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PRESENTATION

Operator

Thank you for standing by, and welcome to the second quarter TEGNA earnings conference call.

(Operator Instructions)

As a reminder, this call is being recorded. I would now like to turn the call over to your host, Ms. Julie Heskett, Senior Vice President of Finance and Investor Relations. Please go ahead.

Julie Heskett - *TEGNA Inc. - SVP of Financial Planning & Analysis*

Thank you. Good morning, and welcome to our second quarter conference call and webcast. Today, our President and CEO, Dave Lougee; and our CFO, Victoria Harker, will review TEGNA's financial performance and results and discuss TEGNA's stand-alone outlook. After that, we'll open the call for questions. Hopefully, you've had the opportunity to review our Form 8-K filed this morning with the Securities and Exchange Commission as well as our second quarter earnings results. If you have not yet seen a copy of the release, it's available on tegna.com.

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

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

Thank you, Julie, and good morning, everyone. TEGNA's second quarter results reflect our continuing momentum and sharp focus on delivering value for our shareholders. We achieved a record second quarter for subscription revenue and saw a sequential improvement in underlying advertising trends this quarter compared to the first. Importantly, our solid results, along with our strong balance sheet, underpin our ability to create value for TEGNA shareholders, which I'll outline now and detail a little later in the call as well.

Building on our initial steps to return accumulated capital to shareholders pending from the failed merger agreement, today, we announced that TEGNA's Board approved a second accelerated share repurchase agreement, or ASR, of $325 million, which is expected to commence after our 3Q earnings are reported in early November. This will bring our commitment this year of more than three-quarters of a billion dollars in share reduction, including the previously announced $300 million ASR currently underway and the $136 million termination fee paid in shares by Standard General.

The Board also declared a 20% increase to the regular quarterly dividend to $0.11375 per share, which was previously announced in May. Taken together, these actions demonstrate our track record of acting on feedback we've received from our engagement with shareholders over the past several months and our continuing commitment to returning capital to shareholders in a disciplined and thoughtful manner. As we continue to refine our longer-term capital allocation priorities, we anticipate providing a more detailed update by year-end.

Next, I'd like to provide some of the highlights of our second quarter results, and Victoria will cover these topics in more detail. Total company revenue was down 7% year-over-year, almost exclusively due to the reduction of political revenue from last year from the midterm election cycle. Excluding political, revenue was down just slightly. Subscription revenue was a second quarter record and grew 2% year-over-year. As a reminder, growth in the first quarter lapped a temporary disruption with a distributor last year as well as an accounting true-up. Therefore, second quarter results reflect a more normalized trend.

Our subscription revenue continues to provide stable and predictable cash flows supported by contractual rate increases. Later this year, we expect to reprice approximately 30% of our traditional subscribers, further improving clarity into our outlook. Despite broader macroeconomic challenges, advertising revenue trends were sequentially better than the first quarter. AMS revenue finished the quarter down 5% compared to the second quarter of last year. However, underlying advertising trends were down low single digits when adjusting for the loss of a single Premion national account we discussed at our last investor call.

Automotive, our largest category within AMS, has steadily recovered and is generating strong year-over-year growth, and it did so in the second quarter for the fourth consecutive quarter and is doing it again as is strong in Q3 as well. Another factor in improved advertising trends is the accelerating shift of audience reach from cable to broadcast, a favorable impact for broadcast from cord cutting. While many of the traditional cable and satellite homes we lose are replaced by virtual MVPDs as well as over-the-air antenna homes, the local cable interconnects in our many markets don't have that subscriber and viewer replacement mechanism. And their reach in any individual market is down dramatically in recent years.

Advertisers are increasingly recognizing this dramatic and growing delta between the reach of local broadcasting compared to local cable, and the dollars will follow, and that will impact political dollars as well. Premion, our first-to-market and industry-leading OTT advertising platform, continues to focus on growth in local OTT revenue where it is uniquely positioned to win. Local Premion revenue continues its strong growth, and Premion, too, will benefit from local cable's declining reach.

Now turning to capital allocation. As I mentioned, following the initial review of capital allocation priorities and the incorporation from investor feedback that's been a robust process over the past several months, the Board has approved the return of additional accumulated capital to shareholders in the form of a $325 million accelerated share repurchase program to commence after our third quarter earnings are reported in early November. This second ASR follows the initial steps we took in June after the merger agreement termination to immediately return capital to shareholders by entering into a $300 million ASR, the current one in place, which we expect to complete by the end of the third quarter.

The completion of these steps, the 2 ASRs and the stock transfer to satisfy the deal termination fee, will result in us retiring more than three-quarter-billion dollars of our shares by approximately the end of the first quarter of next year. Strong operating performance and discipline used to free cash flow position us with an industry-leading balance sheet. Even after both ASR programs in 2023, we expect to end the year with net leverage under 3x.

Moving forward, we are laser-focused on generating strong shareholder value. Our Board and management team has consistently taken a methodical approach to our long-term strategic priorities and capital allocation. We are actively focused on refining our thinking on these topics as TEGNA evaluates its next chapter as a stand-alone company, and we strive to generate attractive durable growth for our shareholders for both the near and long term.

Since the termination of our merger agreement, we believe our initial actions to commit to more than three-quarters of a billion dollars in share reductions, as I just mentioned, send a strong signal on TEGNA's outlook. This management team and Board have a strong and disciplined track record of making forward-thinking organic and inorganic investments that have generated strong returns and augmented our competitive positioning amidst an industry backdrop that continues to evolve. We are in a fantastic position today as we assess these longer-term opportunities but again, through a very disciplined lens.

Our balance sheet is industry-leading, and our financial performance remains strong, allowing us to consider accretive opportunities while returning capital to shareholders. We can do both. As we look ahead, we're excited about the go-forward opportunities for TEGNA.

Now to update you on a few strategic and operating highlights for this past quarter. VERIFY, our national brand that combats disinformation, ended the second quarter with approximately [half a million] (corrected by company after the call) followers across its various dedicated channels, including on YouTube, which has seen nearly a 100% increase in subscriber growth over the past year. In June, we launched Apple TV streaming apps for all stations. We now have apps for all our stations on Roku, Fire TV and Apple TV. And by the way, when I said back to VERIFY, I should have said half a million, not half a billion.

But our apps are now generating 580 million minutes of streaming, an 82% increase year-over-year. And we've begun testing station apps for Samsung, LG, Chromecast and additional platforms and expect to launch on most or all of these platforms in the third quarter. Locked On, our leading local sports podcast network, which is now on video and YouTube as well, with daily shows for all 4 professional sports league teams and most major college programs hit a new milestone in the quarter. The network exceeded 24 million monthly audio downloads and video views for the first time in May. In the first 6 months of 2023, total views and listens grew 44% year-over-year.

As local broadcasters, we take seriously the important role we play in ensuring our editorial coverage and storytelling reflects all of the communities we serve. During the quarter, all new content employees who joined TEGNA since December of last year have completed our innovative inclusive journalism training program. We awarded grants to more than 30 of our colleagues to attend journalism conferences taking place this summer, and right now in fact, where they can take part in important professional development and networking opportunities.

As an example of the value of those network opportunities, at last year's Investigative Reporters and Editors conference, TEGNA investigative reporters collectively developed the idea for a project titled "7 Days, 1,000 Shootings", which launched during the second quarter. The title of this project comes from the fact that there were 1,000 shootings in the U.S. during that same time period in 2022. As part of the project, 8 stations followed up on these shootings, looking not only at gun violence but hearing from families and communities on the steps that are being taken to find solutions, an issue that's obviously of critical importance in this country more than ever before.

Delivering news that matters and impactful investigations that make a difference in people's lives are at the center of each and every one of our newsrooms and our purpose as a company. We are very proud of the determination and resilience of our engaged employees that enable us to fulfill our mission every day. And with that, I'll now turn the call over to Victoria.

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

Thanks, Dave. Good morning, everyone. Thanks for joining us. As you've already heard, we achieved record second quarter subscription revenue as well as sequential improvement in Advertising and Marketing Services revenue, which I'll cover in more detail shortly. We also successfully achieved the outlook for all of the key financial metrics we previously provided.

Before I drill down on our second quarter financial results and quarter- ahead guidance, I'd like to share some additional information regarding our continued return of capital accumulated during the merger process, just as we committed during our last investor call. As Dave mentioned earlier, following our ongoing review of capital allocation priorities and incorporating feedback from you, our shareholders, over the past few months, TEGNA's Board approved an incremental $325 million ASR program, which we expect to kick off after our third quarter earnings are reported in early November. This will follow the completion of our previously announced $300 million ASR program.

As you know, that program is already well underway and is expected to be completed by the end of the third quarter. As a reminder, both of these ASRs are in addition to the 20% dividend increase that we announced immediately after the termination of the merger agreement. Our current $300 million ASR program reduced shares outstanding by approximately 15.2 million shares, representing 80% of the ASR program value, which was delivered on June 6. For modeling purposes, the weighted average diluted share impact during the second quarter was a reduction of approximately 5 million shares, which was just for the month of June. The full 15.2 million share reduction will be captured in the third quarter, including the remaining 20% settlement of the program of approximately 3 million shares.

Also during June, as Dave mentioned, Standard General's $136 million termination fee, which was contractually required by the merger agreement, was satisfied by their transfer of approximately 8.6 million shares of TEGNA common stock to us, further reducing our shares outstanding during the quarter. For modeling purposes, the weighted average diluted share impact of that transaction is a reduction of approximately 3 million shares for just 1 month's worth. The full 8.6 million share reduction will be captured in the third quarter.

So taken altogether, since the termination of the merger agreement in May, TEGNA has committed to more than three-quarters of a billion dollars in share repurchases already this year through both ASR programs and settlement of the merger termination fee in shares. As a result of this commitment, we expect approximately [45 million] (corrected by company after the call) to 50 million shares to be retired by the end of March 2024, based on current market prices or more than 20% of shares outstanding.

Beyond this, I'd also like to mention that last month, we sold down a portion of our investment in MadHive for which we received approximately $26 million. These proceeds will also be used to fund the $325 million second ASR program as they've already been reflected on cash in hand. All of these efforts further highlight the strength of our balance sheet, which differentiates us in the current macroeconomic environment. As you're aware, we are very well positioned with no near-term bond maturities until March of 2026, and all of our debt is fixed rate with a very attractive 5.2% on a weighted average basis.

We ended the quarter with total debt of $3.1 billion and cash of $489 million. As a reminder, our only financial covenant is a 4.5x leverage cap that applies to our undrawn $1.5 billion revolver, which doesn't expire until August of 2024. Net leverage ended the quarter at 2.57x, slightly higher than where we left off at the end of the first quarter as a result of the initial $300 million ASR program we entered into on June 2.

Now let's take a look at the drivers of our second quarter financial performance. 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 operating results. You can find all of our reported data and prior period comparatives in our press release.

For the second quarter, total company revenue was down 7% year-over-year due almost exclusively to lower political revenue from the mid-term election cycle last year. When excluding political revenue, total revenue was down 1% compared to the second quarter of 2022. Our record second quarter subscription revenue, which increased 2% year-over-year, was driven by subscriber rate increases tied to contractual rate escalators, partially offset by mid-single-digit subscriber declines. As Dave mentioned earlier, growth in the first quarter lapped a favorable comparison against an interruption experienced with a distributor last year. As a result, this quarter's growth rate better reflects a normalized run rate. As we mentioned last quarter, we have an additional 30% of our traditional subscribers up for renewal by the end of this year.

On the reverse comp side of the equation, we look to renew our agreements with ABC and NBC, which collectively account for approximately 60% of our Big Four subscribers also until the end of this year. As a reminder, TEGNA's high-margin subscription and political revenues, which produce annuity-like EBITDA and free cash flow, comprise more than 50% of our total revenues on a 2-year basis.

Next, I'll unpack our AMS performance in the second quarter and the drivers behind our results. AMS revenue finished the quarter down 5% compared to the second quarter of last year. And underlying advertising trends were down low single digits when adjusting for the loss of a single Premion national account that we discussed on last quarter's earnings call. Despite macroeconomic challenges, advertising revenue trends in the second quarter showed significant improvement over the first.

Within AMS, we're excited to see automotive, our largest advertising category within AMS, generating continued strong year-over-year growth for the fourth consecutive quarter. We also continue to see year-over-year strength in home improvement services and travel and tourism. Categories facing headwinds in the current macroeconomic environment include media, telecom, restaurants, healthcare and retail.

Now turning to Premion. Premion continues its momentum in the fast-growing streaming TV advertising space with established, proven and unique sales channels focused on local. During the quarter, Premion delivered new advertiser innovations, including the introduction of sales conversion attribution providing insights into the efficacy of advertising spend as well as Premion IQ, a comprehensive customer reporting dashboard that integrates campaign delivery and outcome metrics for improved transparency.

That said, similar to last quarter, Premion was down in Q2 due to unfavorable year-over-year comparisons impacted by the loss of a single large national account. As we've mentioned, Premion's primary focus is on the growth in local OTT revenue where it is uniquely positioned to win. Premion local revenue finished strong, up double digits this quarter.

Now turning to expenses for the second quarter. For the quarter, GAAP operating expenses were $450 million, down 20% year-over-year, driven by the merger termination fee of $136 million from Standard General. The merger termination fee is reflected as contra expense, consistent with the way we've reflected merger-related professional fees in our previous reporting. We've adjusted out both the termination fee and merger-related professional fees in our non-GAAP results to best reflect recurring operational results, including expense.

Non-GAAP operating expenses were $565 million, up 1% compared to the second quarter last year, driven by higher programming fees. Excluding programming fees, non-GAAP operating expenses for the quarter were down 2% when compared to last year due to ongoing prudent expense management and operational efficiencies. Our second quarter adjusted EBITDA of $194 million was down 24% year-over-year, driven by the absence of high-margin political revenue and higher programming costs. We continue to generate strong free cash flow of $112 million during the quarter, driven primarily by our high-margin durable subscription revenues and thoughtful management of our balance sheet over time.

Now turning to our quarter-ahead and full year outlook. As you saw in today's release, we provided guidance on key financial metrics for the third quarter and remain on track to meet all of our key guidance metrics. As a reminder, 2023 net leverage will move up a bit to reflect the anticipated impact of the second ASR program we announced today. We expect to end the year just below 3x on leverage. To help model our near-term expectations, let's walk through a few third quarter financial guidance metrics.

As a reminder, we expect to be disproportionately impacted on a comparable basis in the third quarter by the absence of $93 million of high-margin political revenue from the mid-term election cycle last year. For the third quarter, we expect total company revenue to be down by low double digits year-over-year, primarily driven by the absence of political revenue. We expect operating expenses in the third quarter to increase in a low single-digit percent range compared to third quarter 2022, driven by the increased programming expenses associated with higher subscription revenue. When excluding programming costs, we project third quarter operating expenses to be down low single-digit percent year-over-year.

Now turning to our full year 2023 guidance elements. As a reminder, you can find our 2022 actuals for these metrics and comparisons in our investor presentation on our website. For the year, corporate expense is expected to be in the range of $40 million to $45 million. Depreciation is expected to be in the range of $60 million to $65 million. Amortization is projected to be in the range of $53 million to $54 million. Interest expense is expected to be in the range of $170 million to $175 million. We expect capital expenditures in the range of $55 million to $60 million. We forecast an effective tax rate in the range of 23.5% to 24.5%.

As we've mentioned, we are updating our net leverage guidance for the year to reflect the impact of the second $325 million planned ASR program, which will be launched later this year. As a result, we expect to end 2023 with net leverage just below 3x, as Dave mentioned, as a result of all of our capital allocation actions taken together this year. And with that, we'll now turn to Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from the line of Dan Kurnos of The Benchmark Company.

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

Just to level set on subscription. So Victoria, you kind of said that 2Q is sort of the clean quarter after there was some noise in Q1. And I just want to make sure we understand the puts and takes. There's no real benefit to renewal this year. Most of that comes up at the end of the year, the next 30% you talked about. And I think on the reverse side, you've got 1 at the end of September and then 1 technically at the end of the year. Is that the right way to think about the subscription piece?

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

Dan, it's Dave. That's exactly right. And in order of magnitude on the reverse comp side, the one at year-end is much larger than the one up earlier.

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

Right. And just in terms -- Dave, in terms of your sub expectations if you're hearing a little bit of noise in Q3 but it sounds like it's still expected to sort of fall in that mid-single-digit range. Is that a fair assessment?

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

Yes, it's actually been very stable in that -- in recent months in that mid-single-digits number. That's right.

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

Okay, perfect. And then I just want to go back to your prepared remarks, Dave, on just your ability to balance share repurchase and potentially look at accretive opportunities, because I -- obviously, the ASR was a very welcome surprise. I think it's certainly what investors were hoping for the incremental ASR.

And you guys have a super clean balance sheet. So I guess I'm just trying to understand order of magnitude, desire for diversification, like what's kind of your thought process on what's out there? How much you'd be willing to flex the balance sheet? Or how much does it really matter that whatever you do, you still leave a lot of dry powder on the table to continue buying back stock at what you perceive is very undervalued level?

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

I appreciate the question, Dan. So I definitely don't want to be signaling that we're talking about taking some big swing. We very much, in this market, especially like having a conservative balance sheet and our leverage position. What I'm really trying to say is that we've proven before our ability to do some things that are frankly pretty low on capital to have a great return. Premion is a great example. Frankly, we didn't spend -- and was organically built from the ground up, right. So we've made the money as we grew.

So all I'm saying is we may -- there may be some small bolt-on M&A acquisitions that make a tremendous amount of sense. But I'm definitely not trying to signal at all about major swings in M&A anytime soon. And we will -- but we have -- when I talk about the flexibility, we do have the flexibility to do things organically and as well as if it makes sense, some small bolt-ons that will not impact our larger financial picture.

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

And Dan, just as a reminder, even in the past when we have done larger M&A, we've always done accretive EPS and free cash flow in a very quick fashion. So we have the ability to flex up with the balance sheet we have and get right back to our current levels very quickly. And I think that historically has been our investment mode.

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

Yes, I remember those days well, Victoria. So...

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

I guess to add on, Dan, like I said in the comments, we'll have -- obviously, prior to the acquisition process, we had a -- I think we're very proud of a very disciplined strategic machine as a company in terms of how to best use our capital and give the best returns to shareholders. Broadcast M&A is off the table for the time being as we've talked about from the regulatory standpoint.

So the ASR is not signaling that's the end of returning capital to shareholders. I think like I said at the year-end, we're going through the strategic process now. In fact, all the engines have been turned back on, if you will, but return of capital to shareholders is a key part of our future.

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

And as Dave said in his remarks, I mean, both the ASR programs are really just an acknowledgment of accumulated cash that we did not deploy for shareholder value creation during the pendency of the merger. So that is not replacing, or instead of, an ongoing capital allocation strategy.

Operator

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

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

Dave, I guess on the outlook here for the second quarter for revenue down low single -- sorry, low double digits. Seems like that sort of infers that ad revenue down about 6% to 7%. Do I have that right? Maybe you could just comment a little bit further...

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

Sorry, did you say second -- I'm sorry, did you say second quarter or third quarter?

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

Third quarter. Sorry, third quarter. Third quarter seems like -- your outlook seems to infer down 6%, 7% for the third quarter ad trends. So I have that right, maybe just chat about what you're seeing in the current quarter.

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

No, we haven't given a guide on AMS per se in the quarter. But no, I don't think that we would agree with that.

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

You're inferring better than that than you're suggesting?

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

Yes.

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

Yes.

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

Okay, good. And then just to further clarify here. You're saying your retrans revenue in the first quarter was abnormally high. People should use the second quarter number as more of a true underlying number. What's going on right now?

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

Yes, that's correct.

Operator

Our next question comes from the line of James Goss of Barrington Research.

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

A little bit more on retrans in a broader sense. I know you have some renewals coming up. But are you -- do you sense you're hitting any sort of a wall in terms of retrans, net of programming fees? Or are you getting some relief on the programming side from the streamers who might be spending less on new programming and maybe that gives you a better argument? And maybe you could tie in the comments you made about these station streaming apps and the economic value you might be creating there by getting some of the local station access back in terms of sort of a contributing factor to arguing toward retrans fees.

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

Well, first of all, Jim. Let me take the second question first, and I'm going to ask you to restate the first question. I didn't quite follow that completely relative to streamers on the first question on retrans. But as it relates to our own apps, it's additive, right? So we're -- these are really focused on the cord-never homes, right? So we're really -- it gives us access to our product and ad dollars in homes that don't even -- don't have any kind of service. So that's the value of that.

The money is small today but the audience growth is very fast. And so we're pretty bullish on what that might look long term. And we'll continue to, I think, look at strategic options on how we might accelerate that through distribution agreements and the like.

Now Jim, on your first question on retrans, you asked me -- I followed you until you talked about the streamers. Could you restate that for me again?

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

Okay. On the streamer side, I'm wondering, most of the networks are owned by companies that have streaming services. There's a big focus on profitability that wasn't there to the same extent a couple of years ago when the services were launched. And it seems like there could be some, maybe a reduction in allocation of spending toward new programming. And I wondered if it might provide any better argument for you to justify not paying huge increases in programming fees.

But in the meantime, you do -- as time goes on, this is the retrans, obviously, is a huge base of revenues, as you say, more than half of your total, that doesn't go away but to the extent that it grows the way it has been, it seems like it might be a tougher thought.

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

Well, I'll take the last part of that first. I think that we're continuing to see the kind of rate increases we expect and deserve on the deals we do. Obviously, those rate increases are somewhat offset on the traditional side by cord-cutting, but we are getting just under a 50% replacement of every traditional we lose, we gain a virtual. And while we talked about the different economics of that in the past, there's still very -- they're additive to our bottom line in a very, very good way.

I think your point is a good one relative to the network streaming services. And I think they've found themselves in a difficult situation in that they all were sort of in a race with Netflix and have turned out -- that's not turned out to be a very profitable business for anybody. And some of the networks more than others have really, because they just don't have the kind of programming to compete with Netflix, have taken programs off the mother ship networks or double-running them, which does make their program less valuable to us and does change the nature of a negotiation with the network about what we should pay, which I think is -- was key to your point in your question.

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

Exactly. So it can at least be somewhat of a mitigating factor to...

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

It will be and upcoming negotiations.

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

One last thing. You have a number of new initiatives here and there, VERIFY, Locked On. I'm wondering, DBL in the past and some other sort of things, I'm wondering as you try to look at new growth options for the whole enterprise beyond broadcasting, what ones do you think are significant in terms of potential monetization?

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

I think for competitive reasons, I don't really want to get into that. And obviously right now, as we -- as I mentioned earlier to the previous question, we've turned back on all the strategy machine engines, if you will. And we're also in the process of assessing that because it's interesting in just the basically, the negotiating of and the pendency of the merger agreement that was terminated was really 2 years of us on ice from a strategy standpoint.

But it's been fascinating to see how much has changed. We were, right before we sort of turned off that engine, we were looking at a lot of initiatives and our premises behind a lot of those turned out to be true. But other opportunities have developed just in the last 2 years, AI being the most obvious and most broadly abused is a word probably, but there's a lot out there relative to AI, both in terms of operating the business from an expense standpoint as well as both threats and opportunities.

So -- but I wouldn't focus on 1 particular sector other than to simply say, when you look at our assets and capabilities, we have very strong brands in a lot of markets across this country. And there's a lot less local competition in the brand world than there is on the national side. And that remains a very big asset for us and partners and given our scale and size, any kind of creative conversation out there where there might be value creation, let's just say, with digital companies and a broadcaster will be in those conversations, given both the quality of our stations and the size.

And to the earlier conversation, that doesn't mean we've got to do any kind of M&A or capital outlay. Our capital there are the assets that we leverage, right? So much like we did with Premion. So it's a long-winded answer, but I'll just simply say there's a lot for us to consider and look at, but all again, through a very disciplined financial lens and we're not certainly not in the near term looking at any massively big financial swings at all.

Operator

(Operator Instructions)

Our next question comes from the line of Steven Cahall of Wells Fargo.

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

So maybe just to continue with some of the discussions on net retrans. Dave, I think you're in the midst of your biggest affiliation renewal. And a lot of what your peers have said is that they're seeing improving trends in reverse comp. I think that's something you've talked about relatively recently as well. What we kind of worry about on that is it's an improvement in the cost escalator.

But as we're seeing more and more vMVPDs and we're seeing more programming fees be fixed rather than based on subs, it just seems like it's going to be really hard to grow net retrans in the medium term. So I was wondering if you could give, without giving guidance, kind of more of an outlook to the overall net retrans picture because we're a little worried about where it's headed for the industry over the next few years.

And then maybe just on advertising. Victoria, you talked about seeing some improvement over the first quarter and the second quarter. I think we heard last night that maybe national is looking a little better, so I was wondering if you could talk about that. And is it right that even excluding political displacement in the back half of the year, that we should expect some sequentially improving ad trends?

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

Thanks, Steven. I'll take the net retrans and I'll let Julie take the advertising question. So yes, obviously, net retrans growth has slowed from where it once was. But in our situation, given the number of pieces we have up for negotiation in over -- in less than the next 6 months, we have a lot of opportunities to reset that. So there's a lot of repricing on both the top line and even more on the bottom line. And so I'm not going to -- I don't want to pre-negotiate with our network partners on these calls because they do listen in, and I listen into theirs.

So -- but I think just as I signaled on the last call, Steven, and to Jim's previous question, the equation has changed as they've had to make some -- or have made some decisions about making some key program that we pay for nonexclusive. So that changes the dynamic on the negotiation.

And yet as you're seeing broadcasting remains core, you're following the Pac-12 negotiation right now with its own universities, and they're trying to do an exclusive deal with Apple and the universities are balking about not being on broadcast.

So I think that our value in the ecosystem remains -- going to remain very, very high. And how it plays out over time remains to be seen. But I think 1 thing for us because we do not have many MyNet's or CWs or any extraneous cable channels, we do not have to compromise at all on the rate we get for our Big Four subscribers. And I don't think that's probably true for most everybody else, depending on what their portfolio is. So that's a consideration and understanding our success on the top line negotiations.

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

Yes. And then on the core advertising side?

Julie Heskett - *TEGNA Inc. - SVP of Financial Planning & Analysis*

Yes. Advertising and Marketing Services is continuing to improve sequentially. So we signaled that with Q2 numbers, which you can compare to Q1, and I would say the same in Q3. Some of that does have to do with political displacement. So we should see the back half continuing to have sequential improvement.

And to your local and national question, yes, we, too, are seeing improvement in national. National is still weaker than local. Local continues to hold in there and is doing good. But national is improving sequentially quarter-over-quarter, and I would expect that to continue into Q3 as well. Q4, it's really far out so not as much color on Q4 at this time, but you would expect similar trends.

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

Yes. And Steven, just to add color to what Julie said, just a lot of our local advertisers, given the size of our markets, are really large agencies that we call on locally, but they behave and act just like national agencies because, in fact, they are. So -- but our -- to Julie's point, put more color on it, the local direct business, right, just Main Street businesses, the local car dealer, it's sales and advertising dollars out, that business is very good.

So our local has actually even pulled down a little bit by -- even though it's very solid by these larger agency businesses. And those larger agency businesses will call them national. But they hold on to their dollars to the last minute, right? So we just -- we got less visibility than ever because they're able to place us on very short order. So we're seeing improvement throughout the quarter, for instance, in our pace. And yet our biggest month from an inventory standpoint as we have all the NFL and college football inventory beginning in September.

So we're going to -- we're continuing to see pace improve throughout the quarter. And we won't have a lot of political displacement, I don't think, Julie, right, in September as the big piece is the fourth quarter from a displacement standpoint. We'll have some in September but not a lot.

Julie Heskett - *TEGNA Inc. - SVP of Financial Planning & Analysis*

That's exactly right. And I would also just highlight what you heard Dave say in his remarks and Victoria as well. Automotive continues to be strong not just 4 consecutive quarters, which was through second quarter. Third quarter is also positive. So that's 5 consecutive quarters and it is strong.

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

And I would also add color on that. Automotive is strong across the board, all 3 tiers. Tier 1, 2 and 3 are all seeing growth. And we don't often see them often behave in unison, and that's frankly a really, really good sign.

Operator

Our next question comes from the line of Aaron Watts of Deutsche Bank.

Aaron Lee Watts - *Deutsche Bank AG, Research Division - Research Analyst*

You covered a lot of ground. I just had 1 last question around the leverage. With the recent share announced -- repurchase announcement, you took your leverage for year-end up a little bit. And I was just curious, as you think forward, what's your maximum tolerance for leverage or where would you like to see that live? Will it continue to be around that 3x? Or could it go a little higher with other capital allocation actions that you're considering?

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

Sure, I'll take that. And we've talked about this in the past as well. 3x is a comfortable target for us. It's not a financial policy. We, in the past, as I've mentioned, when we've done really M&A of any size, we've done very highly accretive and very quickly accretive, both EPS and cash. So we've flexed up above 3x and then came right back down again from a leverage perspective.

As Dave mentioned also, we're not looking at anything in terms of big swings right now so it would not be materially moving the number. But again, it's a target where we're comfortable, particularly in this macroeconomic environment. So I would consider it a target but not a financial policy.

Aaron Lee Watts - *Deutsche Bank AG, Research Division - Research Analyst*

Okay, that's helpful.

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

All right. Thank you. I think that will conclude the Q&A portion. But before we conclude the call, I want to share a brief update that Victoria will be retiring as TEGNA's Chief Financial Officer. She plans to step down from the role at year-end but will continue to assist us with the transition through March of next year.

As you know, from navigating the complexities of spinning off Gannett to successfully steering us through numerous strategic acquisitions and a lot, lot more things, Victoria has been a key leader of the company these past 12 years. She is one of the main reasons we've evolved to the position of size and strength we enjoy today, and we -- she's going to be with us for a while but we thank her for everything she's done.

I'm also very happy to share that Julie Heskett, whom we've all gotten to know, will succeed Victoria as CFO at the end of this year. Julie's been with the company for 20-plus years in numerous roles, knows the business inside out and most recently has been a key strategic player as Senior Vice President of Financial Planning as well as Investor Relations. Now I'll turn it over to Victoria for a few words.

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

Thanks for those kind words, Dave. With 17 years and 68 earnings calls now under my belt, I decided to step down as CFO at year-end, as Dave mentioned, with plans to continue serving companies and nonprofits in a variety of ways into the future. Over my career as a CFO, I've had the unique opportunity to support several large complex organizations in 4 different sectors through their own strategic transformations, and I'm very proud of all the work we've done here over the past 12 years, first as Gannett and then here at TEGNA.

As a result, I have every confidence in the company's bright future and its talented and resilient leadership team. I'm also equally and personally very proud of the 8 public company CFOs I've helped launch along the way and equally confident in Julie's financial leadership and business acumen. As you already know, Julie has worked with me side-by-side for the past years, demonstrating both skill and care with both internal and external constituencies.

As Dave mentioned, I'll be working with Julie and the TEGNA finance team through the end of March to ensure a smooth transition and a clean year-end. I very much appreciate all the investor community support over the past years and know you will afford Julie the same as she picks up the baton at year-end. Thanks very much.

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

Remember, Victoria, there's at least 1 more earnings call. Well, thank you, Victoria, and thank you in a large way. Obviously, we'll have more time to thank Victoria in the months ahead, but also congratulations to Julie. And we're going to have, obviously, a very seamless transition with a succession plan that you would expect from our company.

So thank you for everyone for your time today. If you have any questions, you can call Investor Relations at 703-873-6747 or you can e-mail them at investorrelations@tegna.com. Thank you, everyone.

Operator

Thank you. Ladies and gentlemen, this does conclude today's conference. Thank you all for participating, and have a great day.
