

EDITED TRANSCRIPT

TGNA - Q1 2017 TEGNA Inc Earnings Call

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OVERVIEW:

Co. reported 1Q17 total Co. revenue of \$778m and non-GAAP EPS of \$0.33.

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PRESENTATION

Operator

Good day, and welcome to the TEGNA First Quarter 2017 Earnings Conference Call. This call is being recorded. Our speakers 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.

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

Thanks. Good morning, and welcome to our earnings call and webcast. Today, our President and CEO, Gracia Martore; our CFO, Victoria Harker; TEGNA Media President, Dave Lougee; and Cars.com President and CEO, Alex Vetter, will review TEGNA's first quarter results. After that, we'll open up the call for questions. Hopefully, you had the opportunity to review this morning's press release. If you have not seen it yet seen a copy of the release, it's available at teгна.com.

Before I 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 press release and on the Investor Relations portion of our website.

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

Gracia C. Martore - *TEGNA Inc. - CEO, President and Director*

Thanks, Jeff. Good morning, everyone, and let me join Jeff in welcoming you to TEGNA's First Quarter Earnings Call. Now I'm going to start with a brief update on the planned spin-off of Cars.com and strategic review process for CareerBuilder. After that, I'll turn it over to Dave and Alex for more detail on their respective businesses. And then Victoria will cover the financial highlights for the quarter.

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As we announced last week, we remain on track with our planned spin-off of Cars.com, which will create 2 strong industry-leading companies. The spin will be completed on May 31. And in preparation for the spin, Alex and the management team at Cars.com will host its Investor Day on Tuesday, May 16 at 10 a.m. And TEGNA, led by Dave and his management team, will have its investor presentation on the following day, May 17, also at 10 a.m. Both presentations will be at the Park Hyatt New York, and you should absolutely contact Jeff if you would like to attend, as seating is quite limited.

With our respective investor presentations a week away, when we will share much more focused strategic and operational details on each business with you, we're going to keep this call short. Alex and his team have worked diligently to build out their staff and infrastructure as they look to become a top destination in the digital automotive marketplace. Earlier in the quarter, Cars.com's new CFO, Becky Sheehan, officially joined the team and immediately hit the ground running, bringing invaluable public company executive experience, which has been critical to establishing a strong foundation for the transition. As Cars.com readies for its debut as a public company, we are optimistic about its potential as a stand-alone entity that is well positioned to compete and continue to profitably grow. You're going to hear more about that from Alex in a few minutes.

Turning to CareerBuilder. TEGNA is continuing to pursue the strategic review of alternatives involving CareerBuilder, which is ongoing. We continue to consider a variety of potential alternatives, and we'll provide you with an update in the near term.

Now with that, let me turn it over to Dave.

David T. Lougee - TEGNA Inc. - President of TEGNA Media

Thanks, Gracia. There's a lot going on at TEGNA Media right now. I'll start off with a review of our performance, discuss some of the newer initiatives underway and talk about the opportunities ahead. We started off the year with revenue growth slightly above last year's first quarter, driven primarily by retransmission revenues and digital revenues, which I'll discuss in more detail in a few moments.

On advertising, an improving economy and increasing consumer confidence point to increased advertising activity in the near term. More importantly, we also expect to take increased market share in advertising more broadly defined in the quarters and years ahead due to the current multiple core and digital initiatives that are ramping up.

Premion, our over-the-top ad services business, which you've heard us talk about before, is now up and running. It's the first company to provide local and regional advertisers access to long-form OTT content. We just got underway at the end of the year, and 2Q revenue is expected to be 3x higher than the first quarter, albeit off a low base. As significantly, I think, Premion is allowing us to expand our market reach. While TEGNA is in 38 markets, Premion is already serving OTT ads in 175 markets in the United States, and we're now up to 700 campaigns a month from 0 just a few months ago. We've clearly found an unmet need in the market, and our team is delivering.

Hatch, our centralized marketing solutions group, is also ramping up and gaining momentum. It provides our clients with deep consumer insights, unique creative solutions and for our largest clients, customization that cannot be matched by competitors. As a result, we have been able to more effectively pursue new enterprise clients and gain access to new marketing dollars. So far this year, we're seeing Hatch sales more than double those of last year.

As I previously mentioned, our high retransmission rates and strong annual escalators are a constant current and future driver of our growth. As we look at the broader net retransmission numbers, you should note that this quarter was the first time we paid reverse compensation across the original TEGNA NBC stations. So for this one year only growth in reverse comp will exceed growth in retrans revenue by about \$25 million to \$30 million. That's what we refer to, and have referred to, as our onetime net retrans grab. As we said before, we expect to more than offset that one year decline with several new sources of revenue and a continued focus on cost efficiencies.

Also on the retrans front, we've had a lot of positive developments since the last earnings call regarding distribution and compensation for the TEGNA stations on new OTT entrants, also known as virtual MVPDs. Our scale, combined with the quality and size of our stations, strengthen our ability to negotiate on the OTT front with everyone, just as they help us in retransmission negotiations. Furthermore, this process has reinforced how critical strong broadcast affiliates are to any OTT service. The consumers have spoken. We recently finalized a deal with ABC and have signed

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up several deals with our ABC affiliates. We have an agreement in principle with NBC, and we'll be doing new deals in concert with them shortly and have ongoing negotiations with CBS. We're also having direct conversations with many of the OTT players themselves as part of the triangular relationship we have with them and our network partners.

The key takeaway is this on that topic, whether it's a new OTT entrant like YouTube and Sony or traditional MVPDs entering the OTT space, such as DISH and DIRECT, our economics will be as good or better than with the traditional MVPDs, making us agnostic to cord cutting when consumers leave a traditional MVPD for these new services. Furthermore, some of these new services are expected to reach younger consumers and new audiences who represent the few households not currently subscribing to our broadcast TV channels.

On the content side, we're moving ahead on Daily Blast LIVE, our groundbreaking 30-minute multi-platform news and entertainment show that will run live in 36 TEGNA markets with multiple live feeds for different time zones. The show will be produced out of our station in Denver, giving us a much more cost-efficient production model. And because we're live, which is critical, we can utilize social media to allow our viewers into the show's content and conversation. Daily Blast LIVE exemplifies the forward-leaning programming that is core to our future strategy. Live programming in this environment is more important for us than ever before.

We have also a tremendous amount of innovation on the digital side. TEGNA is now one of the top 10 publishers on Facebook. We lead our peer set in key social metrics, including in the interactions and video plays. And on our own sites, we've seen a 90% increase in video plays year-over-year.

As we continue to introduce new Digital First content investigations, our legacy for excellent journalism and quality local news content will always be part of our DNA. A lot has been said in recent months about the role of the media. Local broadcast news remains the most trusted source, but it's critical that we find new and innovative ways to connect with our audiences across all platforms and build and expand on that trust. And we are.

In March, we announced that TEGNA Media stations won 3 Walter Cronkite Awards for Excellence in Political Journalism, more than any other TV group. Our Digital First investigation, Charlie Foxtrot, received the National Association of Broadcasters President's Special Award, which is not given out every year, which recognizes historic and extraordinary achievement. Charlie Foxtrot exposed the reasons behind the national spike in suicides among our service members. And just a few weeks after it aired, President Obama signed a law making needed changes. And just 2 weeks ago, TEGNA Media was honored with 82 Regional Edward R. Murrow Awards, more than any other station by far and the most in our history. And notably, many of those awards were for innovation in local journalism.

Before turning it over to Alex, let me talk about the regulatory environment and M&A. As you clearly know, the UHF discount has been reinstated as we predicted. Just as significant, in our view, we expect the FCC in the fall will relax the very outdated in-market ownership rules. Together, these will be very good developments for TEGNA. In a few moments, Victoria will tell you about our new capital structure and capital return policy, but what I can tell you is, we will be very well positioned from a balance sheet perspective to be a strategic, opportunistic, albeit disciplined consolidator.

We have significant vertical scale already, reaching 32% of the country on an undiscounted basis. But as we'll discuss in much greater detail during our investor presentation next week, the ability to purchase or create in-market duopolies on the right terms can create significant returns for us and our shareholders. Our proven operating excellence in markets large and small, combined with our scale and balance sheet, make us very well positioned. For instance, in the large markets we are now in with single stations, which is the majority of our portfolio, the ability to consolidate two Big 4 stations through purchases or swaps will create significant margin improvement on the acquired station and further solidifies our already strong position in negotiations with distributors.

2017 is a year of transformation and innovation for our company. We have the resources, culture and strategic focus needed to accelerate our innovation and further evolve our business to take advantage of the opportunities created by new consumer habits and platforms.

I'll conclude my remarks by saying I'm incredibly proud and impressed by our team's ongoing ability to embrace change. We are engaging with audience and advertisers in ways that were unforeseeable just a few years ago. All the while, we are delivering award-winning innovative content to a wide range of audiences while delivering strong financial return to our shareholders. We look forward to updating you further next week on May 17, as we make progress on all these fronts throughout the year.

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With that, I'll turn it over to Alex at Cars.com.

Alex Vetter - Cars.com, LLC - Co-Founder, CEO and President

Thank you, Dave. Our first quarter revenue increased to \$153.2 million or a 0.4% increase compared to the first quarter last year, driven by modest growth in our retail channel, which was offset by declines in our wholesale channel. Within our retail channel, our first quarter results reflect strong growth from major dealer change, modest growth in national accounts, partially offset by declines in our direct business. As we have described before, these national accounts and major dealer customers deploy an advanced analytical approach for measuring marketing effectiveness designed to identify attribution beyond the traditional lead. These accounts continue to reward Cars.com as a strong marketing platform based on both traditional leads as well as mobile walk-in traffic.

In contrast, revenue from our direct local dealers is more sensitive to traditionally defined lead attribution. As we have discussed previously, our SEO traffic was disrupted by our re-platforming investments last year. The re-platforming was essential to give us speed to market with new products and improve site speed. And although the first quarter traffic declined, SEO trends are progressing favorably with overall traffic 17% higher on a sequential quarter-over-quarter basis. Each month in the quarter demonstrated month-over-month growth and an accelerated pace.

Further, mobile car shopping continues to grow at an accelerated rate, and the industry is starting to catch up with this shift in consumer behavior. At Cars.com, our mobile app traffic was up 7% year-over-year, and Cars.com walk-in traffic to dealerships was up 10% year-over-year. Yet most dealers aren't tracking this powerful activity. As dealers start to understand the power of mobile, Cars.com stands to be rewarded for our leadership in driving people into their showrooms, as these shoppers have the highest propensity to buy. Sophisticated dealerships report that Internet leads closed anywhere from 5% to 10% and phone calls higher at 15% to 20%. Yet walk-ins to dealerships closed reportedly at 40% and higher. Mobile traffic is, without a doubt, the future of automotive Internet marketing, and Cars.com leads the category in mobile.

We also launched new and used car pricing guidance tools in the first quarter for consumers, which will help them see how a car is priced relative to market. While a small segment of dealers prefer we don't provide this level of transparency, ultimately, we believe that the industry will benefit from greater consumer awareness around pricing as it accelerates sales and reduces distrust in the automotive industry. We view our role is to help dealers improve their reputation, and this is merely one dimension in which we're helping move the industry move forward.

Another example would be DealerRater. DealerRater enables dealers to convey why buy messages about the quality of their operation. Consumers highly value social signals from other shoppers during the car-buying process, and well-run dealerships are starting to differentiate on buying experiences. And DealerRater will help them amplify their consumer satisfaction scores digitally. Traffic is up at DealerRater. Reviews are up, and engagement on reviews continues to soar.

First quarter results for our national accounts or automotive OEM customers grew at a modest rate, but not as much as originally planned. Two continuing national account customers made agency and program changes that did not favor the quarter. Comparable revenue, excluding the impact of these 2 accounts, exceeds the expectations we gave you on last quarter's call. As new car sales come down on a year-over-year basis, OEMs will focus their investments on marketing solutions that have a high propensity to convert to sales. And with over 80% of our audience undecided on what they're going to buy, we know this is a smart marketing investment to gain share.

Turning now to our wholesale business. Revenue from our affiliate newspapers and broadcasters was down 5% in the first quarter. While we continue to work with our affiliate partners to improve performance, we're also continuing to seek alternatives. We continue to have discussions with our partners about taking back additional markets. Doing so would provide an incremental step in an ongoing transition and would provide Cars.com with additional opportunities to gain market share and convert wholesale revenue declines to gains within our highly profitable direct retail channels.

With respect to the auto industry, although the SAAR is flattening and inventory levels are increasing, we think it's important to remember that the 2017 forecasted SAAR of approximately 17 million plus is a very healthy high number. In addition, the heightened inventory levels are very likely to be supported by increased incentives and rebates from manufacturers to generate sales.

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As for future direction, we recognize that in a tightening environment, digital third-party marketplaces serve as critical components of consumers' journey. Advertisers will be rewarded for investing their marketing dollars in the most efficient manner where consumers are. And third-party marketplaces are proving to be the preferred destination to aid consumers in their purchase journey, and Cars.com has been investing to create the complete marketplace.

As we look forward, our strategic priorities are centered around enhancing our car ownership experience for everyone by connecting consumers with the dealer and OEM partners more intelligently and more efficiently. And these core connections are at the heart of our business that we believe will drive strong growth, profitability and create ongoing value for our shareholders. We're confident in our long-term growth trajectory, but we recognize that many of the same pressures we experienced in the first quarter will continue in the near term. Based on those current trends, we expect second quarter revenue will be flat year-over-year. We believe the improvements in our SEO traffic will result in benefits accruing over time in a subscription business like ours.

Before I hand the call back over to Victoria, I want to take a brief moment to thank TEGNA for their leadership. Under their ownership, we've had the ability to invest in our products, our technology and our people. With a brand-new technology platform in place and an expanded and talented executive leadership team, we are well positioned to begin life as an independent company and accelerate the growth of Cars.com into our future. Thank you. Victoria?

Victoria Dux Harker - TEGNA Inc. - CFO and EVP

Thanks, Alex, and good morning, everyone. I'm pleased with our first quarter financial results, a solid start to what we expect to be yet another transformational year for TEGNA.

Before we dive into our consolidated financial results as well as capital allocation during the quarter, I'd like to highlight a few special items, which unfavorably impacted operating expenses by \$6 million on a pretax basis, with an associated EPS impact of \$0.02 per share. These are primarily driven by a non-cash asset impairment charge and severance charges largely due to our recent reorganization within our G/O Digital business. Beyond this, we recognized about \$12 million in non-operating special items on a pre-tax basis with an associated unfavorable EPS impact of about \$0.04 per share related to costs associated with the anticipated Cars.com spin and the ongoing CareerBuilder strategic review process.

As we shared last quarter, combined impact of substantially lower political revenue and the shift of the Super Bowl coverage for CBS stations to Fox stations was a challenging hurdle for the first quarter. Additionally, we had one less day in the quarter due to leap year comparisons to last year. Despite this impact, with solid performance particularly by the Media Segment, we achieved non-GAAP earnings per share of \$0.33.

Now turning to the first quarter consolidated financial results. As a reminder, although I'll be focusing on our non-GAAP performance results today, you can find all of our reported data and comparatives in our press release. For the quarter, total company revenues of \$778 million were relatively flat year-over-year. Excluding lower political revenue and the Super Bowl shift, total operating revenue was up 3%, driven by substantially higher retransmission revenue and digital revenue within the Media Segment and a modest increase in revenue at Cars.com.

During the quarter, total company operating expenses of \$619 million were higher by about 9% compared to last year, driven by higher programming fees and ongoing investments in Media Segment initiatives as well as expenses associated with new businesses and the Digital Segment. Total company expense, excluding programming fees, was flat. As a result of solid operational execution, TEGNA overall achieved strong adjusted EBITDA of \$212 million this quarter, and our adjusted EBITDA margin was 27%. Keep in mind that year-over-year comparisons for these metrics are impacted by the absence of high-margin political revenue and increased programming fees across our original TEGNA NBC stations, as Dave noted.

Now let's turn to a more detailed review of both the Media and Digital Segment results. Media Segment revenues of \$446 million increased by 1% year-over-year, in line with our guidance, driven by strong retransmission revenue and continued growth in Media and Digital revenues. Excluding the unfavorable impact of lower political revenue, the Super Bowl shift and one less day in the quarter, Media Segment revenue was up 7%. These latter two items also impacted core revenue comparisons. Excluding their impacts, core revenue would have been down 5%. Retransmission revenue was up 24%, reflecting newly negotiated agreements and annual rate increases. Beyond this, Media Segment digital advertising revenues continued to increase, up about 15%, driven by the success of our recently launched initiatives and continued traction of digital marketing services.

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Now focusing on the second quarter media outlook. Based on current trends, we anticipate total Media Segment revenue to be up in the low to mid-single digits compared to the second quarter last year. The year-over-year comparison will again be unfavorably impacted by about \$10 million due to the anticipated lower political advertising revenue. During the first quarter, Media Segment operating expenses of \$304 million were up 16% year-over-year, primarily due to increased programming fees and continued investment in strategic initiatives, including sales and content transformation projects. Excluding programming fees, Media Segment expenses decreased 4%.

During the quarter, Digital Segment revenues of \$332 million declined 2% year-over-year, reflecting a modest increase at Cars.com, offset by continued declines in job site revenue within CareerBuilder. Cars.com revenues were up slightly, reflecting a 2% increase in advertising revenues sold through the direct sales channels, primarily due to the acquisition of DealerRater and higher national revenue due to an increase in lead spending by auto manufacturers. These were virtually offset by a decline in wholesale revenue due to mix performance by affiliates. CareerBuilder revenues declined 1% year-over-year, reflecting substantial growth in employer services products and continued sales momentum of Software-as-a-Service solutions as these were boosted by recent acquisition. These increases were offset by continued headwinds in our job site advertising and resume database business.

Digital Segment operating expenses of \$301 million were up 3%, reflecting the several million dollar ramp-up in expenses associated with Cars.com, including duplicative rent costs as a separate public company and the expenses of newly acquired businesses of DealerRater, Aurico and Workterra within both Cars.com and CareerBuilder, partially offset by the absence of expenses at Cofactor, which was sold last year. Our capital investments during the quarter of \$18 million reflect our ongoing commitment to reinvestment in business priorities, including digital development, order tracking as well as media content, product integration and platform enhancements.

Turning now to capital allocation. As you know, we resumed share repurchases on a limited opportunistic basis towards the end of last year after a brief pause following the announcement of the intended Cars.com spin. This quarter, we again had very limited repurchases of \$7 million consisting of about 350,000 shares. At the end of the quarter, our long-term debt was \$4 billion, and cash on the balance sheet was \$80 million. Free cash flow for the quarter was \$123 million.

As Gracia noted, the Cars -- the spin of Cars.com will be completed on May 31. At that time, as announced, TEGNA will be implementing a new capital structure and capital return policy going forward. At completion of the spin, we will receive a onetime tax-free distribution of approximately \$650 million from Cars.com, which will be used to reduce debt, maintain leverage levels in line with the average of our peer group. On a go-forward basis, TEGNA will also have an initial dividend of \$0.28 per share.

In addition, we will extinguish our share repurchase program with the intention of revisiting share repurchases after a transition period subsequent to these transactions. As Dave shared, we will be very well positioned from a balance sheet perspective to be a strategic, disciplined and opportunistic consolidator while continuing to invest in our core operations. As you're aware, this is the last quarter we'll be reporting the TEGNA portfolio of businesses given the announced spin of Cars.com. As Dave mentioned, we look forward to providing you with additional financial details on TEGNA as a stand-alone company during our Investor Day next week.

With that, I'd like to open the call up to questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we'll go first to Alexia Quadrani with JPMorgan.

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

Can you provide a bit more color on the core advertising trends in Q1, specifically the auto category? And any comments on how core advertising is pacing for Q2?

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David T. Lougee - TEGNA Inc. - President of TEGNA Media

Alexia, this is Dave. I'll take that. To give a little more color on our core, we talked about the adjustment on the Super Bowl, but we also had an extra day last year, which was worth about \$2.5 million to us, as well as we shut down our operations at Northwest Cable News. So that, combined with the Super Bowl, makes our year-to-year number down five. It started slow at the beginning of the quarter as we saw also with second quarter. And for us, auto was down just slightly. But obviously, that's a key category for us. Second quarter, it had started slow as well. I think we've seen all year, Alexia, that where advertisers are a bit tepid on the length of their commitments whereas we used to see a lot of 13-week buys. We've seen a lot more things on 5-, 6-, 7-week cycles, and that has continued into the second quarter. So what we have for us specific in the second quarter is probably going to be in the mid-single digits. We're disproportionately hit by one factor in the first quarter, and that is that prior to AT&T's purchase of DirecTV, our market significantly over-indexed on AT&T U-verse subscribers. After that deal, that spending went to network with DirecTV, and then their local competitors in the markets were able to pull back significantly their spending. So that category reduction is about almost half of our delta in the first and second quarter right now. I would tell you the categories that are holding up well. Interestingly, our retail is up in second quarter, not driven by the big boxes but more about the long-tail across our markets. And entertainment and home improvement are also positive right now in 2Q.

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

And then, Dave, just an update on the new initiatives that you -- I know you touched on in your opening comments, maybe Gracia did, in terms of filling the one-time kind of net retrans hole, I think about \$25 million for this year. Any sense of when those are being recognized or how we'll see them throughout the year?

David T. Lougee - TEGNA Inc. - President of TEGNA Media

Yes, you'll see them throughout the year. We see them more in the back half. Premion and Hatch are all part of that. They don't show up just in core. They're going to show up in digital. You saw our digital was plus 14 percent in the first quarter. We're going to be closer to plus 20 percent in the second quarter. So you're going to start to see an increasing disbursement of our revenues across categories, but we are on track with those initiatives as we discussed in the last call.

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

And lastly, if I can just squeeze one in, any color on CareerBuilder -- obviously, not for you, Dave, on how we should think about that for Q2?

Gracia C. Martore - TEGNA Inc. - CEO, President and Director

Yes, as I said in my opening comments, Alexia, there's a number of alternatives that we are looking at as we speak, and that will be cleared up probably in the short term. And at that point, we'll speak to it.

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

I was just thinking underlying core trends and how it's doing, but if you want to wait for the Investor Day, that's obviously okay, too.

Gracia C. Martore - TEGNA Inc. - CEO, President and Director

Okay. We'll do that.

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And next, we'll go to John Janedis with Jefferies.

John Janedis - *Jefferies LLC, Research Division - MD and Equity Analyst*

Two questions. First, Dave, given the more limited visibility and your comments around the improved economy, what do you think is the driver of that shorter lead time? And are you seeing any incremental competition from the larger digital-only players either for local or national ad dollars?

David T. Lougee - *TEGNA Inc. - President of TEGNA Media*

Yes. No, I don't think we're seeing a lot of impact on our numbers on that, John. I think it is interesting. I think when you talk to the agencies, in general, it is hard for them to tell you, to give you one writ large kind of analysis of advertising overall. Despite the numbers on consumer confidence, there is a lack of decisiveness that we see across the sector, and that's probably the best answer I can give.

John Janedis - *Jefferies LLC, Research Division - MD and Equity Analyst*

Okay. All right. Maybe separately then, you talked about the virtual MVPDs. And it sounds like to your comments there, some instances where you're going direct, others where you're opting into maybe a broader deal. But since you're looking to maximize TEGNA's revenues, can you talk about the process behind the path you're taking? And do you think the total pay TV sub universe, if you will, will increase as a result of these new offerings?

David T. Lougee - *TEGNA Inc. - President of TEGNA Media*

I personally do, and I think we'll see how it plays out over time. But I think the skinny bundle price point will bring some new people into the universe. What the timing of that is, John, I don't think that will be a significant number this year. But I think it's actually going to be overall a very good development for broadcasting because the other factor there is as the world moves to skinny bundles, it frankly means there's less linear competition. There's not the longer tail of the many cable channels that exist today. So on that topic, we feel very good.

John Janedis - *Jefferies LLC, Research Division - MD and Equity Analyst*

How about ongoing direct versus going into a broader deal?

David T. Lougee - *TEGNA Inc. - President of TEGNA Media*

I think, look, we and our networks need to work together because we've got our rights, they've got their rights so we have to negotiate together to get these things done. And that's in the best interest of both of us. We create more value together, the combination of our valuable local programming and their national programming. So I think when we say direct, it is still within the construct of things we're doing with our networks.

Operator

And next, we'll go to Barton Crockett with FBR Capital Markets.

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Barton Evans Crockett - *FBR Capital Markets & Co., Research Division - Analyst*

I was wondering if you could address one of the issues that's come out of the consolidation, deregulation fervor that's sweeping the group, and that is the question of whether you think that there's potentially meaningful value from consolidating station groups as a way to push back on the reverse comp tide that's kind of sweeping over the TV station group? How important of a factor you think that might become in helping justify more combinations?

David T. Lougee - *TEGNA Inc. - President of TEGNA Media*

Barton, this is Dave. I'll take that. I think just in general, as it relates to all negotiations, scale matters. And as much as vertical, that horizontal scale that the in-market consolidation gives is equally, if not more beneficial, depending on which negotiations you're referring to. But overall, yes, consolidation is a good thing for negotiations overall.

David T. Lougee - *TEGNA Inc. - President of TEGNA Media*

And I think the one thing I do want to add to that, though, Barton, is from our standpoint, we've already got a lot of scale, right. So we've seen the benefit of a negotiation. So it's not a have to have. But under the right circumstances of the discipline we talked about earlier, there's upside to us.

Barton Evans Crockett - *FBR Capital Markets & Co., Research Division - Analyst*

Okay. And then switching a little bit to Cars, so the kind of flattening out here. To what degree do you think that this is being shared by any of the other kind of marketing -- online marketing services? And to what degree is it very particular to Cars? And is there any competitive factor here or is it really just more kind of execution and technology issues at Cars?

Alex Vetter - *Cars.com, LLC - Co-Founder, CEO and President*

Well, I think, first of all, most of our technology challenges started in the second quarter of last year, and so we still had a good first quarter of last year, and by the way, we're through all of that in terms of our technology platform. And hopefully, you heard some examples of the increased innovation and the speed to market that we're experiencing now on the product side. I don't have any visibility into all the category. I know it was reported today that traffic at dealership websites, which are independently operated, are seeing pretty steep declines year-over-year. So we feel good about where we are with a decent gain in the overall traffic count, particularly on the SEO front. So don't have visibility into the market dynamics, but I think everybody's cautiously looking at '17 as being a little bit more volatile year in automotive. But we're well positioned. When there's fewer sales, the competition for capturing those tends to increase. So we feel good about our position.

Operator

And next, we'll go to Kyle Evans with Stephens Inc.

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

Dave, are you sticking with the low to mid-single digit guidance that you issued for core TV ad revenue growth for the year?

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David T. Lougee - TEGNA Inc. - President of TEGNA Media

I think that guidance was for total revenue growth for the year, right. So that wasn't specific to Cars. We haven't given guidance on that. I think at this time, there's still so much volatility in the marketplace. We're seeing some improvements here and there. It's too early for us to make any declarations one way or the other. It's something we'll continue to follow throughout the year.

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

Okay. Fair enough. Victoria, was there a full quarter of NBC reverse in the numbers?

Victoria Dux Harker - TEGNA Inc. - CFO and EVP

Yes.

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

Okay. And did you guide to a 20% broadcast OpEx growth number for this year?

Victoria Dux Harker - TEGNA Inc. - CFO and EVP

Yes, yes.

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

Okay. And you're sticking with that?

Victoria Dux Harker - TEGNA Inc. - CFO and EVP

Yes.

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

Okay. Lastly, Alex, it looks like the growth in Cars, whatever's left, is coming from DealerRater. And national display suggests to me that the core business on the ground with the dealerships is flattish, maybe even down. What are you seeing at AutoTrader? And is there something going on here besides SEO weakness?

Alex Vetter - Cars.com, LLC - Co-Founder, CEO and President

Well, first of all, I can't speak to Cox properties and what they're experiencing. What I can tell you we're seeing in the dealer community is dealerships are obviously a little bit panicked about the year, and they're spending dollars on trying to drive a lot of traffic directly to their dealership websites. But that's swimming upstream. And consumers, particularly in markets where consumers are concerned about a major transaction, they're leaning on third-party sites at a much greater rate. So I think dealerships are spending. You're seeing the average profitability per sale come down at the dealership level because they're acquiring traffic, spending almost 3 to 4x as much as they could buy it more efficiently through us. So savvy dealers realize this is a no-brainer for them, but I think a lot of dealerships are trying to cut their reliance on third parties and spend money driving traffic directly to them. Fortunately for us, as dealers make that test, they learn quickly that we're a great marketing partner that drives traffic and sales

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to them quite cost effectively. So a dealer base of our size, Kyle, you're going to see a lot of that in and out, rinse, wash repeat in a more volatile market. But we always tend to come out better on the other side of it.

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

Is your dealership count flat to up from where it was last year?

Alex Vetter - *Cars.com, LLC - Co-Founder, CEO and President*

It's pretty much flat and in line with where it was last year.

Operator

And next, we'll go to Doug Arthur with Huber Research.

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

I think most of my questions have been asked. I'm kind of curious on the profitability of the Digital segment in the first quarter. I mean, obviously, it was a rough quarter on the revenues, but it was kind of expected to be a fairly rough quarter on the revenues. You cite the costs mostly in amortization, it seems, from the acquisitions. But if revenues stay fairly muted, which they seem to be for Q2, can we expect similar results in the bottom line here? Or are there some onetime costs associated with the re-platforming at Cars, et cetera, that are coming off? And how do you sort of see the profitability of the segment playing out here? And obviously, there are a lot of moving pieces.

Victoria Dux Harker - *TEGNA Inc. - CFO and EVP*

At the segment level, I'll let Alex obviously comment relative to Cars.com. At the segment level, it was less amortization than it was the ramp-up of costs for public company costs, for example, and as well as duplicative rent now that we've got two different locations that we're paying for some period of time. And that's specific to Cars relative to their spin, obviously. It's not the amortization of expenses, it is actually the new businesses that we acquired in both Cars as well as CB, some of which are still ramping in terms of revenue as we put those products into the sales bags across the entire business. So we have businesses like Aurico, Workterra and others that have expenses in either CB as well as Cars for DealerRater, in which we don't yet have the ramp of revenue. So the expenses associated with that on a year-over-year comp basis will be higher than they were last year without the associated revenue ramp yet.

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

So how do you see that playing -- I mean, any comment on how you see that playing out for the remaining quarters of the year?

Alex Vetter - *Cars.com, LLC - Co-Founder, CEO and President*

Sure. This is Alex. As we bring to bear our scale, we think that bodes well for new businesses that we've entered. Typically, what we find is as we scale products across our network, that's where we get the network effect of having 20,000-plus dealers in a large, already established sales force. So we're tapping into those existing bases with new revenue opportunities. And with that will come scale.

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Gracia C. Martore - TEGNA Inc. - CEO, President and Director

I think, Doug, to add to what Victoria was saying, for the full year, there's about \$3.5 million of duplicative lease costs that will go away next year. There's also the ramp-up of folks that Alex and Victoria were alluding to, to become a public company. That's probably a several-million-dollar number this year, but obviously will be a higher number next year, call it, \$10 million to \$14 million next year. So there are some costs in the buildup here in the first half of the year, pre-being a public company that are factored in. And then once they are a public company, there's obviously a slug of things like audit fees and board fees and a whole host of things that will come into being a public company.

Victoria Dux Harker - TEGNA Inc. - CFO and EVP

And all of that will be in our Investor Day materials next week.

Operator

And our final question today will come from Michael Kupinski with NOBLE Capital Markets.

Michael A. Kupinski - NOBLE Capital Markets, Inc., Research Division - Director of Research

Most of my questions have been answered, but I was wondering if you can give your thoughts on industry consolidation, particularly with Sinclair and Tribune, how this might affect TEGNA and its ability to compete in some markets since Sinclair indicated that they're not planning to sell some of the overlap stations given the prospect, as you mentioned, the FCC lifting in-market ownership restrictions. And so I was just wondering if you could talk a little bit about the competition in some of your markets. And while you outlined your strategy for in-market consolidation, are you focused on building on your platform of your reach as well? And if you can just talk a little bit about the benefits of that strategy.

David T. Lougee - TEGNA Inc. - President of TEGNA Media

Yes, let me take them in reverse order, Michael. I'd just simply say what I said earlier, is that we will look at all opportunities. We think where there is in any way that a deal is accretive to our shareholders, whether it's vertical or horizontal, we will look at it. As to your first question on Sinclair's, the purchase of Tribune, no, I don't think it has any impact on our ability to compete.

Victoria Dux Harker - TEGNA Inc. - CFO and EVP

Mike, this is Victoria. Also with our Investor Day presentations next week, we do drill down a bit into both slices of opportunities and the kinds of things that we can do by way of value add in both sets.

Operator

And that is all the time we have today for your questions. I'll turn things back over to our speakers for any additional or closing remarks.

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Gracia C. Martore - TEGNA Inc. - CEO, President and Director

If you, as always, have any additional calls, you can -- questions, you can call Jeff Heinz at (703) 873-6917. Have a great day.

Operator

And that will conclude today's conference call. Thank you, everyone, for your participation. You may now disconnect.

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