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PRESENTATION

Operator

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

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

Thank you, and good morning, and welcome to our second quarter 2021 earnings call and webcast. Today, our President and CEO, Dave Lougee; and our CFO, Victoria Harker, will review the 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 yet seen a copy of the release, it's available at tegna.com.

Before we get started, I'd like to remind you that this conference call and webcast include forward-looking statements, and our actual results may differ.

Factors that may cause them to differ are outlined in our SEC filings. This presentation also includes certain non-GAAP financial measures. We have provided reconciliations of those measures to the most directly comparable GAAP measure in the press release.

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

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

Thank you, Doug, and good morning, everyone. TEGNA's second quarter was another record, reflecting execution of our long-term strategy, relentless focus on operational performance and expense management and an improvement in underlying economic trends since the height of the pandemic. We achieved a number of second quarter records: total revenue; subscription revenue; advertising and marketing services revenue; net income; and adjusted EBITDA.

Looking forward, we see continued growth across the key drivers of our business, which is reflected in our positive outlook for the third quarter and full year, which now includes an even stronger free cash flow guide. To provide an overview of some of our key second quarter results, total company revenues were up 27% year-over-year, yet another quarter of record revenue, supported by continued strong subscription revenue and growth in AMS revenue.

To provide some further color, subscription revenue grew 16% year-over-year in the second quarter, the same growth rate we saw in the first quarter of 2021. And when compared to the second quarter of 2019, subscription revenues were 59% higher. Our predictable subscription revenue streams continue to be a key driver of our underlying growth and durability of our business model through 2 key factors: one, improving underlying subscriber trends.

Our year-over-year subscriber trends continued to strengthen in the quarter, now more than a full percentage point better than 5 months earlier; and two, strong step-ups in retransmission rates. Last year, we repriced approximately 35% of our subscribers, and we'll reprice an additional 30% toward the end of this year. Combined, these factors support our full year guidance for subscription revenue to be up mid- to high teens percent for the year and for net subscription profits to grow in the mid- to high 20s percent.

Another key driver of our performance this quarter was strong advertising and marketing services revenue. AMS revenue continues to accelerate and was up 49% over last year for the second quarter and continues to accelerate. On a 2-year basis, advertising revenue was basically flat, down less than 1% on a pro forma basis compared to the second quarter of 2019, a result of the magnitude of the rebound in the ad market since the height of the impact of COVID and strong performance by our sales and marketing teams.

Victoria will cover advertising categories in more detail in a few minutes, but I did want to highlight if you exclude automotive advertising, which, as you all know, is challenged temporarily due to supply chain issues, our AMS revenue would have been up in the mid-single digits over 2019 on a pro forma basis.

And based on the continued acceleration we're seeing today, we expect for the third quarter to show further significant improvement even when excluding for the positive impact of the Olympics.

Turning now to Premion, our first-to-market and industry-leading OTT advertising platform, which had a record quarter for a nonpolitical year. Premion continues to execute on its strategy and affirm TEGNA'S distinct advantage in selling OTT advertising services across our footprint and beyond.

Combined with Gray Television and Premion Direct Sales Force coverage, our local salesforce now extends to almost 75% of households across the U.S., broadening our reach beyond TV and accessing new markets. In June, Premion announced an expanded partnership with [IHS Markit and] (added by company after the call) Polk Automotive Solutions to leverage market-leading insights to bolster audience targeting and sales lift measurements to deliver an end-to-end OTT ad solution for automotive advertisers.

This is a great example of Premion's role in supporting the growing and evolving needs of local and regional advertisers by driving measurable business outcomes, another key component of TEGNA's strong underlying AMS growth.

We continue to see and expect robust growth at Premion with revenues on track to finish the year 45% to 50% higher than last year. Now turning to capital allocation and expense management.

During the second quarter, we paid our first elevated dividend since the 36% annual increase we announced early this year, shortly following our 3-year $300 million share repurchase announcement. These actions reflect our board's and management's confidence in TEGNA's performance and long-term growth, which are supported by our significant free cash flows.

Our Board is actively evaluating all additional capital allocation options in anticipation of reaching our net leverage target of low 3s by the end of the year with a goal of staying below 4x net leverage.

The continued strength of our business also gives us greater confidence in our future free cash flows. This is reflected in our new 2020-2021 free cash flow as a percentage of revenue guide of 21.5% to 22.0%, which we expect to achieve the high end of.

We continue to have clear visibility into the durable subscription and political revenues that drive these cash flows and create value for our business. And as always, we remain diligent in our expense management efforts, staying focused on generating incremental savings through our continued disciplined cost management and efficiency initiatives.

Now to update you on several strategic initiatives underway at TEGNA. This spring, based on the growth and success of VERIFY content across our stations, we launched VERIFY as a national stand-alone brand to combat the sea of misinformation and disinformation audiences are bombarded with on a daily basis, especially on social media.

VERIFY helps consumers by identifying which stories or claims are true and which ones are false and provides trustworthy, transparent fact gathering, always showing sources upfront.

VERIFY now has a dedicated presence across all major social media channels, including Snapchat, Facebook and TikTok, making it even easier for consumers to verify the news and information they are consuming or sharing and for us to be able to reach all generations of viewers and consumers.

Year-to-date, VERIFY content on our local station sites and our VerifyThis.com website delivered approximately 30 million total visitors and 7 million total video plays, and we're just getting started.

Locked On, the leading sports podcast network we acquired earlier this year also continues to innovate, now expanding into video. Locked On is now distributed on YouTube and across our station's OTT apps. 20 Locked On shows are now available on YouTube, including Locked On NFL, Locked On NBA, Locked On Big Ten and Locked On Fantasy basketball as well as podcasts for the major NFL and NBA franchises.

Since inception of the network's first YouTube channel earlier this year, Locked On has generated more than 160,000 total hours of watching time and more than 1 million video views, which averaged more than 10 minutes per play each in June, which is a long time in the digital world.

For the NBA draft, Locked On partnered with our Dallas station, WFAA, to co-produce a draft special featuring more than 30 local analysts with in-depth experience, a true differentiator for our company. We're also very proud to launch the first ever daily sports podcast dedicated to historically black colleges and universities.

We remain committed as a company to making progress on diversity, equity and inclusion and further embedding these principles in our culture. At the beginning of this year, we set quantifiable 5-year goals to increase black, indigenous and people of color representation across our content teams, news leadership and management positions.

Since then, through intentional actions, we are progressing at or above the rate of change required to achieve these goals. This includes improvements in a number of diverse department head positions that are key to hiring and decision-making. Our inclusive journalism program, which we developed last year with the Poynter Institute, aims to tackle unconscious bias in news reporting and content development across all our platforms.

All stations' news, digital and marketing personnel have begun taking part in the program with 54 stations completing the first phases of the program that includes unconscious bias and inclusive reporting training, leadership specific training and content audits to ensure we're making progress and hold ourselves accountable.

Finally, we're proud to share that TEGNA recently received 2 honors that reflect our long-standing commitment to our employees and communities. Last week, we were recognized as one of Achievers' 50 Most Engaged Workplaces in the United States. This achievement reflects our culture of employee engagement across the company.

Our people are at the heart of everything we do and our deliberate approach to understanding our colleague's perspectives and acting on what we've heard are key to our innovative and purpose-driven culture.

TEGNA was also an honoree of the Civic 50 for the second consecutive year in recognition of our role as a community-minded socially responsible company that drives social impact. We are very proud of the determination and resilience of our very 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, and thanks for joining us. As Dave already discussed, our second quarter financial results reflect historic high watermarks for many of our important drivers, including total revenue, subscription revenue, AMS revenue, net income and adjusted EBITDA. This performance not only reflects the strength and resilience of TEGNA's business model, but our continued execution on all 5 pillars of our strategic plan.

Our disciplined M&A strategy and operational excellence is reflected in the strong financial performance of our portfolio of stations, each performing extremely well. This not only positions us to capitalize on demand trends, but fuels our ongoing growth. We've applied the same disciplined, thoughtful approach to other aspects of our capital allocation as well, ranging from our recent dividend increase to our ongoing and organic investments in both traditional broadcast as well as OTT, all while reducing leverage and increasing our free cash flow guidance.

I'll touch on more of our future plans in just a few minutes. But first, let's take a look at the drivers of our second quarter financial performance.

Turning to the second quarter consolidated financial results. As a reminder, my comments today are primarily focused on TEGNA's performance on a consolidated non-GAAP basis to provide you with visibility into the financial drivers of our business trends as well as our operational results.

You can find all of our reported data and prior period comparatives in our press release. For the second quarter, total company revenue was up 27% year-over-year, well in line with our previously announced guidance range, driven by record second quarter subscription and AMS revenue. Total revenues were up 37% compared to the second quarter of 2019, driven by the contributions of our newly acquired stations as well as ongoing subscription revenue growth. To provide you with additional color on our strong revenue performance during the quarter, here are detailed by categories.

Second quarter subscription revenue increased 16% year-over-year. As Dave referenced in his remarks, this growth was in part fueled by improving subscriber trends, now more than a full percentage point better than 5 months ago. As a reminder, our multiyear network affiliation agreements, which encompass approximately 94% of our Big Four subscribers have renewals that occur at the end of 2022, providing a clear line of sight into the financial trajectory of these revenue streams.

As a result, TEGNA's high-margin subscription revenues coupled with our political revenues, produce annuity-like EBITDA and free cash flows and continue to comprise more than 50% of our total revenues on a 2-year basis.

Record AMS revenue finished the quarter up 49% compared to second quarter of last year and was just slightly below 2019, about less than 1% on a pro forma basis, despite the challenges in the auto industry that it continues to face with semiconductor supply chain issues.

When excluding these auto ad impacts, AMS revenue would have been up mid-single digits year-over-year. To provide you with some additional color on how the key advertising categories performed this quarter. AMS continues to show improvement across many categories, supported by strong audience metrics on both traditional television and digital platforms.

Not surprisingly, all categories were up over last year, including auto, services, retail, health care, home improvement, entertainment and gambling, insurance, banking and finance, packaged goods and education. Even categories that continue to face some pressure this quarter, including entertainment, travel and tourism were up substantially compared to the second quarter last year, as you'd expect, given the emergence from pandemic lockdowns this year.

The underlying advertising industry continues to rebound with AMS third quarter also pacing significantly [positive] (added by company after the call) over last year, and all categories, again, up year-over-year. When compared to the third quarter of 2019, AMS is up on a pro forma basis as well, even before the positive impact of the Olympics in July and August.

As you heard in Dave's remarks, we expect these positive trends to continue, supporting strong and accelerating AMS revenue into the third quarter. Turning now to expenses for the second quarter. As a reminder, our year-over-year expense comparisons are less favorable this quarter given the significant impact of our expense reduction efforts put in place in the height of locked down last year in the second quarter.

Our non-GAAP operating expenses were $537 million, up 10% compared to the second quarter last year, driven by higher programming fees and Premion growth-related expenses. Excluding programming costs and Premion, non-GAAP operating expenses for the quarter were up 5%, as you'd expect, when compared to last year, given COVID-related expense rate reductions last year.

On a pro forma basis, operating expenses without the impact of programming and Premion expenses were down 3% below 2019 levels, reflecting the ongoing impact of our expense reduction efforts. As a reminder, during the second quarter last year, we immediately reduced all nonessential spending and discretionary capital expenditures to preserve the long-term health of our business during the height of the pandemic.

Beyond this, the ongoing cost savings initiatives that we had previously implemented continued to create efficiencies. As we shared with you previously, we already have realized $50 million of our targeted annualized cost takeouts in both 2020 and 2021 a year ahead of schedule.

Through our streamlining and cost reduction efforts, we achieved record adjusted EBITDA in full year 2020 and in the first and second quarters of 2021. Our second quarter adjusted EBITDA of $228 million was up 83% year-over-year and [up] (added by company after the call) 35% compared to second quarter of 2019. This growth was driven by the recovery in AMS revenues and growth in net subscription profits.

Adjusted EBITDA margin was 31% this quarter, fully 32% when excluding the impact of Premion. As you heard in Dave's remarks, we are continuing to invest in Premion's market share growth including recent partnerships given the strong revenue trajectory there. And not managing it to maximize EBITDA at this time.

Now let's turn to our balance sheet and liquidity, both of which continue to benefit from our disciplined management and proactive capital allocation. As you know, TEGNA leverages a number of tools to create value for our shareholders and has a track record of execution.

Through organic and inorganic investments, dividends and share repurchases, all while reducing debt.

We're on target to meet our leverage guidance of low 3x by the end of the year. As a result, we now have only $137 million of our long-term notes due during the next 5 years. These are the stub of our 2024 bonds callable at par in 2022 with an early redemption date this fall. As you know, we also have capacity under our revolving credit facility, which provides us with additional flexibility. As of June 30, there was $1.2 billion of unused borrowing capacity under our revolver.

We ended the quarter with total debt of $3.48 billion, producing net leverage of 3.64x, more than a full turn below our net leverage this time last year. As a reminder, our only financial covenant relates to our $1.5 billion revolver. And we obviously have plenty of headroom under its 5.5x leverage cap.

As a result of our strong financial results, including reduced leverage, S&P raised our BB- credit rating in June to BB, revising their outlook to stable. Throughout the year and the quarter, we have continued to generate strong free cash flow, driven primarily by our high-margin durable subscription and political revenues and the thoughtful management of our balance sheet.

As we previewed for you last quarter, higher-than-usual tax payments came due this quarter, driven by strong fourth quarter 2020 results, particularly record political advertising. As a reminder, when comparing cash flow generation between the second quarter of 2021 and 2020, last year benefited significantly by the IRS pandemic-related deferral of all federal income tax payments until July of 2020 (corrected by company after the call).

As a result of both of these factors, income tax payments in the second quarter were $118 million higher year-over-year. Despite this, we generated free cash flow of $92 million in the second quarter and have increased our forecasted free cash flow as a percentage of revenue outlook by raising the low end of the 2020 to 2021 guidance range from 21% to 21.5% to a new range of 21.5% to 22%.

As Dave mentioned, we expect to close the year at the high end of this range. Notably, this is the second time we've increased this 2-year free cash flow guide this year, driven by our strong results.

During the most recent period of uncertainty and macroeconomic recovery, TEGNA remains focused on critical platform investments, debt reduction and expense management. As our leverage has improved and visibility into the normalized post-pandemic environment builds, we increased our capital return to shareholders with a 36% annualized increase to our dividend.

This increased payout is a strong reflection of our confidence in the business, manifested in sustained and significant free cash flow generation. Beyond this, we recently reinstated our 3-year $300 million share repurchase program, which we continue to balance with organic investments and opportunistic M&A.

All options that we are actively reviewing in anticipation of achieving our net leverage guidance of low 3x by the end of this year and with the ongoing goal of keeping our net leverage below 4x in the normal course of business. Before I turn to our outlook for the third quarter and full year, I want to remind you of the lens through which we evaluate M&A as part of our broader capital allocation framework.

As discussed in the past, we're always actively reviewing opportunities, which complement our portfolio, enhance our financial trajectory and strategic vision for the business. Importantly, we also have a strong track record of executing on transactions after they close. This can be seen in the strongly performing stations that we most recently acquired in 2019 and the synergies we realized on or even ahead of schedule, producing nearly immediate free cash flow accretion followed by EPS accretion in approximately 9 months.

We are also looking at innovative ways to build on our acquired assets to further our audience reach and expand services for our customers across OTT platforms. We'll continue to assess opportunities to grow through both organic and inorganic investments and to enhance acquisitions through innovation and strong execution as we've always done. As you saw in our second quarter release, we provided guidance on key financial metrics for the third quarter of 2021 and are strengthening our free cash flow guidance and reaffirming all other key financial metrics we previously provided. We also reaffirmed our expectation for full year Premion revenues to be up between 45% and 50% above 2020.

To help model other near-term expectations, let's walk through a few third quarter financial guidance metrics. For the third quarter, we expect total company revenue to be up low single digits, driven by growth in both AMS and subscription revenues, offset by significant political revenue in the third quarter of last year.

Excluding political revenue, we expect total company revenue to be up high teens [percent] (added by company after the call) for the third quarter. We forecast operating expense in the third quarter to increase in the mid- to high single digits [percent] (added by company after the call) compared to third quarter 2020, driven by increased programming expenses associated with higher subscription revenue. Excluding programming costs, we project third quarter operating expenses to be up in the mid-single digits [percent] (added by company after the call), the majority of which is driven by Premion.

For full year 2021, we expect subscription revenue to be up mid- to high teens [percent] (added by company after the call) based on MVPD renewals completed at the end of 2020 as well as strong subscriber trends. As a reminder, we repriced approximately 35% of subscribers in the fourth quarter of 2020, and we'll also be renewing approximately 30% of subscribers by year-end.

For full year 2021, EBITDA and free cash flow, we will also continue to benefit from significant cost reduction initiatives that have been underway for the past 24 months with more to come in the quarters ahead as we continue to expand on our efficiencies.

Turning now to our key full year 2021 guidance elements. Corporate expense is expected to be in the range of $44 million to $48 million. Depreciation is projected to be in the range of $62 million to $66 million. Amortization is projected to be in the range of $60 million to $65 million. Interest expense reduced due to the benefit of our debt reduction is now expected to be in the range of $187 million to $192 million. We expect capital expenditures to be in the range of $64 million to $69 million, which includes nonrecurring capital expenditures of approximately $20 million to $22 million comprised mostly of UHF, VHF transitions as well as the continuation of our centralized streaming facility.

We continue to forecast an effective tax rate in the range of 24% to 25%. We expect to end 2021 with net leverage in the low 3x absent any uses of capital with greater financial return than deleveraging.

Finally, as I mentioned previously, we raised the low end of our guidance range for 2020 to 2021 free cash flow as a percentage of revenue, now expecting to achieve the high end of our new range of 21.5% to 22%.

And with that, we'll now turn to Q&A to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

We will now take our first question from Dan Kurnos of Benchmark Company.

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

Guys you hear me?

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

Yes. Dan, we can.

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

Sorry, I was on mute there for a second. Good report. Dave, obviously, positive traction in core with the tailwinds from the Olympics. Obviously, there've been a lot of headlines around that. Maybe you can just size up how you're thinking about kind of the balance between linear and your renegotiations with Peacock around streaming if there was any tailwinds from that. And then you did mention also that sub count was a little bit better in the quarter. Just maybe some updated thoughts on how you expect that to trend over the balance of the year.

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

Sure, Dan. I'm going to make sure -- I'm not sure I totally understood your question on linear and Peacock. Could you rephrase that for me?

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

Yes. So if we just think about linear ratings were down, but we also had some increased streaming. It was pretty noticeable with Roku. You obviously, just redid your deal with NBC to include the fact that they were going to do a lot of stuff on smooth some stuff to streaming.

So just how we think about if there was any flow-through benefit from the streaming side of the Olympics and to size up that whole opportunity and how we're thinking about going into a winter next year.

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

Yes. Well, let me -- so let me start with core advertising overall. And if you're actually ask about core trends, they are very positive. They're very -- as I mentioned in the -- in my comments, there's -- we've had, frankly during the last 4 weeks we have written more money on the books than we have in a few years. That's how strong things are right now. So as I indicating the strength in the second quarter was good.

It was really healthy, but third quarter is showing a very strong economy and a very strong performance for our company. Again, I'm not totally -- entirely sure I understand your question on Peacock, Dan, relative to the Olympics. But -- in the impact of streaming, but it's -- if only -- let you give me one more try at that, but I'll -- you asked me about sub-trends. So let me do that first while you think about framing that question on Peacock.

So sub trends, we're very pleased with. As we indicated, I think last time we talked to you, we were in the low 5s relative to year-over-year trends. We are now in the very low 4s and that's through April. And frankly, we've got remittances on May that we haven't released that number yet, but it would indicate that we might be below 4 even in May.

So we're seeing really quite dramatically, we call it improvements in year-over-year trends in our subs. And again, that 5-month point, we made that demarcation intentionally because we're -- we are more than a point better than we were just 5 months early and give me one more try and that Peacock question, Olympic question, Dan. It was a little trouble understanding your mic, too.

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

All right. I'll take one last shot at it, Dave. Otherwise, we'll take it off-line. Maybe if you can just tell us how you're thinking about the impact of the Olympics on Q3. Let's just start with that. And then given that there were linear challenges, but some streaming uplift if that was contemplated in your last deal.

So just how we think about kind of the balance between those 2, if it really matters where the viewing is happening? How about that?

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

Yes. Yes. No, I completely understand that question. Look, so for this Olympics, streaming Peacock was de minimis as in terms of how much of the Olympics were carried on streaming, right. And the events, it didn't look -- really the distribution of programming between broadcast and cable was pretty much similar as previous Olympics.

But Peacock, I would say, was de minimis what that looks like next February, 2 years, 4 years, will be an ongoing conversation. Yes, it was considered relative to our affiliation agreement when we did that at the end of last year. The Olympics themselves, so the thing about our third quarter is the Olympics are not a great performer as they're not for everybody, including, I think, the network because for the obvious reason. Tokyo was a big question about whether was even going to be -- whether it's going to happen. There were political controversies around it, and there was going to be no fans.

So advertisers I think pretty much rightly figured out that there would be a lot less interest in the Olympics than normal, and that was true. So our Olympic revenue is down from '16. But the thing I'd say is that's not a big event for us. As I've said in previous calls, if you go back to the old Gannett days prior to us buying below and more than 60% of our households were all NBC and frankly, was a bigger event for national advertisers, a much bigger percentage of our revenue.

But now that we're 40% or less NBC homes that it's just a much smaller piece of our total pie. Our incremental Olympic dollars is probably a little more than 30% of our total billing dollars. And so for -- but for the company understand, while it's positive for NBC stations, it's negative during those same time periods for ABC, CBS and Fox stations. So it's just not that big a deal for us.

We love having it from a programming and promotion standpoint. But on an annualized basis, the Olympics will be well less than -- the incremental value of the Olympics will be way -- well less than a total percentage of our total revenue -- a full percentage point -- under a full percentage point of our total revenue.

Operator

We'll Take our next question from Craig Huber of Huber Research Partners.

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

Dave, given all the markets you guys are in with your TV stations and your more of a national play with Premion, curious to hear your thoughts, just big picture here for a second on the economy in the U.S., have you seen any major changes there for the worst in particular, curious your thoughts there or any regional changes for this Delta variant that's impacting your advertising? So that's my First question.

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

No. Yes, first question, no, not at all. It's a booming advertising economy for TEGNA right now. And across the REIT an across -- even in the parts of the country that might have more lockdown kind of quality stores, like tighter policies, like the northwest part of the country and stuff, it's not. But the irony is where the variant is having -- there's the most hospitalizations are the same places that the local governments have kept things the most open to like, let's pick a state, Texas, Florida, Georgia. So where we have big presences.

So those states -- those economies are doing very well despite the trends of the variant in those states.

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

Then on Premion, is it fair to say you guys are up about 50% of revenues there in the second quarter year-over-year, given your guidance for the year is still 45% to 50%. And maybe just update us.

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

No I didn't. Yes. No, It's not fair to say. I'm sorry, Craig. It's not fair to say that. Obviously, second quarter last year was a very low comp, right. So I'm not -- we're not giving a number on the second quarter, but it's not -- you wouldn't assume that we're only up 50% in the second quarter.

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

Okay. And then the other part of that question is, just update us on what's the exciting you the most right now about Premion. And what sort of changed in the last 3 to 6 months for the better for that operation?

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

We, I think -- I just think -- I think the local growth, right, the original premise of the business was all about in a sea of national players in the video space that we would have a very local advantage. But we had this pleasant surprise when we came out of the gate that was very attractive to national advertisers, which it still is.

But I'd say the biggest thing in the last 6 months has been the real acceleration of our revenue from local advertisers, which is the real future of the business, which is a combination of improving performance from our sales forces, our local sales forces as well as the local advertiser themselves becoming more and more open-minded and understanding the product better and better.

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

Can you give us a rough percentage of what local is versus national and Premion right now? That's my last question.

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

It's going over national, and that trend will continue.

Operator

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

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

Maybe first question on the free cash flow guidance. Maybe you could just frame for us what's developing more positively as you go through the year? Is it the ad recovery being stronger? Is it the sub declines being better? Is it cost reductions or cash taxes or a bit of all of the above? So maybe you add just some color on the guidance first.

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

Sure, Steve. I'd simply say a little bit of all of that, but the main driver is advertising, right? Simply put, both the marketplace and our performance is better than we projected and getting better by the month.

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

And just to be clear, cash taxes, we didn't -- was not any different than we expect for the second half. It was a second quarter was kind of actually high compared to last year, but there's no change in our guide on that.

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

Great. And then maybe just a follow-up on Premion. I think you've come through the upfront. Can you talk about what percentage of revenue you're looking to do with Premion on a committed basis. And I think that programmatic or scatter pricing is still really high, but you want to have a kind of blend of those 2 things. So how is that kind of whole process of commitments blending?

And if you can make any commentary on the EBITDA margin on Premion, love that, too.

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

Yes, actually on that. I want to make sure I understand the first question on -- and when you say committed you're talking about inventory guarantees, Steven?

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

Yes. Just bringing in revenue and having it committed ahead of time versus selling it on a more programmatic basis, it seems like you're moving to selling more through some form of a booked or committed process. So just wondering how you're thinking about kind of maturing the platform to more of that.

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

Yes. we don't -- I don't think we -- you don't want to think about Premion as programmatic per se, right? Because that's a -- we're not a revenue exchange, right? So in most of our business is upfront advertising, right? They are big buys we go out and get, and they can be for some just -- like in broadcast, some can be for shorter time frames, but some can be a full year commitment are relative to that, if that answers your question.

And your other question was on the margins. And the answer is both the first quarter and the second quarter, we're in the double digits on margins and the second quarter is higher than the first quarter.

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

And trending upwards they're doing a nice job managing both pricing as well as costs.

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

Great. And then maybe just lastly, the commentary on capital allocation was helpful. I think with your free cash flow guidance and some of the callable debt, it implies maybe $200 million that's kind of unallocated for the balance of the year. I think this FCC so far hasn't necessarily shown itself to be super friendly to interpreting rules.

So just how are you thinking about the administration and the prospects of M&A versus repurchasing shares?

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

Well, just simply as it relates to agree with you relative in the very near term around the FCC, Steven, and then notably, they have still yet -- it's August, and we haven't even got a new chair of the Democratic FCC named yet. So you got whatever uncertainty was there was just only add to the fact we don't know we'll be running the commission.

So in the very near term, I think that's right relative to broadcast M&A. But certainly, we've got a lot of different options on the table. We're always looking at adjacent businesses. But as Victoria said, we're obviously -- we've increased our dividend. We've reauthorized our share buyback.

And so we're -- the board and management are actively assessing options right now.

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

And Steven, just to clarify on the point, and I'm -- obviously, we're not going to put a number out there in terms of available cash. But in terms of the callable debt this fall, the $137 million, we may or may not decide to pay it down. We could just refinance it, just take it out and cover it with the revolver. So we're still making that determination, and we will, based on what the best use of cash is.

Operator

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

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

Regarding a couple of your new initiatives, the VerifyThis and Locked On podcast network, I wonder if you might frame out the potential in each case. And specifically, with VerifyThis.com. Is there a way to incorporate it into the -- into your broadcast operations in a way that might be positive and maybe reinforce its existence. And what is the monetization scheme for VerifyThis? And then with the Locked On, if -- I was wondering about expanding the distribution outlets, beyond the existing one. It looks like it's very early stage, I think you said you're at 20 shows now available on YouTube. And a couple of other things that are you going well beyond that.

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

Yes, let me take the second one first, Jim. Relative to Locked On, first of all, as it relates to monetization, we're in the very early stages. It's already a profitable business. But we didn't buy it just for that for a business. It is the first step of a digital sports strategy for us in the local space, where we see a tremendous amount of white space in having hyperlocal digital operations around content potentially sports gambling content, sports gambling data and across multiple platforms.

And this gives us an instant major foot in the door on that whole space. So that's why we're expanding into video and why we'll be doing -- you'll see us probably doing a lot more things in a very cost-effective way in the local sports space.

So the partnership monetization around Locked On, which even though it's currently profitable, is much bigger than Locked On itself for us in terms of where we look at it long term. And in terms of expanding distribution, yes, we're just -- which I think you mean on video. We're in markets all over the country, including markets we're not in. I mean where TEGNA not in with Locked On.

We've got New York Jets shows and San Francisco 49ers shows in markets we're not in. But on the video side, yes, we'll be rapidly expanding probably almost into every market where we've got a Locked On presence and I think you'll see us expanding our Locked On college presence as well.

As far as VerifyThis this, VERIFY is actually already on broadcast. It started as a broadcast initiative so all of our television stations do VERIFY content today. But now we've got this national team based here in D.C. of some very talented journalists and that are doing national stories for the local operations and are also supporting the local operations and taking on local stories.

The monetization of that is in the early stage, Jim, I would say we are just focused on making it big at the moment. We're -- this is -- and it's not massive investment from an expense standpoint. We're just focused on making it large, and then we will turn to the monetization. Obviously, we can sell advertising and sponsorships.

But think it's going to be something potentially very attractive to a particular type of advertiser. So we're still looking at the best monetization. But we have -- we're not going to size it right now other than to say it's all upside for us.

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

Okay. And one other thing on Premion, which I know has been touched on a couple of times already, but you have 75% coverage. I wonder about the plans for the other 25% of its somehow organically or through additional partnerships. And what is more important to you right now, probably both, but in covering the other 25%, we're getting more partnerships like the Polk partnership and specific ad categories?

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

Yes. I appreciate the question. I don't think it's either or. But I would point out, we can -- we cover the whole country with our national sales force. So we can -- if an advertiser -- a national advertiser or let's say, a political candidate wants us to target Juneau, Alaska, we can do that, right? So we can cover the whole country right now from a serving ad standpoint. It's where it's -- I think your question is around local sales force coverage, right?

And yes, we do look at that other 25%. We've had inbounds. We've had interest from other broadcast groups too like our relationship with Gray to cover that 25%. And so it is part of the things we're looking at all the time. But we're also looking at the other point you mentioned, we're always looking for things to improve attribution for our advertisers.

And frankly, we're always looking at it too in terms of potential tuck-in acquisitions, adjacent things that we might do that are not terribly [expensive] (corrected by company after the call), that will help add to the business as well. So we're very focused on the growth of the business and the team is -- the management team is executing very, very well.

Operator

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

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

Dave, just as a follow-up to your comment on the FCC. I mean from a practical standpoint with just 4 commissioners right now, if you were to announce an acquisition, mechanically, how does that impede or is it a nonfactor in terms of getting something approved by the DOJ?

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

You mean by the SEC?

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

Well, I mean, the DOJ ultimately is the ultimate arbitrary, but what -- I mean to the extent that the FCC sort of bed locked here, is that an -- would you not go ahead with a significant deal until there's some clarity on the personnel there.

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

Yes. I think it's a good question, Doug. A 2:2 FCC creates challenges for the approval of any deal by the FCC. So I would just leave it at that. But really, I would just say they are the ultimate arbiter not the DOJ. Even though the DOJ stuck its nose and some types of deals, in recent years. I think most deals that we've done in the past, the DOJ has not been an active participant.

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

So is that a reason why since obviously, a fairly favorable Supreme Court ruling back in the spring, there's not been a lot of deal activity here because there's no chairperson full time of the FCC.

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

Yes. I think that's one -- I think that's probably one significant factor, yes. I think there's just -- because while overall for the long-term health of the industry, that ruling was tremendous news, right? And basically, taking away the oversight of the appeals court in Philadelphia.

But it also -- there's still some lack of clarity around the in-market consolidation and how an FCC would apply because they have a lot of discretion in the way that rule is written. So I think you'll -- I think a combination of a 2:2 FCC and that I think that we're now up against the next quadrennial review. I shouldn't say up against, it's an opportunity. And I think that will -- I think the industry will try to use that to create some more clarity and some more advantage for us on some further rule deregulation that we need, whether we'll get that out of democrat -- democratic FCC remains to be seen. But long-winded answer to your question, yes, a 2:2 FCC is tough to have clarity on what would be approved.

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

And just as a final follow-up, are your Washington contacts giving you any confidence that this FCC deadlock will get resolved in the next 3 to 6 months?

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

Yes. I think everybody thinks that they have to, right? I think everybody thinks that there's always a pool on who the next FCC chair will be in. But yes, I would expect you to hear an announcement relatively soon on who that FCC chair will be. And then if it's one of the incumbents, then that's one set circumstances and then if it's not one of the incumbent, but maybe one of those incumbent doesn't stay. So there's a lot of different possibilities.

Operator

We'll now take our next question from Alexia Quadrani of JPMorgan.

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

This is David Karnovsky on for Alexia. I know it's an odd year for political, but you do have some governor's races in the California recall. Any commentary you provided on how this is shaping up versus 2017? And do you expect any midterm spend there? Is it just too early for that?

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

Do you mean versus 2019, David?

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

I'm just saying -- I'm asking about the odd year versus '17, but I'm asking is there -- general...

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

Yes. Yes. We will definitely be ahead of '17 and likely be ahead of '19. But the recall is not produced a ton of spending for the dynamics of that race. I think probably the big -- I think the race that will produce the most spending for us will be the Governor of Virginia, which is in November, and you have a -- we've got 2 markets to cover that throughout the Washington, D.C. and the Norfolk market.

And it's going to be a massive battle sort of for the sole of the party then. So if the Republicans could take back the governor's race in Virginia, that would be quite a momentum creator for them going into next year. So -- and the Republican running is self-funded former CEO of Carlyle. So he's got money and Terry McAuliffe's got money. So that will be -- that will probably be our biggest race when all is said and done by the end of the year.

But no, it's -- I wouldn't say -- again, it's -- the dollars are nothing in the neighborhood of what our even numbered years will be, of course.

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

Okay. And then you provided a lot of good detail on the advertising categories. One vertical, I'm not sure I heard mention specifically with sports betting, maybe gambling was mentioned, but I just wanted to see if you could provide any color on the category, how incremental that spend is to 2019 and kind of where it might be going?

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

Well, I think it's -- it started out the year with massive growth rates, but still pretty de minimis to our overall advertising spending, but it's growing by the day. We've got more money on the books in the third quarter for sports gambling than we booked in the first half of the year, and it's only the middle of August.

So it is growing very, very fast. I think by the end of the year, when all is said and done, it could very well be a top 10 category for the full year and only going up from there.

Operator

And there are no further questions at this time. I would now like to hand the call back to Dave for any additional or closing remarks.

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

All right. I have no more remarks, operator. Thank you for taking the time for joining us today and listening in. If you have any additional questions, please reach out to Doug Kuckelman (703) 873-6764. Thank you for your time, and have a great Monday. Thank you, everyone.

Operator

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