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TGNA - Q1 2020 Tegna Inc Earnings Call

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TGNA reported 1Q20 YoverY total Co. revenue growth of 32%.

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PRESENTATION

Operator

Good day, and welcome to the TEGNA First Quarter 2020 Earnings Call. This call is being recorded. Our speaker for today will be Dave Lougee, President and Chief Executive Officer; and Victoria Harker, Chief Financial Officer. At this time, I'd like to turn the conference over to Doug Kuckelman, Head of Investor Relations. Please go ahead.

Doug Kuckelman - *TEGNA Inc. - Head of IR*

Thank you, and good afternoon, and welcome to our first quarter 2020 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 for questions. Hopefully, you've had an opportunity to review this morning's press release. If you have not 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 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 release.

With that, I'd like to turn it over to Dave.

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

Thank you, Doug, and good morning, everyone. As our country continues to navigate the challenges presented by the COVID-19 pandemic, we're all facing unprecedented disruption to the way we live, work and serve our communities. At TEGNA, we're proud of our financial performance in the first quarter in the way that our stations have delivered essential information to their communities. However, as you would expect, our comments today will also focus on the broader environment and our response to the current crisis. It's clear that the near-term outlook for the economy and our business is dependent on many factors, including the duration of federal and state government stay-at-home restrictions. That said, we'll make every effort to address the issues that we know are important to you.

In spite of enormous obstacles presented by COVID-19, our employees have risen to the occasion. We moved very quickly to protect our colleagues and newsrooms by moving to remote work very fast and have found very innovative ways to deliver trusted news and substantive content that brings clarity, context and hope to our audiences. I could not be more proud of the leadership, resilience and character of our employees that they've shown during this time of uncertainty. We're gratified by the performance of each of them across the country in continuing to provide local news and information to viewers during this crisis.

On one hand, we experienced enormous increases in audiences and traffic across all our platforms. Our local news in the 6:00 to 7:00 p.m. time period in the month of April is up 70% over last year. Our late news is up 44%. We had 180 million visitors to our digital sites, a record in the month of April. And we had 100-million plus video on-demand plays as well, all enormous increases of around 100% year-over-year.

But on the other hand, and for obvious reasons, many businesses have decreased or, in some cases, pulled their current advertising and marketing campaigns because of COVID-19, which I'll discuss in more detail shortly. Nonetheless, our ratings strength with our audiences reflects the critical role that local broadcast plays in the communities we serve, further strengthening our value to clients in the months and years to come.

For consumers, business owners and American workers, COVID-19 has obviously led to confusion and anxiety. At TEGNA, we are very focused on turning confusion into confidence and clarity, and anxiety into empowerment. Our viewers are reassured through our "Facts Not Fear" philosophy and brand, which serves as a guiding principle that all TEGNA journalists adhere to as they inform Americans across the country without unnecessarily preying upon their fears. People have never needed trusted local information more than now, and our audience numbers are up on every single platform, whether linear TV or digital, as I mentioned earlier. Local broadcast news remains the most trusted source of news in the country, and our colleagues have risen to the occasion despite unprecedented challenges.

As we noted in our pre-release last month, TEGNA continued to execute well in the first quarter against our five-pillar strategy, achieving all of the first quarter guidance metrics we initially provided in February. The intermediate and longer-term drivers that are reflected in our first quarter results, including strong subscription and political revenues as well as the continuing benefit from recent additions to our strategically constructed portfolio, together are poised to deliver significant value for TEGNA shareholders over time.

I'd like to spend a minute discussing further the key drivers of our first quarter performance. Later, I'll discuss our thoughts on the near and intermediate-term in light of the current situation. Our 38% subscription revenue growth in the first quarter reflects the impact of significant rate increases on both our existing stations and those that we recently acquired. These subscription revenues have grown substantially in recent years and continue to drive cash flows that are less economically sensitive.

Political revenues of $47 million were well above the levels [achieved] (corrected by company after the call) in the first quarter of 2018, almost triple the amount that we had in 2016. And thus far, all indications are that political will still reach record levels for the full year.

Non-political advertising revenues improved in recent quarters. And prior to COVID-19, this positive trend has continued in the first quarter, aside from a $6 million [decrease] (corrected by company after the call) in Super Bowl revenues because they aired on our smaller Fox portfolio this year compared with our larger CBS portfolio last year.

As the COVID-19 crisis set in, however, in March, we experienced cancellations in the final 2 to 3 weeks of the quarter. Revenues are now being impacted by the wide variety of control measures in place, including the states of emergency, mandatory quarantines, required business closures, shelter-in-place orders and travel restrictions, et cetera. The duration of the impact of the COVID-19 pandemic, particularly with regard to the broader advertising industry, remains uncertain. And as you would expect, we anticipate that non-political advertising revenues will continue to face significant headwinds in the near-term.

Due to these unprecedented circumstances, it was prudent for us to suspend full year 2020 guidance and the 2021 preliminary outlook as we carefully monitor business impacts and await better visibility into the timing and pace of re-opening the economy. While there are a number of factors outside our control, there's a lot inside our control, and we are not sitting still. Since the onset of the crisis, we have moved quickly and decisively to reduce all nonessential costs to protect our services and our employees as well as the long-term health of our business. Underlying our ability to respond and to weather the impact of this pandemic are the strong foundations built over the past several years, including a carefully constructed infrastructure. We have continued to evaluate organic investments that support the ongoing growth of our business, and we've taken several actions to strengthen the balance sheet, providing liquidity and flexibility.

Through a number of actions over time, we've deliberately focused on growing subscription revenues and political advertising, which are less sensitive to macroeconomic factors, and will continue to be key drivers of revenue and cash flows. We've also diversified our advertising business into digital with our Premion over-the-top platform and have expanded the number of industries that now advertise with TEGNA. Together, these successful efforts to diversify our revenue streams put us in a far more durable position than we were in the recession of 2008 and 2009, when the vast majority of our total revenues was non-political advertising.

Looking at our medium-term outlook, there are several encouraging drivers of our business. This year and beyond, we'll see a tailwind from the 50% of our subscriber base that was repriced at the end of last year. And as a reminder, we have an additional 35% of subscribers to be repriced later this year, equating to 85% of subscribers repriced between the fourth quarter of 2019 and the end of this year. These multiyear deals include material increases in per subscriber retrans fees in the first year and sizable escalators for future years as well, increasing the predictability of our future cash flows.

We've always modeled a continuation of video subscriber losses within the pay-TV ecosystem. We don't have any data from our distribution partners yet to suggest an acceleration of this trend, but we wouldn't be surprised to see at least some minimal impact on overall sub trends during the COVID-19 crisis. Time will tell. But increased rates from our recent and upcoming repricings will be the far greater determinant of our growth in net retrans and our ability to create shareholder value in the near and intermediate term.

Political advertising began the year with an incredibly strong start. As we've said before, we strategically constructed our portfolio to take advantage of increasing even-year political spending with stations in many high-spend political states. The first quarter once again demonstrated that local TV is a trusted and proven way to reach voters for political advertisers, and coupled with Premion's capability to address over-the-top viewers in and outside of TEGNA markets - a tool we did not have for the last presidential election year. We remain well- positioned for this year and all future election cycles.

Thus far, we are unaware of any reason to believe that political spending will see any material impact from the COVID-19 crisis. In fact, continued limitations on large gatherings will likely mean that local advertising will be an even more critical path to reach voters in this coming election.

Non-political advertising revenues will clearly be the part of our business most impacted by the [COVID-19] (added by company after the call) crisis. However, the improvements that we have made to the business over the past few years position us well for whenever the economy begins to reopen. Our recent proactive increase in the breadth of our advertisers and our focus on specific categories of growth across all our platforms will be an asset for us in any environment.

As we work to support our clients, we'll be carefully monitoring the performance of local media in locations where shelter-in-place and travel restrictions are lifted earlier than some other states.

Additionally, digital advertising, through our Premion OTT platform, will enable faster and adjacent growth in the years to come. Notably in February, we jointly announced a strategic partnership in which Gray Television would acquire a minority ownership interest in Premion. As part of this new partnership, Gray will serve as a reseller of Premion's services across all of their and 93 television markets. Our partnership with Gray will further accelerate Premion's already exceptional growth by expanding our local footprint greatly and leveraging Gray's strong performing stations. We're now accepting orders in pilot markets and Gray should be fully rolled out by the end of the third quarter.

Near-term macro dynamics clearly remain uncertain, but our first quarter results reflect continued momentum in resilient subscription and political revenue streams that allow us to better weather the downturn in non-political advertising, and invest in the future as we execute on our strategy for TEGNA shareholders over the long term. Our Board and management team have led the Company through previous recessions and are prepared to once again successfully navigate this environment. Whenever the current crisis begins to abate, we remain well- positioned to execute our strategy to create value for shareholders.

I'll now pass the call over to Victoria to cover our financials in more details. Victoria?

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

Thanks, Dave. Good afternoon, everyone, and thanks for joining us. I, too, would like to thank TEGNA's employees everywhere for not only continuing their great work for the current pandemic, but also for their talent and dedication that has provided such a solid foundation during these uncertain times.

In addition to the strategic actions by our Board and management team that Dave touched on earlier, we're benefitting from the prudent capital structure we put in place well before COVID, underpinning our near and long-term financial and operating flexibility. To give you some additional insight on this, before diving into our operating results for the quarter, I'd like to take a moment to touch on some key actions we took before the onset of COVID to further strengthen our balance sheet.

As you likely recall, we completed $2.1 billion in refinancings, one in September 2019 and then in January of 2020, at very low, attractive interest rates, about 4.8% on a weighted average basis. These transactions lowered our interest expense, while allowing us to retire nearer term maturities and fund our acquisitions, which closed late last year. We also took the opportunity to extend our $1.5 billion credit facility 5 years to 2024, also at the very low-cost of LIBOR plus 250, or roughly 3.4% as of today.

To provide more color, on February 11, we used the net proceeds of the January $1 billion re-financing to repay the remaining $310 million principal amount of our 5 1/8% of our July 2020 bonds, the $650 million principal and a call premium of our 6 3/8% October 2023 bonds as well as some borrowings under our revolving credit facility. As a result of all of those actions, we now have a very limited set of near-term maturities with only $100 million coming due in 2020, $25 million of which is in June and $75 million in September and $350 million in 2021.

As you saw in our press release, at the end of March, our cash position was $35 million, which is now north of $100 million as of April 20, which has continued to grow significantly each week given our very short order-to-collection cycle of approximately 80 days and the fact that political ads are paid upfront and retrans is usually paid contractually within 60 to 90 days.

Unused capacity under our revolving credit facility was more than $700 million with $790 million drawn. As a result, we finished the quarter with total debt of $4.1 billion, producing net leverage of 4.7x, compared to our covenant cap of 5.5x based on a trailing 8-quarter EBITDA metrics. Please note that our only financial covenant is the leverage ratio as defined in our credit facility, which, at 4.6x, is slightly lower than the more frequently reported metric.

Despite COVID-19 impacts late in the quarter, we generated $142 million of free cash flow, or 21% of total revenue in the quarter. Until the second week of March, we used cash on hand to repay short-term borrowings. However, since that time, we've been building cash, using it to continue to pay our regular quarterly dividend, cash taxes and existing maturities. Beyond that, we've been reducing non-mandatory capital expenditures and other cash outlays for the time being.

Before I cover our consolidated financial results in greater detail, I'd like to review a few special items first. For the first quarter, these include $22 million of early redemption fees related to accelerating our 2023 note paydown, $8 million of advisory fees related to activism defense and $5 million of M&A due diligence fees. These expenses were partially offset by $8 million for reimbursement of FCC spectrum repacking and a $12 million gain from our portion of CareerBuilder's sale of its employment screening business.

Now turning to the first quarter consolidated financial results. As a reminder, my comments today are primarily focused on TEGNA's performance on a consolidated non-GAAP basis, in order to provide visibility into the financial drivers of our business trends as well as our operational results. You'll find all of our reported data and prior period comparatives in our press release.

While we, like most businesses, have suspended our 2020 financial guidance, pending better clarity on COVID-19 market impacts over time, my remarks that follow will provide color on our first quarter performance compared to guidance provided in February prior to the pandemic's impact beginning in mid-March.

For the first quarter, total company revenue was up 32% year-over-year, in line with our prior guidance range of up low to mid-30s. This was driven by our new stations, which closed 6 weeks before year-end as well as the continued growth in subscription revenues and political advertising spending, all of which I'll cover in more detail in a moment.

Excluding the impact of political advertising in the quarter, total revenue was up fully 24% year-over-year, also in line with our prior guidance of mid- 20s percent growth.

Now for some additional color on the subcategories of revenue. Subscription revenue increased 38% year-over-year. This reflects the base business as well as the benefit of our newest stations and the impact of step-ups in the retrans rates from the recent renewals on both legacy stations and those we acquired in 2019. As Dave referenced, the $47 million of political revenue achieved in the first quarter substantially exceeded the first quarter of both 2018 and 2016. Taken together, our concentration of subscription and political revenues generate both sizable and durable EBITDA and free cash flow, in stark contrast to the 2008-2009 downturn.

Advertising and marketing services finished the first quarter up 12%, driven by the solid performance of stations acquired in 2019 as well as our legacy stations. These strong results were partially offset by non-political advertising cancellations late in the quarter related to COVID-19, as well as a $6 million reduction in Super Bowl related revenue, which aired on Fox in February. As a reminder, Fox comprises less than 6% of TEGNA's households. By comparison, in 2019, the Super Bowl aired on CBS, which comprises more than 30% of TEGNA's households.

To provide some further color on specific advertising performance trends, the quarter began strong with January finishing above last year before the Super Bowl and COVID impacts mentioned above. As always, advertising and marketing services includes some puts and takes by sector. On a normalized basis, the categories that have finished up stronger or flat, included home improvement, medical, media and telecom, education and banking or finance. By contrast and not unexpectedly, given the impact of COVID, other categories such as travel, auto, retail, services and restaurants reflected lower advertising demand in the first quarter.

Turning now to expenses. Our operating expenses for the first quarter were 30% higher on a year-over-year basis, slightly better than our prior guidance range of up low- to mid-30s, driven predominantly by our acquisitions and larger programming fees associated with higher subscription revenues. As a reminder, programming fees include reverse compensation paid to the networks.

As David already noted, we acted rapidly and implemented certain cost containment measures in light of the COVID-19 pandemic to reduce all non-essential costs and discretionary capital expenditures to protect the long-term health of our business and our employees. This is in addition to the ongoing streamlining of our business processes and support cost efficiencies that have been underway for quite some time. As reported, adjusted EBITDA was $212 million, producing a very strong 31% margin this quarter, EBITDA was driven by new acquisition contributions, including synergies and strong performance of existing as well as cost savings and efficiency efforts.

As David mentioned earlier, the full impact of COVID-19 pandemic, particularly with regard to the broader advertising industry, remains uncertain. We'll continue to monitor economic conditions and carefully evaluate whether it will be possible to reinstate some or all elements of our forward-looking guidance at a later date.

Before we open it up for questions, I'd like to turn it back over to Dave now for a few remarks.

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

Thank you, Victoria. We'd like to thank our shareholders for their support in last week's contested annual meeting, where all of our directors were re-elected to the Board. As our independent Chair stated in a press release following the meeting, we have benefited from the opportunity to speak directly with our investors to hear their feedback and perspective, and we look forward to continually actively engaging with all our shareholders.

And with that, I'll open it up for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will take our first question from Doug Arthur from Huber Research.

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

Dave, I know you don't want to give out specifics on near-term guidance. Fox said last night that their local affiliates, initially, are seeing down 50% to 55% declines in spot advertising, mostly spot. I'm assuming that we've not heard that from others. So I'm assuming it's not that severe. I'm wondering if you can give any kind of color on that. And whether -- we're also hearing that as you get into May, there's some modest improvement going on.

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

Doug, thanks for the question. So I really don't want to get into numbers, but I will confirm for you, it's not quite that severe to the numbers you just gave. And to your question, we are seeing marginal improvement week to week. The toughest week was the very first week of the quarter. And we are seeing improvements on a week-by-week basis, but I wouldn't want to overstate the dramaticness of the improvements. And it's tough to tell a yet. It's a combination of some increased demand. But I also think we've gotten better week-by-week and also creating demand and getting people back on the air. So probably a combination of both.

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

And then just as a follow-up, I mean, obviously, political, in the first quarter, very strong. I would assume second quarter, it's completely [become] on that front. Do you -- is it likely that this political this year will be highly concentrated very late in the election cycle so we'll see sort of a big tail at the end, so to speak?

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

Yes. You're absolutely right, Doug. It's going to look amazingly like previous years in terms of the percentage on the back end. And I didn't hear exactly what you said about second quarter. But yes, second quarter is relatively [small] (added by company after the call) to the rest of the year by far, and is going to be the lowest quarter in political. But yes, I think the numbers we've used in the past are, for the fourth quarter, typically around 60% and, say, 25% to 28% in the third quarter. But the real spending comes from Labor Day to Election Day, and that won't change from a distribution standpoint.

Operator

We will now take our next question from Steven Cahall from Wells Fargo.

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

Dave, in your March M&A announcement, it suggested you got interest from 4 parties, and 2 of those get into pretty serious discussions. And then the world kind of changed and everything broke down in a minute. So it sounds like from an ad sales perspective, maybe a lot of the worst is now behind you. How do we think about the ability of those discussions to come back? Are they deferred indefinitely? Is there a path that brings those parties back to the table? Just help us kind of think about that process. And then I had a quick follow-up.

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

Yes, Steven. We generally don't and won't comment on M&A. We did obviously put a press release out on March 29, given the unusual circumstances surrounding, and obviously, we had the activist engagement. But we are going to continue our path of not discussing M&A.

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

Okay. Fair enough. Then maybe one on the net retrans. Could you speak a little bit what that was on a same-station basis in Q1? And then what your outlook is maybe for the full year on both a reported and same-station basis?

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

Well, we haven't given any guidance on net retrans and don't, just other than to say it's very strong. It's a very high-margin producer of cash flow. And obviously, given the step-up in rates plus the added benefit of the acquisitions that we took in, in the back half of last year, we'll see a very nice increase in net retrans this year, but we do not guide on net retrans.

Operator

We will take our next question from Dan Kurnos from Benchmark Company.

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

Dave, we've been talking sort of about longer tail benefits, obviously, of the environment and the ratings, and you have 35% of your footprint coming up at the end of the year. You obviously posted a pretty strong start to the year from a rate perspective. And obviously, Nexstar had some pretty good numbers to talk about as well. Do you think that this kind of translates into a bump when you go into those conversations at the end of the year from a retrans perspective?

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

Well, it certainly won't hurt, Dan. We already have, from a Big Four rate, which is what we care about, right? Because that's what our portfolio is - Big Four. And Big Fours are what you want, from a standpoint of negotiations with MVPDs. So we have some pretty strong expectations already baked in. But to your point, that this -- your point is a good one, that these fairly dramatic increases in local ratings is reaffirming to all distribution partners the value of the local side of the equation. Obviously, our network partners are very important, too. That's why the 2 of us combined are the most viewed channels in the ecosystem and why we should be at the highest rates in the ecosystem.

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

And then I'll leave all the fun in core and political question to others. I guess maybe I'll just ask you about Premion in this environment. Obviously, streaming is seeing a massive uptick. We've seen kind of a wide variety of results from sort of the AVOD side of the equation. SVOD is obviously doing really well. But there's no doubt that viewership on OTT is up significantly. I'm just curious how -- are advertisers coming to you with a more targeted approach? How are you able to hold CPMs in this environment and just sort of what's your view when obviously things return to normal? Do you still continue to see traction there? Or does that maybe -- does the growth ultimately moderate when linear comes back a bit?

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

Well, let me just say, any -- regardless of what your platform is, you're hit by the advertising downturn, whether you're Premion or traditional television. That said, going pre-COVID, we continue to see very strong, very strong double-digit growth on Premion. Premion has obviously pulled back some, but its pacing is far better than traditional broadcast. So to your point, it's -- the increase in streaming consumption is only going to be a tailwind for the business on the other side of this. So I think I would argue that Premion is going to be even better positioned than before as a consequence of this particular -- this particular change in behavior a little bit.

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

Got it. And if I could actually -- if I can sneak just one more in, Dave, because you've been pretty -- talking out there about -- just talking about changes from a regulatory perspective. Obviously, we've got NAB pushing for FCC changes. And I just don't know if given that we're -- I think Gray said, we're pretty close to an election. So they were not anticipating any movement on that front. I'd just love to hear if you have any sort of updated thoughts on further de-reg in this environment.

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

Yes. I think we're a combination of between the courts and when -- and the election and everything else. I think we're in a moment of paralysis about any regulatory change for the time being. I agree with that.

Operator

We will now take our next question from Alexia Quadrani from JPMorgan.

Alexia Skouras Quadrani - *JP Morgan Chase & Co, Research Division - MD and Senior Analyst*

I just wanted to follow-up on some of the color you gave on the advertising weakness in Q1. I think you said the auto category was one of the weaker categories. I'm curious if you fell off, really just in the last few weeks of March or you saw it being weak throughout the quarter?

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

Yes. So to understand your question, a little trouble on the phone, Alexia, but you're asking about first quarter. There kind of were -- there was definitely 2 pieces in the first quarter. There was sort of pre-March 12 and post-March 12. So when you go back and look at, we normalize it pre-March 12 and take out the impact for the Super Bowl. Auto was down, but it wasn't down much. And probably it's best -- it was its best performance since back before '19. So it was still down, but it's down marginally. So was retail, by the way. Retail was down very low single digits as was auto. So overall, the ad climate was pretty good. Our advertising and market services numbers were fairly good. But the hit in the last 2 to 2.5 weeks was enough to put a dent in all those same categories.

Alexia Skouras Quadrani - *JP Morgan Chase & Co, Research Division - MD and Senior Analyst*

And I know you don't want to go into specific guidance given how fluid it is for the rest of the year. But have you guys internally maybe done some work looking at your advertising categories or advertising in general and sort of isolated what percentage of them might be a bit more permanently impaired, in the sense it may not recover quite as quickly as some of the others when the economy comes back?

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

Yes. I appreciate the question. We have, right. I think the good news is the categories that may be impaired the most aren't necessarily huge categories. Airlines and cruise ships, right, are not big parts of our business. It remains to be seen. Entertainment has been a decent-sized part of our business and one that we probably have concerns about where it comes back. Auto, I think might probably do a little better than people think. I'm not as sure about Tier 3, but I think the OEMs that got -- have cash are going to want to get back to get market share. In fact, in the first quarter, Tier 1 was doing -- was much stronger than Tier 3 for us. So I would think that, that may -- that inside the auto category, it may be better than people think once things start to open up.

And the other thing I'd point out about separate from categories, Alexia, is our portfolio. We're huge in Texas. And Texas, as you know, hasn't really had a huge number of cases relative to the size of its population. There's also a pretty strong political push, both from the state house in Austin and the general population to open up the state. So same thing in Florida, where we have a big position. Same thing in Georgia, as you probably know. So on paper, it would appear, our portfolio is going to be opening up on a faster percentage basis than the country at large, and that should be good for us. And no other trucks sell better than in Texas, especially with gas at record low prices. So we shall see.

Operator

We will take our next question from Kyle Evans from Stephens.

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

A few follow-ups to the retrans guidance question that you successfully avoided answering. The 50% that you've already renewed, can you help us think about the year 1 step up versus the 2- and 3-year accelerators? And then also some clarity on how the 35% of renewal that will hit this year are going to phase across the 4 quarters.

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

You bet. So Kyle, the -- let me take it backwards. The year 2, and in some cases, but not all the deals are 3 years, some are 2. But let's say, the second and third year escalators are very strong double-digit escalators. The year 1 escalators are far dramatically higher than that. And you can almost kind of see those in what our first quarter numbers are. As it relates to the 35%, it's all in the back half of the fourth quarter.

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

All back half of fourth quarter for the 35%?

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

Yes. Yes. Note -- we'll have some positive impact on December, but not much -- not any really other parts of the fourth quarter.

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

Okay. That's super helpful. Given the backdrop and given that the FCC would look -- would frown on blackouts, how has the economic backdrop affected the way that you negotiate with the MVPDs? And I know you've got, I guess, your next renewal with the network is not until next year. Hopefully, we're out of the woods by then. But how might it impact it if we're still struggling?

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

Well, I'm going to make sure I understand your question, Kyle, because when you're referring to blackout, it's really not about network agreements, it's about retrans agreements.

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

Yes. So the first question was specific to the cable satellite guys. The second part was about network negotiations, which you don't have until next year, so...

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

Okay. I may come back to you, just to make sure I understood the second question on the network. But on the distribution side, the blackout issue is, again, because we don't have any negotiations until 6-plus months from now. That's not really a concern we're worried about right now. And we always try to avoid blackouts in our negotiations anyway. But -- and then -- and I apologize, Kyle. Specifically, again, the question about the network, the renewals, it was what?

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

If we're still in a pandemic-driven recession in '21 when you have to renegotiate with NBC, how would that change the tone or tenure of that negotiation?

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

It's a good question. I think that if there's a dramatically decrease in the amount of original programming or something like that, it's obviously, we'll take -- all those kinds of factors would come into play. It -- it's frankly, so far away. It's not on one hand, right? It's only 7 months away. But relative to what either they can foresee or we can foresee at the moment, it's hard to quantify what that -- what impact it might be. But to your point, it theoretically could, based on what factors are out there in terms of what programming is or isn't being made available.

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

Okay. One last one. When you're dealing with the cancellations that you saw in late March and April, and you're out there trying to resell those in the marketplace, how do you balance your thinking on sell-through rates versus your willingness to kind of lower price and fill spots?

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

Yes. So yes, when demand goes down, rates go down, right? Because we maximize the value of our inventory. So right now, it's a great sales pitch to say to somebody to get people back on the air, which our sales teams are doing. To say, "Hey, you're going to get your best CPM that you've seen like in forever or the last recession, right? Because you've got record ratings and lower demand, so it's great for people that have the money to advertise. It's the best return on investment that we've ever had to offer." So that's what we're doing.

I think a lot of the cancellations were companies that just simply had to, from their own balance sheet standpoint because they were the businesses where they're shutting down. But now we've been able actually to get some new to TV advertisers at the local level because of this opportunity they're seeing. And then even on the national side, we just saw a big order, I think, yesterday on sports gambling across some number of our markets.

So you're seeing kind of a switch of categories, even though they continue to be a net negative. But you're starting to see -- and we're going after the categories that, obviously, are seeing growth during this time, whether it's insurance or credit unions or electricians and plumbers and lawn care services and air conditioning heating, things like that. So across all of our local markets, there are businesses now that are increasing their spend as they're increasing their business, and we're going after them hard.

Operator

We will take our next question from Craig Huber from Huber Research Partners.

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

I have a few questions, Dave. Maybe you could start with this. On the retrans side, were your subs in the first quarter down, say, 4% to 5%, including the benefit on the OTT?

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

Yes. So net subs, you're right in the ballpark, Craig, that's right. Which we're actually -- I mean all we have right now, because as you recall, while remittances are 60 days a little bit plus. So we only have actuals through January. But they were -- they were right in that range. And we -- like I said before, we've always modeled declines in total subs, and it was actually a little bit marginally better in January than we've modeled. Not much, but a little bit.

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

Okay, great. And then on the cost side, in the first quarter, excluding the acquisitions and excluding, say, programming costs, what's the percent change of year-over-year in your cost, please?

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

Why don't we have -- our team will look that one up. Why don't we take another question -- why don't I take the other question while we look that up?

Operator

We will take our next question from Jim Goss from Barrington Research.

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

So Dave, given your dominance in Texas and your strong position in Florida and Georgia that you alluded to, are you getting any early window on the potential speed and -- of the rebound and any ad demand and pricing you might get as you'd see whether or not some of the smaller businesses that might provide an advertising base come back or are still doing on a slow basis?

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

Not yet. I haven't seen it yet, Jim, because -- and even if you read like in Georgia last week when the governor opened it up, most businesses actually didn't open, right? So it's not -- it really hasn't taken off yet. So I think that it's been too early for us to see an impact.

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

Okay. And another thing on Premion -- Premion you had spoken with. With regard to the Gray partnership, are there any complementary [market] (corrected by company after the call) dynamics we might expect? Or is it just an extension of the size of the market opportunity? And are you seeking additional partners along those lines?

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

So to the first question, I mean, what they give us is their 90-plus markets. We actually don't overlap in that many markets. So it gives us -- it's just a significantly expanded reach. So -- and accessing local advertisers in their markets, like we do local advertisers in ours. So it's just an overall accelerant to the business. And we are, potentially, open to other potential partners in the business. Yes.

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

Okay. And lastly, I've been curious how was the production of DBL been affected in this environment? And are you finding new ways to do certain things and maybe even expand some of your ideas?

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

Yes. So actually, we've heavied up on Daily Blast LIVE. Because of the huge increases in available audiences in the daytime, it's been a real opportunity for them. So they are, like our local newscast are, they're doing -- they're a combination of most of the people that used to be in one very tight studio, they're all doing it from home with a handful of on-air talent at the studio. But like our local news teams have, they've really done a fantastic job learning how to innovate and produce that remotely and sort of having some fun with that because the team themselves is sort of a community, and we've seen a very nice uptick in ratings for them.

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

Do you include other markets, talent in other markets? Now that -- because if it's done remotely, it doesn't all have to be in the same spot.

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

Well, the staff that is -- are, on our talent all live in Denver. So they're all working -- they're coming in from their homes in Denver. But we've always got guests on all the time from all over the country, and we did before. But the use of the Zoom technology and the other computer-based video interfaces, everybody is becoming good at it. So the entire industry is learning how to access people through IP video services much more easily than it used to.

Operator, I think we still owe an answer to Craig Huber. Yes.

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

So the question, I think, was on a pro forma basis, what were expenses for the quarter. And if you look, it's relatively flattish, up about 1% to 1.5%. And if you remove Premion, which obviously is a digital driver of expenses, down 0.3%.

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

Yes. I got cut off earlier. So I'm sorry, Victoria, that answer there, up 1%, 1.5% that was organic. Did it exclude programming?

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

Yes. Yes.

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

Okay. Good. And then I wanted to also ask you guys, I know, Dave, you don't want to talk about the whole quarter, and this is kind of a follow-on question from before. But Nexstar, as you know, on their call yesterday said the month of April that they basically said was down 35% to 40%. They said it was down in line with their understanding for advertising with their peers were. Were you guys down roughly 35% to 40%? Obviously, I'd say 35% to 40% much better than the Fox, what they're talking about the whole quarter.

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

Yes, Craig. As I said on the very first question, I'm not going to talk about numbers. I just did respond to. I simply said that the Fox number that was given, I can't verify that was said. I'm just taking it as fact. That number was given in the first question, I think, Doug asked that is. All I said is we are not at that number. But otherwise, I'm just -- I'm just not giving guidance right now on what ad rates are.

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

Okay, fine. And then also I wanted to ask you, can you just give us a little sense on what your thought is for the year for CapEx?

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

So we haven't provided a re-guide. I've said in my remarks, we've taken out what we would view as a non-mandatory discretionary CapEx for the year. We may be in a better position later this summer to be able to guide on that. But it's -- as you recall, we previously had fairly streamlined CapEx for the year as it was, and we've taken out...

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

It will be lower than what we guided to originally. We are definitely are taking out CapEx. But we don't know yet, Craig, exactly how much. We certainly -- we've deferred some projects that may or may not get spent depending on business conditions later in the year. So that's a little bit of a moving target. But it will be certainly be lower than it once -- we once said it would be.

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

And just baseline on that, just so you have it, previously said 62 to 66 and about 20 to 24 of that was nonrecurring. So that -- we suspended that guidance, and we're looking to take out of that any non

(technical difficulty)

CapEx.

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

Okay. I think that's it. That forms the questions, operator. So to conclude, I just want to say as the world works through this current crisis, I want to reiterate our commitment to protecting our employees, supporting our clients and serving our communities in ways that our teams are doing today in great jobs. We are executing on our strategy and on our mission to serve audiences in every possible way.

If you have any additional questions we were unable to cover today, please reach out to Doug Kuckelman, our Head of IR, at (703) 873-6764. Thank you, everyone. Have a good afternoon.

Operator

This concludes today's call. Thank you for your participation. You may now disconnect.