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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the TEGNA third-quarter 2024 earnings conference call. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to turn the conference over to your speaker for today, Kirk von Seelen. Please go ahead.

Kirk von Seelen - *Tegna Inc - Corporate Finance and Operations Executive*

Thank you. Good morning, and welcome to our third-quarter 2024 conference call and webcast. My name is Kirk von Seelen, and I am TEGNA's Treasurer.

Today, our CEO, Mike Steib; and our CFO, Julie Heskett, will review TEGNA's third-quarter performance and results and provide TEGNA's full-year and fourth-quarter outlook. After that, we'll open the call for questions.

Hopefully, you've had the opportunity to review this morning's press release. If you 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 includes forward-looking statements, and our actual results may differ. Factors that may cause them to differ are outlined in our SEC filings.

This presentation also includes certain non-GAAP financial measures. We have provided reconciliations of those measures to the most directly comparable GAAP measures in the press release.

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

Mike Steib - *Tegna Inc - President and CEO*

Thanks, Kirk, and good morning, everybody. I'm excited to be here working hard for our shareholders and the communities we serve.

On the heels of this week's election, I want to commend our team for helping to keep our communities informed and engaged in our democracy. Local journalism has never been more important in America. And as the folks on this call know, it's also never been more challenged. As the world has undergone a digital transformation, viewers and advertisers have shifted to online.

Since 2021, pay TV homes have been declining 5% to 7% per year, with traditional cable and satellite homes declining in the teens, while TV advertising has declined 3% to 5% per year. Traditional media, and broadcast in particular, has fallen behind, missing opportunities to evolve the business and take advantage of the digital moment.

But history is not destiny here. Local communities continue to strongly value local news, with 85% telling Pew that local news is important, and the vast majority reporting that their local media team is doing a good job. TEGNA's brands, in particular, have strong leadership positions in attractive markets across the US. In this hyper-competitive environment, where it is extremely difficult to establish an audience and build trusted brands, TEGNA has both.

We reach approximately 100 million people every month across the web, mobile apps, streaming, and linear television. Our brands and our products continue to mean a lot to the people in our local communities. Some of the wins Julie will share with you around political advertising and new sports rights really underline the resilient value of our TV stations.

At a moment of technological shift, where audiences continue to show a boundless appetite for great content on all devices, and where AI is offering massive opportunities to improve products and productivity, now is the moment for a company like TEGNA to build a more profitable future on our strong foundation. Over the last few years, TEGNA has been through a lot with the merger process behind us and our leadership transition complete. We're taking a fresh look at how to best leverage our competitive advantages.

In my first few weeks here, I've been spending time at our stations and with key business leaders across the company, and I've come away with an initial set of five potential opportunities that are going to have our focus. Number one, we're ensuring that we have the team, the culture, the accountability, and the leadership operating system to move with the urgency and the excellence that this moment demands of us. The no-huddle offense is on the field at TEGNA from now on.

Number two, we're reviewing org structures and processes across the enterprise to ensure we're doing our jobs as effectively and efficiently as possible. I hypothesize that there are synergies across stations that we have not fully exploited.

Number three, we're doing a nose-to-tail review of every process, from content creation to sales and marketing, to ensure we are leveraging the power of technology. I believe we are underutilizing automation and AI to drive efficiency and create a better product.

Number four, we're examining a myriad of opportunities to expand our reach and better serve our users through digital channels. Today, we generate a sizable online audience, but the amount of engagement per user is well below our potential, and we see a path to deepening user engagement and, ultimately, revenue for our company.

And number five, we are scrutinizing every expense in the company to ensure each dollar is a smart investment, driving audience and driving revenue. This is still my first quarter here, and I can't tell you exactly what the work is going to yield. But what I've seen so far makes me optimistic. There's a sense of urgency and energy in the company that is exactly what we need to ensure a bright future for TEGNA.

Now, before I turn it over, I want to welcome our new Chief Legal Officer, Alex Tolston. Alex is an experienced public company CLO with a deep understanding of our space. He's a trusted business partner that is comfortable in fast-paced, dynamic environments. He's a tough-as-nails negotiator and a proven winner. He's going to be a high-impact addition to Team TEGNA.

I'll now hand it over to Julie to provide a more detailed look at our financial results.

Julie Heskett - *Tegna Inc - Chief Financial Officer, Senior Vice President*

Thank you, Mike. Good morning, everyone.

We are thrilled to have Mike leading our team, bringing a fresh perspective and a sense of urgency to drive our execution forward. In just a short time, he has already made an immediate impact, energizing our team with a clear focus on accelerating our performance.

I'll begin today by covering TEGNA's financial results and capital allocation execution for the third quarter, then provide an update on our cost control initiatives before closing with a review of our guidance. My comments today will primarily focus on TEGNA's performance on a consolidated, non-GAAP basis to provide you with visibility into the financial drivers of our business trends and operational results. You can find all our reported data and prior period comparatives in our press release.

Here are some headlines. Total company revenue for third quarter increased 13% year over year to $807 million, exceeding our guidance of 9% to 12% growth. This performance was primarily driven by political advertising and an uptick in advertising and marketing services revenue, referred to as AMS.

AMS revenue was up slightly year over year, as strength in the Summer Olympic Games was offset by continued softness from national customers, as well as political displacement. An important note to emphasize, our core linear advertising was up in third quarter, driven by Olympic sales across our NBC station. TEGNA is the largest NBC affiliate group, and our portfolio experienced a 35% growth in total hours watched for the Paris Games versus the last Summer Games in Tokyo.

We are encouraged by our local advertising performance across several categories, including services, banking, finance, healthcare, entertainment, education, and travel and tourism. However, automotive, retail, and home improvement categories continue to be soft.

Now, let's look at our subscription revenue. For the third quarter, our subscription revenue decreased 6% year over year to $356 million. We will renew approximately 20% of our traditional MVPD subscribers at the end of this year and approximately 45% of traditional subscribers in 2025.

Turning to political advertising, we delivered record political revenue in the third quarter. Our political advertising year to date through Election Day is approximately $375 million. Despite having fewer competitive Senate and House races, 2024 political advertising to date nearly matched 2020, excluding the two Georgia Senate runoffs. While not all political cycles are created equal, results further emphasize the importance of our strategic footprint in key battleground states and the durability of political advertising across broadcasts.

Now, let me turn to expenses for the third quarter. We continue to make structural cost reductions across our legacy operations. Our expense management trend has been improving throughout the year. In first quarter, expenses were up 1% year over year. In second quarter, we improved to flat, as we started to benefit from our initial cost reductions. Now, in third quarter, we achieved a 2% reduction year over year.

It's important to note that when we discuss our core cost initiatives, we are focusing on legacy operations, excluding growth areas such as programming, which includes sports rights and Premion. We believe this provides a clearer picture of our cost reduction efforts in the traditional areas of our business.

Looking ahead, we remain on track to generate $90 million to $100 million in core annualized savings when we exit 2025. We expect to achieve approximately $50 million, or 50%, of these annualized core business savings as we end 2024. This puts us in a strong position to meet our overall goal.

To balance this discussion, I want to emphasize that while we are focused on cost management in our core operations, we continue to invest organically in other areas of the business. Specifically, our recent sports rights agreements, while impacting our programming expenses, are important to grow strong local audience engagement. Additionally, Premion is experiencing momentum as it's heading into the fourth quarter.

Turning to capital allocation, we continue to make progress on our commitment to return between 40% and 60% of adjusted free cash flow to shareholders over the 2024 and 2025 periods. In the third quarter, we returned approximately $91 million of capital to shareholders, comprised of

$21 million in dividends and $70 million in share repurchases, representing 4.9 million shares at an average price of $14.48. Year to date, we have returned $286 million to shareholders, keeping us on track to meet our commitment of returning approximately $350 million in 2024.

Cash and cash equivalents totaled $536 million at the end of the third quarter.

Net leverage finished the quarter at 2.8 times, below our 3 times annual guidance.

Now, turning to our outlook, we are reaffirming all our full-year 2024 key guidance metrics, as well as our combined 2024, 2025 adjusted free cash flow guidance of $900 million to $1.1 billion. There is one improvement to call out regarding tax rate guidance. We are lowering our full-year 2024 effective tax rate guidance to 22% to 23%, reflecting a purchase of tax credits at a discount made available through the Inflation Reduction Act of 2022.

For the fourth quarter, we expect total company GAAP revenue to be up 19% to 21% year over year, driven by strength in political advertising. We expect total non-GAAP operating expenses to be up 1% to 3%, compared to fourth quarter of 2023, driven by growth in programming and Premion cost, but also offset in part by savings realized from our core cost reduction initiatives.

In closing, we are pleased with our third-quarter performance.

With that, operator, let's open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Steven Cahall, Wells Fargo.

Steven Cahall - *Wells Fargo Securities, LLC - Analyst*

Thank you. So Mike, thanks for your comments this morning. It wasn't so long ago that TEGNA was under an agreement to be acquired, and then that deal fell apart due to the actions, really, of the FCC. It sure looks like we're going to get a much more favorable FCC, possibly starting early next year.

So how do you think about the opportunities here for TEGNA within that? And how does that affect how you kind of think about allocation of free cash flow between reducing leverage or just building cash on the balance sheet or stock for purchases, maybe knowing that there could be some more opportunities ahead?

And then, Julie, the cost reduction really showed through in Q3. It seems like that, going ahead, you'll probably have lower costs in '25 just due to not having the political revenue in there. So as we think about maybe expense growth in the next year, is it logical to think about it being down year on year? But you also talked about some organic investments, so just trying to think about how we put that all together. Thank you.

Mike Steib - *Tegna Inc - President and CEO*

Thank you, Steve. I'm excited to be here and looking forward to working with you. I am certainly of the personal opinion that the regulatory regime needs to be reevaluated.

If you look at any of our markets, Google makes 50 times the advertising revenue that any broadcaster does in our markets, and TikTok has a greater share of news viewing by young audiences than any single broadcaster and is owned by a foreign adversary. And yet today, we're not allowed to buy a Fox station in Waco, Texas. So I'm certainly hopeful that the regulators will be looking at what the right regulatory regime is to ensure a long and prosperous future for local broadcast and local news.

With that in mind, we certainly are big believers here, from the Board to the leadership team and down, that there are opportunities to unlock synergies and value for shareholders through combinations, in particular in the markets where we operate. Whether what unlocks the most value for our shareholders is for us to be an acquirer or a seller, either on a market-by-market basis or across the board, you don't know until you know prices. Our job is to be good capital allocators, and we're going to be really focused on making the right capital allocation decisions now and forever.

So forgive me, it's a little bit of a non-answer. I think your instinct that we're going to be having a lot of these conversations is right. And you should know that we're going to want to be in a position to unlock value for shareholders in whatever way and with whatever opportunities present themselves.

Steven Cahall - *Wells Fargo Securities, LLC - Analyst*

And Julie, on expenses?

Julie Heskett - *Tegna Inc - Chief Financial Officer, Senior Vice President*

Yeah. So on expenses, Steven, you're exactly right. We're really focusing on the cost takeout of our legacy businesses, the underlying trends, which you have seen successfully in the first three quarters here of 2024.

What is happening is we are preparing and working hard with the integration of Octillion and returning Premion to growth, which you'll see here in fourth quarter, as well as we've invested in programming with sports rights, which comes with that both top line and expense. So the growth rate that you're going to see in fourth quarter is probably something that will be more realistic going into 2025. But as of right now, we are not coming forward with any specific details on 2025 guidance.

Steven Cahall - *Wells Fargo Securities, LLC - Analyst*

Thanks.

Operator

Dan Kurnos, The Benchmark Company.

Dan Kurnos - *The Benchmark Company, LLC - Analyst*

Great. Thanks. Good morning. Mike, appreciate your initial vision here. Glad to have you talking to all of us.

Maybe just high level, any philosophical differences, I'm guessing, now between sort of you and the way things were or in your outlook and the way things were before, number one. Number two, you gave us a few pieces of things that you're looking at. I mean, a lot of it sounds expense-oriented. Is there any way to get more at least directional thoughts on breadth, like how aggressive or sizing of any of these things, these opportunities? Just you don't need to quantify specifically, but any kind of directional help there would be great.

And then, Julie, you said Premion returning to growth in Q4. I assume that means it wasn't growing in Q3. How should we kind of view the acceleration trajectory there? Thanks.

Mike Steib - *Tegna Inc - President and CEO*

On the first one -- Dan, thank you for the question -- I'm not sure I can give you a useful sort of philosophical comparison, but what I can tell you is the company has been through a lot over the last few years with a busted merger and a CEO transition. And so I think what is different and important is that there is a re-energization here and a real focus on execution.

And what you heard in my rundown was certainly, in one part, we're talking about cost, but we're talking about just as importantly how do we put the absolute best product in front of our audience across platforms. And looking at talent, looking at our operating system, but also the nose-to-tail review of all of our processes and where we're leveraging software, automation, and AI is going to help us to create more and better content that better serves in our markets, helps us to win on the revenue side, helps us to win market share, but also ensures that we're not investing a dollar that we don't have to invest to put out the best product and to monetize it.

Julie Heskett - *Tegna Inc - Chief Financial Officer, Senior Vice President*

And on the Premion question, Dan, I'll take that one. So Premion did have another tough quarter comp here in Q3. It continues to be the national trends of that business.

In Q3, our overall advertising and marketing services, which you saw in the release, were up slightly. Core linear was actually positive, up low single digits. Premion is the area that brought that down. But we do foresee Premion returning to growth in Q4.

And I want to remind you, Premion local has performed well continuously throughout the year. And third quarter, local Premion was up double digits. We continue to see that accelerate as we go into Q4.

Dan Kurnos - *The Benchmark Company, LLC - Analyst*

Great. Thanks so much. Appreciate it.

Operator

Craig Huber, Huber Research.

Craig Huber - *Huber Research Partners - Analyst*

Great. Thank you. Julie, just a follow-up there on Premion. Can you give us a sense of what you're looking for Premion in terms of growth in the fourth quarter year over year? Are you thinking like mid-single digits at this time or what?

Julie Heskett - *Tegna Inc - Chief Financial Officer, Senior Vice President*

Yeah. So we're not going to guide to specific line items, Craig. Of our revenue, you saw total revenue plus 19% to 21% in Q4, driven mostly by political. AMS specifically is going to be challenged in fourth quarter because of the heavy political displacement. But Premion, as I just said, I'll just re-articulate, we do project that to return to growth in Q4, driven by local, which continues to grow double digits.

Craig Huber - *Huber Research Partners - Analyst*

And as you think out for next year on Premion, is there going to be any changes you're sensing out there? Are we going to end up having a better year next year, at least the first six months?

Julie Heskett - *Tegna Inc - Chief Financial Officer, Senior Vice President*

We're not providing any guidance for 2025 at this time. We continue local Premion to have growth opportunities, and national continues to be challenged.

Craig Huber - *Huber Research Partners - Analyst*

Okay. Can you help me understand, if you will?

Mike Steib - *Tegna Inc - President and CEO*

If I could add a quick -- let me just add a quick strategic note on that one because I'm sure you guys are also wondering how we think about Premion generally. Over the last decade, a lot of the television audience has moved to connected TV, and the advertisers that we serve in our markets have not had the same ability to reach that audience as they did in television.

The local sales teams and the relationships and the brands that we have in those markets sets us up really nicely to expand that business, especially with local advertisers, and better serve them by helping them to run their ads across linear and digital. So we think it's a real opportunity.

It is, in part, an execution story. We have to, in our markets, be exceptional at connecting our advertisers to audiences across platforms, even though historically we have been a company that sells those advertisers television. So it's going to have -- it was a component of the fourth point I touched on earlier. Thinking about the opportunity for growth in these digital channels through better execution is something that we've got a lot of excitement about.

Craig Huber - *Huber Research Partners - Analyst*

And then, Mike, as a little separate note here, as you think about the company and what you've seen so far and the strategies that you're contemplating here and so forth, in terms of potentially doing digital acquisitions going forward here, I mean, the media landscape, as you know, is littered with underperforming digital acquisitions that have been done over the last 20 years and stuff. And it can be very, very risky and stuff. And some CEOs will come in and do one or two and make a mess of the company and stuff, occasionally will work and stuff.

What is your appetite for digital acquisitions at TEGNA? Do you feel like you need to really totally try to revamp this company to some degree in a different direction? Or are you pretty contented status quo for a while?

Mike Steib - *Tegna Inc - President and CEO*

I'll answer vaguely and then try to answer specifically. So vaguely, if you would, I started in media a bunch of years ago in corporate development at NBC, which then became NBCUniversal. And I saw, through my time there, two different kinds of acquisitions. One kind of acquisition brought cost savings and revenue synergies and unlocked real value. And the other always inevitably was referred to as a strategic acquisition. And it didn't unlock revenue or costs, but it made the acquirer feel like they had gotten some kind of a capability or opportunity in a space that they didn't fully understand.

A lot of media companies did those acquisitions at that time. We can hearken back to iVillage and MySpace and some others, and everyone lost their shirts. I have seen real success through my career with acquisitions in the first camp, where when you put two assets together, it unlocks cost savings or it brings revenue synergy. If we are to see acquisitions that we get excited about, it would be for that reason.

There are probably not in your mind a lot of digital acquisitions that meet that description. So I can't get all the way to an answer for you. I'm only in my first quarter here, and we'll be getting a better sense over the coming months as to the opportunities on this landscape. But we are old-fashioned in the way that we think about M&A. You're supposed to put two assets together, and as a result, more cash flow comes out and well, well pays for both the acquisition takeover premium that you have to pay, as well as the execution risk.

Craig Huber - *Huber Research Partners - Analyst*

Okay. A final question, if I could ask Julie or Mike, your TV advertising pacings post the election, how are they looking on a year-over-year basis? Is the trend any better here on a year-over-year basis post the election? The best you can tell, the bookings you have so far.

Julie Heskett - *Tegna Inc - Chief Financial Officer, Senior Vice President*

Yeah. Craig, I'll take that one. So what we have seen, as you know, throughout 2024 is mixed economic signals. There are signs of resiliency, and there's also signs of challenge, where advertisers and consumers seem to have been very cautious with their spending, what you saw in Q2. Obviously, Q3, that continued, but also had political displacement, and then Q4, we see that same pattern. So fourth quarter will be hindered with the political displacement, specifically in October, November.

To your point, December looks better. It is sequentially better than both October and November, but it's still sluggish and challenged, and I would say similar to what you've seen in Q2. Q3 is really dirty because of Olympics and political displacement. But if you go back and kind of look at what we saw April, May, June, kind of Q2, it's in that same similar range.

Craig Huber - *Huber Research Partners - Analyst*

Great. Thank you both.

Operator

(Operator Instructions) Patrick Sholl, Barrington Research.

Patrick Sholl - *Barrington Research Associates, Inc. - Analyst*

Hi. Thank you. I was wondering if you could talk a little bit on political and how maybe the share has shifted between broadcast and Premion and if any of the political and Premion is kind of contributing to the rebound and growth in Q4, or if it is all just -- if it's non-political that you're talking about.

Julie Heskett - *Tegna Inc - Chief Financial Officer, Senior Vice President*

I'll take that, Patrick. Hi. So from political advertising, I think it is still clear that broadcast wins the day and takes the majority share of overall political spending nationwide. Yes, there's a shift to digital in political, and yes, CTV is a beneficiary of that shift of US political spending.

From a Premion perspective, Premion is able to take some of those national political dollars, but most of those are spent on a programmatic side of the equation, which is not the product that Premion is focused on. So yes, Premion has got some political. I would not call it a material number. Our political is very heavy on the TV linear side.

With that said, I can say that Q4 Premion's growth is not isolated just to political. But we do see non-political Premion returning to growth in Q4, driven again by local.

Patrick Sholl - *Barrington Research Associates, Inc. - Analyst*

Okay. Thank you.

Operator

David Karnovsky, JPMorgan.

David Karnovsky - *JPMorgan - Analyst*

Hi. Thank you. Maybe to press on the regulatory piece, I just wanted to see if you could expand on what you think is possible in terms of easing rules for either in-market or the ownership cap. Do you think the FCC has room to maneuver independently? Or will kind of substantial changes require congressional action?

And then, as a second question, Michael, I want to see if you can expand on local sports, especially if more team deals might come available. Can you say anything about how the deals are kind of structured at a high level? Are you aiming to be profitable on ads alone? Or should we look at the games kind of more broadly in terms of their benefit to adjacencies or even retrans? Thank you.

Mike Steib - *Tegna Inc - President and CEO*

Hey, David. Our view is that the FCC has the opportunity to drive change here in the duopoly rules and the national cap and the UHF discount. But in fairness, I wasn't hired because I'm the world's leading expert on this. I think among the folks on this call, you all will form sort of more informed opinions on that.

Secondly, on the question of sports, we love that these sports rights have become available to us. I mean, as you all know, the RSNs have not been able to deliver the economics and increasingly the reach. And with these teams, there are two things that really matter to them. One, they want the rights dollars coming in the door. But secondly, they need to reach as large an audience as possible to also drive ticket sales and jersey sales for many years to come.

And so broadcast seems to be emerging and re-emerging, if you would, as an important component of these local sports rights. We like these opportunities because keeping your engagement with the audience, live content is perfectly suited for linear television. It also will open the doors to a lot more advertiser accounts.

All that said, I think embedded in your question is, do you run out and do a bunch of rights deals that lose money, hoping you'll make it up in some other way? I'd sort of refer back to the framework I gave on M&A. Anything we do in the company is an investment whose job is to deliver cash flow returns -- and cash flow returns that clear our shareholders and our company's cost of capital. So when we look at these rights, we are looking at ways to get these sports rights to make money.

David Karnovsky - *JPMorgan - Analyst*

Thank you.

Operator

Thank you. And this does conclude today's Q&A session. I would like to now turn the call back to Mike for closing remarks. Please go ahead.

Mike Steib - *Tegna Inc - President and CEO*

Well, thanks, everyone, for the questions, for your support of the company. And I can't tell you how excited I am to be here working with this fantastic team, this important mission, and with this very special collection of assets. So talk to you all.

And folks who have questions, we'll talk to you today. And we'll be back here next quarter and look forward to working together. Thanks, everybody.

Operator

Thank you for participating in today's conference call. You may now disconnect.
