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TGNA - Q1 2018 Tegna Inc Earnings Call

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OVERVIEW:

Co. reported 1Q18 YoverY reported total revenue growth of 9%. Expects 2Q18 total revenue to increase mid single digits YoverY.

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PRESENTATION

Operator

Good day, and welcome to the TEGNA First Quarter 2018 Earnings Conference Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Jeff Heinz, please go ahead.

Jeffrey R. Heinz - *TEGNA Inc. - VP of IR*

Thanks, Cassi. Good morning, and welcome to the First Quarter 2018 Earnings Call and Webcast.

Today, our President and CEO, Dave Lougee; and our CFO, Victoria Harker will review TEGNA's financial performance and results. After that, we'll open the call to 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 SEC filings.

This presentation also includes certain non-GAAP financial measures. We provide a reconciliation of those measures to the most directly comparable GAAP measures in the press release and on the Investor Relations portion of our website.

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

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

Thank you, Jeff, and good morning, everyone.

Today I'll review our progress in the quarter that gives us further proof that our growth strategy is on track and that we're well-positioned to take advantage of the opportunities before us.

Our first quarter revenue was up 12% year-over-year on a non-GAAP basis which was at the high-end of our guidance and a record first quarter in revenue in the history of our broadcasting business.

Excluding revenue from the tailwinds of Super Bowl, Olympics and Political, our revenue still grew nearly 6%.

Subscription revenue was up 13%. Importantly, we have seen three months of sequential growth in total paid subs, a combination of traditional MVPDs subscribers, along with subscribers to new virtual MVPDs services, like DIRECTV NOW, Hulu and YouTube TV.

Specifically, we saw a positive reversal of total sub-trends in the fourth quarter that has continued into the first quarter and is a reflection of how critical our strong broadcast affiliates are to these new virtual MVPDs.

As of today, we now have more than a million virtual MVPD subs and our total subscriber trends are strongest in our largest market DMAs, which I'll be glad to give further color on during the Q&A portion of this call.

And while due to seasonality, we don't necessarily anticipate positive month-over-month total sub growth every month this year, the trends and the relationship between traditional and new virtual MVPD subs are becoming clearer to us.

As a result, we're raising our subscription revenue guidance for full year 2018 to being up in the mid-teens.

Also, during the quarter, TEGNA stations dominated audience metrics in both the Super Bowl and the Olympics. For the Super Bowl, TEGNA stations ranked #1 nationally in both ratings and share among all NBC affiliates, and had four of the top 10 in the adults 25 to 54 demographic.

For the Olympics, TEGNA stations in Denver and Minneapolis ranked 1 and 2 in ratings respectively among all NBC affiliates and TEGNA stations had four of the top seven spots overall.

Victoria will give you more context but combined, our success during these first quarter events led to approximately $24 million in net incremental revenue for our overall portfolio. As a reminder, our net incremental revenue is what is added to our NBC stations minus the money that shifts away from our non-NBC stations for these same events.

Moving to Premion, the business continues to meet our aggressive growth expectations. We're on track to double Premion revenue this year versus last year and we're now leveraging our success to create new partnerships as well as expand the services we can provide.

Premion is one of many tangible and organic outcomes from TEGNA's disciplined process of innovation. As a reminder, Premion allows local, regional and national advertisers to place ads in live and on-demand long-form OTT video programs on dozens and more than 100 programming partners and we can do it in any market in the country.

I'll touch briefly on two Premion developments. First, as the baseball season is now underway, Major League Baseball has extended its relationship with Premion. Now, Premion has nationwide rights for local and regional advertising on MLB. TV. And we're the only ones who can sell OTT ads on MLB. TV in our 39 markets this year. And as some of you probably know, MLB. TV is one of the most watched OTT services in the country.

This partnership is especially impactful for 30 of our markets, 12 of which are home team local markets for major league baseball teams. Another 18 are regional markets for MLB teams and neighboring cities, for example Macon, Georgia for the Atlanta Braves or Portland, Maine for the Boston Red Sox.

MLB joins many other major brands at Premion including major sports networks to build out our one-of-a-kind OTT sports package for advertisers and presenters.

The second significant development for Premion is the launch last month of Premion's data management platform or DMP as they're called and it's called Premion Audience Selects. We've partnered with MadHive and 4INFO, 2 leading data solutions companies, to build the first true OTT data management platform and revolutionize brands' and advertisers' capabilities to reach the right customer at the right time in the OTT ecosystem. This first-of-its-kind platform solves an industrywide challenge by offering data collection on TVs and streaming devices.

Premion Audience Selects offers brands and advertisers more than 2,000 different audience segments such as sports fans, auto intenders, travel enthusiasts, homeowners and so forth.

These developments, along with investments we made earlier in the quarter, in innovative OTT companies like Tubi and Vizbee are putting us at the forefront of this emerging advertising marketplace.

On the content side of our business, we continue to invest in disciplined and impactful innovation processes. Our best ideas come from our people and we recently held our seventh Innovation Summit, a strategic process of brainstorming, piloting, testing and execution amongst the most talented employees across our company.

Since starting these summits, we've launched several successful pilots and initiatives. One of these is Team Atticus, our award-winning digital first investigative unit based in Atlanta.

Based on their success, this quarter, we launched a second digital first investigative team, out of Washington, D.C.'s WUSA 9. This innovative digital-first journalism is scaled across our portfolio and allows us to reach entirely new audiences, and we continue to expand the platforms we're using to distribute our valuable local content.

For instance, at KING-TV in Seattle, we created new content for Amazon's Echo and Alexa devices, providing audiences snackable content that highlights the top 5 things you need to know each morning.

We've also partnered with Snap to bring public Snapchat stories to all our news platforms, stories like the recent 9-day sit-in held by Howard University. We use public Snapchat content created inside the administration building, giving us exclusive content and again, allowing us to reach an entirely new audience.

Our content innovation efforts are being nationally recognized, TEGNA won 83 regional Edward R. Murrow awards, the most in our history and more than other any other media local company. Nine of these awards were for excellence and innovation; and eight came from these pilot processes I talked about earlier.

Another way we're innovating is through the original LIVE daily non-news programs we've launched. This fall, Daily Blast LIVE, or DBL as we call it, will expand its footprint into non-TEGNA markets thanks to our partnership with Sony. We've entered distribution deals to air in 13 new markets, highlighting the popularity of the show's very unique, live, must-see format.

And as our industry moves forward with the ATSC 3.0 digital standard, we're working with our Pearl TV business alliance members as well as national television networks to define the next generation of digital TV.

Part of that collaboration is the launch of a comprehensive test effort for the Phoenix, Arizona market to show how ATSC 3.0 can be deployed while maintaining existing digital services for viewers. More on that to come in the quarters ahead.

This quarter, we closed our acquisition of KFMB in San Diego and the integration is going very well and our team there is already leveraging TEGNA's many content, sales and marketing innovations such as Premion.

Our strong San Diego stations should also see significant political revenue this year. Overall, the political picture for TEGNA looks very, very good. As we said on our last call, voter energy and fundraising for these midterm elections will be unprecedented and as also as we said before, we've got a very competitive footprint in gubernatorial and U.S. Senate races. But the new dynamic for us that's becoming clear is that as of today, we now expect to see more than a 50% increase in the number of competitive house seats in our footprint. And as you know, the battle for control of the house is this year's main event.

Finally, turning to M&A. Recently, there's been a lot of noise. Noise about the UHF discount court case as well as noise surrounding the Sinclair-Tribune transaction.

Neither of these topics are of concern to TEGNA. First, as it relates to the discount, our ownership stake under the cap is only five points less due to the discount, due to our high VHF concentration. Specifically, we're 27.7% with the discount but only 32.6% without it. So, we have ample headroom for vertical growth even under the current cap with no discount.

Furthermore, our previously stated strategy leverages in-market consolidation which we have ample opportunity to execute within existing FCC rules and current DOJ market definitions.

As I stated before but is worth reiterating, we are the largest independent owner of top 25 market Big 4 affiliates in the country. And in all but two of our 39 markets overall, we own only one Big 4 in each of these markets. So, we are uniquely positioned to benefit from the coming in-market consolidation in the industry, regardless of the current temporary regulatory noise.

And with that, I'll pass the call to Victoria.

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

Thanks, Dave. Good morning, everyone, and thank you for joining us.

As Dave mentioned, the first quarter marked a strong start to 2018 reflecting the power of our organic and inorganic investments in growing and diversifying our revenue streams, making the highest first quarter for revenue ever for the broadcast business.

Combined with our financial discipline and operational effectiveness, this allows us to continue to generate returns that fuel growth and create shareholder value, amongst the highest dividend yield in the sector.

Before I cover our consolidated financial results and capital allocation for the quarter, I'd like to review just a few special items with you. During the quarter, we recorded a charge of $6.3 million related to lump-sum pension payments. In addition, we recognized transaction expenses of $9.5 million primarily associated with our acquisition of KFMB, which was completed in February. All-in, special items for the quarter totaled $15.8 million or $0.08 a share.

Moving now to the first quarter consolidated financial results. Keep in mind, all of my comments today will be focused on our performance from continuing operations on a non-GAAP basis in order to clearly provide financial insight into the drivers and results of our business. You can find all our reported data and prior period comparatives in both the text and the tables contained in our press release.

Just as a reminder, when looking at our results for the quarter, due to the termination of our services agreement with Gannett in June 2017, revenue comparisons were again unfavorably impacted by $11 million and are projected to impact the second quarter by roughly $6 million.

With that context, excluding the impact of terminated digital marketing services, total company revenue for the first quarter was up 12% over last year, at the high end of the guidance range provided on our last earnings call. On a reported basis, total revenue for the quarter was up 9%, also at the high end of our expectations.

Revenue growth was due primarily to advertising associated with the Winter Olympics and the Super Bowl on our NBC stations as well as subscription revenue growth and political spending.

Note that as Dave mentioned, even excluding these cyclical events and political advertising revenues, revenue was still up nearly 6% year-over-year.

Subscription revenue growth for the quarter was up 13% year-over-year, reflecting both the financial benefits of agreements with traditional MVPDs negotiated in prior years as well as continued growth in revenue and subscribers from OTT providers.

As Dave mentioned, we have now seen three months of sequential growth in total paid subscribers. As a reminder, only 6% of our MVPD subscriber base was up for renewal at the end of 2017. While there are annual escalators, the lower percentage of subscriber renewals this year will not drive the significant year-over-year growth seen in prior years.

By comparison, approximately 15% of our MVPD subscriber base is up for renewal in 2018 while almost half, or 48%, renews in 2019. As we said in our release and Dave highlighted, we've now raised our full year subscription revenue growth to the mid-teens.

Beyond these positive subscription revenue trends, advertising and marketing services revenue also increased 9% this quarter driven by Olympics and Super Bowl, excluding discontinued digital marketing services revenue of $11 million. On a reported basis, advertising and marketing services revenue was up 5%, higher than the first quarter last year.

Now looking at this a little more closely. Advertising revenue for these first quarter events totaled $50 million comprised of the Olympics at $38 million and the Super Bowl at $12 million.

Keep in mind, as we discussed in detail on our last earnings call, not all Olympic advertising is incremental. Just to provide some context. We estimate that net incremental revenue generated by the Olympics across the company this year was approximately $14 million or 37%; meaning that our NBC stations gained $20 million while our non-NBC stations lost $6 million as advertisers moved dollars temporarily to the NBC station in the market to leverage Olympic viewership.

Beyond this, we also had $4 million less in unwired deals this year than we had in the 2014 Olympics, and unwired deals are 100% incremental. You'll recall that unwired dollars are brand dollars that come to NBC stations in the top 25 markets just for the Olympics. So, excluding the impact of lesser demand for unwired advertising, Olympics revenue was equal to 2014.

By comparison to all this, the Super Bowl is largely incremental; nearly $10 million of the $12 million I mentioned earlier. Together, both these events produced $24 million net incremental revenue for the quarter.

Now looking at second quarter revenue guidance. We expect total company revenue to increase mid-single digits year-over-year, driven by subscription, political and Premion revenue, in addition to the first full quarter contribution from KFMB.

Keep in mind that we will soon lap the wind-down of the terminated digital business from the second quarter last year. The impact of the year-over-year total revenue comparison is only 1%.

Now turning back to the first quarter for a look at expenses. Total company operating expenses on a non-GAAP basis were 10% higher year-over-year, driven primarily by higher programming fees, investments in Premion and higher costs for events such as the Olympics and Super Bowl. Expense increases are partially offset by the absence of the terminated digital marketing services business.

As we discussed last quarter, our mix of sales expense to revenue shifts throughout the year based on our product-related costs of sale. For example, this quarter, sales and editorial costs were higher due to the Olympics and Super Bowl.

In the latter half of this year, this mix shifts significantly with lower cost of sale higher-margin political revenue.

During the first quarter, corporate expense was $13 million compared to $15 million in 2017. This reflects the rightsizing of corporate functions following the spin-off of our former digital segment businesses.

Excluding corporate expense, adjusted EBITDA for the quarter was $170 million, producing a margin from our business operations of approximately 34%.

All of these factors were included in our full year Adjusted EBITDA margin range of 39% to 42%, likely at the lower end of that range with the strong growth we are projecting for Premion.

I also wanted to note that we also continue to be comfortable with the full year 2018 revenue outlook we provided on Investor Day last May.

Now turning to capital expenditures and capital allocation during the first quarter. Capital expenditures for the quarter totaled $11 million reflecting investments in news content, efficiency projects and maintenance, including $2 million of expenditures related to the mandatory spectrum repacking for which we expect to be fully reimbursed.

In line with our prior projections for the full year, we expect recurring capital expenditures of approximately $35 million to $40 million and roughly the same amount of nonrecurring items, including mandatory channel repacking, our upcoming headquarters relocation and a new facility in Houston.

Now turning to capital allocation. As I noted in the last earnings call, we funded our $325 million acquisition of KFMB through the use of our revolver and cash on hand. As a result, at quarter end, total debt was $3.2 billion, producing net leverage of approximately 4.3x, a slight increase from year-end. We expect that to return to about 4x by the end of 2018 as I noted in the last call, given our strong cash flows.

Beyond this, as you know, we initiated a $300 million three-year share repurchase program last September. We've been on hiatus since we announced the acquisition of KFMB in December, but we now plan to restart share repurchases. With the recent compression of equity prices in the sector, we are undervalued by any measure. As a result, TEGNA shares represent a very attractive investment opportunity.

Given our firepower and future cash flows, this does not preclude in any way our continued commitment to both M&A and deleveraging over time.

Now let me turn the call back to Dave for some final remarks.

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

Thanks, Victoria. As you can see, we're making tangible progress on our strategic plan through our culture of innovation. We're well positioned for growth in both the short and long term and are uniquely well-positioned to benefit from the changing regulatory landscape.

And with that, I'd like to open it up for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll go first to Craig Huber with Huber Research Partners.

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

On the second quarter, embedded within your guidance, putting aside the acquisition, your core advertising outlook, is it for down slightly year-over-year? 1% to 2% say?

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

We don't guide to advertising per se, I mean we haven't in the past and we don't. And remember, we don't break out core anymore because it's advertising and market services writ large. But I will say that second quarter is a little bit softer than first quarter overall. So, I would give you that guide.

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

And then also, can you just help us? So the auto and retail categories, how did they do in the first quarter as you separate it out Super Bowl and Olympics. And then also, how is it both tracking in the second quarter, please?

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

It's tough to break it out a little bit from Olympics and Super Bowl and categories but when we do it, they were still positive. Retail was still positive in the first quarter and auto was flattish, when you take out Olympics and Super Bowl. They are both a little softer in the second quarter. Some other categories are quite a bit stronger like services, media, telecom and entertainment, but auto and retail generally are softer in the second quarter than they were in the first, even when you exclude Olympics and Super Bowl.

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

I appreciate that. And then on the core cutting worry out there that investors have, just to put a little bit more meat on the bones here, putting aside the acquisitions, say how much was, on a year-over-year basis at the end of the first quarter, your traditional retrans subs down your year-over-year? And then how much did the OTT add on top of that?

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

First of all, we don't have it to the end of the quarter yet, Craig, because we're in arrears when we get our subs. So basically, we're current through February. The bottom line is, put the two of them combined, which is the way we look at it, they have -- the trend -- we had a decline in to about August and that rate of decline has decreased each month since then. And with the two of them together, we have now as many paid subs as we did in months in the early part of last year. On a year-over-year basis, the last numbers we have, we are basically -- when again, we have this U-verse issue which we're cycling through, but when you exclude U-verse, we are flat on a year-to-year basis.

Operator

And we'll go next to Kyle Evans with Stephens.

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

I want to dig a little bit deeper on the million OTT subs. Who do you see on the traditional cable satellite bundle side, giving it up? And who do you see taking the most in terms of the OTT providers? Then I have some follow-ups.

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

Yes. Kyle, sort of based on our confidentiality agreements with our providers and just good relationships overall, we really don't comment on individual companies. I will say that -- but I will give some color without naming companies, all right? The terrestrial MVPDs are doing really well in the top markets. And in some cases, even increasing subs. There is a big variance for all on the traditional side of the market -- based on the market size. And same's true with the MVPD subs. Most of our virtual MVPDs subs are in our top 25 markets and a higher percentage in the top 10

DMAs. The sub losses and across the ecosystem, totally correlate with market size. If you break down our company by top 10 markets, 11 to 25, 25 to 50, 51 to 100 and then markets 100 plus, and we've got quite a few markets in each of the -- quite a few stations in each of those categories, it's a straight down line, right? So, we are actually up. Our subs are up on a year-to-year basis in our top 10 DMAs. But markets 100 plus, for instance, right now are tracking negative 5 and the rate of decline is actually increasing. But for us, the strength in markets 10 through 50 is offsetting what's going on below it. So, it is sort of a "tale of two cities" when it comes to market sizes.

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

You mentioned that you only have two markets where you already have two Big 4s. And you kind of highlighted the opportunity for more in-market. How many of your markets, based on your understanding of what the DOJ will allow, do you think are open to opportunity? And if you don't want to do it by markets, you could do it by U.S. TV households?

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

What I said before was probably a little bit just under half.

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

And is that true for U.S. TV households as well as number of markets?

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

I'm sorry, I thought you were asking me about in-market. Were you asking about in-market, Kyle?

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

Yes, sir.

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

So that's -- yes, that's unrelated to households, right, because in-markets and, in fact, frankly if I do swaps, we do a swap, we'll go smaller.

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

Yes, you'll take it down, yes.

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

We'll take it down, that's right. Yes, that's right.

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

Could you talk -- the Premion growth is kind of the standout top line. Can you talk a little bit about the competitive landscape there; the barriers to new entrants? You mentioned you were the only one that could sell mlb.com in your markets, you talked a little bit about the DMP launch. Just who do you square off against there? And who do you worry about?

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

Well, there's people out their selling programmatic. I'm not going to name names but they are selling it just programmatic, which is just kind of lowest sort of like remnant advertising. What makes us stand out is we've gotten way out front on the quality of the data that we're providing to our clients. So they are able to target dramatically better than they can with other opportunities. Obviously, there are a lot of players out there that -- obviously, the cable companies are in this business. They've got TV everywhere and even some of our own peer groups are getting in the business of trying to sell OTT advertising but those are programmatic plays.

It's our data targeting that is our unique value proposition and why we're being sought out by Premion publishers. Because they're getting back data about their programming that they don't have themselves. So they're able to -- it's not just about the targeting of the advertising, they're also learning about the makeup of their programming audience. And that's where the -- and that's where we're going to turbocharge. That data management platform business will become a separate business that we'll sell as a service to brands and advertisers and as well as programmers.

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

Great, one last one. How and when do you expect your station in Phoenix to evolve as it relates to the Pearl and the ATSC 3 rollout? When will that station look materially different than the ones that aren't in the consortium?

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

Well, it's a test, right? So we're -- our Phoenix station will keep on running our ATSC 1.0. What we're collaborating on together is we're using other people's sticks to test 3.0. And so, the consortium will be all testing, we'll be testing different aspects of the platform, different codes, different applications for different business models, so it is a test. It is not whether or not Phoenix lights up permanently in 3.0 or we do that in other markets first is yet to be determined but it is truly a collective laboratory for the broadcasters.

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

What are the first applications you expect to see?

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

I don't know. I've said all along -- I mean we're testing different -- different applications will be tested like mobile, like targeted advertising. But as I've said all along, I don't believe -- I believe that by the time it's fully deployed and with the rate with which things are changing, that the winning business model may not even been thought of yet, Kyle. As I've said before, we view it the way our strategy -- head of strategy puts it, we view it sort of like the iPhone; that this new platform will be put out there and other money and developers will come and write some really interesting programs for that application. So, i.e., will the driverless car happen faster -- sooner rather than later and then the entertainment in an automobile moves from audio to video as an example. So I think the answer is we don't know yet.

Operator

And we'll go next to Barton Crockett with B. Riley FBR.

Barton Evans Crockett - *B. Riley FBR, Inc., Research Division - Analyst*

It's encouraging to see an up kind of take on your subscription revenues but I was wondering if you could be a little bit more specific on the net retrans. I think last quarter I asked this question. Do you expect your net retrans to pace in line with your gross? And now you see the gross looking a little bit better, can the same be said of net?

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

Absolutely. Absolutely, Barton. Yes.

Barton Evans Crockett - *B. Riley FBR, Inc., Research Division - Analyst*

Right. So, we can assume from that, that there's not material deterioration in economics as growth transitions to virtual MVPDs. Is that correct?

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

There is 0 deterioration. 0. Yes.

Barton Evans Crockett - *B. Riley FBR, Inc., Research Division - Analyst*

All right. That's great. Now one of the things also is on political. I mean there's been some reports out there, I guess predicting that political spend on TV overall will be down as share shifts to Internet. You guys, I think, had less political this quarter than you did four years ago, although it's very small period and there's some compatibility issues. How do you feel about that kind of stance that others have had, not us, but others?

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

No. I don't believe that at all. First of all, when you look at first and second quarters and different years, they are sort of meaningful. If you look at history, they don't really track much with what -- all that revenue comes in the third and fourth and sometimes, a bit in June. No. I think that's absolutely -- in fact, we've seen very detailed breakouts by people in the ecosystem that are controlling those dollars, two very specific agencies. And the amount of dollars spent on TV, we think will be up significantly and I think so the share shift story has been talked about for a long time. Certainly, cable has been picking up share, especially in House races and large markets over the years. Digital has been taking dollars that used to go to direct mail, a lot of it. But the fact of the matter is the pie is going to be so much bigger and by all -- by every inside agency not somebody who has a specific axe to grind in the ecosystem or a bias in the ecosystem but when you talk to the agencies that control those dollars, they'll tell you television is going to be up. And broadcast specifically will be up.

Barton Evans Crockett - *B. Riley FBR, Inc., Research Division - Analyst*

That's great. So, one final thing. You guys in your May Investor Day had flagged $150 million to $175 million potential EBITDA lift from M&A. I think really focused on the new local in-market ownership rules. You guys have just done a San Diego acquisition. Was that included in that $150 million to $175 million? Or is that kind of incremental to what you just bought in San Diego?

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

No. It's incremental. That was what we said would be the value of in-market horizontal M&A over time.

Barton Evans Crockett - *B. Riley FBR, Inc., Research Division - Analyst*

And you still feel confident in that, given how the environment's shaped up to date?

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

I do. I do. We're a little -- right now, we're a little bit slower. There's obviously been a little noise in the system so it's probably the starting gun has just pushed back just a hair, but all the stars are still lining up.

Operator

And we'll go next to Marci Ryvicker with Wells Fargo.

Marci Lynn Ryvicker - *Wells Fargo Securities, LLC, Research Division - MD & Senior Analyst*

I just want to be clear, is the increase in your subscription revenue guidance due to the subscriber comments?

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

Yes. 100%, Marci. Yes. We had forecasted X and it's going to be quite a bit better than what we thought. And it's really about, if you remember two quarters ago, we said we just didn't know what that mix was going to look like, right, until we had some sizable numbers. I mean now we've got some clarity on the mix. Sorry, didn't mean to cut you off there.

Marci Lynn Ryvicker - *Wells Fargo Securities, LLC, Research Division - MD & Senior Analyst*

Okay. And then for the second quarter, how much visibility do you have, meaning how much is booked? And then can you talk about the monthly trends at this point?

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

You're talking about subscriber revenues?

Marci Lynn Ryvicker - *Wells Fargo Securities, LLC, Research Division - MD & Senior Analyst*

No. Sorry, advertising. Just because you mentioned it was off versus Q1.

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

Yes, a lot is booked but we've still got a way to go. So as I'd mentioned, it has been softer than first quarter. Although it has improved a little bit nicely in the last two weeks. So we -- as a trend, we hope will continue through June.

Marci Lynn Ryvicker - *Wells Fargo Securities, LLC, Research Division - MD & Senior Analyst*

Okay. And then, Victoria, just for the CapEx guidance, your total CapEx is $35 million to $40 million, is that inclusive or exclusive of the one-time items that you mentioned?

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

No. That's on a recurring basis. It's in line with what we had previously put out in terms of our guidance on Investor Day. So we have incremental to that nonrecurring CapEx, a large portion of, which we expect to be reimbursed, obviously, relative to repacking but we also have our Houston one-time relocation of our head -- I mean our headquarters and the Houston new facility. So all of that is just onetime; you shouldn't bake that into recurring CapEx. And it's roughly the same size as the $35 million to $40 million recurring.

Marci Lynn Ryvicker - *Wells Fargo Securities, LLC, Research Division - MD & Senior Analyst*

Okay. And then my last question, just on the expense side for Premion. I think maybe The Street, us included, hasn't truly understood the investment spend throughout the year. Is there any comment you can make for Q1, Q2 and then the second half? Should it tail off in the second half of the year?

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

The rate of investments should tail off, Marci. As soon as we got hot on the selling ads side of the business, we saw this data management platform opportunity, so we've invested in the technology or the people to do that but that rate of what I call the back-end expense will slow down. The zero margin of the business is related and a lot to that expense investment. The absolute selling and cost of goods sold is already a profitable business.

Operator

We'll go next to Dan Kurnos with The Benchmark Company.

Daniel Louis Kurnos - *The Benchmark Company, LLC, Research Division - MD*

So I guess OTT and sub is topic de jour today. So just, Dave, just high level, maybe let me dig a little bit deeper to your thoughts on this. I think most of the CBS and Fox OTT deals will come up for renewal over the next couple years. You guys seem to be a pretty interesting test space for this space. We had the other player who's been making a lot of noise in the space lately, maybe fire the first shot with Sony Vue. So I'm curious to how you think if you have leverage in those relationships, do you start to try to change the equations you guys can try to lever up against the MVPDs, sort of in your traditional vein? Or how do you think those negotiations will go? And while you did give some color on this and you talked about sort of the sustainability of sub-trends, I mean, ultimately, do you have a sense of kind of where this pans out in terms of picking up subs on a one-for-one or 50% or 75%, whatever it is?

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

Yes, so let me take the last question first. Dan, over time, it's hard to say what the absolute conversion rate is going to be, but right now, it is almost like a one-for-one for us. Now, what we don't know is that actually, we do know that -- we know from the providers that in some of the major markets, which have higher incomes, there's people who have both services. So you have some noise when you're doing the comps that have a traditional MVPD service as well as a YouTube TV or something like that. But I think that rate, the data tells us it's going to look a lot better in the large markets than the small markets. It's unclear too, one, a concern I do have for our more small-market stations is not -- some of these players are not fully deployed. YouTube TV has sort of tapped out right now at market 100 and we hope to get them restarted for the industry at large to get out for the smaller markets much like the early days of satellite whereas DIRECTV NOW I think is fully deployed. I think to your earlier questions, what we -- the nice thing about the process related to the OTT negotiations, I mean I'll be frank, it's a chessboard. Every network and every relationship is different. I can't speak to Fox because we don't really have Fox, all right? We're at San Angelo and -- with San Angelo and Abilene, so I can't really speak to that. But the nice thing is that the consumers have voted in this, right. Remember in the early days, or 10 years ago, there was a discussion of having a la carte cable and how bad that would be for the ecosystem, but in effect, you've got a version of a-la-carte now and the consumers have basically said, we want our integrated broadcast television station in our markets, right. And they're the most viewed channels on every linear service that they're on, right? No matter whether it's OTT, streaming or traditional. So I think regardless of how the ecosystem plays out and who negotiates what, that we are in a good place, both on distribution and on the wholesale rate down. Just one more piece of color on that. The negotiation with the networks on the share is ongoing dialogue just like it is on the traditional side, but we're large enough that our -- it's collaborative discussion with our network partners where we're focused together on the size of the pie before we argue about the share. Thanks, Dan.

Daniel Louis Kurnos - *The Benchmark Company, LLC, Research Division - MD*

Got you. So then shifting over just quickly to M&A. I mean you gave great color on sort of your thoughts relative to the going on in the space. If the politicians win the day and D.C. obviously have addressed kind of what the end-market opportunity is, would that sort of -- if you cannot scale past who should have discount and forgetting the fact that the FCC will probably unilaterally do something to the cap, but would that sort of change the way that you will think about capital allocation with just focus on end market and return more capital to shareholders? Could you just kind of give me your thoughts there? Is there enough M&A to still scale up of the cap near term and also do the end-market stuff?

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

Yes. So the end-market stuff we can do no matter what, right. So I mean we'll be able to do. Obviously, there's an FCC court case, but we're very comfortable with what's going to -- what the future looks like in terms on the FCC on the end-market side. The DOJ, the sort of antiquated DOJ definition of 40% being a threshold for broadcast market share, that does need to change. Don't know whether it will in the next year or two but again, to my earlier point, we've got ample room to do a number of deals even under that number. I think as it relates to vertical, like I said, we've still got 6% under the cap, that's a lot of room there. When we do some swaps, we'll get smaller under the cap whatever that number is. So yes, I think we will be looking to be opportunistic in the industry. And I think the industry will start to -- there will be companies that nobody's a seller until they're a seller and I think that there will be a coming consolidation of the industry and appropriately so because scale matters in this world today.

Daniel Louis Kurnos - *The Benchmark Company, LLC, Research Division - MD*

Great. And just if I could sneak one more in not to get overly Internet-ey or technical on this stuff, but on the DMP, are you thinking of that more as a sort of backdrop analytics tool for ROI, which, I mean, given that the end-market opportunity for OTT ad tech is still pretty large, just from a targeting perspective? Or is it really more of targeting and geolocation type of tool?

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

It's kind of all of that. It's a very sophisticated data service for brands and advertisers that shows them -- it ties their programming and data on their programming to consumer data, in a way that other services do not. So it's a -- in addition to being -- and it's being the back-end engine that drives Premion is the same technology play that will drive this service. But it will be a separate service that we will sell and a higher margin business by the way than Premion's core business. I'm not going to put a number to that yet but it will be a higher margin than Premium's core business.

Daniel Louis Kurnos - *The Benchmark Company, LLC, Research Division - MD*

No, I would certainly expect that. I was just wondering because I don't know that we've seen a lot of other competing services out there. With YouTube TV, I wonder if there's a sort a Google analytics comparable yet. But it doesn't sound like it's in the space. Is that fair?

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

No. I think that's definitely fair to say. And I think the thing -- the earlier question, which was a good one about barriers to entry and who's in the space, just a reminder, this space is exploding, right. So it's not -- there's a lot of players and there's a long tail out there. So there's a lot of inventory and it's growing by the day.

Operator

And we'll go next to Doug Arthur with Huber Research.

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

Victoria, in terms of the double-digit cost increase in the first quarter, is there any way to unpack that in terms of what was incremental caused by Super Bowl, Olympics? And then would you expect -- I mean it sounds like you expect some seasonality benefit as the year goes on. So lower cost growth in the second quarter, is that a fair assessment?

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

To answer that in reverse order, yes. And as the year goes on, an improvement from an either/or perspective, to your earlier point, because of the Olympics and Super Bowl and their higher cost related to both the editorial as well as the sales cost, that was about a $3 million impact to expense for the quarter, which we won't see as it's nonrecurring for second quarter. And on top of that, we have lower expense in general as the year goes on, both as a result of Premion as well as higher margin political coming in in the latter half of the year. So total margin, we're still very comfortable with. From a range perspective, at the lower end given the growth of Premion.

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

Okay, I'm sorry, you said the $3 million was what? I'm sorry.

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

The incremental expense associated with Olympics and Super Bowl during the first quarter related to both of those two events from a higher cost of sales perspective?

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

Doug, we had higher cost of sales plus we had coverage costs. We send crews for the Olympics and the Super Bowl with -- and on our Minneapolis TV station was a home market. So, we had coverage editorial costs related to that too.

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

Got it. Okay. And then, Dave, just on this MLB development. Is that -- I mean is that built-in obviously to the doubling in Premion revenues for this year? I mean how incremental is that?

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

I don't have -- it's a good question, Doug. We haven't put a number to it. It's just -- well, we just tell them to get the deal, sell, sell, sell is what we're focusing on right now. I think the -- we knew we'd be -- built into our expectations as we knew we'd be adding significant publishers. We didn't know who. So I can't speak to whether that's incremental. What I will point out is that Premion is proving to be very attractive to the political agencies for what is -- and obvious -- and now to us, in retrospect, obvious, right? Because that targeting capability allowed -- and the ability to integrate some of their own data, right, that they've got on voter data, is turning out to be really, really attractive to the digital side of the house of the political shops. So can't put a number to that but we are pretty enthusiastic about what that might be.

Operator

And we'll go next to Barry Lucas with Gabelli & Company.

Barry Lewis Lucas - *Gabelli Research, LLC - Senior Analyst*

Just a couple. Dave, for reference, political in '14 was about $160 million?

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

Yes.

Barry Lewis Lucas - *Gabelli Research, LLC - Senior Analyst*

Okay. And could you talk or at least identify what the six weeks of San Diego contributed?

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

We don't call out individual stations. We've talked about this on the call last time. For the quarter, it was less than double digits. So it's embedded in our base business at this point and we're not calling it out but it's about that kind of ballpark for about 5.5 weeks.

Barry Lewis Lucas - *Gabelli Research, LLC - Senior Analyst*

Okay, Victoria. And what do you really expect out of the Phoenix test? And what would be sort of the next milestone you would think for ATSC 3.0?

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

Well, first of all, we need to prove the ability to simulcast in both, right; to utilize other sticks and to be able to simulcast in ATSC 1.0 and 3.0 at the same time. That's number one, right, to be able to provide the service to existing homes. But then I think the milestones are going to be how the -- how right now, the technology applications, as they're written for different applications, do they work? And that's really what this is right now, on top of that, it's a technology test. It's not, at this point, a business model test; it's a technology applications test. So the first stage, the first milestones are going to be how well do these applications work?

Barry Lewis Lucas - *Gabelli Research, LLC - Senior Analyst*

Okay. Last one for me, Dave, coming right back to the swaps, trades and M&A. Given the kind of obvious economic benefits to the parties and a number of parties have been talking about them, why the delay? Why haven't we really seen any yet?

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

I think some companies saw the wisdom in it or became attracted to the wisdom of it later than others. And I also think that some companies have been spooked by the regulatory noise that's now clearing itself up.

Operator

And we'll go next to Jim Goss with Barrington Research.

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

With Premion, wondering how you -- the process of building that business. For example, the MLB partnership, is that a unique asset? Or are there other sort of things you can find like that? How embedded will Premion Audience Select and the DMP be a part of it? And if you look at the data that is collected, how granular is that data? Are there any privacy issues? Is it more traditional broadcast-type demographic data that you'd be using that's non-individual? Maybe some of those.

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

Yes, well -- yes, thanks for the question, Jim. Yes. No, first of all, we don't collect any PII information. So there's no Facebook-related type of privacy issues, right? It's all anonymized. But no, it is not like traditional audience demographic. It's incredibly targeted in terms of the -- like I said earlier, the number of audience segments that -- and when we say segments, literally, what -- consumer intentions, right. And there's literally 2,000 of them that can be cross-referenced for a brand or an advertiser to get what they want. So that is really the secret sauce of Premion and it's also done in a -- it's done in a UI/UX for the advertiser and for the brands, for them just to easily see the performance of their advertising, which is not something they get even in the traditional digital space. And it's -- with much more transparency than existed in the previous banner advertising world of the old desktop world. So now the DMP will become a separate business but that same type of technology is what's driving this audience segmentation we can provide today. But there are other brands and advertisers that might not even be using Premion that would want to use the DMP.

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

Okay. And regarding the unique qualities of MLB, are there others like that you're thinking of trying to sign?

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

I think if, look, it's a one-year deal, I'll have other people wanting to sell their business too but there's others -- and yes, there are other things out there that are big players that we are talking to. And in many cases, they're inbound calls to us now because the word is out there on the digital side of the house is about what Premion can offer in targeting.

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

Okay. And not to pile on, on the M&A side, but with the notion of swaps, is there -- I know there's an opportunity but I'm wondering if your appetite for finding a like-minded type similar market size company, a Hearst or one of those broadcasters where you might double down in one market, they get another market or something of that nature. Or is your interest only in finding a partner for broadcast properties in your existing markets and not really getting out of any of those?

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

Well, without mentioning company names, the idea is the former. The idea would be that if your company -- we'll just pick markets we're not in, just so I'm not starting rumors, but so if you owned a station in Las Vegas let's say and I owned a station in Nashville, right, it would be smart for us to -- you'd take my Nashville station and vice versa and we end up with two stations and one market rather than one market -- one station, two markets -- two stations and one market. Yes, I just messed up that math, but you get the idea, right? And that's how we get smaller than the cap. So we actually go down a market, right, but we end up with two stations and one market. So -- and that appetite is out there and those conversations are happening.

Okay. I think that's all the questions we have. Thanks for everyone's time. And as always, you can call Jeff Heinz with questions at (703)...

Jeffrey R. Heinz - *TEGNA Inc. - VP of IR*

873-6917.

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

(703) 873-6917. Thank you, everyone. Thanks.

Operator

And this does conclude today's call. We thank you for your participation. You may now disconnect.
