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PRESENTATION

Operator

Good day, and welcome to the TEGNA Third Quarter 2018 Earnings Conference Call. This call is being recorded.

Our speakers for today will be Dave Lougee, 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 R. Heinz ***TEGNA Inc. - VP of IR***

Thanks, Chantelle. Good morning, and welcome to our third quarter 2018 earnings call and webcast. Today, our President and CEO, Dave Lougee; and our CFO, Victoria Harker, will review TEGNA's financial performance and results. After that, we'll open the call for questions.

Hopefully, you've had the opportunity to review this morning's press release. If you have not yet seen a copy of the release, it's available at tegna.com.

Before we get started, I'd like to remind you that this conference call and webcast includes forward-looking statements, and our actual results may differ. Factors that may cause them to differ are outlined in our SEC filings.

This presentation also includes certain non-GAAP financial measures. We have provided reconciliations of those measures to the most directly comparable GAAP measures in the press release and on the

Investor Relations portion of our website.

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

David T. Lougee *TEGNA Inc. - President, CEO & Director*
Thank you, Jeff, and good morning, everyone. Today, we'll review our third quarter results and the progress we've made on key strategic initiatives that will drive long-term value for our shareholders. We continue to strengthen the overall stability, growth and diversification of our revenue and income streams. Also, our expectation is for high-margin subscription and political revenues to account for approximately half of our total 2-year revenues, beginning in 2019/2020, and a higher percentage on a rolling 2-year cycle going forward. We expect our growing subscription and political revenues to be relatively immune from secular or economic trends.

For the third quarter, total reported company revenue grew 16% year-over-year to a record $539 million. Even if you exclude political advertising, non-GAAP revenue was still up 4% year-over-year even without taking into account political displacement.

Subscription revenues were up 17% in the quarter. And notably, TEGNA paid subscribers increased year-over-year for the fifth consecutive month with the most recent monthly report up more than 1% above the same month a year ago, and the year-over-year comps are the ones that are relevant.

As a reminder, our paid subscribers include traditional MVPD subs as well as new and growing OTT or virtual MVPD subscribers. This increase in paid subscribers, which is somewhat unique to the TEGNA portfolio, has been consistently improving each month since reaching an inflection point last quarter. While this trend may not continue in a straight line, it's clear that paid subscriber numbers for TEGNA are very stable.

And on the rate side, beyond escalators and existing deals, we have about 15% of our subs this quarter and about 50% next year, meaning, roughly, 65% of our subs will be repriced by the end of next year. The continued growth of subscription revenue and paid subscribers is a direct reflection of how strong the demand remains for our strong local TEGNA and network broadcast content.

Turning to political advertising. As of today, in 2018, TEGNA has booked political revenue of $238 million, an all-time record, including presidential election years, and finished 50%, or $79 million, higher than the last mid-term election year in 2014. In the third quarter, record political revenue finished at $60 million, up 51% above 2014. And fourth quarter political was $144 million, another record and a stunning 56% higher than the last mid-terms. By political category, the increases were notably across-the-board this year. Our spending on House races more than doubled from 2014, and we'll have the same number of contested seats every 2 years going forward. There was also a significant increase in the number of local ballot initiatives across our portfolio and the corresponding spending.

The dramatic increase from the last mid-terms reflects a new normal for us. The political energy reflected in the country and by the record turnout and the record fundraising are here to stay for the immediate future. Looking forward to 2020, adding a presidential race on top of the same number of congressional and state races only means more revenue. As a reminder, Donald Trump did not raise nor spend much money in 2016. And that has turned out, obviously, to be an anomaly. He already has $100 million raised for 2020 with 2 years to go.

As we've always said, our strong local news stations play a central role in all local political marketing strategies, and these numbers speak for themselves. Investors can be certain of these high-margin dollars on a 2-year cycle. And they have proven to be immune to any economic -- relatively immune, at least, to any economic or secular trends. Simply put, we reach voters and TV ads work in elections.

Now I'd like to turn to M&A, which continues to be an important strategic focus for us. Earlier this year, we closed the acquisition of KFMB in San Diego and just this August, we announced the acquisitions of WTOL in Ohio and KWES in Texas. These stations are strong, leading local media brands with deep roots in their communities. They are excellent strategic and financial fits with our portfolio, growing our positions in Ohio and Texas, where we'll now be up to 87% post close. And we expect them to be accretive to EPS in less than a year and accretive to free cash flow immediately, extending our track record of delivering financial results through acquisitions.

Additionally, due to our discipline around valuation, this transaction will have no material impact to our leverage.

We continue to proactively, very proactively, evaluate opportunities in our pipeline. With our strong balance sheet, a robust station portfolio in attractive markets and a track record of exceeding return in accretion targets, we are in excellent position to create value through consolidation over time.

Moving on to Premion. Years ago, we recognized the impact that over-the-top platforms would have on consumer and advertising behavior and the opportunity that might be there. We launched Premion in late 2016 and really got started in early '17 as an OTT advertising services division to address this dynamic fast-growing market. As the industry's first OTT local advertising network, Premion has opened new markets and opportunities for TEGNA. With Premion, we're able to reach beyond our traditional business to capture audiences that are increasingly spending more of their viewing time on streaming services. Leveraging our existing local sales force and direct access to OTT inventory for more than 125 branded content partners nationwide, Premion has expanded our reach from our 39 geographic markets to delivering campaigns in more than 200 markets. Last week, Premion was honored with 2 ABBI awards, which celebrate the very best in audience-based buying. Notably, Premion was the only advertising platform recognized in the OTT Platform of the Year category, trailing only Hulu and Roku.

In addition, Premion placed second and was the only OTT ad platform recognized in the audience-based buying Platform of the Year category. Premion remains on pace to achieve 2018 revenue guidance of $75 million, excluding Premion political advertising, which is part of our political line item on our financial statements.

Now I'd like to share some updates on some of our strategic initiatives. Just recently, in the middle of October, we joined other leading broadcasters and announced support for the nationwide rollout of the ATSC 3.0 standard over the next few years, referred to as Next-Gen TV. As recently announced, this brings us a step closer to the introduction of Next-Gen TV and ensuring that over-the-air broadcasting remains an innovative and vital resources in the communities we serve with an IP-based platform.

We'll be positioned to compete more directly with digital advertisers, and we're looking forward to further innovation, creation of new business models and the new opportunities available to us in this exciting space.

On the content side of our business, Daily Blast LIVE, or DBL as we call it, a program which we produce and own, is a 30-minute live entertainment and trending news program that crowdsources its content in real time from viewers through social media. It is live on TV and digital platforms in multiple time zones across the country. We launched in 15 additional markets during the third quarter, bringing the total to 50, a reflection of the degree to which it's resonating with viewers, a group that is comprised of younger individuals that are diverse both in gender and race.

Earlier, I mentioned the importance of TEGNA's content across a range of distribution channels. Our ability to produce innovative content that resonates with consumers in each of our local markets is a central component of our business model and strategy and by extension, our value proposition to shareholders. As a reminder, one of the forums we utilized to generate innovative ideas and execute them is our very disciplined innovation strategy process using internal Innovation Summits, the latest of which took place this quarter. This is our eighth summit, and they continue to result in some tremendous success stories, "Mothers Matter" is the latest example: a 4-part digital episodic investigation into the high death rate of American mothers, especially African-American mothers, from pregnancy-related causes. In just a few short days after its launch, it became one of the top social trending stories of the year and had millions and millions of page views and unique users, and is receiving attention from local, state and national lawmakers across our portfolio.

Lastly, as part of our ongoing transformation of our go-to-market strategy, we recently integrated the existing capabilities of our in-house creative agency, formerly known as Hatch our digital marketing services provider, formerly known as G/O Digital, and Premion into one unified data-driven sales strategy and market-facing B2B brand called TEGNA Marketing Solutions. TEGNA Marketing Solutions makes it easier for our advertisers to buy and utilize our suite of products to move their products. Our culture of innovation and execution are industry leading and all part of our strategy to be the leading local content and marketing services player at scale.

Before I turn it over to Victoria, to review our third quarter results in greater detail, I'd like to close by reiterating my enthusiasm for the direction this company is headed, and thank our team across the country for embracing innovation and executing on it. Our portfolio is rapidly evolving, reflecting the growth in stable profitable revenue streams. As a result, our margins and cash flow generation are strong and enable investment in strategic opportunities which will supplement our organic growth well into the future.

With that, I will pass the call to Victoria.

Victoria Dux Harker ***TEGNA Inc. - Executive VP & CFO***
Thanks, Dave. Good morning, everyone, and thanks for joining us. Before I cover our consolidated financial results and capital allocation for the quarter, I'd like to review just a few special items with you. During the third quarter, special items impacting operating expenses were $4.3 million, driven by $7.3 million in severance costs related to the ongoing consolidation of our corporate organization. These expenses were partially offset by $3 million in FCC spectrum repacking reimbursements.

Special items impacting nonoperating expenses for the quarter were $1.2 million due to a pension payment timing-related charge. Netting against these costs, we had special items tax benefits of $9.7 million related to tax reform and the reversal of a capital loss valuation allowance, resulting from the successful completion of our 2017 federal income tax return in the third quarter.

Now I'll review third quarter consolidated financial results. Keep in mind that most of my comments today are focused on TEGNA's performance from continuing operations on a non-GAAP basis which provides clear insight into our financial drivers and operational results. Also, as a reminder, our advertising and marketing services revenues exclude political advertising, which we've broken out separately. You'll find all of our reported data and prior period comparatives in the Key Metrics section of our press release with further details incorporated in the text and tables contained there.

Now onto the numbers. On a reported basis, total company revenue for the third quarter was up 16% year-over-year, which is at the higher end of the mid-teens guidance range provided last quarter. Excluding the impact of political advertising, total revenue for the quarter was up 4% year-over-year despite being negatively impacted by political displacement. I'll cover those impacts later in the call. Third quarter total revenue was driven by subscription and political revenue, which grew $30 million and $57 million, respectively, as well as Premion's continued growth.

Now just to provide greater context for what this trend means for TEGNA as we look ahead. Coupled with strong political advertising growth, the 17% increase in subscription revenue year-over-year continues to contribute to TEGNA's portfolio shift toward a more recurring revenue-based business, reflecting the continued migration of customers to OTT channels. It's no surprise that the total paid subscribers also increased year-over-year for the fifth consecutive month, with large market paid subscribers leading the way. As a result, we're on track to achieve the high-end of previously announced full year subscription guidance of mid-teens growth. Based on the trends we have seen over the past 6 quarters, we expect subscription revenue to grow well into the future, further enhancing the financial profile of our business through increasingly sticky and high-margin subs, which produce annuity-like cash flows and greater forecasting visibility.

Now to touch on political advertising in a bit more detail. As Dave covered, as of today, we've recorded the highest level of full-year political revenue in our history, including any presidential election year, clearly reflecting the passion and energy within the American political system. Just to put this in context for you. This mid-term election cycle grew 50%, $79 million higher than the prior mid-term election in 2014. $60 million in political revenue is a third quarter record high for us, an astounding 51% higher than the previous mid-term election cycle.

Beyond this, preliminary fourth quarter political revenues of $144 million, up approximately 56% from 2014, also set a historical high watermark. As you heard Dave discuss earlier, this performance clearly validates the fact that local TV broadcasting remains central to political campaign strategies, communicating candidate views on the issues that matter most to voters.

As you know, demand for political advertising in a compressed period of time crowds out other advertising placements. During the third quarter, our heavy volume of political revenue displaced a significant amount of core advertising. We estimate political crowd out to be 5 to 6 percentage points for the third quarter and even higher, about 6 to 8 percentage points during the fourth quarter, given the longer period of time over which election advertising reached its peak. As a result of this dynamic, advertising and marketing services revenue was 5% lower during the quarter. However, adjusting for political crowd out, advertising and marketing services revenue was flat to up slightly, trending upward from the second quarter.

To provide some further color on specific revenue category performance trends. Several categories were up or flat within the quarter, when adjusting for political crowd out. For example, retail, services, medical, entertainment and home improvement were all positive. Other categories such as automotive, banking and restaurants were lower in the quarter but showed improvement from the second quarter.

Premion also performed well during the quarter. This business continues its rapid growth and is on pace to achieve its recently increased annual revenue guidance of $75 million, excluding political advertising. Premion's success is a clear indicator of unmet demand in the market is being addressed with products and applications that delight customers, both in and outside of TEGNA's broadcast footprint.

Moving now to expenses. Our operating expenses were 11% higher this quarter on a GAAP basis, primarily driven by revenue, including our new San Diego station, KFMB, which closed in early 2018, investments in Premion and higher programming fees. As we discussed last quarter, faster-than-expected growth in Premion revenues, which drove a 25% increase in its revenue guidance for the year, continues to be a driver of higher expenses, a trend we expect to see through next quarter.

Additionally, programming fees, which include reverse compensation paid to networks, were driven higher by the growth in subscription revenues. Excluding programming, KFMB and Premion, non-GAAP expenses were up year-over-year just 1% on a same-store basis. We also expect to see higher fourth quarter non-GAAP operating expenses due to higher political advertising, as you'd expect, driven by our largest political advertising quarter ever.

During the third quarter, corporate expense was $18 million, up $13 million from last year. The year-over-year increase was driven by $5 million in severance charges related to the ongoing rightsizing of our corporate functions. On a non-GAAP basis, corporate expenses, excluding depreciation, were down 6% year-over-year, and we expect to end the year under our $50 million guidance. As a result, adjusted EBITDA for the quarter was $181 million, a very strong 34% margin, and adjusted EBITDA excluding corporate expenses was $193 million, producing an even more robust 36% margin.

For the third quarter, we generated substantial free cash flow, $164 million or 31% of revenue, a record high for TEGNA. This was driven, in part, by the avalanche of political revenues but also highlights the capital-light nature of our business, which affords us ample opportunity and flexibility to deploy capital to further accelerate growth in a variety of ways.

Moving now to our outlook for the fourth quarter. We expect total company revenue growth in the range of 30% to 32%, driven, again, by both strong subscription and political ad performance. Our strong footprint in this year's mid-term election, coupled with a number of competitive races and issue spending, has driven record preliminary fourth quarter political revenue of $144 million for total full year number of $238 million.

For the fourth quarter, we expect non-GAAP operating expenses will increase in the mid-teens year-over-year, driven by political advertising volume as well as continued growth in programming fees and Premion reinvestment. As a result, we expect our adjusted full-year total company EBITDA margin to be toward the high-end of the previously guided range of 36% and 38%, excluding corporate costs.

We continue to anticipate recurring capital expenditures of approximately $35 million to $40 million for the full-year, in line with our prior projections. We also expect roughly the same amount to be spent on nonrecurring projects, including mandatory channel repacking, our upcoming headquarters relocation early next year and a new facility in Houston. As a result, we project fourth quarter free cash flow to be at least as strong as third.

Building now on Dave's comments regarding the current M&A environment. TEGNA follows a disciplined capital allocation framework that balances our desire to enhance our growth profile through strategic, accretive acquisitions with our commitment to a strong balance and return of capital shareholders through dividend, delevering and opportunistic share repurchases. Capital allocation decisions are driven by our focus on maximizing shareholder value. And we consistently allocate capital to the options that offer the highest medium to long-term returns. As Dave said, we're actively assessing M&A opportunities and fully intend to leverage our strong balance sheet and cash flow for these types of accretive investments. We have substantial capacity to pursue any and all opportunities, both internal and external that are strategic and accretive for us.

During this quarter, capital expenditures were $14 million, reflecting investments in operating-related projects, including $600,000 related to the corporate headquarters as well as $3 million in the mandatory spectrum repacking, for which, we expect to be fully reimbursed.

During the quarter, we also paid down $144 million in debt, reducing interest costs by approximately $8 million per year. This resulted in $3 billion in debt outstanding at the end of the quarter and net leverage of approximately 4.2x. Keep in mind that almost 90% of our debt has fixed interest rates, so there's very minimal impact to us from rising interest rates now and into the future.

In summary, our third quarter and year-to-date results demonstrate that we are making strong progress in diversifying our revenue and cash flow streams. As a result, the continued growth of less cyclical, profitable businesses will enhance our ability to create shareholder value in the future.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question will come from Barton Crockett, B. Riley FBR.

Barton Evans Crockett ***B. Riley FBR, Inc., Research Division - Analyst***

I guess, 2 things, if I could. First is on the advertising environment. I mean, clearly, the political spend has been a great development for you guys and for the group. But this is now kind of in the rearview mirror. I was wondering if you could get back to a little bit more kind of focus for us on what you're seeing. Looking ahead in core ad trends, I understand there's displacement in the quarter, but can you give us a sense of what the tone of business feels likes now that the political kind of ads squeeze out is behind us over the balance of the fourth quarter and into the start of next year?

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

Barton, I'll take that question. As we gave crowd out numbers to try to help you all, but we have to acknowledge it's got some art as well as a science to it. But with our best math, that Victoria provided, it's showing us some sequentially, marginal improvement each quarter, Q2 to Q3. And I would say, we're headed in that direction as well as Q4 too, again, when you apply the art and science of displacement. I'll call out auto because I know it's always an important question. Auto is a tale of, kind of, two cities right now. Foreign is doing really pretty well. And domestic is the laggard. I think for the back half of this year, were it not for Jeep Dodge Chrysler, auto, for us, would be up. And inside, the OEMs, I know have been saying that their sales are up. But I think as the Cars.com group said on their call yesterday, it's really a tale of two cities for them that fleet sales are what are driving their numbers, and their actual retail sales continue to be down. Tier 2 is up nicely for us, which is a good, good trend because that's a sweet spot for us, and appears to look very good. So, auto is still down, but it is improving sequentially and has been somewhat optimistic about, given the consumer economy, where that might go next year, given -- again, what Cars.com was saying in terms of site traffic to their own place. Retail sales have been a little better than we expected. And I think -- we see right now in Q3 that they appear to be flat, which is actually better than we had seen, I think, than we would have forecasted. So, net-net, the trends are marginally better each quarter. And December, which is -- looks pretty good relative to -- which is a somewhat cleaner quarter, although you have some dollars moving around because of political in the quarter that moved to December. But for instance, on a trending basis, looks a lot better than December did, following the election 2 years ago. So overall, we have some, what I would call, careful optimism.

Barton Evans Crockett ***B. Riley FBR, Inc., Research Division - Analyst***
Is it too early for an early take on January?

David T. Lougee ***TEGNA Inc. - President, CEO & Director***
Definitely. Yes, I think that it -- especially at year-end, Barton, the major agencies place so late, often not even until the first couple of weeks of January, that it is very difficult to tell. And so we just -- we have no credible visibility to give at this time for the first quarter.

Barton Evans Crockett ***B. Riley FBR, Inc., Research Division - Analyst***
And then if I could ask a separate kind of question around the retrans pacing, Dave, that you were talking about. 15% and then 50%. Those kind of renewals are those kind of front-end or back-end loaded in terms of when they hit in the year? And what do you see as in terms of the reverse comp offset to that? And how do you feel this could net out for you on net retrans as we go through the cycle?

David T. Lougee ***TEGNA Inc. - President, CEO & Director***
Yes. So, the back end is the answer to your first question, Barton, on both this year and next year. As it relates to net retrans, as we have said before, we have continued to agree that as we have nice escalators in our rates, we, frankly, happily pay a fair amount to our networks because we want them reinvesting in the program, and it's so important to us in the case of a couple of our partners, the NFL and others. As far as the percentage discussion, which is all on the issue I'd like to say, I'll be glad to take 45% of $5 versus 55% of $2.50. So, it's a 2-size equation. But we have a lot of scale. We're important partners to our networks. And when you take our largest network, NBC, which is, by far, our largest and where we're in major markets with very high ratings, we're very important to them as a partner. So that negotiation is several years out. So that's the biggest piece of that pie, Barton. But I think that the negotiations will be tough but fair. And as far as net retrans goes to your core question, we will continue to see net retrans growth.

Operator
Our next question will come from Alexia Quadrani, JPMorgan Chase.

David Karnovsky ***JP Morgan Chase & Co, Research Division - Analyst***
This is David Karnovsky on for Alexia. With Premion, can you say what its contribution was to political revenue this cycle, and where do you think that could go potentially in 2020? And then do you have an early view on Premion's contribution in 2019 revenue and EBITDA overall?

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

So to your first question, I'd call it just around, just slightly under $10 million, to your political question, which actually is really good because we're -- it's just -- it's a whole different set of advertisers than our traditional advertisers. So that was pretty good out of the gate. I wouldn't put a number to it. But we have great optimism about what that will do in 2020, given its targeting capabilities. Once political advertisers use it, they love it. And no, it's too early for us to be giving a range at -- for 2020. But we'll speak more into that on the next quarter's call.

David Karnovsky ***JP Morgan Chase & Co, Research Division - Analyst***
Okay. And then, can you just maybe update us on what you're seeing in the M&A market? Are groups still waiting for clarity around the national ownership cap? And has the very strong political revenue this cycle had any impact at all on station owners willingness to sell?

David T. Lougee ***TEGNA Inc. - President, CEO & Director***
I'm not going to comment on what targets are out there, what other companies are doing. It's known what companies publicly are for sale. I can't speak to whether political makes somebody think this is the time to cash out or maybe they should hang in there, depending -- given how much it looks. But I can't speak for them.

Operator
Our next question will come from David Joyce, Evercore ISI.

David Carl Joyce ***Evercore ISI Institutional Equities, Research Division - MD & Senior Analyst***
On the political front. Obviously, we talk a lot about what the displacement is around core and trying to figure that out. But could you help us think about what the free cash flow impact is from political? Can you help us frame what the margin differential is between political and core?

David T. Lougee ***TEGNA Inc. - President, CEO & Director***
Well, if you're just talking to traditional definition of core, core and political are similar margins. And we handle most of our political through our rep firm, where we have very favorable rate. So, it might even be slightly higher than core but pretty much the same type of contribution on margin. I'm sorry, I should say, same on free cash flow.

David Carl Joyce ***Evercore ISI Institutional Equities, Research Division - MD & Senior Analyst***
Okay, great. And just maybe a little bit more on Premion. Do you have a thought on the path to profitability? Is that maybe possibly a 2019 event?

David T. Lougee ***TEGNA Inc. - President, CEO & Director***
Yes. As we've said, we're exiting the year at around 10%. We want to maintain the entrepreneurship spirit of this business. And so -- while I know there's eagerness to create margin on it, we're going to be disciplined about the long term, and we are focused on investing in that business as a long-term business, and not try to squeeze it too quickly on margin, given what we think is the upside on revenue over time.

David Carl Joyce ***Evercore ISI Institutional Equities, Research Division - MD & Senior Analyst***
And finally, I'm just wondering if you have any sort of insight on where the regulations are heading in terms of the ownership cap, if you have any further flavor on that.

David T. Lougee ***TEGNA Inc. - President, CEO & Director***
Yes, I don't know anything with certainty other than to say, I do continue to believe that the FCC will increase the cap. I don't know yet when that will happen. There's less clarity around that. I mean, I think I said in the last call, I think when they won the UHF discount case, which I don't think they expected to do, maybe the cap at that time was going to go to 50%. But I think they're now rethinking it. So, we're imagining a cap higher than that but somewhere in the 60s or 70s potentially. That's really a bit of somewhat educated speculation. The timing on that remains to be seen. But as a reminder, in the meantime, the discount is in place. So, given that factor too, it doesn't stop vertical M&A.

Operator
Our next question will come from Leo Kulp, RBC Capital Markets.

Leo J. Kulp ***RBC Capital Markets, LLC, Research Division - Associate***
Just a couple around your M&A strategy. How would you describe your strategy? Are you primarily focused on Big 3 affiliates, mostly medium and large networks? Or would you consider increasing your exposure to other affiliations? And then would you also be interested in moving into cable networks and potentially augment your content creation distribution networks?

David T. Lougee ***TEGNA Inc. - President, CEO & Director***
Leo, I appreciate the question. But I don't want to answer that from the standpoint of, we just don't comment on M&A strategy. And frankly, not all opportunities are equal. And so there's different variables behind the answer to that question that depend, somewhat, on market size and strength of stations and other things. So, I don't have a simple answer to that question. And we've just found in our best interest as a company, and frankly, for our shareholders, to not comment on specific M&A.

Leo J. Kulp ***RBC Capital Markets, LLC, Research Division - Associate***
All right. And just one follow-up, please. Can you provide an update on how you guys are thinking about the TIP initiative, the industry-wide programmatic initiative?

David T. Lougee ***TEGNA Inc. - President, CEO & Director***
Yes. Absolutely. We, frankly, were one of the cofounders of that initiative. It is entirely focused on 2 things. It's accelerating the ability to do automated buying and to take friction out of the system at the agency side. The concern is that there's technology vendors out there that would all like to be the winner in this space. And this is about having an open-source environment, where nobody can, so that any player out there who's got a good platform who can work both for the buyer and the seller, we can have a standardized set of APIs that everybody can tap into from a technology standpoint. And we just concluded that was enormously important sort of pregame ritual to get automated buying going as an

issue. So, it's going very well. I think there's been -- it's going on here in a couple of weeks, as I recall. But it is a very collaborative effort on the part of broadcasters to accelerate our ability to make it easier for the buy side to execute their buys with us through more automated buying.

Operator
Our next question will come from Marci Ryvicker, Wolfe Research.

Marci Lynn Ryvicker ***Wolfe Research, LLC - MD***
I have a couple questions. First of all, Victoria, in your Q4 revenue guide of a plus 30% to 32%, can you talk about the advertising and marketing services line, where that's trending compared to the downside percent that we saw in Q3?

Victoria Dux Harker ***TEGNA Inc. - Executive VP & CFO***
Well, you need to keep in mind, we just talked about the political displacement, which will be in the 6 to 8, kind of, point range. So, I think that's a dynamic relative to what you need to look at for the fourth quarter. I think in terms of the overall advertising, marketing services guide, we were in this, sort of, flattish range, net of that from a displacement perspective. And it's a little bit higher displacement than it was in the third quarter, given that the whole quarter was, obviously, had political as opposed to just a few weeks of it.

Marci Lynn Ryvicker ***Wolfe Research, LLC - MD***
Okay. Now this may be a silly question, but what percent are you using when you apply it to political to get your crowd out? Or in other words, what percent of political do you think is incremental?

David T. Lougee ***TEGNA Inc. - President, CEO & Director***
Marci, I'll take that. We haven't done -- we've haven't pushed it or produced it out that way. But our analysts downstairs certainly have got a number attached to that. But it is -- I think, we actually tried to give a more -- even more directly helpful guide on the numbers that Victoria gave, which, I think, are basically 6% to 8% is the 6% to 8% impact on advertising and marketing services, which we thought, okay? But the answer to your question is baked in the math underneath that. But we don't have it right here.

Marci Lynn Ryvicker ***Wolfe Research, LLC - MD***
Got it. Okay. And is Premion still completely incremental or is there any cannibalization going on?

David T. Lougee ***TEGNA Inc. - President, CEO & Director***
No, it's a good question. Well, first -- if it is, it's really small. First of all, a lot of our dollars, Marci, are coming from outside of our markets. A lot. So we know that's not incremental, right? And off -- and typically, even on locally, there's now digital sides of the agencies. So we have good, pretty much, internal governors in place with our sellers to make sure that money is incremental. And often, there are different sellers talking to different people with different budgets.

Marci Lynn Ryvicker ***Wolfe Research, LLC - MD***
Okay. And then the last question. In the press release, it says programming fees were up due to an increase in subscription revenues. So, should we assume that your reversed comp is more a function of a percent of retrans versus a flat fee?

David T. Lougee ***TEGNA Inc. - President, CEO & Director***
It's a combination. So you can assume that some of our reverse comp is a percentage of revenue-based.

Operator
Our next question will come from Doug Arthur, Huber Research.

Douglas Middleton Arthur ***Huber Research Partners, LLC - MD & Research Analyst***
David, in the press release, it talks about this TEGNA Marketing Solutions integrating Hatch and digital marketing G/O Digital with Premion. You obviously sized Premion. A, can you talk a little bit about this new effort go-to-market strategy? And b, can you give any kind of broad range of what the total revenue pod looks like here with Premion?

David T. Lougee ***TEGNA Inc. - President, CEO & Director***
Yes. Well, to the last question, no, because, really, TEGNA Marketing Solutions is now our entire go-to-market strategy on everything advertising so including traditional, nontraditional. What it is, Doug, is that, over time, as we built a really great suite of products, we had a lot of products for our sellers to sell, and we are bringing a lot of products to market to our advertisers, but they weren't all coming in an integrated solution, both from a front-end platform standpoint. We needed to make it easier for the advertisers and our sellers to have all the products together in one front-end interfacing platform and to tie all the fulfillment up. In the past, our Digital Marketing Services group had one fulfillment piece of display and digital, had another fulfillment group. And so it's about integrating both the front-end and the back end, to make it easier for everybody involved. Our customers, our advertisers and our own sellers.

Douglas Middleton Arthur ***Huber Research Partners, LLC - MD & Research Analyst***
I mean, Hatch and G/O Digital have been around for a while. Is there a way to, sort of, size that? Or is it too integrated with the rest of the traditional go-to-market?

David T. Lougee ***TEGNA Inc. - President, CEO & Director***
Yes, they are. They are too integrated because Hatch is a capability. So Hatch is a creative agency that allows us to go with campaigns and ideas and ideation to go get dollars out of nontraditional spot budgets. Over time, it's really hard to quantify it other than to say, it's a massive capability that an individual local station just couldn't have. It's one of the benefits of scale. So, they've got creative. They've got targeted experts in verticals. They've got digital analytics people. So they are able to provide our sellers in even a small local market, a very sophisticated product solution to meet a client's needs that they otherwise wouldn't have.

Operator
Our next question will come from Craig Huber, Huber Research Partners.

Craig Anthony Huber ***Huber Research Partners, LLC - CEO, MD, and Research Analyst***
A question, first, on costs for the fourth quarter. If you took out reverse retrans incremental cost there and took out the extra hit on cost of strength in political, would you say the underlying cost growth would be on a comparable basis year-over-year, just for the acquisition?

Victoria Dux Harker ***TEGNA Inc. - Executive VP & CFO***
I'm sorry, did you mean for, on a same-store basis, fourth quarter?

Craig Anthony Huber ***Huber Research Partners, LLC - CEO, MD, and Research Analyst***
Same-store basis, yes, exactly. Just taking out reverse retrans and the political impact on the...

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

David T. Lougee ***TEGNA Inc. - President, CEO & Director***
Retrans third quarter, you mean?

Victoria Dux Harker ***TEGNA Inc. - Executive VP & CFO***
Third or fourth?

Craig Anthony Huber ***Huber Research Partners, LLC - CEO, MD, and Research Analyst***
I'd love if you could do both, actually.

Victoria Dux Harker ***TEGNA Inc. - Executive VP & CFO***
Third, I think, we said was flat. Just want to make sure I'm being clear.

David T. Lougee ***TEGNA Inc. - President, CEO & Director***
I think it was flat to 1%.

Victoria Dux Harker ***TEGNA Inc. - Executive VP & CFO***
1%. Right.

David T. Lougee ***TEGNA Inc. - President, CEO & Director***
Yes. That's exactly...

Craig Anthony Huber ***Huber Research Partners, LLC - CEO, MD, and Research Analyst***
It is similar for the fourth quarter?

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

Slightly higher, as I said, in my comments, but right in the same range.

Craig Anthony Huber ***Huber Research Partners, LLC - CEO, MD, and Research Analyst***
Okay. And then my other question has to do with -- you mentioned 5 quarters in a row of sub-growth. I think you said, overall, it's up about 1% in the third quarter year-over-year. If you took out the OTT subs, what was the more traditional piece of that? How much of that -- would that have been down, like, 2%, 3%?

David T. Lougee ***TEGNA Inc. - President, CEO & Director***
That's in that range, Craig. I think that it is varied by month. And by the way, when we say in the quarter, just to be completely technical about it, the last month on which we have sub data for is August. Unlike when the MVPDs put out their subs, which are in real time, we're at 60 and 90 days in arrears on billing. So, our last number was an August-to-August number. But yes, it's a combination of growth in the new entrants and decline in traditional. But I will say, notably, for the last 3 months, the decline in traditional has flattened out. It has not accelerated. And in some cases, if it were not for probably one individual distributor, it would be improving. I won't call out that distributor. Yes, down 3% is a pretty good range on traditional.

Craig Anthony Huber ***Huber Research Partners, LLC - CEO, MD, and Research Analyst***
And is there much difference in that comment, David, a bit of a larger markets versus your smaller midsized markets?

David T. Lougee ***TEGNA Inc. - President, CEO & Director***
Yes. That's a great question. The fact of the matter is, all of year -- I mean over the last couple of years, we've seen a more accelerated decline of traditional subs in the small market, especially 100-plus. Fortunately, for us, that doesn't mean much to us in terms, because we don't have that much exposure. But for our group of the former London stations in Texas, it will look a little better, by the way, in the last couple of months. But it -- that -- for those markets, it's concerning because of the virtual MVPDs are not all there, right? And it's unclear. Some of the key virtual MVPDs have not gone into markets 100-plus, which is an industry issue we need to help solve. But it's unclear what's going to happen there. So, you don't have that upside benefit in those smaller markets. And yes, for sure, the virtual MVPD subs are specific to the larger markets, especially markets 1 to 10 and 1 to 25, and continue to be.

Craig Anthony Huber ***Huber Research Partners, LLC - CEO, MD, and Research Analyst***
My final question, you guys reported, in the third quarter, advertising and marketing services down 4.7%. Obviously, you talked about crowding out hurt that number by 500 to 600 basis points. What would that number be if you took out the CBS acquisition in San Diego?

David T. Lougee ***TEGNA Inc. - President, CEO & Director***
I'm sorry, we took out San Diego?

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

Yes.

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

I don't have that number. We said, we're flat to up slightly for the month. I don't have that right in front of me. While San Diego is a good size station, relative to the size of our portfolio, it's not a big dent.

Operator

Our next question will come from Dan Kurnos, The Benchmark Company.

Daniel Louis Kurnos ***The Benchmark Company, LLC, Research Division - MD***

Just following up a little bit on the sub trends, Dave. Just -- in general, since you guys were kind of first to market, and being in the larger markets, talking about sort of the accelerating factors. I'm just curious, on the OTT side, and it's going to be difficult because you have, obviously, that lag book-to-bill. Just -- with some of the larger OTT guys facing the -- probably the satellite guys facing a little bit of challenges, are you seeing those guys stay in the OTT ecosystem? Do you have any view on that? And is there any -- how long do you think kind of the train runs given the, sort of, the lag effect there? Even though it's obviously a lot nicer to hear the similar commentary that traditional continues to stabilize, shall we say?

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

I'm not sure I understood your lag question relative to the virtuals. But let me answer the other parts of the question and make sure I then answer all your questions. So, the virtuals, their rate of growth has actually slowed down a little bit. They're very different in there. There are some providers that are not doing well. Maybe surprised who they are in some cases. And others, I think are continuing to do very well. I think DIRECTV NOW is, again, probably imagine as the most distributed, given that the fact that it's got such an existing sub base to which to utilize. And it had gone a little deeper in the markets than some of the others have. But time will tell, right? Whether there'll be some consolidation in that space or not. But I also think that they're also, I think, learning how to play in the television marketplace. I think some of them made some marketing mistakes, and how to deploy in the linear business. But it remains to be seen. But for us again, they're an absolute more than one-for-one uplift for any traditional declines. Did I answer your question about the -- I wasn't sure what you meant about the lag.

Daniel Louis Kurnos ***The Benchmark Company, LLC, Research Division - MD***

Yes, there's not always pure visibility for you guys or direct visibility into the timing and sub counts. So it's helpful on your color just around the growth metrics. And I guess, you would just characterize, and I don't want to put words in your mouth, but I guess you would characterize that based on the combination of all those factors that subs are relatively stable on a go-forward, based on what you're seeing, and that you're not seeing any leakage in the system from some of the guys in OTT who have been hit harder. They're either getting picked up in some way, shape or form. And that relatively the base is kind of stable at this point.

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

Yes, that's exactly right. I do. Because when I said I have numbers for August, I've got the OTT numbers for August too. So, we have absolute data, both on the traditional and nontraditional side. So, I know that the couple of MVPDs recently reported some larger declines. But that's not across the board. We've got some traditional MVPDs, who are up in our markets. So it's a mutual fund, if you will. But our -- overall, we feel very good about the mutual fund, given our portfolio. I think, what's really important is that it's -- on this issue it's much better to have a large market portfolio than a market 100-plus portfolio.

Daniel Louis Kurnos ***The Benchmark Company, LLC, Research Division - MD***

Yes, certainly acknowledge that. That makes sense. And then just on cost on the go-forward. Obviously, you're not going to give sort of '19 guide. But it sounds like you're still doing some rightsizing right now. Just help us think about what kind of costs or ways to keep cost down outside of, obviously, the inevitable step up and reverse that you have in sort of core OpEx, as we look out into '19?

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

This is Victoria, Daniel. I think there are a couple of things. In terms of the corporate pieces, I think the, sort of, major restructurings that we anticipated doing are sort of in place at this time. We continue to look at opportunities particularly for back office. Creating opportunities for automation, consolidation, those sorts of things. Certainly, as a result of some of these acquisitions, we have much more opportunity in terms of amortizing our cost base over a greater revenue base, and creating greater efficiencies within the system. I think the other piece that we're looking at -- and this is more from a technology perspective, is doing a fair bit more in terms of looking at outsourcing, offshoring, those sorts of things, from a technology standpoint. So, we don't have to continue to invest in-house. And that frees up our resources, both CapEx as well as our people to create more efficiencies internally. So, look toward that for next year and into the year after. But I think a lot of those continue to be ahead of us.

Operator

Speakers, at this time, we have no further questions. So, I'd love to turn this conference back over to management for any closing remarks.

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

Thank you, everyone. Just as we close, we remain excited about the manner in which our business is evolving, and as I said, we're proactively pursuing organic and inorganic opportunities with a wide aperture that will position us to benefit from the emerging media trends. And as we said earlier, create value for our shareholders in years to come.

We look forward to speaking with you on our fourth quarter earnings call. If you have additional questions, please call Jeff Heinz, (703) 873-6917. Thank you, everyone, and good morning.

Operator

Thank you very much. Ladies and gentlemen, at this time, this concludes today's conference. Please disconnect your phone lines, and have a great rest of the week. Thank you.
