

EDITED TRANSCRIPT

TGNA - TEGNA Inc Announced Intention to Spin-off Cars.com

EVENT DATE/TIME: SEPTEMBER 07, 2016 / 01:00PM GMT

OVERVIEW:

On 09/07/16, Co. announced a planned tax-free spin-off of Cars.com from TGNA.

CORPORATE PARTICIPANTS

Jeff Heinz *TEGNA Inc. - VP of IR*

Gracia Martore *TEGNA Inc. - President & CEO*

Dave Lougee *TEGNA Inc. - President, TEGNA Media*

Alex Vetter *TEGNA Inc. - President & CEO, Cars.com*

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CONFERENCE CALL PARTICIPANTS

Craig Huber *Huber Research - Analyst*

Doug Arthur *Huber Research - Analyst*

Barton Crockett *FBR Capital Markets - Analyst*

Kyle Evans *Stephens Inc. - Analyst*

PRESENTATION

Operator

Good morning. Thank you for joining the TEGNA investor conference call. At this time, I'd like to turn the call over to Jeff Heinz, Vice President of Investor Relations for TEGNA. Mr. Heinz, please go ahead.

Jeff Heinz - TEGNA Inc. - VP of IR

Thanks very much. Good morning, and welcome to our investor call and webcast to discuss today's announcement.

First our President and CEO, Gracia Martore, will summarize our plans to spin off Cars.com from TEGNA and the commencement of its strategic review process for CareerBuilder. After that, Dave Lougee, President of TEGNA Media, and Alex Vetter, CEO of Cars.com, will each provide a view on what the spin-off will mean for their respective businesses in the future. After that, we will turn the call over to our CFO, Victoria Harker, who will cover the financial rationale for our announcement and an update on guidance.

After management's brief commentary, we will open up the call for questions. We plan to end the call before the market opens at 9:30.

Hopefully, you had the opportunity to review this morning's press release. If you haven't seen it, it's available at Tegna.com. Additionally, there is an investor presentation to accompany management's remarks today which can also be found on the IR section of our website.

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.

The investor presentation also includes certain non-GAAP financial measures. We have provided reconciliations of those measures to the most directly comparable GAAP measures in the appendix of our investor presentation. With that, let me turn the call over to Gracia.

Gracia Martore - TEGNA Inc. - President & CEO

Thanks, Jeff. Good morning, everyone, and thank you for joining us on such short notice. While I'm not going to walk through the investor presentation page by page, we're going to refer to specific slides at times throughout our prepared remarks. And of course, are happy to answer questions at the end. So let's get right to it.

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Today, we announced the next logical step in our ongoing transformation, the planned tax-free spin-off of Cars.com from TEGNA. This will create two independent market-leading publicly traded companies, each with the tools and resources they need to grow profitably in their targeted markets and to respond to the rapid changes taking place in the broadcast and digital sectors. We anticipate completing this spin in the first half of 2017, and we expect to file a Form 10 later today.

Now both companies are going to have strong balance sheets and cash flow. Cars.com will have greater flexibility to invest in organic growth and participate in the active digital automotive M&A market. TEGNA will also invest in organic growth and opportunistic acquisitions and continue to have an appropriate mix of dividends and share repurchases.

Both companies will be clear industry leaders with substantial scale and breadth and top-notch CEOs who have been a part of or led their respective businesses for many, many years now. Now our strategic transformation has been underway for quite some time as you can see on slide 3 of our investor deck. The spin-off of Cars.com continues our ongoing evolution to best position our market-leading businesses and continue our strong track record of creating value for shareholders.

So both TEGNA and Cars.com will have tailored capital structures and shareholder return policies aligned with their distinctive businesses. Each entity will have a greater opportunity to pursue organic growth plans and increased flexibility to pursue value enhancing investments and acquisitions appropriate for their unique strategies.

And additionally, shareholders will have the opportunity to participate in the significant upside potential of more targeted, pure play, superior investment opportunities. As a result, we expect that TEGNA and Cars.com will benefit from valuations that better reflect their unique business characteristics and their superior operating performance compared to their respective peers.

Now as you can see on slide 5, digital auto-related companies with business models and market positions similar to Cars.com are valued at EBITDA multiples in the mid-to-high teens and higher. Strong public market valuations have been further validated in an active M&A market. There are a number of examples in which EBITDA multiples paid have spanned from the mid-teens to low 20s, including TRADER Corporation in Canada, J.D. Power, CarProof, and DealerTrack.

Moving to slide 7 of the deck, we also announced that we, together with our partners Tribune Media Company and the McClatchy Company, are exploring strategic options for CareerBuilder in which TEGNA has a 53% stake. While our interest in CareerBuilder will initially remain with TEGNA following the spin-off of Cars.com, if CareerBuilder is divested, both TEGNA and Cars.com would become pure plays, one operating exclusively in broadcasting and the other in the digital automotive space.

We believe that CareerBuilder's breadth, scale, brand recognition, and continued successful transition and focus on a fast-growing, higher-margin, SaaS business offers a compelling value proposition. CareerBuilder is simply one-of-a-kind with the most comprehensive offerings in the sector. Any transaction proceeds, should there be a sale, would provide TEGNA with even further financial flexibility.

Now, I'm sure you've also seen that today I announced I will retire upon completion of the spin-off. This decision, as you can imagine, was not easy and was full of mixed emotions, but the time is right. I have worked closely with the Board on succession planning and to ensure that these two outstanding companies will be in great hands, and they will be with Dave and Alex.

Alex will serve as CEO, President, and a Director of Cars.com. He has been with the Company since 1998, and is one of the original members of Cars.com's management. He has served in nearly every capacity as the company has grown, including product development, customer service, training, operations, sales, and most recently, as President and CEO.

Dave Lougee will serve as CEO, President, and a Director of TEGNA. Dave joined TEGNA's predecessor Gannett as President of Broadcasting in 2007 after nine years with Belo Corp. He has done a tremendous job of helping to catapult TEGNA Media to the leadership position it enjoys today. So with that, let me turn the call over to Dave and Alex. Dave?

Dave Lougee - TEGNA Inc. - President, TEGNA Media

Thanks, Gracia. TEGNA's industry-leading portfolio will serve as an excellent foundation for us to continue to deliver sustainable long-term growth as an independent broadcast company. As you can see on slide 9, TEGNA will continue to be the largest independent station group of major network affiliates in the top 25 markets with 46 stations covering approximately 1/3 of all TV households in the US. And it will continue to generate significant cash flow and have the strongest balance sheet amongst its peers.

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Not only do we have unparalleled geographic diversity and scale, we also have increasingly diverse sources of content and new methods of distribution which allows us to drive deeper engagement with our audiences as well as our advertising and marketing partners. We continue to believe that local broadcast news remains the most trusted and used news source by Americans across multiple platforms, and we are incredibly proud that TEGNA stations are consistently recognized by both viewers and peers as producing the highest quality local content.

Now if you look at slide 10 on the deck, it outlines the four key reasons we find this transaction particularly compelling. First, we will have even more flexibility to leverage the scale and strength of our broadcast portfolio to capitalize on future digital TV and video initiatives and stay ahead of industry trends.

Second, we also believe there's going to be a broader range of opportunities to increase investment in broadcast-specific and adjacent businesses that grow our footprint and enhance our offering overall. Additionally, as an independent company, TEGNA will have a more sharply-honed focus on broadcast-specific operational initiatives that will help drive continued performance and innovation.

Finally, we are committed to maintaining a disciplined capital allocation policy that delivers shareholder value through an appropriate mix of dividends and share repurchases. We expect to reinstate a share repurchase program following the completion of the spin.

I am obviously incredibly excited about our future and continuing to work with our extremely talented team as we begin our next phase of growth as an independent broadcast company. And with that, I will turn it over to Alex Vetter to discuss Cars.com.

Alex Vetter - TEGNA Inc. - President & CEO, Cars.com

Thanks, Dave. Cars.com will continue to focus on growth through innovation, new product launches, and expansion into new areas that enhance our competitive edge. As a pure play, we will have greater flexibility to pursue value-creating M&A opportunities, and Cars.com will benefit from a more tailored capital structure, modest leverage, which will allow for maximum flexibility.

Cars.com will remain a top online automotive marketplace with 35 million monthly visits. It will continue to be a leader in the highly attractive automobile advertising vertical with truly exceptional brand recognition. Cars.com operates in the sector that is growing rapidly, and we're confident that post-spin, Cars.com will continue to deliver strong revenue and EBITDA growth.

Cars.com has grown consistently since our inception, as you can see on slide 12, and since 2013 has delivered strong revenues with a compound annual growth rate of over 19%. In 2015, Cars.com generated \$239 million in adjusted EBITDA. As you can see on slide 13, margin growth has accelerated over the past three years.

Cars.com operates with a very positive underlying fundamental as an automotive category that remains one of the single most important advertising verticals. As illustrated on slide 14, sector dynamics are particularly favorable in terms of digital ad spending which is expected to remain on a strong growth trajectory reaching \$14 billion in 2020.

Our ability to engage users presents Cars.com with a significant opportunity to capitalize on the continued shift of dealer ad dollars being allocated to digital channels. Our success is driven by our best-in-class and differentiated digital experience, and those values will continue to be at the very core of Cars.com as we begin this exciting new chapter. I'll now turn it over to Victoria Harker, CFO of TEGNA.

Victoria Harker - TEGNA Inc. - CFO

Thanks, Alex. As you've heard from Gracia, the spin-off is very financially compelling. Each company will have a strong balance sheet and will benefit from a capital allocation policy that supports its own specific needs and opportunities. Existing debt will remain with TEGNA, and TEGNA expects to receive a one-time cash dividend from Cars.com immediately prior to the spin-off that will be used to maintain TEGNA's strong credit rating.

TEGNA will also continue to return a substantial amount of capital to shareholders. TEGNA anticipates it will pay a strong dividend and resume share repurchases following the close of the spin-off. We don't anticipate that Cars.com will initially pay a dividend as cash flow will be largely allocated to our investments in innovation and growth.

This spin-off is expected to be tax-free to TEGNA's shareholders. We have received a favorable private letter ruling from the IRS with respect to the most significant tax matters associated with the proposed spin. As a condition of the spin, we further anticipate receiving a tax opinion from our outside counsel that all other requirements for the spin to be a tax-free transaction will be satisfied.

Now, I would also like to provide a brief guidance update. We expect media segment revenue growth for the third quarter of 2016 compared to the third quarter of 2015 to be at the higher end of the 20% to 25% growth range, which we previously shared on our second-quarter earnings call in July.

Within the digital segment, we anticipate CareerBuilder will post another positive quarter in the third quarter and accelerate the momentum into fourth quarter. We expect Cars.com revenue growth to be on track in the third quarter compared to last year as we also shared on our prior earnings call.

Now, I'll pass it back to Gracia for closing remarks before we take your questions. Gracia?

Gracia Martore - TEGNA Inc. - President & CEO

Thanks, very much, Victoria. Simply put, the spin-off of Cars.com from TEGNA is the next logical step in our ongoing transformation and continues our strong track record of unlocking significant shareholder value. The next several months of hard work developing detailed separation plans will be well worth it as these two outstanding companies commence their next phases of growth.

Additionally, later this year, we plan to hold an investor day at which we will provide an update on our progress toward completion of the spin and more color on strategy and growth opportunities for both TEGNA and Cars.com. With that, I'd like to open it up to questions. Candace, please do so.

QUESTION AND ANSWER

Operator

Thank you.

(Operator instructions)

Craig Huber, Huber Research.

Craig Huber - Huber Research - Analyst

Good morning. A few questions. Just in terms of the timing of this, Gracia, I'm just curious, why now? Was this part of the overall process back when you originally announced the spin-off of the newspaper division that convinced you to do this with Cars, once it's all consolidated. And then my other question is, you talked about the fundamentals of your digital operations for the current quarter, maybe I missed this but Cars.com, is it looking to you guys like Cars.com revenue growth is accelerating at all here for that 5.5% to 6% growth you had the last three quarters? Thank you.

Gracia Martore - TEGNA Inc. - President & CEO

Let me start with the timing, Craig, and I think you hit the nail on the head. This has been all part of our transformation plan that we put in place beginning in 2012 when we talked about reinvesting the strong cash flow we had from our then businesses into higher growth, higher margin companies. When we announced actually the acquisition of Cars back in 2014, on the same day we announced the spin, there were questions about why are you including Cars with your other assets, et cetera, and we said at the time, Cars had five owners, none of them a majority owner. They had for the prior 18 months been involved in a sales process. And what we wanted to do for at least the next 18 to 24 months was number one, to make sure that the management team was focused only on one thing and that was the business and growing the business.

Number two, that they would accelerate the product pipeline, which they have done. And number three, we said that after that 18 to 24-month period, we would, as we always do as a Board, continue to evaluate what would generate the most shareholder return for all of us. And that could be up to and including other actions that we

would take around these properties. So this is just consistent with what our anticipated actions were from a couple of years ago, and we believe this is the right moment with both of these businesses doing very well and growing very well and accomplishing all the things that we set out to do in those first two years of ownership of Cars.

As to the growth rate at Cars.com, again, you're absolutely right. We indicated on our second-quarter earnings call that we expected that Cars.com's revenue growth rate would accelerate in the back half of the year from the 6% to 7% range to more of the 9% range and as Victoria just said, in the third quarter, we are on track to have an accelerated growth rate.

Craig Huber - Huber Research - Analyst

Also if I could just ask that the decision potentially to maybe sell CareerBuilder, just curious given the very low tax base that you guys have been in that asset for like 15 years, is it too complicated giving your other two large partners there to spin it off into a separate standalone company like you're doing here with Cars.com.

Gracia Martore - TEGNA Inc. - President & CEO

Yes, I think every partner has a different tax basis and a different situation, so specifically for us, actually, our tax basis is such that, and based on some things we did around the last spin, the taxes actually will be a much smaller component of the equation if we end up divesting the asset. So every partner comes to this with slightly different tax bases and all the rest. But all of us as partners agreed that given the successful transformation that is going on at CareerBuilder, the great acquisition that they announced yesterday in the post-hire, they really have distinguished themselves and differentiated themselves from the pure jobs boards companies like Monster and others to being a real software-as-a-service both a pre-hire and a post-hire platform that is unrivaled by any of their competitors.

So we feel as though this is the right time. They are on a great trajectory, as Victoria said, their growth rate will accelerate into the fourth quarter. It will be positive again in the third quarter, so we feel good about the great work that Matt and his team have done in really transforming that business and differentiating it from many, many others. Thanks for your question.

Craig Huber - Huber Research - Analyst

Thank you. Thank you.

Operator

Doug Arthur, Huber Research.

Doug Arthur - Huber Research - Analyst

Just a quick one for Alex. I'm wondering, Alex, if you could just elaborate on kind of the growth constraints that might be somewhat unfettered as an independent company as opposed to part of a larger entity. How do you sort of see the growth opportunities for Cars expanding as an independent company?

Alex Vetter - TEGNA Inc. - President & CEO, Cars.com

Sure. I think, obviously, when you look at the marketplace, it's a rapidly changing category and I think this move as a standalone public company will give us greater access to capital to look at M&A opportunities in the sector. I think there have been enormous opportunities that have presented themselves over the past several months and being a standalone company will allow us to look at those independently in terms of how they fit in terms of our strategy and pursue those with even greater focus and purpose behind fulfilling our mission. So, I think it really positions us in a much better way.

Gracia Martore - TEGNA Inc. - President & CEO

Doug, I would add to that, that as a standalone public company and one that we believe should trade more in line with the EBITDA multiples that other standalone digital marketplace and particularly automotive digital marketplace companies trade, they will have a currency now in their publicly traded stock that they simply did

not have as part of TEGNA. I think that's probably the biggest difference because we've looked at other acquisition opportunities, et cetera, and we're willing, certainly, to commit capital but I think that certainly is one of the benefits for them.

Doug Arthur - Huber Research - Analyst

And in terms of the acceleration of Cars in the third quarter, is the growth still not optimal because of the affiliate exposure and is that something that might also change as an independent company?

Gracia Martore - TEGNA Inc. - President & CEO

No. As an independent company they will have to be respectful of the contractual relationships that are in place with the affiliates. That will be a decision that the new company will make come 2019 when those affiliation agreements mature.

Doug Arthur - Huber Research - Analyst

Okay. Thank you.

Operator

Thank you. Barton Crockett, FBR Capital Markets.

Barton Crockett - FBR Capital Markets - Analyst

Thank you for taking the question, and Gracia, I know it's not yet here but congratulations on an excellent career and the retirement is very meaningful news and we've been following you for a long time and just congratulations on a tremendous career. I wanted to ask a question about the exploration of strategic alternatives for CareerBuilder. Could you give us a sense of the alternatives that you're considering? Is this focus potentially on a sale or a tax efficient spin? Is that possible? Given the kind of ownership structure here comparable to what you're doing with Cars, are both of those possibilities?

Gracia Martore - TEGNA Inc. - President & CEO

You know, again, what I would say is that we have a fiduciary responsibility, as do our partners, to explore all options and to maximize value that we would realize as a result of any strategic change that we might make there. Based on our existing ownership structure, it would be difficult to do a tax-free spin, but we will look at the full panoply of options together with our partners, and obviously we all take into consideration the tax ramifications of all of these things and we will make sure that we do our very best to maximize the value that we achieve as a result of this strategic review.

Barton Crockett - FBR Capital Markets - Analyst

Okay. And just remind us, do your partners Tribune and McClatchy, do they have veto powers since you guys have 53%. Presumably you could control this. Do what degree do they have veto power?

Gracia Martore - TEGNA Inc. - President & CEO

There are tag-along and drag-along rights.

Barton Crockett - FBR Capital Markets - Analyst

Okay. All right. And then in terms of the capital structure of Cars.com, you talked about modest leverage and a one-time cash dividend from Cars.com. Can you give us a little bit more specificity around the size of the cash dividend from Cars.com? And that cash that you get over to the TV station company, is that something that -- any ideas about how it could be allocated and the possibility maybe of a one-time distribution of that cash as a special dividend?

Gracia Martore - TEGNA Inc. - President & CEO

Yes. With respect to the dividend that we anticipate that Cars will pay to TEGNA, that amount obviously will be determined as we get much closer to the spin date but as we said, it will be a modest one-time dividend and a couple of times leverage-ish sort of ballpark is certainly some current thinking. But again, that will evolve over the period of time that it takes us to get to the spin date. I think what we talked about was that we want to obviously, clearly, maintain the strong credit profile that TEGNA currently has and enjoys, and so we would expect that most of that would be dedicated to debt pay down.

Barton Crockett - FBR Capital Markets - Analyst

Okay. That's very helpful. Thank you very much.

Gracia Martore - TEGNA Inc. - President & CEO

Thanks, Barton.

Operator

Thank you. Kyle Evans, Stephens.

Kyle Evans - Stephens Inc. - Analyst

Thanks. A couple questions for Alex. Could you talk specifically about Autotrader? Slide 15 provides some useful backdrop kind of industrywide, but I'm interested specifically in how you guys are holding up against Autotrader. And then as a follow-up, I know that revenue is accelerating in Cars' second half over first half, but we started with better than 10% growth guidance, then we're 10%, now the implied is 7.5%. I wondered if you could give us the long-term view on how we're going to get back into the double digits. Thanks.

Alex Vetter - TEGNA Inc. - President & CEO, Cars.com

Sure. First of all, I didn't quite catch the reference on Autotrader, but what I can tell you is that Cars.com has worked ourselves into an industry leadership position with over 20,000 local retailers subscribing to us on a monthly basis. And as far as my knowledge goes, we're the largest supplier of online marketing next to Google in the auto industry. And with that growth, we've seen that continue to grow this year. Obviously, the auto industry has had some challenges this year but we've been able to grow despite those challenges, and so I think as the market matures and sees a better opportunity to invest in digital dollars where consumers are spending the primary part of their time, dollars will continue to grow with Cars.com.

We are seeing our most sophisticated segments and major accounts and manufacture ad sales growing at strong double-digit growth, and we think as that sophistication in marketing awareness of what's driving their bottom lines as local retail operators develop more sophistication, which certainly we're helping them. I think they will also start increasing the amount of spending that they are doing on marketplace sites like Cars.com. So, hopefully that answers your question.

Kyle Evans - Stephens Inc. - Analyst

I want to make sure I understand that real quickly before you move on. My recollection is last time Autotrader filed an S-1, there was about \$1 billion in revenue that was comparable to Cars.com. I think I just heard you say other than Google, you're the largest? Are you talking about -- are you measuring that on revenue?

Alex Vetter - TEGNA Inc. - President & CEO, Cars.com

Correct. And first of all, it's important to note, as part of the S-1 which I think goes back four or five years ago, there were a collection of companies in that filing as opposed to just their one media property. They had multiple businesses that made up that effort at the time, and it wasn't a singular marketing platform like Cars.com.

Kyle Evans - Stephens Inc. - Analyst

Okay.

Gracia Martore - TEGNA Inc. - President & CEO

The other thing I would add to what Alex has said is, I think on the product innovation side, I think that Cars.com is second to none. And their acceleration of that product roadmap has been important and will continue to be an important addition to their growth. And then when we just completed the DealerRater acquisition, which frankly was an acceleration of we had a choice of either buy or build. We decided that this particular company was -- had a great reputation, would give us leaps and bounds on that. So we bought that as part of the portfolio. That's another great opportunity we have to continue to look at those kinds of opportunities to continue to accelerate on both our product map as well as our growth rates. I see that the clock is at 9:28 and Jeff promised we would let you off before the market opened. So thank you very much for joining us, and if you have any calls, any more questions, you know where to reach Jeff. Thank you very much.

Operator

Ladies and gentlemen, today for participating in today's conference. This does conclude the program and you may all disconnect. Have a great day, everyone.

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