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TGNA.N - Q2 2024 Tegna Inc Earnings Call

EVENT DATE/TIME: AUGUST 07, 2024 / 2:00PM GMT

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PRESENTATION

Operator

Good day and thank you for standing by. Welcome to the Q2 2024 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 - Vice President and Treasurer*

Thank you. Good morning and welcome to our second-quarter 2024 conference call and webcast. My name is Kirk von Seelen, and I'm Tegna's Treasurer. Today, our President and CEO, Dave Lougee, and our CFO, Julie Heskett, will review Tegna's second quarter performance and results, and provide Tegna's full-year and third 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've 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 Dave.

David Lougee - *Tegna Inc - President, Chief Executive Officer, Director*

Thank you, Kirk, and good morning, everyone. First, let me begin by saying what a privilege it's been leading this great company for the past seven years. We've gone through a lot together, and I'm proud to have worked closely with you, the investment community, as well as my colleagues across Tegna.

My successor, Mike Steib, will say a few brief words before opening up for Q&A. I'm set to advise Mike and the team during this transition, and I look forward to watching him take the company forward to new heights. Mike's very eager to get started, but his first official day is not until next week, so I'll kindly ask that you hold off another quarter before peppering him with questions.

I'll begin this morning by discussing our second quarter results and providing an update on recent wins. I'll then pass it to Julie to highlight our financial performance and capital deployment strategy in more detail. We achieved our key guidance metrics in the second quarter, finishing at the midpoint of our guidance range for revenue, and in line with expense range.

Second quarter, total company revenue fell year-over-year as subscriber and national advertising declines continue to accelerate, partially offset by political advertising. The economy continues to proceed at a sluggish and uncertain pace, and that's been echoed in national ad spend, which is lower than we anticipated going into the year.

That said, local advertising is faring well considering the headwinds facing national, as small and medium local businesses show a more willingness to spend. We're especially seeing that at Premion, our industry-leading CTV sales platform that serves the local marketplace.

Our hypothesis continues to hold true that the local market will continue to adopt CTV advertising, and Premion's well-positioned to capitalize on this opportunity. Our Premion sales footprint reaches almost 80% of US households, and there's considerable upside in cross-selling to our existing linear customers as they increasingly adopt CTV.

We're confident our recent acquisition of Octillion, which marries cutting-edge technology with Premion sales acumen, will further accelerate the combined businesses. Again, while national advertising has been sluggish, we expect an uptick in ad spend during the third quarter through the current Paris Olympics coverage on our NBC stations.

We've continued to add dollars throughout the summer games, which are producing tremendous ratings as broadcast numbers for the Paris Olympics are way up from Tokyo. Our NBC stations are some of the strongest in the country, outperforming the national average of ratings across all day parts and we have seven of the top 13 rated stations in the top 30 markets.

Now, let's turn to the coming election in November. As you all know, the events of the last month are unprecedented. The change at the top of the Democratic ticket has clearly unleashed pent-up enthusiasm on that side of the aisle, and that's translated into more than $300 million in donations for the Harris campaign in just less than two weeks.

In every way, including advertising, this is now a very different race. But as the saying goes, the more things change, the more they stay the same. Specifically, once again, it looks like a seven-state electoral college race -- the same seven states -- and that's good news for Tegna. It's once again coming down to Pennsylvania, Michigan, Wisconsin, Georgia, Arizona, North Carolina, and Nevada, and we cover all but one.

And whatever the Presidential spending was going to be in those states before, it's new math today. We expect record Presidential spending from now through Election Day, and Julie and I look forward to taking your questions on the topic during the Q&A.

In the Senate, while there are fewer races than in recent cycles, as we've said several times before, the races that are competitive will likely break all spending records for those seats, as parties and donors have come to recognize more than ever what's at stake with control of the Senate.

While there are fewer competitive seats overall, we have stations covering five of the seven hottest races --Ohio, Pennsylvania, Arizona, Michigan, and Wisconsin.

There's not as many governor's races in presidential years than during the midterm, so once again, a great footprint for us on the races that there are. We cover all three of the most competitive races. North Carolina, New Hampshire, and Washington State. Bottom line, we are extremely well-positioned to capture our share of linear and OTT political ad dollars during what's going to be a red-hot 90 days of spending from now to Election Day.

Before I wrap it up, I'd like to say a few words about the current state of sports on local broadcasting, and what it implies about the ecosystem. The recently announced NBA network deals is a notable milestone that I don't think has been adequately reported on.

Specifically, the deal with NBC signifies a huge shift away from paid cable to broadcast for the league. As we've talked about before, that's no accident and NBA Commissioner Adam Silver came out and said it last week, it's all about reach.

With a continually declining reach of paid cable, leagues and teams need and want the extraordinary distribution and marketing power of strong broadcast networks made strong in great part by their strong local affiliates like ours, and in the case of NBC, no affiliate group is as important to NBC as Tegna. Our portfolio of highly regarded large market stations and pro-team home markets is well-positioned to capitalize on this shift.

Last quarter, we announced deals with the NHL's Seattle Kraken, the Seattle Reign of the Women's Soccer League, and an exclusive broadcast distribution deal with the WNBA's Indiana Fever. We took Caitlin Clark and the Fever to 12 other broadcast markets, including her home market of Iowa. The performance to date has been exceptional for us and for them.

Our deal with the Kraken to distribute all their games across the Northwest was expanded this quarter with distribution in Alaska by partnering with Gray Media. This adds to our outer market distribution in Seattle, Spokane, and Portland, creating an unprecedented footprint to air games for free over the air beginning in October.

We're in multiple discussions with teams in several markets, and as we've said before, we'll do deals where they make strategic and financial sense. But at its core, the implications of this trends are important. A great deal of the most passionate and consumed local sports content is returning to local broadcasting.

Finally, I want to use this opportunity to extend my deepest gratitude to our station colleagues for their tireless dedication to serving viewers across this country, especially in these challenging times for local journalists and journalists everywhere.

Every day, our colleagues across Tegna are doing remarkable work, changing lives and changing laws, part of Tegna's stated purpose of serving the greater good of the communities we serve. It's because of them this position has been such an honor and privilege to hold.

And to all our stakeholders, I want you to know how confident the board and I are, that Mike Steib is the right next leader for Tegna. With that, let me turn the microphone over to Mike to say a few words.

Mike Steib - *Artsy Inc - President and Chief Executive Officer*

Good morning, everyone. I'm here to briefly introduce myself, and then I'll turn it back to the team to take you through the numbers and answer your questions. But first, I want to thank Dave. Tegna is in the strong position it is today thanks to his leadership and the entire industry has benefited from his decades of service. Dave's legacy is a real inspiration to me and his ongoing counsel is going to be invaluable.

I've joined the Tegna team because people served with quality local journalism are better informed, more engaged in our democracy, and more active in their communities. In an increasingly polarized and distrusted news environment, people genuinely value local news and hold their local broadcast news teams in the highest regard.

In my experience, trusted brands and indispensable content are a powerful foundation for success. It was a lesson I learned as a leader at NBC Universal, and again, as an Executive at Google, and one that I've employed repeatedly as CEO.

Over my last two roles as CEO of XO Group, and then as CEO of Artsy, we combined great content, beloved brands, and exceptional digital experiences to delight our users, lead our industries, drive substantial profit growth, and unlock significant shareholder value.

The potential to do the same at Tegna is enormous, and I'm really excited to get to work. I'll formally join the company next week, and I look forward to speaking with you all more fulsomely after Q3. I want to thank you all very much. And with that, back to you, Dave.

David Lougee - *Tegna Inc - President, Chief Executive Officer, Director*

Thanks, Mike. And with that, I'll turn it over to Julie.

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

Thanks, Dave and Mike. Good morning, everyone, and thank you for joining us. To start this morning, I will cover Tegna's capital allocation execution, then provide an update on our business transformation initiatives before closing with a review of our financial results and guidance.

My comments today are primarily focused on Tegna's performance on a consolidated non-GAAP basis. To provide you with visibility into the financial drivers of our business trends, as well as our operational results, you can find all our reported data and prior period comparatives in our press release.

We are making great progress on our promise to return between 40% and 60% of adjusted free cash flow to our shareholders over the 2024 to 2025 period. In the second quarter, we repurchased approximately $72 million of our common stock, representing 5.1 million shares.

Combined with our regular quarterly dividend, our total cash return to shareholders in the second quarter was $93 million. In the first half of 2024, we have returned $196 million of capital to shareholders by way of share repurchases and dividends, achieving 56% year-to-date of our $350 million commitment for 2024.

Notably, since the merger agreement termination in May last year, we've returned over $1 billion to shareholders to date. We've repurchased more than $900 million, or 27% of our shares outstanding. And over that same time, we have paid $103 million in dividends. We are well positioned to meet our commitment while keeping dry powder to take advantage of opportunities to grow our business organically or inorganically.

We remain patient and discerning regarding the company's capital, preserving flexibility and investing where we see the greatest value. When we announced first quarter earnings in May, we simultaneously announced an increase to our dividend.

The first payment to shareholders at the increased amount of $0.0125 per share was made on July 1st. We are proud to deliver a dividend yield in excess of 3% to our shareholders as an integral part of our return of capital strategy.

As Dave referenced, we achieved our key guidance metrics in the second quarter, finishing at the midpoint of our guidance range for revenue and in line with our expense range. Total company revenue for the second quarter was down 3% year-over-year, primarily due to lower subscription and advertising marketing services revenues, partially offset by higher political advertising.

Second quarter subscription revenue was down 7% year-over-year, primarily due to subscriber declines, which were partially offset by contractual rate increases. We expect to renew 20% of our traditional subscribers at the end of this year and another 45% in 2025.

Moving to advertising and marketing services, AMS revenue was down 5% year-over-year due to softness in national advertising demand, while local advertising remained more resilient.

We saw strength within the categories of services, entertainment, banking and finance and restaurants, within the quarter.

Categories that were a drag on our resource were automotive, home improvement, retail, healthcare, and media telecom. Premion local revenue continues to experience positive momentum, delivering revenue growth in the low double-digits compared to last year.

National Premion revenue, however, remains challenging, offsetting local growth and resulting in second quarter non-political Premion revenue to be flat year-over-year.

Another added benefit of Premion is the opportunity to gain political advertising revenue, which bodes well for Tegna's election cycle. When including political advertising on our CTV platform, total Premion revenues are up year-over-year.

As Dave discussed, we continue to be bullish with Premion's position to capitalize on the growth of CTV advertising. Coupled with our recent acquisition of Octillion, we expect Premion's revenue growth rate to increase for years to come despite tougher comps in 2024.

Turning now to expenses. As we introduced earlier this year, we have embarked on an internal review of our costs and developed transformative initiatives to structurally reduce our costs by generating $90 million to $100 million in annualized savings as we exit 2025.

As a reminder, these cost reductions are included in our previously provided two-year adjusted free cash flow guidance. We are directly targeting reductions in operating expenses outside of our high growth vectors of Premion and sports programming, which are slated to see expenses grow year-over-year as they boost revenue for Tegna.

A major area of focus is transforming the core operating model of television stations. Actions taken thus far include a realignment of vendor services, workforce restructuring across several functions, such as sales and information technology, as well as a restructure of corporate oversight.

These actions will result in incremental year-over-year expense improvements for operating expenses less programming and Premion for the balance of 2024 and through 2025.

Further, we anticipate that our efforts in deploying technological innovations, including AI, across our stations will start to yield results in late 2025. Consistent with prior initiatives, we will keep you informed of our progress regularly over the coming quarters.

For the second quarter, non-GAAP operating expenses of $563 million were down slightly compared to the second quarter last year, reflecting the business transformation initiatives I just outlined. This is a sequential improvement from the first quarter of 2024, where non-GAAP operating expenses were up 1% year-over-year.

Adjusted EBITDA was $176 million, and we generated adjusted free cash flow of $131 million during the second quarter. We ended the quarter with total debt of $3.1 billion and cash of $446 million. Net leverage at the end of the quarter was 2.9 times. Our industry-leading balance sheet and strong adjusted free cash flow generation is a differentiator that gives us the ability to reward shareholders, grow the business, and maintain our leverage at or below 3 times.

Now turning to our outlook, as we noted in our press release this morning, we are reaffirming all our key full-year 2024 guidance metrics and our combined '24 to '25 adjusted free cash flow guidance of $900 million to $1.1 billion. Please refer to our press release to see the full details of our guidance.

I'll now provide our third quarter financial guidance metrics. We expect third quarter total company revenue to be up 9% to 12% year-over-year as we are seeing strong bookings from political ad spending, as well as the summer Olympics. We forecast operating expenses in the third quarter to be flat to down slightly compared to last year.

This concludes my prepared remarks today. Before we begin Q&A, on behalf of all our management team and colleagues, I would like to thank Dave for his leadership, guidance and tireless contributions, that have had a positive impact on Tegna, our employees, and the entire broadcast industry.

His passion for local journalism and serving the local communities is unparalleled. We wish him all the best as he retires as Tegna's President and CEO. Let's now turn to Q&A. As Dave mentioned, Mike will not be participating in Q&A and Dave and I look forward to answering your questions. Operator, please open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Dan Kurnos, The Benchmark Company

Dan Kurnos - *The Benchmark Company Inc - Analyst*

Great. Thanks. Good morning, Dave. It's been a wild ride since the Belo days, so if anyone has earned a break you have. Congratulations on your retirement and certainly wish you the best going forward.

Maybe we'll start with political since you brought it up. I mean, I don't know if anybody knows how it's going to play out, but we've certainly seen the fundraising numbers. I don't know if there's a knock-on effect now because of incremental enthusiasm on the democrat side. But how should we be thinking relative to -- and Julie, obviously, if you want to give us the comp again -- relative to '20, just how much we should be thinking about the potential upside over the balance of this year?

David Lougee - *Tegna Inc - President, Chief Executive Officer, Director*

Just let me give you a kind of color commentary and then let Julie do the play-by-play on relative to the guidance. A couple things to think about. I think, obviously, there's definitely new enthusiasm, new dollars.

That said, I think in the last couple months of Biden staying in the race, it had suppressed fundraising on the democratic side. So it kind of depends how you look at it right on really what the fundraising is and will be.

I think it's going to keep the enthusiasm in all the Senate races and the fundraising there, I think, very, very strong, but I think it is important relative to the numbers to understand where we are at a starting place that we're coming from. Let me turn that over to Julie.

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

Yes, good morning, everyone. From political dollars to level set full-year 2020, excluding the Georgia Senate runoff which was about $50 million for us, that would give a comparable 2020 of $395 million. If you break that down just in the first half, you have heard us talk about we do not have as many Senate races or competitive footprint on the Senate side.

We're as strong as we were, and now stronger with the fundraising of presidential, so there's puts and there's takes to both of those. The first half of the year, you'll now notice in looking at first quarter and second quarter, we're slightly behind 2020.

We're 8% behind in the actuals for the first half of the year. So we need to make that up here in the back half just to get back to that $395 million, but that's kind of where we see it. So it's going to depend as you said, Dan, it's the puts and the takes, but presidential is definitely looking strong for us.

David Lougee - *Tegna Inc - President, Chief Executive Officer, Director*

You're right, Dan. On one foot, what we don't have good clarity on right now is how all the events of the last two or three weeks will affect the republican, the presidential fundraising on the republican side.

Dan Kurnos - *The Benchmark Company Inc - Analyst*

But I assume at this point, you guys have started to factor in some of the down ballot stuff that's really picked up some of the measures that we've seen?

David Lougee - *Tegna Inc - President, Chief Executive Officer, Director*

Yes. I'm not sure the events of the last month have impacted those much, but we've been counting on those all along. You're right.

Dan Kurnos - *The Benchmark Company Inc - Analyst*

Okay. And then look, I mean, the metrics for the Olympics have been fantastic. I don't know if you guys want to put a finer point on the incremental tailwind from that. I know it's always hard to kind of balance that between what gets lost with sort of more traditional inventory, but between that, and then obviously the NBA coming at the end of this year, just how we should think about, I guess, sort of core in the next six months balanced against the obviously increasing crowd out effect?

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

That's right. In all of those factors, Dan, there's just a lot of complications. It's an art, not a science. Let me break down third quarter first. Yes, the Olympics is extremely favorable. We're pleased with the audience, which is driving that revenue.

We've mentioned before, some of the favorability of Olympics is being in a political cycle. So some of our Olympic dollars is political. So recognize that those dollars would fall into the political line item, not necessarily the AMS line item. We have digital sales. We have linear sales, so that is AMS.

I know your question is specific about political crowd out and/or incremental in Q3. Our Olympic historical incremental has been roughly 3% to 5% of our AMS number. That will depend between winter and summer.

Summer is more favorable. What we're seeing in this one is that would be at the high end of that 3% to 5%. So you can expect Olympic incremental to be about 4% or 5% of our total AMS in third quarter.

Leaning into fourth quarter, you're really going to have more political crowd out. Again, art versus a science, but we have seen advertising kick up in Q3 based on that Olympics. Second quarter, AMS was weaker as you heard Dave say and I in our prepared remarks auto was a really big factor of that. Auto has improved in Q3.

David Lougee - *Tegna Inc - President, Chief Executive Officer, Director*

And on that last comment about the NBA, Dan, I'd say we don't have all the details yet on the NBC deal. Quite a bit I'm not sure all we can say yet, but the bottom line is their regular season games and regular season NBA games up during the NFL season tend to from audience ratings, everything else, advertisers just not be as high demand.

So we're only looking at, I think at best a couple months of that. And those games will be preempting previous inventory that was in there whether it was prime or local news. So I don't think I'd look at much of a driver this year for that.

Dan Kurnos - *The Benchmark Company Inc - Analyst*

Okay. Great. Thanks for all the color. And again, Dave, best of luck to you. It's been a pleasure working with you.

David Lougee - *Tegna Inc - President, Chief Executive Officer, Director*

Thank you, Dan. Same to you.

Operator

Craig Huber, Huber Research Partners.

Craig Huber - *Huber Research Partners LLC - Analyst*

Great. Thank you, Dave. We've known each other a long time. I think you're going to be missed by all your colleagues. And that's certainly satisfying your investors out there, but I personally think you've done a hell of a job over these decades. All the best in your retirement.

My first question, Dave. Can you just dip the question, your retrans subscriber losses in the quarter, how much were they down? Obviously your retrans subscription revenue was down about 7% and your rates were up right, but what was the actual sub losses percentage year-over-year, please?

David Lougee - *Tegna Inc - President, Chief Executive Officer, Director*

Our net-net subs were down mid-single digits as we said before, but slightly more towards high single-digits than zero. So --

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

Craig, I would expand on that slightly. So we do frequently always say mid-single digits, subscribers being down. There is cyclicality in our subscriber trends where late winter, spring and summer they are weaker and then they jump back up in Q3 and Q4. So slight acceleration in Q2 because of the lag of --

David Lougee - *Tegna Inc - President, Chief Executive Officer, Director*

And there's some volatility seasonally with the virtual MVPDs, right?

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

That's exactly right, but it is still comfortably in that mid-single digit down range.

Craig Huber - *Huber Research Partners LLC - Analyst*

Okay, great. Thank you for that. And then talk a little bit further about local advertising at your TV stations. How that performed in the second quarter year-over-year and what's your sense so far on the third quarter? And maybe also touch on, Dave, if about nationally you said that that got worse, if I heard you right in the quarter, how's that trending for you in the third quarter?

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

Yes, national is definitely the macro concern and the tougher comp for us, Craig. So national down double-digits, core much stronger, resilient, flat to up slightly. Auto was a really big turn for us in second quarter.

As you know, auto really was rebounding in 2023. We had seven consecutive quarters of auto being up, including first quarter. But now in Q2, auto was down. And down, you know, double digits. So it was a big turn in that category specifically.

And you are seeing that really in the Tier 1 and the Tier 2, which is much more on the national side of the business than the local. But on a positive note, we've seen auto return positive here in Q3 on the linear core side.

Craig Huber - *Huber Research Partners LLC - Analyst*

And if I heard you right, I think you said Premion revenues were up low double-digits year over year. Are you still expecting the performance of Premion to accelerate in the back half of the year versus what happened in the second quarter, say?

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

I do, Craig. So Premion in second quarter in totality, while being up low-single digits does include some political, excluding that, non-political Premion was flat. The local Premion was up double-digits, which again signals that tougher comp on the national side.

There is another big comp coming up in Q3 on that national side of the business. But definitely, we expect Premion to ramp up in the back half of the year.

Craig Huber - *Huber Research Partners LLC - Analyst*

Sorry, just say that one more time, please? With Premion revenues in total, what was the percent change versus a year ago?

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

Yes, second quarter was up low single digits year-over-year in Q2, excluding political, non-political revenue was flat year-over-year in Q2.

Craig Huber - *Huber Research Partners LLC - Analyst*

And within that, local was up low-double digits?

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

That's correct, local up double digits.

David Lougee - *Tegna Inc - President, Chief Executive Officer, Director*

Okay.

Craig Huber - *Huber Research Partners LLC - Analyst*

Okay, got it. Thank you very much. And again, Dave, all the best.

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

Thank you, Craig.

Operator

Steven Cahall, Wells Fargo.

Steven Cahall - *Wells Fargo & Co - Analyst*

Thanks. So just wanted to unpack retrans a little bit more. Thank you for that sub attrition number. I was wondering if you could also update us as to what percentage of your retrans or distribution revenue at this point is digital between vMVPDs and la carte streaming subs like Peacock.

And how should we think about net retrans for the quarter in 2024? I'm guessing it's still stable since I think like two thirds of your subs are on variable cost structures, but just wanted to confirm that.

And then Dave, you talked about a greater willingness to spend from local businesses. I think the big macro question after what we saw last week is whether this latest economic weakness is more pronounced towards the lower end of the economic range.

And if that has any more pronounced impact on local businesses than what we've seen over the last couple of years with national being weaker and local being stronger. So is there any signs that that's happening or, you know, it's kind of the market's reaction to some of these things, not necessarily something you're seeing at the business level? Thanks.

David Lougee - *Tegna Inc - President, Chief Executive Officer, Director*

Thanks, Steven, I'll take that and then I'll let Julie handle the retrans question. I think, so it's a mixed bag. We're trying to read the tea leaves. Obviously, as Julie mentioned, auto is really, I think the main variable from first to second quarter relative to underlying pacing.

So you can read into that what you will, and that appears to be across the board in auto. So I don't know that we have an indication of which end of the economic spectrum, if any, or if that's more broadly distributed, local businesses continue to hang in there.

I would say, certainly a local services, which are not, which I think are fairly good bellwether. They're strong, but they're not stronger. I mean, I definitely maybe even fallen back a little bit in the second quarter. So it feels like it's an across the board right now, Steven, but I don't think we have any definitive data that answers the question on which end of the spectrum.

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

And on the retrans question, Steven, we do not break out any of our data publicly between traditional, virtual, streaming. What I can say is you've now seen the reset for Tegna. Both you saw it in first quarter, now second quarter with the top line revenues being down in that mid-single digits.

The majority, just because of top line, is a factor of the traditional subscriber declines, which, again, you can look at the public numbers for cable and satellite, which are down by double digits, offset by the virtual and streaming subscribers increasing.

But, of course, that's the mix of, you know, the lower top line rate. Because of our successful negotiations in our affiliation agreements being mostly variable now versus fixed, we have bent that curb and that stability on net retrans.

So quarter to quarter to quarter now going forward, with that new reset, if you will, net retrans is stable.

Steven Cahall - *Wells Fargo & Co - Analyst*

Great. Thank you.

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

You're welcome.

Operator

Patrick Sholl, Barrington Research.

James Goss - *Barrington Research Associates Inc - Analyst*

I'm here. This is James Goss, also from Barrington Research. Dave, I'd like to add my good luck and congratulations on your success at Belo and the Gannett and Tegna companies in particular. You've been, you had a long ride there.

David Lougee - *Tegna Inc - President, Chief Executive Officer, Director*

Thank you, James.

James Goss - *Barrington Research Associates Inc - Analyst*

I wanted to ask if you can identify any share of the dollars from the states and the those -- you mentioned the seven state electoral races that are particularly important. Is it reasonable to think of those as taking a pretty significant share of those dollars? Because I know there would be dollars in all the other states as well. But just how important are they relative to the rest of the country, would you say?

David Lougee - *Tegna Inc - President, Chief Executive Officer, Director*

Well, I'd say every state has its long tail of political spending, right, depending on, there's all these down-ballot races. But the, when you think about the -- not, the least rate-sensitive dollars, right, from the PACs, they go to the competitive races. The vast majority of those PAC money go to the governor, senate, and presidential races where they are competitive.

So I would say you do see a, quite a disproportionate share of total political ad dollars going to the competitive races. And frankly, I should, I missed the, actually, there's a key other part, which is the House, right?

And of course, by definition, we're in 39% of the country, so we've got 39% of the House races. And then, you know, there's less competitive House races than there were 20 years ago because of redistricting. But that means that the individual House races that are competitive will also see a disproportionate share. And we've got a lot of those House races.

James Goss - *Barrington Research Associates Inc - Analyst*

Okay. Then also, in terms of in discussing Premion and the CTV advertising, I was wondering if you could talk about the availability of your stations on the CTV platforms in addition to the more traditional or MVPD, vMVPD distribution versions.

David Lougee - *Tegna Inc - President, Chief Executive Officer, Director*

Yeah. Tom Cox, who oversees Premion in our company, is here, and I'll let him take the answer.

Tom Cox - *Tegna Inc - Chief Growth Officer*

I believe your question was primarily related to our streaming O&O apps, if I followed it correctly. The good news there is we continue to see strong acceleration in viewership across those platforms.

We're actually reaching a point where the viewership levels are sufficiently large enough to go direct sales with many of those markets. And so, we see that as a significant opportunity for us moving forward to drive both greater viewership as well as higher revenues.

The other nice piece about that is that's our O&O inventory. So, the margin on that business versus the Premion business or many of our other digital products is quite high, again, because they're owned and operated.

James Goss - *Barrington Research Associates Inc - Analyst*

Okay. Yes, thank you. Then the last thing, we've gotten used to rising net retrans over the years, and it's been very important to the broadcasters. As that category begins to flatten, if you will, what are the key areas you think we should look to in terms of driving incremental growth?

Is it Premion? Is it the programming like True Crime Channel and the others? Is it ATSC 3.1 initiatives? How would you think of the key areas to drive future growth?

David Lougee - *Tegna Inc - President, Chief Executive Officer, Director*

Yes. I will take that, Jim as I hand the reins over here in the next week. Look, I think that, yes, so the innings of the net retrans as the growth driver have certainly come to the later stages there relative to the industry.

I think a lot of it's going to have to do with what programming both in the digital space and in the linear space that the company is able to create and achieve on an efficient basis going forward.

But I think most importantly is the smart strategic use of this balance sheet. We have a tremendous amount of assets. We've got strong local brands in local communities, which are not nearly as competitive as the national landscape. That's a valuable asset.

To have valuable local content that is strongly branded can be a jumping off point to source significant new business whether organic or inorganic as Julie and we have said many times. So the team going forward under Mike's leadership will be looking at how to leverage that.

And frankly, I think that then there is also the regulatory issue depending on which administration wins. There should be some type of regulatory relief in the future.

Again, I'm not going to put a time frame on that but that will be an opportunity for this company as well whether that's in the virtual MVPD side or whether that's in the ownership cap.

Given the strength of this company, our scale and the balance sheet that we have the company is well positioned to find those new areas of growth. But I wouldn't saddle my successor with pinning down one particular area. It wouldn't be appropriate at this point.

James Goss - *Barrington Research Associates Inc - Analyst*

All right. Well, thanks for your thoughts.

David Lougee - *Tegna Inc - President, Chief Executive Officer, Director*

Thank you, Jim.

Operator

(Operator Instructions)

Craig Huber, Huber Research Partners.

Craig Huber - *Huber Research Partners LLC - Analyst*

Thank you. Can you talk a little bit further about the auto trends just a little bit more, expand upon that, what you saw in the quarter? I think you said you're optimistic it's going to trend better in the third quarter. I guess why?

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

I did say that, Craig. In Q2, as I mentioned auto was down low-double digits. That was mostly driven in Tier 1 and Tier 2, but also sprinkled into Q3. I'm sorry, in Tier 3. Moving to Q3, it has improved. Olympics does improve that substantially. But even when we factor out what we believe is that incremental part of auto, we still believe that the core auto, we see as flat to up slightly just pacing in Q3.

Craig Huber - *Huber Research Partners LLC - Analyst*

Okay. Then just big picture here, I guess, Dave on the economic front, I mean given all the markets you guys are in, how are you personally feeling on the US economy now versus last time we spoke three months ago? Better? Worse?

David Lougee - *Tegna Inc - President, Chief Executive Officer, Director*

Well, I think it's what we saw before. I think it's what we saw with national was an early precursor of what everybody's seeing nationally now on jobs data and stuff.

That said, my personal view is that it's everything that you read. It's kind of a little bit of shaky but potentially optimistic moments where depending on which way it could go that a soft landing is still possible.

The great debate on whether the Fed's dropped interest rates low enough or not I think we'll see. I think the job market is changing but will that flatten out or get worse? And I think that's where advertisers are, where the large holding companies are. It's just nobody's really clear.

But I don't think there's certainly there's not a definitively negative view but there's no definitively optimistic view. There is definitely, I think a concern but a bit of wait and see.

Craig Huber - *Huber Research Partners LLC - Analyst*

That's interesting. Relative to your commentary, I remember from three months ago that sounds more on the negative side you're describing things.

David Lougee - *Tegna Inc - President, Chief Executive Officer, Director*

Yes, I think what we do, what I said in my notes and what Julie's talked about with national has spoken for itself. This national is not a technical issue. I mean, we are obviously more exposed to it given our large market stations.

So, but that auto is certainly, as we talked about in the quarter gotten worse. We'll see where it ends up in the third. But yes, I think that there definitely is some cooling down of what was a pretty it was a lot of money got put in that system during COVID in '21 and '22.

A lot of Fed money got put in the system and it's working itself out. And we shall see. But yes, I would say I don't know that I'm more pessimistic. I just think what we're seeing is what we saw before. And, but what happened in the market Monday doesn't give you a confidence but recovered yesterday.

And so, I think it literally, Craig don't read too much into my comments. I'm just like everybody else. It's kind of like let's wait and see. Tech now, I think is well positioned either way.

Craig Huber - *Huber Research Partners LLC - Analyst*

And my last question, if I could squeeze this in, what percent of your viewers in your markets right now are watching your content over the air as opposed to through an MVPD? What's that rough number?

David Lougee - *Tegna Inc - President, Chief Executive Officer, Director*

It's a great question, Craig that there's not terribly awesome data collection on that nationally. I'll just leave that alone without talking about vendors or anything on that. But it makes if you look at the audiences, we know we have through comscore on the Olympics on our NBC stations.

And then you look at what you know mathematically has been the reduction in pay cable subs. They are sure finding us. It makes intuitive sense to me, obviously that there's probably more over the air viewing than is known but we don't have great -- I'm just going to be frankly honest with you about this, and it's an industry issue that does need to get worked on. There's not perfect data on that.

Craig Huber - *Huber Research Partners LLC - Analyst*

Okay. Thanks, guys.

Operator

Thank you. I'm showing no further questions at this time. I would now like to turn it back to David Lougee for closing remarks.

David Lougee - *Tegna Inc - President, Chief Executive Officer, Director*

Well, I'll keep them short, but just once again, I want to thank the investment community and all of our stakeholders for their support over the past seven years. And most importantly going forward, I know that Tegna is in great hands with Mike Steib and this great management team. Thank you, everyone and have a great day.

Operator

Thank you for your participation in today's conference. This does conclude the program. You may now disconnect.