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PRESENTATION

Operator

Hello, and welcome to TEGNA First Quarter 2024 Earnings Conference Call. After the speaker's presentation, there will be a question-and-answer session.

(Operator Instructions)

I would now like to turn the call over to Kirk von Seelen, Vice President and Treasurer. You may begin.

Kirk von Seelen - *TEGNA Inc. - VP & Treasurer*

Good morning, and welcome to our first quarter 2024 conference call and webcast. My name is Kirk von Seelen, and I am TEGNA's Treasurer. Today, our President and CEO, Dave Lougee; and our CFO, Julie Heskett, will review TEGNA's first quarter performance and results and provide TEGNA's full year and quarter ahead outlook. After that, we'll open the call for questions.

Hopefully, you've had the opportunity to review this morning's press release. If you have not yet seen a copy of the release, it's available at TEGNA.com. Before we get started, I'd like to remind you that this conference call and webcast includes forward-looking statements, and our actual results may differ.

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

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

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

Thank you, Kirk, and good morning, everyone. I'll begin with a summary of recent highlights and then turn the call over to Julie to walk you through our financial results in more detail.

TEGNA achieved our key guidance metrics in the first quarter. We closed the acquisition of Octillion and began integrating it into Premion, made significant early progress toward our \$350 million capital return commitment for 2024 and completed multiple local rights deals for local pro sports teams, including with the Indiana Fever Rookie Phenom Caitlin Clark.

Also during the quarter, we returned more than \$100 million to shareholders with \$82 million in share repurchases and \$20 million in dividends. And as we announced in this morning's press release, our Board has approved a 10% increase to our regular quarterly dividend. This builds on our track record of dividend increases, including the 20% dividend increase last year and reflects the confidence we have in the durability of our free cash flow from our business and the strength of our balance sheet.

As we shared on our last call, our initiatives to transform our core business operating model are now underway. Today, we're announcing that we expect these initiatives to generate between \$90 million to \$100 million of the annualized cost savings as we exit 2025, with initial benefits to be realized here in the second quarter with sequential improvements going forward. We'll continue to update investors on our progress as we roll out additional transformational initiatives.

Turning to our financial performance. Julie will cover first quarter performance in greater detail, but I'll cover a few highlights. First, as I mentioned earlier, we achieved first quarter key guidance metrics. National advertising has remained challenging as it has across the media landscape, and affects us in both core and Premion. But local advertising continues to improve across our portfolio of products.

We're especially seeing that at Premion, our industry-leading OTT sales platform that serves the local marketplace. We further improved Premion's positioning with the acquisition of Octillion. We're now beginning to leverage its technology to improve Premion's local advertiser experience with improved workflow tools and better overall access to the connected TV market. We're already seeing meaningful signs of success.

So we're encouraged by first quarter results for Premion, which returned to positive growth following last year's loss of a major national account. We expect continued sequential improvement in Q2 and throughout the year driven by execution on local.

Turning to political advertising. We're feeling very good about the trends as they relate to our footprint. Once again, the presidential race will likely come down to the same 7 states, and that's where the spending will be. And of those 7 states, we cover 6 of them. Specifically, Pennsylvania, Arizona, Georgia, North Carolina, Michigan and Wisconsin.

In the Senate, there appear to be less competitive seats nationwide than in the past. So the spending and the large spending will be funneled to the seats that are competitive. And here again, our footprint is very, very strong. Of the 7 seats currently competitive, we have markets covering 5 of them, including the races in Ohio, Georgia, Arizona, Michigan and Wisconsin.

And because we're based here in the Mid-Atlantic, we have a front row seat to the Maryland Senate race, which we think will be highly competitive for the first time in a very long time, even though it's not classified that at the moment.

With former governor, Larry Hogan, the likely Republican nominee. He's a very popular moderate, and assuming he gets the nomination, Maryland is likely a significant and unexpected contribution to our political revenues. And because control of the Senate is up for grabs and only a few seats are competitive, we think these races will very likely reach record spending levels for general election senate races in their respective states.

There's less governor's races in presidential years than during midterms, 11 to be exact, but we do have the only 2 races currently called competitive races, North Carolina and New Hampshire. So in short, we're in a great position to take a very strong share of linear and CTV OTT political dollars.

And one more important tailwind to highlight for all advertising spending, including political. The Summer Olympic Games, this summer in Paris. With the largest portfolio of NBC stations and in a time zone more conducive to live programming and viewing, we expect enormous levels of engagement.

I'd now like to share a little context on some of the recent pro sports deals we've announced. As I shared on our last call, our strong portfolio of stations in big pro sports markets are very well positioned for the shift currently happening in local sports distribution. Teams are learning and in

so many cases, being reminded of the benefit of being on local broadcast and a huge increase in reach and distribution compared to the Pay TV only model.

We recently announced a deal with the National Hockey League's Seattle Kraken, as well as the Seattle Reign of the women's soccer league. We also announced an exclusive broadcast distribution deal in the Indianapolis market with the WNBA's Indiana fever and Rookie Superstar, Caitlin Clark.

This morning, we announced we've signed additional deals taking Caitlin and the Fever games to 11 additional broadcast markets, including our home state of Iowa in our Cedar Rapids and Quad Cities stations as well as on stations from Gray, Sinclair, Weigel broadcasting and Coastal Television.

To my earlier point about broadcast distribution and the audience it brings, the recent NCAA Women's Basketball final featuring Caitlin Clark drew a record-breaking 19 million viewers on ABC stations, including our Des Moines and Quad Cities stations.

Notably, that audience was larger than the Men's Championship game for the first time ever and just as notably, that game aired on cable. Pro sports teams are now recognizing the difference. Obviously, the deals we've done to date are with teams who aren't part of the existing Diamond RSN's. We're watching closely the bankruptcy court developments with Diamond and are ready to explore additional opportunities that make sense.

Before I turn it over to Julie, I'd like to thank and recognize our station colleagues for their tireless dedication to serving our viewers across the country in a very difficult environment for journalists. As an example, our stations in Minneapolis, Denver and Louisville were recently nominated for a prestigious Peabody Award for the work on a nationwide investigation into widespread sexual assault by private contractors transporting inmates over long distances.

Our stations' investigative journalism serves as the watchdog of communities, uncovering corruption, holding power to account, and amplifying the voices of marginalized groups. There's so many less players doing that today, making the role we serve all that more important. I'm so proud of the critical role our stations play. Without them, vital stories would remain untold, injustices unaddressed, and the public trust eroded.

With that, let me turn it over to Julie.

Julie A. Heskett - TEGNA Inc. - Senior VP & CFO

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

As a reminder, in February of this year, TEGNA announced a new comprehensive capital allocation plan, which included our commitment to returning between 40% and 60% of adjusted free cash flow to shareholders, over 2024 and 2025 time frame.

I am pleased to report today that we are off to a strong start on that commitment. In the first quarter, we repurchased nearly \$82 million of common stock and retired approximately 5.7 million shares. Combined with our regular dividend, our total cash returned to shareholders in the first quarter was \$102 million. We are where we want to be to achieve our promise of returning \$350 million to shareholders in 2024.

During the quarter, TEGNA also took possession of approximately 4 million shares, which occurred upon completion of our previously announced \$325 million accelerated share repurchase program that launched in November last year. The settlement of these shares is incremental to the \$82 million or 5.7 million shares in the first quarter just mentioned.

In addition to our share repurchase activity, our Board just declared a 10% increase of our quarterly dividend to \$0.125 per share, that builds on the 20% increase we announced last year. Our capital return actions, through the use of both share repurchases and dividends, underscore the durability and sustainability of TEGNA's free cash flow and our commitment to shareholder value creation.

While capital return remains an important part of our story, we continue to take actions that position TEGNA for growth as well. To that end, in the first quarter, we closed on Octillion Media and expect to further bolster the growth outlook for our Premion business.

The acquisition of Octillion gives greater control of key technologies Premion uses and better positions us with new go-to-market product developments. We continue to execute against our capital allocation framework - by returning capital to shareholders, investing in the business both organically and inorganically pursuing bolt-on adjacent acquisitions, and preparing for future debt maturities.

Our industry-leading balance sheet and strong 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 3x.

Now turning to business transformation initiatives. As Dave mentioned, our previously announced business transformation initiatives are underway and starting to generate savings. These initiatives are expected to be completed over the next 2 years and generate \$90 million to \$100 million in annualized expense reductions as we exit 2025.

This core business transformation will directly target all other operating expenses outside of programming and Premion. We will gain some initial expense benefits from these initiatives in the second quarter of 2024. And expect our run rate growth of all other expenses outside programming and Premion to improve sequentially quarter-to-quarter. These cost reductions are already included in our previously provided 2-year adjusted free cash flow guidance.

Consistent with our prior programs, we will track our progress and keep you informed regularly over the coming quarters. Let's now take a look at the drivers of our first quarter 2024 financial performance. My comments today are primarily focused on TEGNA's performance on a consolidated non-GAAP basis to provide you with visibility in the financial drivers of our business trends as well as our operational results. You can find all of our reported data and prior period comparatives in our press release.

Total company revenue for first quarter was down 4% year-over-year, primarily due to lower subscription revenue, partially offset by higher political advertising dollars. First quarter subscription revenue was down 9% year-over-year, primarily due to net subscriber declines and the temporary disruption of service with a distribution partner in January, partially offset by contractual rate increases.

Additionally, the year-over-year comparison was affected by a year-end adjustment that benefited our results in the first quarter of 2023 and did not recur in 2024. Underlying subscription revenue trends, absent the onetime impacts is down mid-single digits. 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 3% year-over-year. While national advertising continues to show signs of softness, local advertising trends in the first quarter were resilient and continue to show positive momentum, including strong performance in automotive, services, restaurants, banking and finance and entertainment advertising categories.

Now turning to Premion. Premion continues to gain momentum with local advertisers by selling advertising in a converged linear and streaming television marketplace. The integration of Octillion Media with Premion is underway and will further drive innovation, new products and streamline media buying processes.

For the 2024 election cycle, Premion has expanded its programmatic selling capabilities, enabling advertisers and agencies to leverage a multifaceted programmatic and managed service approach to executing CTV campaigns and driving measurable outcomes. Premion's total revenue has returned to positive growth following last year's loss of that large national account.

Premion's revenue was up low single digits year-over-year, driven by strong local revenue, offset by softness in national revenue. The rate of Premion's revenue growth is expected to grow sequentially throughout the year.

Turning now to expenses. For the quarter, non-GAAP operating expenses of \$568 million were up 1% compared to first quarter of 2023. Notably, programming expenses were down slightly year-over-year, partially driven by that disruption of service with a distributor.

As a reminder, what we said last earnings call, we expect the growth of reverse compensation fees to be negligible at best going forward. The majority of our reverse comp fees are variable and tied to paid subscribers.

All other operating expenses for the quarter were up 2% compared to 2023, primarily due to compensation expenses. Adjusted EBITDA was \$174 million, and we generated adjusted free cash flow of \$113 million for the quarter. We ended the quarter with total debt of \$3.1 billion and cash of \$431 million. Net leverage ended the quarter at 2.8x. We are in excellent shape to continue with our capital allocation priorities in the second quarter and beyond.

Turning to our forward-looking outlook. As we noted in our press release this morning, we are reaffirming all our key full year 2024 guidance metrics, including 2-year adjusted free cash flow guidance of \$900 million to \$1.1 billion. As Dave highlighted, the robust political environment and our favorable portfolio as well as the Summer Olympics this year supports our confidence of our guide.

With the acquisition of Octillion Media, we are updating our guidance range for the amortization expense to be between \$51 million and \$55 million. Please refer to our press release to see all full year 2024 guidance elements. In an effort to help forecast our near-term results, I'll provide a quarter ahead financial guidance metrics as follows.

We expect second quarter total company revenue to be down low to mid-single-digit percent year-over-year due to lower subscription and AMS revenue, partially offset by higher political ad dollars. We forecast operating expenses in the second quarter to be flat compared to last year. This is a sequential improvement from first quarter, and you'll see this improving trend continue in future quarters as a result of transformation cost reduction efforts.

With that, as we turn to Q&A, please note Tom Cox, our Senior Vice President of Digital and Chief Growth Officer, is here with Dave and I, as we take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from the line of Daniel Kurnos with The Benchmark Company.

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

I guess maybe for Julie or Dave, if you want to pitch in, too, but can we just unpack the 2Q guide a little bit more? It feels a little bit light on the revenue side, especially since you have the disruption behind you. So subscription gets a little bit more of a tailwind relative sequentially than you would normally have. And political, your Q1 political was strong and Q2 should be better than that. So is there anything more color you guys can give us around core trends or other things that could be driving the year-over-year decline?

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

Dan, I'll make one comment and I'll turn it over to Julie. Remember, though, on retrans, we don't have any deals up in the second quarter. So once we had a deal up in the first quarter, so that -- and going forward until new deals are up, we're just dealing off the sub base as is. Julie?

Julie A. Heskett - TEGNA Inc. - Senior VP & CFO

Yes. And I would just say, unpacking, from an AMS perspective, we continue to see softness, specifically on the national side of our business. So similar to what you saw in first quarter, that is projected to continue into second quarter. And from a subscription perspective, you heard us say first quarter aside from those onetime only run rate of subscription revenue is down mid-single digits.

And then I would just encourage you to continue to look to Dave's point, there's no deals that are up in second quarter. So look at that quarterly seasonal trend with prior years and sequential second to first in history.

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

First to second.

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

Political should be better sequentially though, given timing, yes?

Julie A. Heskett - TEGNA Inc. - Senior VP & CFO

Political should be sequentially better than first quarter slightly.

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

But not dramatically.

Julie A. Heskett - TEGNA Inc. - Senior VP & CFO

Right. And again, the quarter variances, again, if you go back to 2020, right, first quarter was huge. Second quarter was very small. And 2022, first quarter was small. Second quarter was large. This one appears to be more even, if you will. But what happens with political because of the primary calendars, Dan, it's really about first half and second half. So first half is usually always somewhere between 15% and 16% of the total. And that we believe, will be consistent through 2024. 85% of the total comes in the back half.

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

Very roughly, yes.

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

No, everyone is saying it's back half weighted this year. I was just trying to get help in the near term. Dave, can I just ask you one high-level question. You obviously got on the board with some sports deals. I love the Fever deal, obviously. I guess you guys have really done a great job on the cost side of the equation. Can we just talk about tactical investments even beyond Octillion to help reinvigorate the top line and how we should think about kind of your guys' opportunity set to sort of reaccelerate growth and where we should be looking for that?

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

Yes. Actually, I appreciate the question, Dan, because I recognize -- I mean, we can't announce anything until we have something to announce, right? And if we're in spaces that we're looking at for obviously competitive reasons, we can't get ahead of ourselves. But just going back to what we said since the termination of the merger agreement last year, both in terms of -- it's in our DNA, right, through bolt-on or organic investments like we did with Premion, we know how to do that, right?

And now if you look at our balance sheet, as we said along with our capital return to shareholders numbers, the remainder remains available for investments for growth. So we are in the middle of a lot of conversations around that on things that are both organic and inorganic from a bolt-on perspective, so more to come, right? But I like the way we are positioned.

Operator

Our next question comes from the line of Steven Cahall with Wells Fargo.

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

Would love to just maybe ask a little bit more on retrans. So I understand that it's down mid-single digit on an underlying basis. You didn't have a lot of renewals in Q1, not much in Q2. Should we kind of think about down mid-single digit as a decent run rate since I think you typically have an annual retrans cadence that's pretty consistent?

And then I know your reverse comp is more variable now. So maybe this still all pencils out to kind of flattish net retrans. Is that a good way to think about it? Or is there anything that I'm missing there?

And then just one on the transformation and the cost savings. Are there costs to achieve associated with this. So as we think about the impact on free cash flow for 2024 and 2025, does it weigh on net free cash flow at all in 2024 and then it becomes a benefit in 2025? Or any mix there?

And then lastly, this is maybe for Dave or for Tom, after Octillion and your new go-to-market strategy, do you see any other opportunities for bolt-on M&A that could benefit Premion?

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

Let's take those in order. So just on net retrans, I'll just take the bottom question, as we've said before, we look for it to be stable number going forward. So I mean, not guiding to it one direction or the other. But with the variable comp, it will be a significant stable number going forward let me just before I leave retrans. You had a couple -- did you have a question on top of the net retrans question?

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

Yes, just a mid-single digit -- down mid-single digit for gross retrans, a good way to think about it? Or are there things that could improve that revenue run rate a little bit?

Julie A. Heskett - TEGNA Inc. - Senior VP & CFO

Yes. From a gross top line perspective, Steven, you're right. It's a function of the mix of revenues. The traditional subscriber declines accelerating at that higher growth rate, offset by growth of the virtual subscribers at that net rate. So it's a mix. But yes, that mid-single digit run rate, which now first and is consistent until we have deals up, we have an opportunity to reprice another 20% of our subs at the end of 2024.

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

And Steven, I'm sorry, is your expense question, do we have investments to hit that number? Was that your question?

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

It's more that with the transformation and cost savings, is there like a cost to achieve. So cash you have to spend upfront to realize the savings and then you get the run rate savings afterwards. So tends to benefit EBITDA. But just trying to understand as we think about free cash flow, whether it's a bit lumpier and whether that's the benefit to 24 or not?

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

We do not -- the answer is no to your question.

Julie A. Heskett - TEGNA Inc. - Senior VP & CFO

We do not anticipate significant upfront cost. There will be savings realized and will be a part of the free cash flow benefits in our guidance.

Tom Cox - TEGNA Inc. - Senior VP of Digital & Chief Growth Officer

And Steven, I'm happy to take the question on Octillion and potential further M&A there. So as a starting point, One of the key benefits of the marriage of Octillion and Premion is their technology with our sales force. And we believe that there could be further opportunities around M&A in and around the streaming landscape.

That being said, as Dave mentioned, we're looking at a variety of opportunities as we look to transform the company into a more dynamic set of assets. And from that perspective, again, we feel very good about where we're positioned to compete and pursue those assets, can't really take you into the lab on any of those things at this particular moment in time. But certainly, opportunities around streaming would be part and parcel of what we'd consider.

Operator

Our next question comes from the line of Craig Huber with Huber Research Partners.

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

Maybe just a little bit further. Can you just give us a little more detail, if you would, on the Octillion acquisition, what the benefit is specifically on the technology side, et cetera, that's making you so optimistic about the fit here? That's my first question.

Tom Cox - TEGNA Inc. - Senior VP of Digital & Chief Growth Officer

Sure. So I think the Octillion acquisition is both offensive and defensive. It's offensive in the sense that it allows us to bring to market more cutting-edge software products and capabilities that we can use to maximize our local advertising relationships that we already have from our legacy business.

It's defensive in that it allows us to access inventory through yet another pathway that we have greater control and flexibility around. So from that vantage point, we believe that Octillion, as Julie mentioned earlier, will allow us to accelerate the growth of Premion and over time, improve the overall margin of the business.

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

And then my second question, on the net retrans, you touched on that, but I'm curious the contracts for your affiliate agreements. Are you saying you think the next, say, 2 to 3 years, do you think those dollars you'll be paying will be roughly flattish? As opposed to...

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

We only have one affiliate agreement up between now and the end of 2026, and it's our smallest one, Craig. So we have the reverse comp side of the equation is very set for some period of time.

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

And you -- that's what I'm asking, you're quite comfortable, Dave, that number in total dollars for reverse retrans costs be relatively stable here in the next 2 to 3 years?

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

The cost, as we said in the last earnings call, I think Julie mentioned in her script, is that we said last time that any growth would be negligible, and I added in the last earnings call, negligible at best, right?

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

You're saying that beyond this year, too, right, Dave, not just this year, right?

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

That's right. That's right, yes.

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

And my last question, guys, on the cost side, Julie, just give us a little bit more -- I just want to understand better, what are you saying about costs for the remaining part of the year? Are you saying the year-over-year percent change will keep improving sequentially, so we get a better trend going forward the rest of the year? Or are you talking about the absolute dollar amount spent each quarter will be better relative to the quarter 3 months before?

Julie A. Heskett - *TEGNA Inc. - Senior VP & CFO*

The former, Craig, it's about that percentage growth on year-over-year. Each quarter will improve, not absolute dollars.

Operator

Our next question comes from the line of Jim Goss with Barrington Research.

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

A couple of things. First, you alluded to the notion that Premion and Octillion might provide some opportunity for political ad sales. I was just wondering if you could give us any scale of how important that could be and whether you think it would borrow from your broadcast side?

Tom Cox - *TEGNA Inc. - Senior VP of Digital & Chief Growth Officer*

Sure. Great question. So one of the key advantages around Premion is that it's not confined to our station footprint the way our core business is. So it allows us to participate in political races outside of our footprint. So we've already seen dollars come in from markets outside of the TEGNA footprint.

Ultimately, as the political races get tighter and the availability of linear inventory gets tighter, anticipate that those dollars will cascade over to the streaming ecosystem. And there, we're well positioned to pick up those dollars.

As you probably saw, we've also expanded our programmatic capabilities leading into this next political cycle, and we believe that, that will be another tool in our arsenal to compete for those political dollars. Ultimately, I would say they are additive and not cannibalistic to the linear opportunity that TEGNA already has.

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

Another thing is that a number of the sports programming opportunities you alluded to involve women's sports. And I was wondering, if you could talk about the dynamics there in terms of perhaps getting increasingly good viewing levels with less expensive right fees? Is there an opportunity to arbitrage that a little bit?

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

Yes. That's a little bit what the thinking is, Jim, right? So obviously, the -- for instance, with the Fever, the audiences that Caitlin Clark will bring were to your point, index well over what the value of the assets are in the current marketplace from a cost standpoint, right?

So, and that's the exception. I mean frankly, like we're very pleased to be the partner of the Seattle Reign, but women's sports obviously just don't have the marketplace acceptance yet from advertisers and others, but we think that's going to change to your question.

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

And maybe one other thing. This is maybe getting a little ahead of things, but do you think there's any potential for regulatory changes such as dual station ownership in top markets should there be a change in administration?

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

I think that the last comment is the answer. It depends on what administration is in charge. So I think we're going to have to punt on what that question looks like until there's a change in administration. And if there's not a change in administration, there might be -- will there be a change in leadership at the FCC too. So a couple of variables there. But until we know the answers to that, we don't have a lot of insight.

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

Even in the past, when there has been a Republican administration, it doesn't seem like you've made much headway in that particular area. And that seems to be the one potential change that would really be meaningful in terms of maybe rationalizing costs and getting a bigger advantage in big markets.

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

Well, I will say, I have to think my memory here or my time and years from working with the -- in some cases, running the National Association of Broadcasters from a Board perspective, the Republic administrations were generally friendlier, right? And in fact, there was an opening to, frankly, potentially raise the ownership cap in the last Republican administration that, in some ways, industry didn't choose to go through for a variety of reasons.

But that said, even without a change in administration, what I would call the marketplace the rationality of the rules becomes more and more obvious as time goes by. So I would say regardless of administration, am I optimistic about the change in regulation going forward? I am. It's the timing that matters, right? The FCC was way too late on changes in the newspaper industry like Media cross-ownership was approved 10 years after it should have been.

So I will say though, I feel like the industry is far more organized. We have actually one of the greatest lobbying organizations when you think about television station general managers and companies across the country. And we - that value that I reference that we bring to the local marketplace appropriately brings with it great lobbying power given the service we provide. So I do have some optimism. But on a 2-year horizon, very difficult to say.

Operator

(Operator Instructions)

Next question comes from the line of David Karnovsky with JPMorgan.

Unidentified Analyst

This is Ted on for David. I have two questions. The first is on your latest thoughts on the NBA rights and the potential impact to broadcast to NBC replaces Turner. And my second question is on how you're thinking about national and local advertising trends moving through the year, particularly in the back half?

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

I'll take the NBA and maybe a comment on advertising and turn that part over to Julie. But yes, so we're very positive about the NBA going to NBC. That, obviously, as I referenced on my Olympic comments, we have, by far, the largest -- we reached by far, the largest number of NBC homes than any other affiliate broadcast group. And our NBC stations are very, very strong.

So getting that content on our stations overall, we've got -- assuming we get the deal, we've got some things to work out on placement of games and time zones and stuff like that. But that said, we're very optimistic. I think Turner losing it. I think the questions that it raises for us is, we think there was probably way too much concern for broadcasters raised when the sports service now affectionately known as Spulu was announced a few months ago. I think this really calls into question what Spulu will be.

And we still have a hard time imagining how they're to negotiate rights deals, first of all, right now in the middle of with each of these being players in the NBA. So bottom line is, for us, the game is moving from Turner to NBC, we see as a very much a net positive.

As it relates to National and local throughout the year, in terms of trends, I think we'll continue to see local be very strong and national is hard to tell, right? Some of the National is -- it's unclear what the causes are. But remember, we have very large stations. We have big stations in the top 10 markets from a quantity standpoint, far more than any of our peer groups -- publicly reported peer groups.

And that's where you see things like auto, while auto is a good, Tier 1 is not great, and the problem is Tier 1 come at and that affects us a little more. And there's also some secular thing. I mean, some economic things clearly taking place that like -- as home sales slow down, that affects some services category, but there's other puts and takes.

So I think I think local will continue to be very good. And for us, we've got additional drivers with Octillion and Premion, National is a question mark.

Operator

Our next question comes from the line of [John Kornreich] with JK Media.

Unidentified Analyst

Three pretty quick questions. One on the Fever and the Kraken. I assume they are 1-year deals, which is probably good because you can renew for more games next time around. That's one question. Secondly, what goes into the low end of your free cash flow 2-year forecast versus the high end? And finally, Julie, if you assume no more acquisitions this year and you do return \$350 million to shareholders your leverage will be down around 2.5x at the end of this year. Is there any purpose to going lower than that going into the future?

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

I'll take the Fever Kraken comment very quickly, and then I'll let Julie answer the low-end free cash flow and the leverage question. So simply put, not going to answer -- the deals are confidential. We're not talking about the length of those deals. But no, I would not assume that all deals are 1-year deals.

Julie A. Heskett - TEGNA Inc. - Senior VP & CFO

As far as the sensitivity on the free cash flow guide, I would bucket those into a couple of different things. First, it's a presidential year, and we have seen competitive races that are extremely hot, go flat and vice versa, those that are flat, become hot. We've had runoff seats and then we've not had runoff seats.

So political is definitely one of those factors, it could be better, it could be worse. Second is the cost takeout transformation that you heard us talk about from a timing perspective, just making sure that we execute that appropriately on time would be a second bucket.

And third, I would say, is the forecasting of subscriber trends and what we believe that to be. Obviously, we've included those subscriber trends in this forward-looking guide. But again, that could be better or worse and therefore, the sensitivity for that range is appropriate.

Unidentified Analyst

And the leverage question?

Julie A. Heskett - TEGNA Inc. - Senior VP & CFO

And the leverage question, we're obviously very comfortable. And in this cautious environment. We have an industry-leading balance sheet. So remaining under 3x feels appropriate in this environment.

Unidentified Analyst

What about going under 2x? Is there any point at all of that?

Julie A. Heskett - TEGNA Inc. - Senior VP & CFO

No.

Operator

At this time, I would like to turn the call back over to Dave for his closing remarks.

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

Thank you, operator. As you can tell, we feel very good about our positioning as we talked about here in the Q&A relative to how we're poised going forward, given our balance sheet the excellence of our management team and leverage, again, once again that operational excellence.

It's always been a hallmark of this company to restructure our core operating model and create a new cost structure for our business going forward. We look forward to updating you on all things next quarter. And so thanks for everyone taking the time to join us today. And if you have additional questions, please reach out to Julie at 703-873-6747. Thanks, and good day.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.

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