EDITED TRANSCRIPT

TGNA - Q2 2016 TEGNA Inc Earnings Call

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OVERVIEW:

Co. reported 2Q16 total Co. revenues of $812m and non-GAAP EPS of $0.50.

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PRESENTATION

Operator

Good day and welcome to the TEGNA second-quarter 2016 earnings conference call. This call is being recorded.

Our speaker for today will be Gracia Martore, President and Chief Executive Officer, and Victoria Harker, Chief Financial Officer. At this time I would like to turn the call over to Jeff Heinz, Vice President, Investor Relations. Please go ahead, sir.

Jeff Heinz - *TEGNA Inc. - VP of IR*

Thanks. Good morning and welcome to our earnings call webcast.

Today our President and CEO, Gracia Martore; our CFO, Victoria Harker and members of our leadership team will be review TEGNA's second-quarter 2016 results. After that we will open up 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 is available at tegna.com.

Before we get started I would like to remind you that this conference call and webcast include forward-looking statements and our actual results may differ. Factors that might 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 and on the investor relations portion of our website.

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

Gracia Martore - ***TEGNA Inc. - President and CEO***

Thanks, Jeff, and good morning, everyone. Let me join Jeff and welcoming you to our second-quarter earnings call. I'm going to provide some highlights on TEGNA's overall performance in each of our businesses and then I'm going to turn it over to our business leads, Dave Lougee, President of TEGNA Media; Alex Vetter, CEO of Cars.com; and Matt Ferguson, CEO of CareerBuilder, for a closer look at each of their respective businesses. And after that, Victoria will go over some of the financial highlights for the quarter.

Let's jump right in. The end of June marked TEGNA's one-year anniversary and we are all proud of everything that we've accomplished today. Over the last four quarters, we've grown both operationally and financially and have launched several successful initiatives and partnerships. More importantly, we remain on track overall toward achieving the goals we reviewed with you at our Investor Day last summer.

The media and digital landscapes continue to evolve and we've seen tremendous changes even since this time last year. As always, our entire team has worked diligently to stay ahead of the trends and ensure that we remain as relevant as ever to our audiences and customers. One thing that hasn't changed here at TEGNA is the set of key drivers for our business, which include top-tier properties and their significant footprint, strong margins and steady cash flow, a talented team of experienced industry leaders, and a shareholder-first mindset with regard to the use of capital.

Looking at our second-quarter results, as you saw this morning, Companywide revenue increased 7% over last year and 9% on a pro forma basis, a result of positive top-line growth across our segments. Our revenue growth substantially outpaced the low-single-digit growth in operating expenses and as a result, our profitability was up significantly. Non-GAAP operating income increased 19%, adjusted EBITDA grew approximately 14%, and non-GAAP earnings per share were up 67%. We also generated $79 million of free cash flow.

Now during the quarter, we continued our strategy of partnering with and investing in leading-edge companies that are as focused on the same kind of innovative audience engagement as we are. For example, last month we announced a strategic investment in Kin Community, the premier home focus content brand and creator community that inspires and informs young women. This new partnership will enable content sharing across TEGNA Media's properties and give us exposure to a new group of young viewers.

On the flip side, building on our efforts to leverage the strong creativity we possess in house, this quarter we cleared our original show, T.D. Jakes, to air this coming September in more than 50 markets reaching over 40% of the country. Another example of how we are joining forces with innovative third parties is our announcement today that we have entered into an agreement, subject to regulatory approval and customary closing conditions, to acquire DealerRater. DealerRater is the industry's leading car dealer review site, so it is an outstanding fit for Cars.com as they grow their brand and their consumer connections. Alex is going to discuss this further in his remarks.

Now let me provide a few more specifics on each of our individual businesses. I will begin with the Media Segment. There, as you saw, revenue was up 10% year over year in line with our guidance. Top-line growth was impacted by the timing of political spending, as we noted on our first-quarter earnings call. We noted then the potential for a lull in political advertising in the second quarter before spending related to the presidential election campaign picks up in earnest.

This year, the primaries were especially dramatic and drawn out and didn't wrap up until mid-June. As a result, spending from presidential candidates is just now beginning to come in. But we are confident that spending will continue to ramp up in the back half of the year, typically where about 80% to 85% of all the political dollars we get occur, especially during the weeks between Labor Day and Election Day.

As we all know, that's when candidates typically really feel the pressure to grab those voters. When the real political dollars are flowing in, TEGNA is very well positioned in many of the key presidential swing states as well as contested Senate and gubernatorial races.

We also saw substantial bumps in digital and retransmission revenues. The initiatives we are launching, including Hatch, continue to gain traction. If you remember from last quarter, our Hatch initiative involves fully integrated marketing campaigns designed to give TEGNA access to a company’s marketing spend beyond just advertising. As well, our content transformation continues to progress and Dave is going to give us more details on all of that in a moment.

Let's turn to the Digital Segment. There, pro forma revenues were up 7% year over year. The key driver there was Cars.com, which continued to achieve meaningful revenue growth. Auto manufacturers and large dealer groups contributed significantly to the growth this quarter. Cars.com is also seeing an uptick in its new product sales, particularly with the new Sell & Trade offering and they continue to build their new product pipeline. Alex is going to share more details on all of that in a few minutes.

Shifting to CareerBuilder, we were very pleased to see a return to growth in the second quarter, with its HR Software-as-a-Service platform continuing to be the key story. With its small acquisition of Aurico last quarter, CareerBuilder continues to lead the pack with the best, most compelling offerings among its peers, providing solutions that are cleanly and powerfully integrated. There's obviously a lot going on at CareerBuilder and Matt is going to be able to speak to all of it in just a few moments.

First, let me hand it over to Dave Lougee for deep dive into TEGNA Media.

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

Thank you, Gracia. At the midway point in the year, we remain on track for a record year at TEGNA Media. Let me first dive deeper on Gracia's comments on political. We're headed for another tremendous year in political spending. Two factors led to this temporary lull in the second quarter that Gracia referenced. The first is that we didn't have any significant primaries in our particular footprint in that quarter.

Second and more significant, the parties' candidates, as Gracia referenced, were decided much later than four years ago. This year, the start of the much larger spending for the general election or main event, if you will, just got underway at the end of the quarter. Conversely, the Romney/Obama event four years ago was well underway in early second quarter. As a reminder, we are, as Gracia said, positioned very, very well for that main event. We are in states that matter most including Ohio, Florida, Virginia, North Carolina, Colorado, Michigan and given the close polling, we know Hillary will have a growing war chest coming out of this week's convention.

I also want to address the so-called Trump factor. His funding will now accelerate following the convention last week and major Republican donors who don't give to him are going to move their money, and are moving their money to control over key Senate, House and gubernatorial seats and our footprint there is equally strong. We have contested Senate races in Ohio, Florida, Missouri, North Carolina and Arizona and the Trump factor may widen the playing field further and open up other races. For instance, he and Hillary Clinton are now polling neck and neck in one poll in Georgia.

The bottom line, spending for all races is now beginning and accelerating fast, as expected. In addition to presidential race, major buys for Senate, House and Governors races and a very big statewide issue category are now being placed, with that number growing by the day. Those races always begin in earnest in the third quarter.

Now turning to core advertising, core advertising was down slightly for second quarter and we were unfavorably affected by two factors: not having the Final Four game on CBS this year and a negative variance in insurance category due to Obamacare spending last year. We've finally cycled past that issue starting in this third quarter.

On the digital side, we are continuing to see strong growth in Q2 and sequential improvement over Q1, excluding a one-time revenue reclassification. Our G/O Digital marketing services continues to grow strong at 35% and is a home run with both new and existing clients.

The Rio Olympics begin next week and we will have another year of record results. We are way outpacing the last summer games in 2012 and already have more revenue on the books today than where we finished in 2012, and we're way ahead of the Sochi Winter Games in 2014. As with all past Olympics, our NBC stations will be among the very highest rated and using our scale we have a centralized crew in Rio that will be co-producing with NBC Sports a nightly half-hour program for all our NBC stations, giving us higher rated lead-in programming for prime time coverage as well as more inventory to sell.

Now, let me turn to the initiatives we've been talking about since Investor Day last year, all aimed at closing the net retrans gap in 2017, the gap due to the original TEGNA NBC stations paying reverse compensation for the first time starting in 2017. As I said in our last call, those initiatives will contribute $30 million of EBITDA this year and we remain on track to do just that and are rapidly ramping as projected, giving us even more confidence in our ability to close that gap next year.

Hatch, our centralized client solutions group that Gracia referenced, is ramping nicely and its ramping off of an essentially fixed-cost basis. Our central pricing initiative is also ramping nicely. We have established a centralized pricing desk and are beginning to roll out our SaaS-based pricing software, which are both contributing to pricing and revenue share gains right now. They are putting dollars in our pocket by using data and analytics to make better and faster pricing decisions as political orders come in at the last minute with little visibility.

Now turning to our content transformation, it is wide-ranging and in full swing. In the news area, we have a development pipeline of 20 pilot projects as well as a number of new proven practices that are being scaled across the division that will accelerate our growth in share of viewing in our linear newscast as well as other platforms.

For example, one of those proven practices is social listening. Using software programs like CrowdTangle, our journalists are now using crowd-sourced data to make real-time content decisions on every platform. The result is less repetition and more relevance, all part of our culture of data-driven decision-making across the board.

An example of one of those pilots is called Verify, which we are piloting across all of our Texas stations next month after a successful test run at the Republican Convention last week. Verify lives at the intersection of Anthony Bourdain and local news, if you will. At a time when consumers are skeptical of what's fact and what's not, Verify will offer them a packaged transparent look at the truth.

In the non-news arena, we have six different pilots now of new live local shows underway in six markets. In the syndication space, as Gracia referenced, our T.D. Jakes show begins taping tomorrow. He premieres on September 12. The show is now cleared in 58 markets across 43% of the country and shortly we expect to announce a national distribution deal with another program outlet.

Awareness of T.D. Jakes has skyrocketed in the aftermath of the tragic police shootings in Dallas. He was sought out by civic leaders and media outlets everywhere and was a healing voice for the city and the nation on both traditional outlets as well as social media.

The Justice Channel, a targeted content multicast channel of which we have an ownership interest, continues to grow nicely and is about to grow to 60% clearance of the country, of which we make up 30% of the total, or 50% of the 60%, if you will. Innovation in content, sales and process on all platforms is now the cultural norm at our stations and together, we are executing on the strategy we have laid out.

With that, I want to turn it over to Matt Ferguson from CareerBuilder.

Matt Ferguson *- TEGNA Inc. - CEO of CareerBuilder*

Thanks, Dave. CareerBuilder had a strong second quarter, returning to growth as we built solid momentum behind the sales of all of our human capital solutions. Our Pre-Hire platform, which is the first and only of its kind, provides huge benefits to our clients in terms of reducing the cost and time it takes to hire someone. It also provides a competitive advantage for CareerBuilder.

No one else comes close to delivering the scope of advertising, software and services in one place. We have the most cutting-edge recruitment offering on the market and employers are very excited about what we can do for them.

In March of this year, CareerBuilder expanded upon our platform by requiring Aurico, a leader in background screening and drug testing. We're off to a great start with Aurico and are driving a lot of sales opportunities for them. In Q2 alone, Aurico's revenue was up 27% year over year and their invoicing was up 29%. With our sales, marketing and brand behind this business, we expect strong growth to continue at Aurico in the back half of the year and beyond.

As CareerBuilder continues to evolve as a company, we're seeing a positive trajectory for our revenue. In the second quarter, CareerBuilder generated $181 million in revenue, growing 3% year over year. This shows improvement over previous periods where revenue was down 2% year over year in Q1 and down 5% year over year in Q4.

Contributing to this growth is the strong performance of our software solutions. Software invoicing sold by CareerBuilder in North America was up 10% year over year from December 2015 through June 2016 and monthly recurring revenue was up 12% in Q2 2016, compared to Q2 2015.

In addition, our Source and Screen business is a good example of how we're reinventing our products. In 2015, we saw a sizable and anticipated revenue decline when we moved away from the transactional approach to this business. After transitioning to a platform-based offering, this business was up 47% from June 2015 to June 2016, and is trending the same way for July.

As we look forward, it's important to note we recognized job posting business will continue to experience pricing pressure at the unit level in 2016 and we have reflected that in our projection. Though the price per unit will be lower, there's a good opportunity for us to increase the job posting inventory on our side as we go after mainstream higher volume jobs.

Innovation is an everyday occurrence at CareerBuilder. In the coming months you will see us roll out exciting new software solutions. We'll also continue to explore acquisitions that build on the success of our current offerings and create new revenue streams. We fully expect double-digit growth in our SaaS-based software solutions, resume database and employer services this year.

I will also reiterate we anticipate mid-single-digit revenue growth in 2016. We are seeing some really good signs from some of the bigger deals that we've been working on in the Aurico pipeline that we expect to hit really as we get closer to Q4. In addition, we still expect to reach 10% growth by the end of 2017.

With that, I'll hand it over to Alex Vetter, CEO of Cars.

Alex Vetter - ***TEGNA Inc. - CEO of Cars.com***

Thank you, Matt. We are pleased that all of our retail channels are growing, resulting in nearly 8% increase in revenue compared to the second quarter of last year. This growth has been primarily driven by an increase in dealer market penetration in direct markets, new products and increased purchase of display advertising by auto manufacturers.

Our strongest growth can be attributed to auto manufacturers and major dealer groups. Our major accounts team is up 9.1% and national revenues are up 15.3%, so combined we are up more than 11%.

As we've discussed in the last few earnings calls, we have been disappointed with our affiliate sales performance and have taken steps over the past several months, including additional training and support on product materials, to help them improve their trajectory. We're pleased that in the second quarter they began to reflect some improvements in their trends and we expect that to continue into the future.

In addition, some of our direct sales channels initiatives kicked off in the first quarter took longer to ramp this year. Both of these factors have contributed to a shortfall in the year-to-date overall growth rate, but we're expecting improved performance in the second half across all channels to be around 9%. This is a result of our ramped initiatives as well as even the quicker product expansion through DealerRater, which we had originally been planned to occur through organic product development.

As you heard earlier today, we've entered into agreement to acquire DealerRater, the industry's largest automotive consumer review website. We know through a leading automotive consumer experience management company that nearly 80% of car buyers and 70% of service customers site review sites as the most helpful resource when selecting a dealership. That transaction is a natural extension of the Cars.com business and strategy and enhances our focus on dealers who provide great local end-market experiences for shoppers.

With the completion of this acquisition later this summer, we will solidify our position as the leader in online automotive reviews and the preeminent authority for car shoppers and owners for deciding what to buy and now where to buy it and who to buy it from. A strong reputation and successful word-of-mouth referrals go hand-in-hand and we are uniquely positioned now to help dealers leverage the reputation and connect with end-market shoppers through the power of social.

On the product front, we are pleased also welcome Tony Zolla, our new Chief Product Officer. He comes to Cars.com with 18 years of experience building and leading high-performance organizations at some of the nation's top consumer brands. Most recently he was the Senior Vice President of Product and Customer Experience for the $2 billion retailer Redbox and prior to that at Ticketmaster.

We also have good news to share regarding our new products. Last quarter, we launched the next phase of our Sell & Trade product offering, which includes a new Quick Offer mobile app, which allows consumers to easily sell their cars and receive real-time offers from local dealers. Dealers buy into the program to access a new audience of consumers and build their used car inventory. We're off to a great start with our Sell & Trade portfolio of products this year. Q2 sales are up over Q1 and we expect further updates in the Sell portfolio soon.

Sales of our campaign-based event positions products are up year over year due to an increase in vehicle sales incentives and the Memorial Day holiday, and our dealer positions, a prominent display product, continues to perform well, more than doubling revenue expectations year to date. In the near term, we'll see additional new products hit the market, including our cross device offsite ad targeting products, Cars 360X, and our deep linking offering, which allows users to connect directly to the vehicle detail page on a dealer's website directly through Cars.com. This direct connection provides a seamless shopping experience for consumers and directs shoppers into our customers' environments even faster.

We continue to improve our app experience for our highly engaged mobile audience. A few weeks ago, we launched price drop notifications, alerting shoppers of a price reduction on cars of interest, bringing back repeat visitation. In the automotive industry, we know that consumer usage of third-party sites is undisputed. Shoppers trust the independent editorial opinions of sites like Cars.com to guide them through the decision-making process of what to buy and now where to buy it.

We are harnessing the power of our independent credible voice through a variety of strategic initiatives. First, every year Cars.com editors evaluate cars by segment type using their own in-house expertise, outside experts, and consumers looking to buy new cars in a series of multi-car comparisons known as challenges.

In June we hosted the midsize sedan challenge and awarded the Volkswagen Passat as the best in segment honors. This selection was supported by an integrated marketing and social media campaign that included cross-promotion efforts by the winner and is in a licensing agreement that allows Volkswagen to promote the award in all of his advertising and in-dealership collateral.

In addition, we are expanding our presence across other media channels with a weekly segment called Driving Smart that will air Saturday mornings on more than 30 TEGNA Media stations. These segments are produced by Cars.com in our studio that we use for our website video production and will feature our editors covering topics such as car shopping 101 and other automotive news of interest to consumers. Our first segment aired last week.

We're thrilled with the DealerRater transaction, the tremendous growth coming in from auto manufacturers and major dealer groups, the potential in our product pipeline and the momentum we are beginning to gain with our affiliates and the ways that we are leveraging our unique editorial voice with consumers.

Thank you for your time. I am now going to turn it over to Victoria.

Victoria Harker - ***TEGNA Inc. - CFO***

Thanks, Alex, and good morning, everyone.

As Gracia already mentioned, we're very pleased with our solid results this quarter, driven by the strong performances of our businesses across both the Media and Digital Segments. Before I review our consolidated financial results, as well as capital allocation during the quarter, I'd like to note that there were just a few operating special items which totaled $11 million, primarily related to a voluntary early retirement program within Media which began last quarter.

Altogether, these items unfavorably impacted GAAP EPS by about $0.03 per share. Beyond this, total non-operating special items totaled $5 million, impacting EPS by about $0.02 per share, driven by the write-off of a small equity investment and costs related to M&A activity. As a reminder, although I will be focusing on our non-GAAP performance results today, you can find all our reported data and comparatives in our press release.

Now let's briefly review the operating results for the quarter. With strong performances by both Media and Digital segments, we achieved earnings per share of $0.50, an increase of 67% over last year. Total company revenues of $812 million were up 7% year over year. On a pro forma basis, excluding the impact of PointRoll, which we sold at the end of last year, total revenues were up 9% and in line with our full-year projections, driven by significant growth in the media segments, retransmission and political advertising revenues as well as continued growth in Cars.com and stronger CareerBuilder revenue within the digital segment.

During the quarter, total Company operating expenses of $575 million were higher by 3% over last year, mainly due to higher programming fees, expenses associated with revenue growth, and our ongoing investments in growth initiatives within both the Media and Digital segments. These were offset in part by a reduction in corporate expenses and the absence of publishing-related unallocated costs as well as our continued efficiency efforts.

Now let's turn to a more detailed review of Media and Digital segment results. Media Segment revenues of $459 million increased by 10% year over year, driven by significant growth in retransmission revenues as well as higher political advertising and digital revenue. Retransmission revenues, boosted by agreements negotiated at the end of last year, as well as annual rate increases within existing agreements, were up 33% this quarter.

As Dave mentioned, political campaign spending continues to track and we achieved revenues of over $10 million of advertising in the second quarter, despite the impact of the drawn out nomination process, fewer contested primaries in our footprint in the second quarter and delayed presidential campaign spending.

Beyond this, Media Segment digital advertising revenues were also up 12%, driven by digital marketing services, which continue to gain traction across television stations, driven by G/O Digital sales, extended reach networks and national digital revenues. As Dave mentioned, excluding a one-time Publishing Segment revenue reclassification at the time of the spin last year, digital revenues would've increased by 17%.

Now focusing on third-quarter expectations within media, based on current trends, we anticipate increases in retransmission revenue, political advertising, Olympic advertising and digital revenue to result in Media Segment revenue growth of 20% to 25% for the third quarter of 2016 compared to the third quarter of 2015. As you would expect, revenue growth will in part be dependent on political spending in the second half within the presidential campaigns as well as for contests in both the House and the Senate.

During the second quarter, the Media Segment operating expenses of $271 million were up 15% year over year, primarily due to increased programming costs and investments in our digital sales initiative, including sales force transformation expansion to support newly launched product offerings.

Now on to the Digital Segment. During the quarter, Digital Segment revenues of $353 million increased by 7% year over year on a pro forma basis, reflecting continued growth in dealers, consumer use, as well as new product launches at Cars.com and higher revenue at CareerBuilder. Cars.com revenues sold directly were up 8%.

Including the impact of affiliate revenue performance, revenues increased by 6% year over year, reflecting ongoing strength in market penetration within the direct sales market. This was bolstered by the continued success of new products such as Sell & Trade, campaign-based event positions and dealer position enhanced.

National advertising revenue was also strong, up over 9% due mainly to an increase in display advertising by auto manufacturers.

CareerBuilder revenues were up 3% year over year, the first quarterly increase since early last year, as CareerBuilder continues its sales momentum with strong margin Software-as-a-Service solution. As Matt mentioned, the acquisition of Aurico and a higher resume database revenue also contributed to the growth this quarter. These were partially offset by headwinds in our job posting business.

Digital Segment operating expenses of $288 million were up by 5% due to an increase in expenses, primarily reflecting accelerated investments in sales force and growth initiatives within both Cars.com and CareerBuilder, partly offset by the absence of expenses that PointRoll. As a result of this strong operational execution across the segments, TEGNA overall achieved solid adjusted EBITDA of $288 million this quarter and our EBITDA margin was up 35%, up 200 basis points compared to last year.

Capital investments of $24 million during the quarter reflect our ongoing commitment to reinvestment in business priorities and include digital development, media content, product integration and platform enhancements, including automated sales tools, order tracking and other critical product enhancements.

During the quarter, solid cash flow from operations was used to fund share repurchases of $76 million at an average price of $22.68 per share and we made dividend payments of $31 million. During April, we also extinguished $193 million of 10% senior notes which reached their maturity. This resulted in net reduction of over $14 million in annual interest expense, prospectively. At the end of the quarter, our long-term debt was $4.3 billion and cash on the balance sheet was $102 million.

With that, I'll turn the call back to Gracia for her closing remarks.

Gracia Martore - ***TEGNA Inc. - President and CEO***

Thanks, Victoria. Looking back at this first year as TEGNA, we've accomplished a great deal. It was a very productive first year but we have only scratched the surface in terms of what we are capable of doing.

I want to thank you all very much, all of our employees, for your effort during this first year. There's a lot more to come through the rest of 2016 and beyond. Stay tuned. With that, I would like to open the call up to questions. Tanisha?

QUESTION AND ANSWER

Operator

(Operator Instructions)

John Janedis.

John Janedis - ***Jefferies*** - ***Analyst***

Thanks, good morning. Maybe for Dave or for Gracia. Acknowledging the timing issues, have you changed your internal projections for the political season? Can you also talk about your underlying assumptions for political and Olympics in the third quarter? I think going back to the 2012 it was $37 million for Olympics and maybe $40 million in 2014. Can you also remind us the pro forma political revenue either for third quarter or 2012 and 2014? Thanks.

Gracia Martore - ***TEGNA Inc. - President and CEO***

Dave, why don't you talk about Olympics.

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

Olympics, as we said, are really strong. Remember these dollars aren't all incremental. We did a total of $48 million back in 2012. We are ahead of that today. We are in high-single digits, John, right now on pace for that.

Gracia Martore - ***TEGNA Inc. - President and CEO***

So I think clearly exceeding both 2012 and certainly 2014 in a meaningful way.

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

Significantly over 2014.

Gracia Martore - ***TEGNA Inc. - President and CEO***

On the political side, John, I think you were asking about 2012?

John Janedis - ***Jefferies - Analyst***

Pro forma 2012 or 2014 number for the third number? I'm trying to benchmark.

Gracia Martore - ***TEGNA Inc. - President and CEO***

In 2014, third quarter, which would be including Belo obviously, $40 million in the third quarter and about $92.5 million in the fourth quarter. In 2012, which would be a comparable presidential year, third quarter was about $56 million of political and fourth quarter was $114 million of political.

John Janedis - ***Jefferies - Analyst***

Have you changed your internal projections, Gracia, for the season given the numbers or no?

Gracia Martore - ***TEGNA Inc. - President and CEO***

I think the only thing we've changed is quarter to quarter, because as we got into the year, as we said on our first-quarter earnings call, it was clear that the primaries were going to last much longer. Unfortunately, we had a great footprint in the first quarter. We said on our call last time that our footprint of primaries in the second quarter wasn't particularly robust. We expected the money in those states to go to other lucky broadcasters. So I think it's more of a switching among quarters rather than any concern about the totality of political for the year. Dave, do you want to add anything?

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

That's right, John. Second quarter is the least dynamic and presidential. Back in 2012, presidential was a disproportionately large piece of that because all of the other money, if you will, everything but presidential, which for the year and by far a larger piece, doesn't get going until the third quarter. So the presidential not starting, the general election not starting in the second quarter had a disproportionate effect on us in Q2.

Gracia Martore - ***TEGNA Inc. - President and CEO***

Because you have seen Obama spending and other spending early in Q2.

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

That's right. Obama was big. His war chest was on by the beginning of the quarter last time and Romney was on early.

John Janedis - ***Jefferies - Analyst***

Got it. All right, thanks, Dave. Maybe a related question. As you know, there's been some concern related to certain ad categories on broadcast. I know it's hard to speak to core with political and Olympics, but can you speak to underlying strength in maybe a couple of your top categories? I am thinking about consolidation in the -- maybe the telecom pay-TV space and some of the pressure on retail today given some of the press out there.

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

I can speak on it. We are down slightly in retail but that's mostly driven by a large advertiser in the South that we sort of chose not to take for some pricing issues. In the telecom space, it is down slightly but not like what we've seen in frankly in the first quarter. It's on the video side of the business, John.

Gracia Martore - ***TEGNA Inc. - President and CEO***

But the positive categories, as you've asked also, auto very strong, services very strong. Media telecom together actually up a little bit and home-improvement up. So a mix of categories, but really glad to see that in our top category, that's 25% or so of our business, a nice increase in auto.

John Janedis - ***Jefferies - Analyst***

Okay. Thank you very much.

Operator

Barton Crockett.

Barton Crockett - ***FBR Capital Markets - Analyst***

Okay, thanks for taking the question. I wanted to ask about the job listings decline that you saw at CareerBuilder. What is behind that? Is that a shift in how employers are seeking to recruit people maybe to things like LinkedIn, or is that macro? I think is hard for us all to figure out what's happening with the jobs picture with the government data looking great in June and terrible in May. How would you describe the sources of pressure there?

Matt Ferguson - ***TEGNA Inc. - CEO of CareerBuilder***

I think it's there is the competitive dynamics in the way people buy jobs today that you mentioned, whether it's LinkedIn or other people in the space. I think it's the way they get price today versus a couple years ago. I think on the economic front or macro front that you talked about, and the numbers have bounced around, I think the labor market in my opinion is still similar and that skilled positions is pretty tight. You are seeing wage increases and a lot of demand for labor, not that much supply when you get into more of the mainstream jobs; it's less so. I haven't seen a change that it's gotten worse or noticeably worse or that much better. I think it's more status quo.

Barton Crockett - ***FBR Capital Markets - Analyst***

Okay. If I could follow up a little bit on the questioning about the ad environment. I understand the category commentary and I appreciate that, but I think we're all kind of scratching our heads trying to figure out is this a good ad environment generally or not with all of the kind of noise between political and Olympics and the upfront looking great at the national broadcaster. Just in general, how would you describe the feel of the ad market at its core level at this point?

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

I would say generally is actually marginally improving for the course of the year. For us in the second quarter, it marginally improved through the quarter and going into third it feels like it's marginally better. The other thing I think I'd give some commentary on is that relative to the value of inventory, sports continues to kind of grow in its relationship to the value of the brand advertisers and for us, we don't have a lot of that inventory much at all in the second quarter. That's our lull and so categories like the NFL continue to grow. I think you're seeing people move some dollars into those high-ticket events.

Gracia Martore - ***TEGNA Inc. - President and CEO***

I think Olympics probably takes some of those core dollars.

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

Definitely. Sucks it out of the market and puts it in our hands.

Barton Crockett - ***FBR Capital Markets - Analyst***

Great. Thank you.

Gracia Martore - ***TEGNA Inc. - President and CEO***

Thanks.

Operator

Dan Kurnos.

Dan Kurnos - ***The Benchmark Company - Analyst***

Great, thanks. Good morning. Just a few questions for me. Just to be clear, Dave, good numbers on the Olympics, but is any of that potentially at risk with some of the negative headlines or if it ends up turning out to be a disaster?

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

No, not at all. We have seen no impact at all from any of those events. I know that's a good question. It has been asked in the past. We frankly have faced that with Sochi and other things, but what we find is the more news and noise about the Olympics all it does is raise the interest and there's been nothing to scare away advertisers.

Dan Kurnos - ***The Benchmark Company - Analyst***

Great. Shifting over to Alex here on Cars, some good commentary around affiliate improvements. Maybe if you could just remind us exactly what you've done to bolster that and maybe sort of your thought process and where you can get them to over the next six months in terms of growth, your expectations there. Also on DealerRater, just any color you can give around either price paid, it's monetization mechanism and your plans for integration would be helpful. Thanks.

Alex Vetter - ***TEGNA Inc. - CEO of Cars.com***

Sure. On the affiliate performance, we've spent a lot of time in the first quarter just making sure they understood the total opportunity that's in front of them in their markets comparing our direct market performance and what we've been able to do to what their local teams have done. We've also dedicated some of our sales support resources to help them in market, four-legged calls to help them understand the products and how they can bring value to their end users.

I think the combination of that as well as engaging with management to see the opportunities they have, they've started to earmark more resources towards pursuing Cars.com product sales in our market. It is a little bit of a mixed bag because we're doing this on a market-by-market basis, but we've made it through most of the affiliate markets and those that we've been involved with, we've seen them turn their performance around. As for guidance on the rest of the year, we feel like we need to keep the pressure up with them to help make sure that our products stay top of mind, but we do see modest improvement in their performance throughout the rest of the year.

On the question regarding DealerRater, the deal will close later this summer and we are not sharing details on the transaction. We do think it presents an enormous opportunity for us to diversify our revenues. As many dealers are already subscribing to Cars.com, we now have a new solution to offer them that leverages our vast sales network where DealerRater had a great product but really lack the sales of the structure that we have. I think the combination there has tremendous synergy for us to bring a new solution to market that helps dealers capitalize on word-of-mouth and social marketing.

Gracia Martore - ***TEGNA Inc. - President and CEO***

Dan, I would just add to what Alex said is that, we will spend the next few months integrating, obviously, the teams and products and the rest. But clearly, the opportunity we see there is, as Alex said, to bring to bear the enormous sales force that Cars.com has to sell this product. It's something that we hear a lot of enthusiasm about from dealers, from clients. You have some statistics about how important that is to the conversation. Deploying the cars sales force on top of a modest sales force at DealerRater should really lead to some very significant increases on the revenue side in both 2017 and 2018 once it's been fully integrated.

Dan Kurnos - ***The Benchmark Company - Analyst***

Thanks. That's really helpful. Maybe just one more if I could, because I don't think there's a lot of talk about profit improvement or cash flow improvement on the digital side. You gave sort of guidance for where that was going to trend over the course of the year. Understanding that Cars has had maybe a little bit of a revenue shortfall, still sounds like you guys are on track from a cash flow perspective. Is that fair for both Cars and also CareerBuilder?

Gracia Martore - ***TEGNA Inc. - President and CEO***

Yes. I think we are pleased. What we said at the end of last year was that we were going to continue to ramp investment in the first half of this year, both at Cars.com as well as at CareerBuilder on technology resources, on sales, on marketing efforts and a number of investment areas. That spend will not be as significant in the second half of the year because we have done a fair amount of investment here in the first half of the year. We hope to start harvesting more of those investments in the second half of the year and beyond.

Dan Kurnos - ***The Benchmark Company - Analyst***

Great. Thanks for all the color. Appreciate it.

Operator

Tracy Young.

Tracy Young - ***Evercore ISI - Analyst***

One question on the media and one question on digital. We may have talked about this in the past, on the political spend, but could you give us a percentage of Presidential versus issue?

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

When you say -- ask that, Tracy, just to be clear, you're talking about non-Presidential issue money?

Tracy Young - ***Evercore ISI - Analyst***

Yes.

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

Yes. Okay. Issue can often be close to as large, but Presidential will at best be a third of our revenue in a Presidential year. The issue money can be a quarter -- issue money not tied to other races. We have lots of what we call issue PAC spending relative to the Senate races, the House races, the Governor races. But if you're just talking about state issues, which is a sizable amount across our mutual front, that can often be around a quarter of the dollars.

Gracia Martore - ***TEGNA Inc. - President and CEO***

On that third roughly on Presidential, that does include PAC spending. The true candidate money is at the low, lowest rate whereas the bigger dollars are coming at the market rate.

Tracy Young - ***Evercore ISI - Analyst***

Great. Thank you very much. Again on Cars.com, you gave a lot of good color. Is there any way to give us a percentage of the affiliate versus direct during the quarter in sales?

Alex Vetter - ***TEGNA Inc. - CEO of Cars.com***

Sure. About -- our wholesale revenues really are sub-30% of our total, so our retail revenues make up the majority of our volume and affiliate sub-30%.

Victoria Harker - ***TEGNA Inc. - CFO***

We've generally talked in the past about 25%, 26%.

Tracy Young - ***Evercore ISI - Analyst***

Okay. Thank you very much.

Gracia Martore - ***TEGNA Inc. - President and CEO***

Thanks, Tracy.

Operator

Doug Arthur.

Doug Arthur - ***Huber Research Partners - Analyst***

Thanks. Two questions. Question for Dave on cost. The cash cost in the first half in broadcasting were up about 16%. Is there any way to sort of disaggregate how much of that was due to accelerated spending on new marketing initiatives versus programming? Then I've got a follow up on Cars. Thanks.

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

Our total expenses when you factor out our programming fees are under 5% for the first half of the year and that includes the spending that we have on initiatives, including core initiatives and programming initiatives, if that gives you some color.

Doug Arthur - ***Huber Research Partners - Analyst***

Okay. Alex, on the affiliate improvement, how much flexibility do you have over the next few years if you have a certain affiliate that just continues to underperform and not sort of react to the supported incentives? What kind of flexibility do you have contractually?

Gracia Martore - ***TEGNA Inc. - President and CEO***

We baked into our agreements when we acquired Cars from our partners and kept the affiliation agreements in place. Certain performance metrics around them, so there are triggers if an affiliate is performing particularly poorly to address those kinds of issues. But I think we have taken the tack that we would rather work with the affiliates and make sure that we bring to bear all the learnings that Alex and his team have to improve their performance, and it was heartening to see that improvement in performance in the second quarter with hopes that, that performance improvement will continue through the remainder of the year. As you know, we are about almost two years into the five-year agreements and obviously we will be looking at all of those factors, performance, et cetera when we get to that point in time when we begin discussing the future of those agreements.

Doug Arthur - ***Huber Research Partners - Analyst***

Okay, thank you.

Gracia Martore - ***TEGNA Inc. - President and CEO***

Thanks, Doug.

Operator

Marci Ryvicker.

Marci Ryvicker - ***Wells Fargo Securities - Analyst***

Thanks. I think we're struggling a little bit with political. With Q2 coming in so light, what gives you the visibility to push money into Q3 and Q4 so that you make your internal budget? You have a candidate who is not spending and you have finite inventory.

Gracia Martore - ***TEGNA Inc. - President and CEO***

First of all, I will start and then Dave, please add on. Our budget for political in the second quarter reflected that it wasn't going to be a robust quarter to start with. We are always well aware when we are budgeting that 80% to 85% of the dollars come in, in the back half of the year. What you're talking about as a delta is a few million dollars or so being pushed one way or another. It isn't an enormous amount of money that we're talking about moving, and given all the factors that we've talked about, I think Dave, in looking at all of the races and looking at the expanded portfolio of places that we now think are going to be more in play than we would've thought back in November or December when we were putting our budget together, I think Dave feels confident about that, but I will let you speak

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

That's right, Marci. Second quarter is a very small piece of the overall total, as it always is. Again, the factor that drove it into a lull is it's the one quarter that's sort of completely dependent on Presidential whereas the rest of the year, Presidential is sort of overstated. It's what gets the noise and attention but as I said earlier, even in the back half of the year it's at best probably a third of the total. To the question earlier, issue can often approach Presidential in total. The rest of the year is a mutual fund of all of these other races which are all there and all coming in. It's just you have a real anomaly and again the second quarter which, as Gracia said, was a low base anyway as a percentage of our whole.

Marci Ryvicker - ***Wells Fargo Securities - Analyst***

Dave, you talked previously about Trump spending. Is that an expectation or are you actually seeing dollars being placed after the Republican convention?

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

We do have some dollars being placed by Trump but I think my point about his spending is -- he may not get as much PAC spending as Romney does but that doesn't concern us, because that money those people that out of principal won't give to Trump are then going to give money to the RNCC and the House Congressional Committee and we're as good or better in terms of our footprint on those contested races, Marci, as we are presidential so for us is just a shift of funds.

Marci Ryvicker - ***Wells Fargo Securities - Analyst***

Okay. I have one question on digital. I think the comments were pretty fast. Just clarification, was there guidance for the second-half growth at Cars.com for revenue to be up 9%? The second part is, how much would DealerRater contribute to that?

Alex Vetter - ***TEGNA Inc. - CEO of Cars.com***

First answer is yes. The second part of the answer is, not meaningful. It will ramp, as Gracia commented, more in 2017 and 2018 once the integration is complete.

Marci Ryvicker - ***Wells Fargo Securities - Analyst***

Great, thank you.

Gracia Martore - ***TEGNA Inc. - President and CEO***

Thanks, Marci.

Operator

Kyle Evans.

Kyle Evans - ***Stephens Inc. - Analyst***

Thanks. Most of mine have been asked and answered. This is maybe hairsplitting since, Gracia, you've already said the Aurico deal was small, but what was the year-over-year growth rate in CareerBuilder excluding Aurico?

Gracia Martore - ***TEGNA Inc. - President and CEO***

My sense is that Aurico didn't -- when we look at all the categories that were up, Aurico was not a significant factor. The other categories were the more important ones that drove the dollars.

Matt Ferguson - ***TEGNA Inc. - CEO of CareerBuilder***

We felt like we drove a lot in the growth year over year because we had it for the whole quarter and those deals are signed and up. Again, you have to think about that service, it's not a subscription service. You signed up so you have to drive growth in that all the time and we feel like our brand and sales team spent a lot of time in helping them achieve a 27% growth and so then we feel like it was a big part of that story.

Kyle Evans - ***Stephens Inc. - Analyst***

Gracia and Dave, you were kind enough to give quarter-by-quarter political pro forma in 2012 and 2014 for the second half. Would you mind giving me first and second quarter for 2012? I know what the year was. I believe it was $198 million.

Gracia Martore - ***TEGNA Inc. - President and CEO***

Yes, $197 million, but who's counting? Q1 was about $6 million and Q2 was about $20 million in 2012.

Kyle Evans - ***Stephens Inc. - Analyst***

Okay.

Gracia Martore - ***TEGNA Inc. - President and CEO***

Olympics were $46.6 million in 2012, just to complete your model.

Kyle Evans - ***Stephens Inc. - Analyst***

Got you. Lastly, Alex, you mentioned some TV spots coming from the production of the Cars.com employee base. Could you expand a little bit on that? What's that look like from a cost perspective, revenue perspective? Is that meant to drive revenue or just expand the brand? Just help us think a little bit more clearly about that.

Alex Vetter - ***TEGNA Inc. - CEO of Cars.com***

Sure. First of all, we have an in-house team of editorial experts that have been on the payroll for decades and most of their video content has been posted on YouTube or on our own website. Merely what we are doing now working with TEGNA is extending the reach of that great content on to TEGNA TV. As you know, Saturday is the peak auto shopping day of the week, and Dave's team was able to leverage our editorial content on the Saturday morning newscast before people head out shopping for the day. We think contextually it's phenomenal placement. It's leveraging an existing expense base and just drawing a wider net.

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

Those Saturday morning newscasts get a very high reach of viewers across a given morning, so as Alex said, it's ideal placement.

Alex Vetter - ***TEGNA Inc. - CEO of Cars.com***

Importantly, we've already noticed a few local auto advertisers buying television advertising now around that Saturday morning segment, so it's helping I think on both sides of the house.

Kyle Evans - ***Stephens Inc. - Analyst***

Just out of curiosity, that TV ad bought by the local dealer around that content, does that flow through Cars or does that flow through the station?

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

It goes to the Media Segment.

Kyle Evans - ***Stephens Inc. - Analyst***

Got you. Okay. Thank you.

Operator

Alexia Quadrani.

Alexia Quadrani - ***JPMorgan - Analyst***

Thank you. I hate to beat a dead horse but I still think there's a fair amount of confusion on this political forecast or expectations for the back half, just given the emails I'm getting. Dave, maybe can you give what you guys are expecting for Q3, Q4 for political spend this year? And then I have a follow up.

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

I don't' have a guidance on an actual number, but just maybe give you an answer relative to Marci's question earlier, Alexia. I think I should have given a better answer to Marci's question, which hopefully will help answer yours. Our miss to an internal plan on dollars in second quarter is inconsequential because I said the base is so small anyway relative to what we expect. So even though within the quarter, - it looks sizably significant, if you just look at it in terms of raw dollars, it is insignificant compared to the total expectations, as it always is in the quarter.

Alexia Quadrani - ***JPMorgan - Analyst***

So did you give a full-year political number that we can base that off of? There's a lot of moving pieces. You gave 80%, 85% post Labor Day, but to figure out the exact number in Q3 or Q4, is anymore color -- is there any numbers you can put around it?

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

I think it's just, it will be big. We obviously can't give any number with exact miss. There's a lot of variables to go, obviously, as you can all publicly see relative to which races are contested and aren't and stuff like that, but we know it will be significant and are very comfortable in its being -- going to be a large number.

Gracia Martore - ***TEGNA Inc. - President and CEO***

I think Dave talked previously about the fact that it will be a record year on political and I believe that we continue to see that, given all the factors that we have observed, all the additional states that are in play and all of those kinds -- and our great footprint of stations in Florida, Ohio, Colorado, you name it. We feel very confident that we will achieve more than our fair share of political this year.

Alexia Quadrani - ***JPMorgan - Analyst***

Just following up on the core, your comments earlier with some categories getting -- a lot are still obviously very strong but some categories actually improving and I think you said sort of the overall ad market feels a little better in Q2 versus Q1. Should we assume, then -- I know there's a lot of noise with the Olympics particularly. Should we assume that core is up slightly again in Q3, then?

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

Again, for us it's up significantly, obviously, with the benefit of the Olympics. The point I would say is we saw sequential improvement through Q2 and the markets relative to overall market expectations. We have nothing that tells us any differently, but you are right, we've got a lot of noise in the third quarter because of Olympics.

Alexia Quadrani - *JPMorgan - Analyst*

Last question, thanks for all the color on the update, on the initiatives trying to close the gap in the media segment for 2017 for the reverse comp step up from NBC. I guess given what you're seeing and the progress you're making there, should we still assume just sort of a modest net negative on net retrans in 2017, given the contract?

Gracia Martore - *TEGNA Inc. - President and CEO*

No. I believe that what Dave said earlier, and he will correct me if I'm wrong, is that based on the gap -- now, remember we still have some MVPDs that we've got to renegotiate at the end of year, but assuming they can't come in as we anticipate, what Dave is saying is that the uptick from the initiatives he is confident will more than offset the net reverse retrans decline that would come as a result of the NBC payments that we'll begin making on our original stations.

Alexia Quadrani - *JPMorgan - Analyst*

Okay. Thank you very much.

Gracia Martore - *TEGNA Inc. - President and CEO*

Great. I think we have time for one more question.

Operator

Michael Kupinski.

Michael Kupinski - *Noble Financial Group - Analyst*

Thank you. Just two quick questions. Number one, you mentioned the G/O Digital was very strong in the quarter and I was wondering if you can talk a little bit about when you cycle through the Gannett contract with G/O Digital and what maybe the annualized revenues might be for that you receive from Gannett on G/O Digital?

Gracia Martore - *TEGNA Inc. - President and CEO*

Mike, we cycled through that and I believe Dave indicated that they will be moving away from it in June of 2017, June of next year. The revenue actually is not significant because the revenue is recognized primarily at the publishing company rather than at G/O Digital, so G/O Digital is getting a monthly fee primarily for the services and a few other dollars.

Michael Kupinski - *Noble Financial Group - Analyst*

And that annualized number is not that big of a deal, Gracia, or have you quantify that?

Gracia Martore - *TEGNA Inc. - President and CEO*

Jack Williams is sitting here. He can speak up and tell us.

Jack Williams - *TEGNA Inc. - President of TEGNA Digital*

Actually, the total dollars that TEGNA gets at G/O Digital is over 50% from TEGNA Media and G/O Digital's direct sales are less than 50% from Gannett at this point. By the time we get around to next year, it will be significantly higher from TEGNA Media and G/O Digital direct. It won't be a very big impact.

Michael Kupinski - ***Noble Financial Group - Analyst***

Got it. The only other question I have is just going back to the health of the core. Can you just talk a little bit about -- I know there's a lot of moving parts, a lot of national advertising coming in and that sort of thing, but can you maybe talk a little bit about the health at the local market level and maybe just talk about trends, local versus national, excluding all these events like Olympic and political and especially if there are any regional disparities among your TV stations?

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

I think local has remained stronger and for us that's also part of our -- that's where our focus and our initiatives are relative to our own performance. Overall, it's pretty -- I think we've seen the top 10 markets in terms of size of markets were little softer than others. As we said earlier, we've had a little regional softness in Texas due to some issues there related to oil, but that is getting better.

Michael Kupinski - ***Noble Financial Group - Analyst***

Great. Thank you very much.

Gracia Martore - ***TEGNA Inc. - President and CEO***

Thanks Mike. We will turn it now back to Tanisha.

Operator

Thank you and that does conclude today's program. We would like to thank you for your participation. Have a wonderful day and you may disconnect at any time.