily Karasyov from Cannonball Research.

Vasily Karasyov - *Cannonball Research, LLC - Founder*

I have a couple and a quick housekeeping one. So the first one is, heading into the fourth quarter and given what the macro headlines are, can you talk about what kind of underlying demand you see in your advertising and marketing services business? So any color you can give us on major key categories such as auto, services, et cetera, would be appreciated? And then a question on M&A. Now that you've owned Nexstar stations for a couple of months, can you give us an update on how they're performing relative to your expectations before the deal closed? And understanding it's early, how are the synergies tracking? And also how soon after the acquisition do after acquired clauses kick in? And then I have a quick housekeeping question afterwards.

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

Okay. So as it relates to advertising and marketing services, I mentioned in my text, what we're seeing is a nice broadening of demand, a trend we've actually seen all year. So we have, sort of, less dependence on auto than we once did. But from third quarter was the sequential improvement marginally over second. Auto and retail remain down, but only marginally in low-single-digits when retail is actually really hanging in there just below down. And in fourth quarter, I think, auto will probably end up, for us, perhaps, even up, but a little bit of that has got to do with political displacement. But we do see improvement in a lot of categories, especially insurance, which has been increasing all year in a significant amount. Media and telecom are up, medical, dental services are all -- these are all categories that are up in major double digits and with not many down categories. Again, though, I'll say, auto and retail remain down low-single-digits. So I can take a follow-up on that if you'd like. As it relates to the performance of the Nexstar stations, I would remind you, by the way, we always refer to them as the Nexstar divestitures, but many of them are actually Tribune stations, right, that we purchased. But the answer is, starting with the after acquired clauses, they kick in right away. And there's a bigger delta on those on the Tribune stations than the Nexstar stations, as you might guess. They're performing fine. We've done -- the team has done a great job. And I think there's a number of stations where we see the opportunity, frankly, to improve performance in the months ahead, but they are performing on track to all of our expectations.

Vasily Karasyov - *Cannonball Research, LLC - Founder*

Okay. and then a quick housekeeping question. The 8-K you filed with the performance summation, it had TBD for amortization. I wonder if you have the number for us now?

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

Sure. I can give you -- we are not final yet. We are working through the methodology and the calculations on that, which will be final probably closer to year-end. With our 10-K, it'll give you some data points in terms of your modeling in the meantime. Incremental to our previous level of amortization, which you had included for this year, in 2019, which was about $35 million. We're likely to be adding about $40 million to $45 million. And as I said, we'll have more detail on that in the 10-Q, which we filed later today, and it will be finalized by the time we file our 10-K.

Operator

We'll now take our next question from Marci Ryvicker of Wolfe Research.

Marci Lynn Walner Ryvicker - *Wolfe Research, LLC - MD of Equity Research & Senior Equity Analyst*

I have a couple. I just want to stick with advertising. Dave, are you seeing a difference in demand between your large and smaller markets by chance?

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

In our case, we are. We're doing better in the larger markets, Marci, with local being specifically strong. And a lot of that is driven specifically by Texas. So in our particular case, as you know, we have a heavy piece of the portfolio in Texas. And Texas is performing really, really strong and those are driven by large markets.

Marci Lynn Walner Ryvicker - *Wolfe Research, LLC - MD of Equity Research & Senior Equity Analyst*

All right. And I'm going to ask you the same thing on the pay TV environment. First of all, are you seeing a difference in your large and small markets? And then second, did you feel any impact from the retrans blackouts that happened in the third quarter, which you were not directly involved in?

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

Yes. Tough for us to tell. It's a good question, because in the MVPD world right now, subs are performing really, pretty well, but for satellite. And so since we're 60 or 90 days in arrears, right? I think the two blackouts were July into August. We don't have August numbers for Direct yet. The July numbers for Direct, which sort of have been publicly reported, weren't great, but they weren't for the industry, so I can't really tell. We actually have quite a few AT&T U-verse subs in our portfolio, which have -- at one point, they were falling a lot, but they've actually remained very steady, as I assume, because they offer Internet to the -- Internet house to the households. They probably are maintaining those subs, but -- and so it's a long winded answer is, too soon to tell. I assume we had a little bit of work. We don't have a huge overlap with CBS and not that huge an overlap in terms homes with Nexstar, so I'm guessing not much.

Marci Lynn Walner Ryvicker - *Wolfe Research, LLC - MD of Equity Research & Senior Equity Analyst*

Okay. And then Victoria, going back to M&A. Can you size your capacity? And then maybe talk about at what point you might start buying back stock? Is there a target leverage that you're aiming for?

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

And I'll take it, sort of, in reverse order. So as I talked about -- and even since we included the bonds refi, we've already been actively delevering. We had 2019 maturities that came through in October, which we have paid down. We took down some of the drawn amounts under our revolver and accelerated some payments on the 2020s. While we continue to look at investments, both M&A as well as internal organic investment opportunities, we'll just continue to rapidly delever. And as I said earlier, it's -- we expect to get to about 4.1x leverage by year-end next year, given the pace of free cash flow production, both from political advertising as well as the new stations. My guess is that it's going to heavier in the second half than the first half. But we were at about 4.3, 4.4x levered at the time we started closing these stations, so we could very well start buying back shares prior to end of next year, if there's no other M&A or other investment opportunities needed for the cash. So we don't have to wait until year end. We would actually be under our prior leverage levels by the end of next year. So we'll keep that option open.

Operator

And your next question will come from the line of Dan Kurnos of The Benchmark Company.

Daniel Louis Kurnos - *The Benchmark Company, LLC, Research Division - MD & Internet, Publishing & Broadcasting Analyst*

I don't know if I missed this, Dave, but you set it up nicely. It's got the affiliate done. You've got the footprint renewal started. You want to give us a longer-term thoughts on net retrans?

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

Yes. Feels substantial, very good about it, because we've got certainty on what the cost side equation looks like. And we know what the retrans is going to look like for us. Because I've probably not expanded enough on this in the past, but we have a unique portfolio when it comes to negotiating with distributors because we are, by design, almost all of our subs are all Big Four subs, and that's not an accident. That is what we want as a portfolio. We actually think on a go-forward basis for a variety of reasons, they are far more durable from a distribution standpoint and the NPEs, et cetera, et cetera. But to that point, when we negotiate with distributors, because we don't have many CW or my network homes, we don't really trade value off of a Big Four home to a My Network or CW. And our Big Four assets, not to boast, but they're top of class assets. These are great stations in great markets. So when we do a deal, we get best-in-class Big Four rates. So that 85% number that you heard Victoria and I harp on means, we're going to have a significant and justified step-up in what our top line will be. So the two of those matching together, we have clarity that we're going to have net retrans growth for sure.

Daniel Louis Kurnos - *The Benchmark Company, LLC, Research Division - MD & Internet, Publishing & Broadcasting Analyst*

And I suspect, I'll get a similar type answer on political, but I've got to ask anyway, I mean, we're seeing outsized gains already in Q3, and Q4 with all the fund raising, I mean, have your thoughts changed at all? And is there any chance you'd be willing to, sort of, hazard in, up on political versus '18?

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

Well, I'm not going to put a number to that last question, because no good deed goes unpunished. But I will just tell you, I feel more confident today than I did a quarter ago. It's just every single data point, right? I mean, just even the elections yesterday in Kentucky, in Virginia, in Mississippi, the voter turnout was stratospheric, right? That's the same dynamic we saw last year in the midterms and the dollars that flowed related to that. So I mean, we saw dollars in Norfolk for State Senate, that I don't think we have ever seen in the past, I mean, from out-of-state money. So the money in the system is somewhat hard to imagine how much -- which is really a reflection of the political environment we're in and our footprint has only gotten better. And then add to that, my comments about Premion. We really had -- we were new to market and really didn't have Premion geared up enough yet for political in '18, but we will in '20, and it's a very attractive opportunity for political advertisers. So yes, I'll tell you, up. We will set a record for TEGNA. Just what that number is -- Senate races can go hot and cold and that kind of thing. So It's tough to tell, but we will set a record.

Operator

And we will take our next question from Kyle Evans of Stephens.

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

You mentioned several times that 85% of subs reprice by year-end 2020? Could you give us the detailed phasing across the quarters between now and then?

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

Hang on a second, Kyle. So we'll have done around 35%, Kyle, by the end of this year. And then the balance of it by the end of next year, but it won't be -- we won't be -- those deals next year will all be at the back end.

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

Back end like fourth quarter? Or back end second half?

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

Back end like fourth quarter.

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

Okay. Got it. The in-house move for your national sales force, can you talk a little bit more about how that plugs into Justice, Quest, Premion? And is that also going to be your way to sell political in 2020?

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

You broke up a little bit on the last part about -- what was the question relative to political?

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

Is the in-housing of your national sales force going to source your political ad sales in 2020?

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

Yes. I'll take that question first. Yes, so we have hired a very experienced and top-of-class in-house political team. So we're in-house with political and we're in-house with National. And yes, to your question. So Justice and Quest right now is still more of a direct response business. And there's a third-party company that does that really well for us. And that -- in the years ahead, that may change to being -- we may sell some additional spot on that, but more to our traditional business as well as Premion, we do exactly right. That -- we have national sellers for Premion based in New

York as a for instance. That new in-house sales team is now integrated with them together. They are in one space and they're becoming one integrated team. So that -- And that was one of the benefits of this move, was not to have third-party contractual relationships, where we should be going to markets or advertisers with an integrated suite of products with no conflicts. And so yes, they are selling -- they'll be selling all of our products.

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

Great. And then lastly, do you have a pro forma political for 2016 and 2018?

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

Hang on a second. Alexa, do we have a pro forma? Going Alexa, going Alexa, $280 million, says Alexa.

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

For which of those years?

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

I'm sorry, hang on a second. I'll get you the right number. $280 million for '18, $212 million for '16, Kyle.

Operator

And we'll take our next question from David Joyce of Evercore ISI.

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

Just a couple of more advertising related question. I'm wondering if you can help quantify what the Premion contribution was? And with the broadening of the advertiser base in the quarter, are there new to TV advertisers? Or are some bringing some of their allocation back from Digital? If you can -- if you're able to discern that? Just wondering how the growth -- where is it coming from?

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

Yes. So David, we don't break out Premion from other TV advertisers subs, because as we said in the past, that's just not how we go to market, so we don't break that out, but it's a good contribution. Premion continues to grow nicely. As it relates to the advertising, yes, we are seeing expansion of clients. So while we talk about it as growth in categories especially, I call, the services areas I talked about in the last calls, our sales teams are doing a very good job expanding our client base. I mean, just amongst lots of different types of contract -- clients out there. They're personal injury lawyers, air conditioning and heating, attorneys, diet weight loss, plumbers, lawn care, electricians, realtors, family, bankruptcy services, things like that and we've seen a very good expansion in the local markets by our sales teams. And that's not specific to any size, markets, to the earlier question that Marci had asked, other than there's a lot more of them in the big markets.

Operator

Our next question comes from the line of a Craig Huber of Huber Research Partners.

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

Couple of housekeeping questions, first, please. Maybe I missed this, but your retrans subs, what was the percent change there year-over-year? Was it flat to down 1 similar to the recent trend or is it significantly different than that?

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

They are down low-single-digits, Craig, which was not a total surprise to us. And that's exclusively driven by satellite. If you take satellite out of the equation and put the terrestrial cable plus, the virtual MVPDs we're up, but it was all driven by satellite, although, I just -- we just heard new numbers, I guess, from Digital this morning that actually shows some improvement and again we're in arrears, so we will see that improvement a few months down the road here.

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

I'm just curious, what is budgeting, Dave, say in the next couple of years in your mind in terms of what your net subs will do for retrans? Down in that same ZIP Code or a little bit worse, a little bit better?

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

Yes. We're not -- we don't have -- we don't know what our budget numbers are per se? But just say we are always have been realistic in our building all of our financial models around subs and our internal team has done a very good job. We have been hitting it well.

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

Okay. Fine. I know it's early, but I wanted to ask, your 2020 CapEx outlook, excluding the potential repack, if anything is left on that front, what might that be about? $60 million or so?

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

Yes. We don't have that yet, Craig. We're still working on capital items and digesting the new acquisitions. And trying to chew up what the repack is and isn't going to look like. We've got a couple of centralized initiatives that are going to be cost savers for the organization that we are still sizing the size of those. So it's -- appreciate the question, but we just don't know yet.

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

I can just, just in terms of modeling, it's fairly easy for you to pull out the items that we talked about that were one-time non-recurring relative to the facilities, Houston and the headquarters building and you know that the recurring has been traditionally in the $40 million to $45 million-ish.

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

Probably will have some new one-timers next.

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

We'll have some for the new one-timers. So you can kind of get at that and then we'll give you 2020 as we get closer to it, but that at least gives you some data to work with.

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

Okay. And then can you help us just understand better what the core advertising revenue percent change was in the third quarter? And what made -- what's pacing out here for fourth quarter year-over-year without the acquisition?

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

Yes, again, Craig, we don't break out quarter, but what I would say is, I think, we took Dispatch in August and the Nexstar tribune stations in September, and we were on track for our standalone guidance at that time, before we digested those stations. Core -- I'll just, just a general topic on advertising generally is there has been sequential improvement, not dramatic, but sequential improvement each quarter.

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

Sorry, Dave. Does that mean it's up modestly or slightly or are you just saying that rate -- how would you please describe that? I'm just trying to get a sense of the underlying front.

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

Craig, we don't break out TV spot, because we just don't go to market that way, but our advertising and marketing services are up.

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

Okay. My last question, if I could. You have a new large investor, respected large investor in your company. That's, sort of, been, obviously, frustrated with the stock over the years and stuff. You guys have been very loud with your outlook here, your capital deployment strategy, et cetera, your dividend, share buyback, your acquisition strategy, et cetera. Should investors expect any sort of change here with maybe a new large investor that may be talking to you guys behind the scenes here. I mean, again, you've been very clear with what you want to do going forward with this company and stuff, but should we expect any material change on those fronts? Would it be a dividend, share buyback, different acquisition strategy, selling the company, be along those lines?

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

Craig, obviously, we're not going to refer to any conversations with any individual investors and then obviously, we speak to all of our investors, both Board and management. We regularly engage with them and welcome input. You've heard from us what our strategy is and -- or other than that, I would have no comment.

Operator

And our next question comes from the line of Alexia Quadrani of JPMorgan.

Alexia Skouras Quadrani - *JP Morgan Chase & Co, Research Division - MD and Senior Analyst*

This is David Karnovsky on for Alexia. Dave, you mentioned the political opportunity before Premion. Would be interested to see if you can expand on that a little bit more? And what type of demand you're seeing there? And then, as the OTT market sort of ramps generally. Do you see the Premion as it is now? Set to capture the opportunity on its own? Or are there sort of bolt-on acquisitions you can make for that asset?

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

Yes. So appreciate the question. So Premion is definitely in the right place at the right time. It is doing what we had hoped as they're a growing, but still relatively small group of cord nevers, but they watch a lot of TV and that's a lot of inventory that people can't capture, advertisers can't capture on other platforms. So it's nicely additive to our broadcast assets for advertisers. And obviously, that form of dealing is going up every day. So even with our existing publisher base, the amount of inventory is dramatically increasing, literally, each month. We're doing very, very well with it. As it relates to political, I can't size it, because -- and a lot of it will come, like most of our political, in the back end of next year. And just remember that so much of political really comes from Labor Day to Election Day, and that's may be marginally different next year over the primaries, but not much. And so that -- during that season, I think, is when we'll see the majority of our Premion revenue as well. Don't know really how to size it, because it's got a lot to do with how well we get advertiser take up on it, but we'll have -- those conversations are taking place now off-cycle. The targeting ability of Premion is obviously very attractive to political campaigns. So it's just an ideal product for campaigns in general. And so we're bullish on it. We're having a hard time ourselves agreeing on what the number will be, but we -- it should be significant.

Alexia Skouras Quadrani - *JP Morgan Chase & Co, Research Division - MD and Senior Analyst*

Okay. And is there any update you can provide on the regulatory? Is it still your view to see action on the national ownership cap in the near-term? And any update on what you see as the potential range?

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

Yes. I mean, I think -- so everything but the cap is all tied up in the court case out of Philadelphia, but it is notable that cap is not part of that. The conventional wisdom is that there won't be any change in the cap before the election next year. I'm not predicting there will be, but I also don't rule it out. We are not executing our strategy depending on expecting one -- expecting a change in the cap, but I think that we are not ruling it out with the current FCC.

Operator

And our next question comes from the line of Doug Arthur of Huber Research.

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

Most of my questions have been covered. But Victoria, is it fair to say that the incremental revenue impact of the 2 acquisitions in Q3 was around $30 million? Is that about -- based on the percentages?

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

We're not breaking it out on the performance. We didn't really have it pulled. Obviously, we only had a couple of weeks of all of the stations in and they're all part of our ERP platform right now from a financial systems standpoint. So that's not in a wrong neighborhood, but I would just say that we really can't break it out station by station anymore.

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

Okay. And then Dave, you signed a -- Premion signed an agreement with comScore for media management. Does that -- can you -- does it change the trajectory at all? Or was that sort of something you expected to do?

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

Yes. No, as Premion's grown, in the digital space, one of the selling points and hallmarks of Premion is our transparency and safety from fraud and all of that, relative to -- that advertisers face in a lot of digital products. And comScore is very much wanted by advertisers as a verification of the inventory that runs and things like that. So it's a standard in the digital space. So that's what it is, nothing less, nothing more.

Operator

And your next question comes from Michael Kupinski of Noble Capital Markets.

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

And most of my questions have been answered as well. But just following up on the regulatory question that you got earlier. It seems like they're -- just recently, Facebook was grilled about fact-checking political ads. And then obviously, political is a big growth area for TEGNA and as well for the industry and carries very high margins. So I was wondering if you're seeing any effort, first of all, from -- and pressure from Washington to fact check any political ads? And whether or not, you feel that, that is a prospect that TEGNA plans to do going forward?

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

I don't have the playbook in front of me, Michael, but there have been -- broadcasting has been held to higher standards for a long time. And what we can and can't do, especially relative to candidate advertising. So those rules have been in place for many, many years. And TEGNA has -- we've had a stellar reputation for how we handle those. And so I think, no, I don't think broadcasting, per se, will have any change in those issues. I think it's because the digital space is complete -- is still unregulated around the area that, that's where the focus will be.

Operator

And we will take our next question from Steven Cahall of Wells Fargo.

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

Maybe just first on M&A. I mean, you have some room under the cap and you've been through a pretty transformational year between Dispatch and Nexstar, Tribune and Quest, Justice. So would you say that right now between both your balance sheet and your management capacity, you can kind of keep acquiring, if you see good opportunities? Or is this really now kind of an execution phase that you see the company in for the next year or so? I just want to think about those opportunity sets.

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

The answer is both. We can walk and chew gum at the same time. We got a great team here on execution. So if an opportunity presents itself, we absolutely can execute against it. But if not, then we'll be delevering, as Victoria mentioned and integrating all those assets. And -- but we're really in a nice place to be opportunistic. What we -- one of things that we do look at very much -- we look at everything. We get to see a lot of things, but we're disciplined in what we want. We very much want to make sure we're efficient under the cap to use that phrase again, right? So the last acquisitions we did, as a for instance, used about -- just a little bit more than 3% of cap space, but it's going to produce maybe roughly $60 million of EBITDA per point under the cap, and that's the way we look at it. We don't want assets for the sake of assets, and we want to be really efficient in the use of it from a cap standpoint. As you can tell, we're very focused on quality Big Four assets. And there is absolutely a pipeline out there as -- and people are never sellers until they're sellers.

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

That's very helpful. And then just on the political side. If I kind of think about your political revenue going forward, as like dollars per household or per sub, in the way that you've acquired, do you think in some of the concentrations you'd have in key states, is that going to increase your kind of value per household or per sub? Because I know your total political revenue will be up, but do we also see it as like an even more concentrated like higher-pricing power political portfolio?

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

I appreciate the question, but no. We don't look at it that way in sort of political per household. It really is so -- it is so market specific, right? In where that demand is, right? So you can have markets that demand is only y and the the displacement is negligible and you can have markets where a house race heats up until new 2 or 3 house races heat up at the last minute. So it's so much a market-by-market situation. I just -- I understand your question. What I can say is, the assets we purchased, in general, probably -- and typically in the past, probably yielded a little bit more political per household than our portfolio of large did, but that remains to be seen going forward, right? Ohio may or may not be a hotbed that it once was, Pennsylvania is going to be more of a hotbed than ever before. And now we have 2 assets in Iowa as well to pick up on a primary dollars. But yes, I appreciate the question, but no, we don't really look at it that way, because it's so market-by-market.

Operator

And there are no further questions at this time. I'd like to know hand it back over to Mr. Dave Lougee for closing remarks. Thank you.

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

Alright. Thank you, everyone, for your time and your questions this morning. To conclude, we're very pleased with and encouraged by, and as you've heard from myself and Victoria, the execution across our financial, operational and M&A strategies, and we're even more excited for the opportunities ahead that we just talked about as we remain very positioned for success in 2020 and beyond. If you have additional questions that we are unable to cover today, please reach out to John, John Janedis, at (703) 873-6222. And thank you, again, for your time. Thank you, operator.

Operator

This concludes today's call. We thank you for your participation. You may now disconnect your lines, and have a wonderful day. Everyone, take care.
