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TGNA.N - Q1 2025 Tegna Inc Earnings Call

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CORPORATE PARTICIPANTS

Kirk von Seelen *Tegna Inc - Treasurer*

Michael Steib *Tegna Inc - President, Chief Executive Officer, Director*

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

CONFERENCE CALL PARTICIPANTS

Steven Cahall *Wells Fargo - Analyst*

Dan Kurnos *Benchmark Company - Analyst*

Craig Huber *Huber Research Partners - Analyst*

Patrick Sholl *Barrington Research - Analyst*

Avi Steiner *JPMorgan - Analyst*

PRESENTATION

Operator

Good day and thank you for standing by. Welcome to the Q1 2025 Tegna Inc earnings conference call. (Operator Instructions) Please be advised that today's conference is being recorded.

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

Kirk von Seelen - *Tegna Inc - Treasurer*

Thank you. Good morning and welcome to our first-quarter 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 financial performance and results and provide Tegna's second-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.

Michael Steib - *Tegna Inc - President, Chief Executive Officer, Director*

Thanks, Kirk. Good morning, everybody, and thank you for joining us today.

It's been an eventful few weeks for the economy and for the stock market at times like this. Very glad that we have strong brands and loyal audiences, deep relationships with local businesses, and more predictable distribution revenue stream. And despite all the noise, we are staying locked in on our previously mentioned five areas of focus.

Number one, we're building a world-class team, culture and company operating system that unlocks high-impact execution.

Number two, we're leveraging Tegna's strengths across our stations to improve performance through better resource sharing.

Number three, we are fully deploying technology, automation, and AI to run a more efficient and effective operation.

Four, we are growing digital revenue by deepening engagement with our digital audience.

Five, cutting all unnecessary spend and bureaucracy, ensuring our time and our resources are maximally focused on growing audience and growing revenue.

We're moving fast and I just wanted to highlight for everyone here a few recent examples.

Number one, on building out our world-class team. The new executive team is coming together and collaborating really nicely, and we're moving with focus and velocity. We added two new senior leaders, Melissa Zimyeski and Mat Yurow, to inject new digital design, development, and growth capabilities into our organization. Our new sales performance management and incentive regime is driving more accountability, faster talent up-leveling, and improved execution across linear and digital. So good progress here.

Number two, we're leveraging taking the strengths and improving resource sharing. On this one, our statewide news sharing and local regional sales tests in Florida have unlocked more productive capacity for our news teams and new multi-market dollars for our sales teams. What we've learned in this test is going to inform our technology and operational rollouts in the months ahead.

On number three, fully deploying technology to run more effective stations. We are testing a new proprietary AI system to help our newsrooms find and cover more impactful local local stories, supporting our journalists and being the best newsroom in every market that we serve. We're also progressing on plans for our two stations of the future, which will leverage reduced technology and real estate footprints to deliver the news more sustainably.

On number four, growing digital by deepening audience engagement. I'm really pleased with the new apps that we're testing, and I expect we'll be moving to public launch in a couple of markets in the coming months. AI-augmented software development is making our engineering team more productive than ever, and I'm excited about building on these capabilities.

And finally, on number five, cutting unnecessary spend and bureaucracy, our team has surfaced tons of opportunities to save dollars and time that can be invested in our future. We're doing this by rethinking our real estate footprint and slashing internal processes that distract from growing ratings and growing revenue. Removing unnecessary bureaucracy improves everything from employee engagement to speed of execution. We're finding more opportunities like this every day.

I also want to shout out the team for landing some exciting new sports rights deals. We've secured local team rights across NBA, WNBA, NHL, and MLB. On top of that, we've partnered with multiple NFL teams to air preseason games for free, over-the-air. In short, we are making it easier for every single hometown fan to find and watch their favorite local teams. It's a win for fans, and it's a win for the power of local broadcasting.

And before I go, I want to recognize the outstanding local journalism coming out of our stations. Specifically, our four stations that received the Gracie Awards.

Before we wrap, a comment on the evolving regulatory landscape. 73 members of the Congress have signed a letter to FCC Chairman, Brendan Carr, advocating for deregulation and broadcasting, and the Chairman is expected to have a majority soon. We're staying close to all of this, and our healthy balance sheet, consistent free cash flow generation, and track record of disciplined capital allocation position us well to pursue the best opportunities for value creation.

In closing, I want to thank the team. These first few months of my tenure have brought significant changes to our people, culture, strategy, and performance expectations. It takes a very special team to evolve this quickly. I'm really proud of our folks for doing the hard work to ensure a sustainable future for local news and a bright future for Tegna.

And with that, I'll turn it over to Julie for a closer look at our financial performance and second-quarter guidance.

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

Thanks, Mike, and good morning, everyone.

Our financial performance this quarter came in as expected and within our guidance range. We delivered on what we set out to do this quarter, and I want to thank our teams for their focus and execution.

I will begin today by covering our first-quarter financial results, then provide an update on our business operational initiatives and capital allocation priorities before closing with a review of our guidance.

Total company revenue for first quarter finished at $680 million, a decrease of 5% year over year in line with our outlook of down 4% to 7%. The decrease was primarily due to lower political advertising revenue consistent with cyclical even-to-odd year comparisons.

Advertising and marketing services revenue, also known as AMS, finished at $286 million in the first quarter, a 3% decrease year over year due to macroeconomic headwinds and the Super Bowl airing on Fox, our smallest affiliate group this year, versus CBS last year. The decrease was partially offset by growth in advertising revenue from local sports rights. When we normalized for the Super Bowl impact, AMS revenue finished flat to last year.

Advertising demand remains closely tied to overall economic sentiment, and with consumer confidence softening, some advertisers are taking a more cautious wait-to-see approach. This may lead to near-term delays in spending and ultimately impact our second quarter AMS revenue performance.

As Mike highlighted, we're aggressively pursuing growth initiatives of our digital product portfolio consisting of web solutions, mobile and streaming apps, as well as local CTV advertising. We are encouraged by our digital advertising performance, with digital ad revenue growing year over year. The momentum we saw in the fourth quarter from our owned and operated products continued in the first quarter.

Leveraging our powerful brands, expansive footprint, and deep customer relationships, we're in a strong position to drive profitable digital growth through 2025 and beyond.

Before moving on, I want to point your attention to a reclassification of subscription revenue to distribution revenue that we highlight in the press release. The reclassed amounts were immaterial, and we have provided recast numbers in the release to simplify year-over-year comparisons. Distribution revenue in the first quarter was flat year over year at $380 million due to a temporary disruption of service with a distributor that successfully concluded in mid-January last year, as well as distributor renewals and contractual rate increases partially offset by subscriber declines.

We have approximately 45% of our traditional subscribers up for renewal in calendar year 2025, providing us with additional opportunities to capture appropriate value for our content. We successfully renewed approximately 10% of our traditional MVPD subscribers at the end of the first quarter.

Our total adjusted EBITDA in the first quarter finished at $136 million, a 22% decrease year over year, primarily due to the lower political advertising revenue and AMS revenue, partially offset by continued cost benefits from core operational cost-cutting initiatives.

Moving on to the cost-cutting initiatives, we continue to drive significant improvements to our cost structure. As we highlighted on our last earnings call, and as you heard Mike say earlier, we are deploying technology to run our stations more effectively and cutting all unnecessary spending.

First-quarter non-GAAP expenses finished flat year over year, driven by increases in programming expenses which include local sports rights offset by cost reductions. All other expenses outside of programming finished 4% below last year, continuing this sequential improvement of structural cost reduction efforts. We remain on track to achieve our goal of generating $90 million to $100 million in annualized core non-programming savings as we exit 2025. At the end of the first quarter, we stand at approximately 60% of our target.

Turning now to capital allocation, we remain committed to returning 40% to 60% of adjusted free cash flow to shareholders over the '24 and '25 two-year period, and we are on track to achieve that goal. We paid $20 million in dividends to our shareholders in the first quarter. Cash and cash equivalents totaled $717 million at quarter end, and our net leverage finished at 2.8 times.

Given the prospects of deregulation and station M&A, we're taking a more measured approach to share repurchases at this time. Preserving financial flexibility ensures we remain agile while staying disciplined in our capital deployment and focused on delivering long-term shareholder returns. As Mike mentioned, our healthy balance sheet, consistent free cash flow generation, and track record of disciplined capital application position us to act when attractive value creating opportunities arise.

Now, let's turn to our financial guidance elements. As we noted in our press release this morning, we are reaffirming our combined two-year 2024, 2025 adjusted pre-cash flow guidance of $900 million to $1.1 billion. You can see our full-year guidance metrics in our earnings release. There's one small update to call out. We are lowering our full-year 2025 effective tax rate guidance to a range of 22% to 23% reflecting tax refunds we expect to receive from the state of Texas.

Let me provide our financial guidance for the second quarter. We expect total company revenue to be down in the 4% to 7% range year over year, primarily reflecting lower political advertising revenue due to cyclical, even-to-odd year comparisons, as well as anticipated headwinds in advertising environments stemming from the recent shifts in global trade dynamics. We expect non-GAAP operating expenses to be flat to down 2% compared to Q2 of 2024, reflecting cost reduction efforts previously discussed.

In closing, our first-quarter results reflect the strength of Tegna's market position and the solid foundation that we have built. With strong brands, a great footprint, and deep customer relationships, we're well positioned for what lies ahead. We remain focused on staying one step ahead on cost and sharpening our digital portfolio to prioritize the services we believe have the greatest growth potential for Tegna.

As the industry continues to evolve and companies brace for broader economic pressures, our priorities remain clear: execute with discipline, unlock operational efficiencies, and deploy capital where it drives long-term shareholder growth. Our healthy balance sheet gives us the flexibility to continue investing in growth.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Steven Cahall, Wells Fargo.

Steven Cahall - *Wells Fargo - Analyst*

Thank you. So Mike, you talked a bit about what's happening with the FCC and deregulation. Tegna is in a unique position. You have a strong balance sheet. You're below the cap. Clearly, this FCC is pretty favorable to getting deals done. So do you need to wait on future deregulation initiatives, or do you feel like the opportunities are already in front of you?

And Julie, you talked about the 40% to 60% return or free cash flow, I assume that is if there isn't strategic M&A to do. So that's kind of the first question around M&A. And then Julie, you mentioned anticipated headwinds arising from the macroeconomic environment that were implied in the Q2 guide. Could you just expand a little bit on whether that's conservatism or whether you're seeing specific changes to the advertising environment starting to show up in Q2?

Thank you.

Michael Steib - *Tegna Inc - President, Chief Executive Officer, Director*

Thanks, Steve. Chairman Carr has been clear with his agenda and support for local broadcasters and the important role that local broadcasters play for our communities and the local news plays for our democracy. He is expected to have his majority soon and as I noted in my prepared remarks, he seems to have bipartisan congressional support for supporting local and supporting local broadcasters.

We think that it will unlock M&A opportunities in the space that can be really accretive for buyers and sellers, but until we know the full landscape and until we know the prices, I can't sort of comment more precisely on that.

As it pertains to how we think about sort of capital allocation, I'll just remind you of our philosophy. It is not our money, it's our shareholders' money. When we can deploy it in a way that is significantly accretive for our shareholders, we will, and when we can't, we'll send it back to our shareholders in the form of stock buybacks, dividends, or debt repurchases.

Julie, will you jump on that?

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

Yeah, so from an advertising perspective, Steven, we are seeing Q2 softer than where Q1 is finishing. That may be impacted by the tariffs and the overall trading policies. But we're not seeing cancellations. We're not seeing or hearing specific conversations that advertisers are changing their strategy because of those trading policies.

So we're in this wait and see, consumer sentiment is obviously lower now, so the confidence in advertising now through the end of the year is probably worse today than it was 90 days ago, but it's too early to actually see the impacts of that. But Q2 is slightly worse from an AMS perspective than what we saw in Q1.

Michael Steib - *Tegna Inc - President, Chief Executive Officer, Director*

And one of the things that we know definitively is that through previous down cycles, advertisers who've continued to lean in to build their brands and reach customers, outperform those that didn't. So that's certainly the message our customers will be hearing from us at this moment of uncertainty is that these moments of uncertainty are moments of opportunity for good marketers.

Steven Cahall - *Wells Fargo - Analyst*

Thank you.

Operator

Dan Kurnos, Benchmark Company.

Dan Kurnos - *Benchmark Company - Analyst*

Yeah, thanks. Good morning. Maybe just to follow up on the question, Mike, the way you guys have positioned yourselves now, it looks -- I know you're open to both buying and selling, but it looks more bent towards buying, and we obviously don't know what the FCC will pass or change or what Congress will pass or change. What's kind of your appetite if you -- the opportunities, the accretive opportunities were there to get, say, substantially larger if the in market and ownership cap were removed? So that's question one.

And then question two would be, can you just update us on how Premion trended in the quarter? Because it kind of sounds like with local sports rights, Fox Super Bowl core was almost flattish to up in Q1 and then you've got some softness in Q2, just from what the advertising Julie was talking about.

Michael Steib - *Tegna Inc - President, Chief Executive Officer, Director*

Yeah, Dan, I'm as excited about the M&A opportunity in the space as you all are, and I'm sure it's frustrating not to hear us be able to be more specific in our responses. You'd probably imagine it is for us as well. What I can tell you is we believe that the deregulatory moment is coming and it's coming at just the right time. I can tell you that philosophically, we are buyers of anything that's a fit for our mission and our company at a price that if you offer us something for a price that is less than it is worth to us and our shareholders, we're very interested, and if there's anything someone wants to buy from us at a price that is more than it is worth to our shareholders, we're interested in selling it.

So we think that is the essence of good capital allocation, and we are at this really dynamic moment in the space in this great moment of opportunity. We're staying flexible and focused on being good, smart capital allocators.

On Premion, I'll invite Julie to respond on the numbers, but I just want to reiterate I've spent a lot of time with our sales teams and with our customers in the market, and the customers in the sales teams really like the product. The opportunity for our local advertisers in particular to reach a significantly broader audience, the audience that's left the cable, satellite, and over the air bundle, if you would, and gone to become being a broadband-only home, and to be able to reach that audience with greater targeting is a -- it's a phenomenal seller proposition.

And so, in that regard, I can just tell you we've got a lot of excitement about the business.

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

Yeah, and I'll reiterate what we have said previously with Premion revenues. The CTV addressable market opportunity continues to be strong, specifically in the local communities in the local advertising space. Premion total revenues remain flattish quarter to quarter, up one quarter, down one quarter. I would just consider it flattish with local continuing to grow high singles, low double digits and that's offset by national declines.

So that, we didn't see a dramatic change in Q1. It's very consistent with what we've been seeing the last few quarters.

Operator

Craig Huber, Huber Research Partners.

Craig Huber - *Huber Research Partners - Analyst*

Great, thank you. I just want to ask you, I don't know how much time you spent on this in your new role there, but alternative uses of spectrum at your TV stations, I mean, in terms of when you think out here over the coming years and stuff, I mean how much time have you been put into this so far? Or is there so much other stuff that you work on at the company that you haven't really focused on it too much?

And if you do have an opinion, I'm curious, how do you view in terms of when significant amount of revenues could potentially be generated here from leasing out excess spectrum across your markets?

Michael Steib - *Tegna Inc - President, Chief Executive Officer, Director*

I've been very grateful to some of my peers in the space who have been spending a lot of time on this topic on the ATSC 3.0 opportunity, and they've been engaging in Washington around it. From the first principal standpoint, we believe a long, bright future for over-the-air television is really important to America. And that the technology is the opportunity to continue to evolve to deliver a better free over-the-air product, higher quality and with many more bells and whistles, we think is important and a real positive.

Secondly, the sort of evolution of the technology also creates the potential for new revenue streams, many of which you've heard from my colleagues in the space like datacasting and others.

And as the world moves to lots of video consumption on the internet, the thesis that bandwidth will need to be supplemented, I think is a pretty strong thesis. So we're not seeing dollars on that opportunity today, but I do think there's substantial optionality in it, and it is an interesting longer-term opportunity.

Craig Huber - *Huber Research Partners - Analyst*

Any idea in your mind how many years out until it could be significant to your revenue streams?

Michael Steib - *Tegna Inc - President, Chief Executive Officer, Director*

I don't think I could give you a great answer on that. I would encourage you -- some of my peers have been spending years on this topic. I'd encourage you to ask them as well. I think they've started to see some green shoots and have some excitement around it. I can tell you we've gotten up the learning curve on it. We see the opportunity, but I don't know that I could help you start to pencil out the five-year model, not just yet.

Craig Huber - *Huber Research Partners - Analyst*

I guess my last question, do you feel that you're significantly behind where your peers are here? Or do you think it doesn't really matter that they're leading on this front?

Michael Steib - *Tegna Inc - President, Chief Executive Officer, Director*

No, I think it's important to own spectrum and to see the FCC ultimately supporting the transition to ATSC 3.0, and then we're sitting on some fantastic real estate.

Craig Huber - *Huber Research Partners - Analyst*

I mean, obviously some people in the industry to the last point, but some people in the industry believe by the end of the decade it could be as large as what retrans revenues are today for individual TV stations and stuff if it's handled correctly here and it plays out…

Michael Steib - *Tegna Inc - President, Chief Executive Officer, Director*

I've heard this, I've heard the same, and the business case that's been made for it is really compelling and I can't tell you just how happy I'll be if that turns out to be the case.

Craig Huber - *Huber Research Partners - Analyst*

Very good, thank you.

Operator

Patrick Sholl, Barrington Research.

Patrick Sholl - *Barrington Research - Analyst*

Hi, I just had a question on the M&A potential and the view of regulators. If there's consolidation within the broadcast space, one way of looking at it from the regulator's standpoint is the competitive market for advertising and certainly from that standpoint, broadcasters would still play a strong role, but I'm just curious on how you view like the market for local news and the extent that regulators might see that as being becoming too concentrated and not having as many options there?

And I guess, maybe just your view on how that market would shape up if there is more M&A?

Michael Steib - *Tegna Inc - President, Chief Executive Officer, Director*

Big tech dominates viewer consumption of every kind of media at this point, including news. So if the regulators were to look at it through that lens, I would direct them to TikTok, which is now the number one source of news for Gen Z and parenthetically owned by a foreign adversary. I would direct them to YouTube, which is recently been estimated to have a valuation, a number of multiples greater than the entirety of the traditional media ecosystem. I direct them to Facebook.

I direct them to many of the accounts I follow on Instagram, which are citizen journalists with tens of thousands of followers. Through that lens, it is very clear that broadcasters have been hamstrung for decades and are in a position where we're competing with really well-funded, completely unregulated, massive, big tech brands.

Patrick Sholl - *Barrington Research - Analyst*

Okay, thank you.

Operator

(Operator Instructions) Avi Steiner, JPMorgan.

Avi Steiner - *JPMorgan - Analyst*

I'm going to start with M&A, if I can. You both highlighted your low leverage as an asset as it relates to the potential M&A opportunities, and I'm wondering if you can discuss where you can take leverage to pursue a deal? And I think much more importantly, how you think about synergy opportunities which might turn a higher initial multiple into something more accretive?

Michael Steib - *Tegna Inc - President, Chief Executive Officer, Director*

A real driver of value in the consolidation opportunity is around local costs, and those costs specifically are just the sort of management and back office that goes into running TV stations that are three, four, five, six TV stations performing the same tasks in a market.

As I fantasize about station combinations and the benefit it can do for our industry, I see a world where there's less back office needed to support still multiple news brands and news teams and just as many today if not more journalists in the future covering the news, but just able to do it much more efficiently and sustainably with us able to save on the back office, us as an industry, to be able to save on the back office support.

And if you look at the potential sort of back office and support takeout costs across markets and across the country, it's many billions of dollars of potential savings for the ecosystem. And so with that, we're really -- that's why we all continue to harp on this. We think it's a huge value unlock. We think it's really important for a more sustainable future for local news and we're standing by to see how we can participate in that in a way that's most accretive.

Avi Steiner - *JPMorgan - Analyst*

Okay, maybe one more, if I can. One of your peers was on a call just before yours and also talked about all the opportunities out there, and I'm curious maybe how you see industry ownership evolving. Do you envision a number of groups changing hands to create, a lack of a better description, supergroups, or do you think it evolves more so by swaps and station trading? And thanks for the time.

Michael Steib - *Tegna Inc - President, Chief Executive Officer, Director*

You're welcome, but I have no idea. I know that if we have two stations in the market, those stations can run much more profitably. The previous question about leverage, it can be deleveraging very quickly. These are the kinds of -- getting these sort of back office and support costs and redundant management, et cetera, out of an organization, you can do within 60 days of closing a deal. I've done it before, and I would expect that if in a scenario where we were a buyer, I would expect that here. So even if one were to take on more, some more debt to do it, it's deleveraging very quickly.

Whether those are bigger deals or sort of cash-free swaps or some combination, I think it'll depend on who shows up to play and where the prices land. And because we don't know, that is why I continue to sort of respond in a way that's somewhat unsatisfying, which is -- what's our role in all that? Once we see better clarity on the players, the prices, and the motivations, we'll know what the right thing to do is for our shareholders.

Operator

Thank you. I am showing no further questions at this time. I would now like to turn it back to Mike Steib for closing remarks.

Michael Steib - *Tegna Inc - President, Chief Executive Officer, Director*

As always, I want to thank you all for your attention and your support. I want to thank again the Tegna team for the amazing work so far. I'm really proud of the way everyone has leaned into the change and transformation going on here. I want to remind everybody that Sunday is Mother's Day. I want to say thanks to Julie and all the wonderful moms at our company for everything that they do.

I hope you all have the opportunity to call your mom. Have a great day.

Operator

Thank you. Thank you for your participation in today's conference. This does conclude our program, and you may now disconnect.
