Gray Television, Inc.

Moderator: Dottie Boudreau
August 07, 2018
10:00 a.m. ET

OPERATOR: This is Conference # 4239649

Operator: Good morning. Welcome to the Gray Television Second Quarter 2018 Earnings Call. My name is (Kelly), and I'll be facilitating the audio portion of today's interactive broadcast.

All lines have been placed on mute to prevent any background noise. For those of you on the stream, please take note of the options available in your event console. At this time, I would like to turn to show over to Hilton Howell, Chairman and CEO.

Hilton Howell: Thank you so much, (Kelly). Good morning, everyone. As (Kelly) mentioned, I'm Hilton Howell, the Chairman and CEO of Gray Television. I'd like to thank all of you for joining our second quarter 2018 earnings call.

As usual, I'm joined today by our Chief Legal and Development Officer, Kevin Latek; and our Chief Financial Officer, Jim Ryan. We will begin this morning with a disclaimer that Kevin will provide.

Kevin Latek: Thank you, Hilton. Good morning, everyone. Certain matters discussed in this call may include forward-looking statements regarding, among other things, future operating results.

Those statements are subject to a number of risks and uncertainties. Actual results in the future could differ from those described in the forward-looking statements as a result of various important factors.

Such factors have been set forth in the company's most recent reports filed with the SEC and included in today's earnings release. The company undertakes no obligation to update these forward-looking statements.

Gray uses its website as a key source of company information. The website address is www.gray.tv. We also will post an updated investor deck to the website within the next few weeks.

Included on the call will be a discussion of non-GAAP financial measures, and in particular, broadcast cash flow, broadcast cash flow less cash corporate expenses, operating cash flow, free cash flow and certain leverage ratios.

These metrics are not meant to replace GAAP measurements but are provided as supplements to assist the public in their analysis and evaluation of our company.

We include reconciliations of non-GAAP financial measures to the GAAP measures in our financial statements that are made available on our website. I now return the call to Hilton.

Hilton Howell: Thank you, Kevin. Obviously, the really big news in the second quarter of this year is our transformative announcement agreement to acquire Raycom Media.

The transaction is tracking better than expected and we continue to anticipate closing in the fourth quarter of this year. We very much look forward to adding the fine people of Raycom to our growing corporate family.

And I very much personally -- I know that Kevin and Jim both join me in welcoming Pat Laplatney. We expect to work hand in glove with him as we move forward in growing our new company, and can't wait for this transaction to close.

Turning to the results for our quarter. You saw on our earnings release this morning that Gray Television turned in another outstanding quarter. Our second quarter 2018 revenue hit a new record of $250.3 million.

This figure represents a 10 percent increase from the second quarter of 2017. Our net income for the quarter was $40.7 million and our net income per fully diluted share for the second quarter was $0.46 a share.

Our gross retransmission revenue was $85.3 million and our net retransmission revenue was $46.1 million. In light of recent contract renewals and subscriber trends, we are raising our full year guidance for net retransmission to a range of approximately $182 million to $184 million.

Our political advertising revenue has exceeded the high end of our guidance at $18.1 million. Political revenue is clearly very strong this year and is pacing very well for Q3. When adjusting to include all acquired and divested stations, our second quarter's political revenue was 9 percent higher than our political revenue in the second quarter of the 2014 midterm election cycle.

We expect political revenue will be within the range of $41 million and $45 million for the third quarter of this year. I'll remind you that our political revenue for the third quarter of 2014 on a combined historical basis was $41 million.

We set another record with our broadcast cash flow in the second quarter, which was $108.3 million reflecting a 16 percent year-over-year increase. At quarter end, our total leverage ratio as defined in our senior credit facility was 3.91x on a trailing 8-quarter basis netting our total cash balance of $510.6 million.

We are slightly disappointed in the core advertising revenue so far, but we are very pleased with our results in political and retransmission revenues.

There is a silver lining in the tougher economic headwinds in many of our markets than the national headline suggest. It is at the high quality and highly ranked Gray Television stations continued to perform exceptionally well relative to their peers.

We also continued to see the top stations holding up better than low-ranked stations when markets tighten up. Indeed across the markets in which we have third-party revenue audits, we saw greater declines in total market revenues than our own station in those state markets experienced.

As such, the second quarter revenue audit show nearly a full percentage point increase in Gray's aggregate share of total television advertising revenue in our markets from 39.9 percent to 40.7 percent. Results like these prove the enduring value of top-ranked legacy, trusted and brand safe advertising platforms in dynamic times.

In the past few weeks, we have made other news. While not as significant as the Raycom transaction, they are nevertheless important milestones in our road to building enduring shareholder value. First, we have reorganized our senior management to better manage our operations across 25 -- 57 television markets and to accommodate the new acquisition with Raycom.

Our two formerly Co-Chief Operating Officers assumed new roles on July 1. Bob Smith is now our Chief Operating Officer overseeing all of our stations as well as our sales efforts.

He has enjoyed a long career as a Sales Manager and General Manager for numerous television stations prior to being named Regional Vice President for Gray in 2002 and Senior Vice President in 2013.

In addition, Nick Waller, our other former Co-Chief Operating Officer, became the company's Chief Administrative Officer. In his new role, Nick oversees corporate administrative support functions, including human resources, information technology, traffic and CRM systems and capital projects as well as continuing his focus on performance benchmarking and efficiency improvements.

Importantly, Nick is working most closely with Pat Laplatney planning for a smooth transition and integration with Raycom Media. Nick joined Gray in 2002 as President and General Manager of WCTV in Tallahassee, Florida after a long career leading one of our other companies, Datasouth Computer Corporation.

Like Bob, he has served as Regional Vice President, Senior Vice President and Executive Vice President of Gray Television. We also promoted four Regional Vice Presidents to the new role of Television Vice Presidents.

For the past few years, Chris Mossman in Lexington, Matt Jaquint in Charleston, Nick Matesi in Colorado Springs and Mike King in Lansing have served as both General Managers in their respective stations as well as overseeing many other television stations within our portfolio.

In their new positions as Television Vice Presidents, these four leaders are now focused exclusively on assisting Bob Smith and overseeing our stations. As the RVPs moved up, we promoted department heads of each of their stations to General Managers.

In Lexington, Kentucky, we promoted Jeff Anderson. In Charleston-Huntington, West Virginia, we promoted Matt Moran. In Colorado Springs, we promoted Liz Haltiwanger. And in Lansing, Michigan, we promoted Debbie Petersmark.

At this time, I would also like to welcome 3 new veteran broadcasters to Gray Television. Chris Fedele joined us as General Manager of WTVG-TV in Toledo, Ohio; Andrew Steward joined us as General Manager of WOWT in Omaha, Nebraska; and Don Davis joined Gray as General Manager of K-O-S-A KOSA TV in Odessa-Midland, Texas.

Another significant news. On July 12, I was personally thrilled to join truly a best crowd of dignitaries in Augusta, Georgia. We gathered to celebrate the groundbreaking of our newest 30,000 square foot facility for our award-winning television station and news organizations of WRDW-TV News 12 and WAGT NBC 26.

This new facility will house CBS, NBC, CW, MyNetworkTV and Antenna TV affiliates and will be completed in mid- to late 2019.

We will bring the best in 21st century television practices to this growing and important area in our company. At this point, I will turn the call over to Kevin

Latek and then to Jim Ryan and after their remarks, we will open the line for questions.

Kevin Latek: Good morning, again. I'll take just a few moments to comment on the status of the Raycom transaction. As you know, we announced the combination of Gray and Raycom on Monday, June 25.

In the press release and on the Investor call that morning, we explained that we would move immediately to divest a television station in each of the 9 overlapped markets to expedite regulatory approvals, and therefore, the closing. On the call, I remark that the transaction does not seek FCC waivers.

Indeed, national audience reach of the combined company will be below the 25 percent national audience reach adopted by the FCC back in 1985 when there were 3 television networks in an analog world.

Consequently, regardless of what happens with the 39 percent national audience ownership cap or the UHF discount, the Gray-Raycom transaction as proposed can be approved by the FCC and the Antitrust Division without controversy.

Today, after the announcement, Gray and Raycom met in person with both the FCC and the Antitrust Division of the Department of Justice to review the transaction and our divestiture plan and to answer any initial questions from regulators.

We filed the requisite applications for the FCC and Antitrust Division soon thereafter, and we're now in the midst of the mandatory 30-day public comment period at the FCC.

The divestiture process for the 9 overlapped markets began within minutes of our June 25 announcement with the first call about the stations that we are offering for sale. As expected, we received very strong interest in the divested stations early in the process.

We very much appreciate the constructive efforts of numerous broadcasters and new entrants invested -- that have been invested over the past few weeks to meet our expeditious deadlines in this process.

The interest level in the divested stations remains quite strong as we work through the final negotiations. As we've stated, on June 25, we expect to finalize the divestiture agreements and get them to the FCC and Antitrust Division probably before the end of this month.

And consequently, we remain on track to receive necessary approvals and close this important transaction in the fourth quarter of 2018. Thank you for your time. I turn the call to Jim Ryan.

James Ryan: Thank you, Kevin. Good morning, everyone. The 10-Q will be filed shortly and everyone has obviously seen the release.

Even with the continuing headwinds in core local and national, our total second quarter revenue of $250.3 million was within our previous guided range of $248 million to $254 million. Political at $18.1 million was significantly ahead of our expectations of $13 million to $15 million.

And the better-than-expected political would have had some displacement effect on the core local and national advertising. We are very pleased that our third quarter political revenue guide of $41 million to $45 million is equivalent to or significantly better than the $41.1 million from the third quarter of 2014.

This level of political revenue in Q3 bodes well for the fourth quarter when we have historically earned half or more of our total political revenue. As Hilton mentioned earlier, our leverage at the end of the quarter on a trailing 8-quarter basis was 3.91x and we have $510.6 million of cash on the balance sheet.

In July, we were required to prepay our term loan, the amount of $37 million, reflecting a portion of the $90.8 million of net proceeds we received in the 2017 spectrum option that we were unable to reinvest in the business within the prescribed time limits of our senior credit facility.

As a result of the prepayment, we've satisfied all future quarterly amortization payments under the current term loan. Our retrans numbers in Q3 were on a net basis -- I'm sorry Q2 were slightly -- on a net basis were slightly ahead of expectations. Our revenue was slightly lower and, obviously, our reverse comp then was, obviously, lower as well.

What we did in late Q2 was settle a long-standing dispute with a large MVPD on a billing issue. We reached an accommodation that both sides felt was mutually satisfactory, but that did cause us to take our revenue number down a little. Correspondingly, our reverse comp came down as well.

Also, in Q2, we noted that we were slightly overpaying 1 network reverse comp in 1 market, and we took an appropriate adjustment for that. So admittedly, Q2's retrans numbers were a little noisy, but they were kind of unique events. They did not reflect sub counts.

And on a go-forward basis, again, we've reaffirmed our full year revenue guide, and we've actually increased the net revenue guide a little bit. So all in all, we're very pleased with how we're tracking in retrans and net retrans for the year. At this point, I'll turn the call back to Hilton.

Hilton Howell: Thank you, Jim. And so, (Kelly), would you please open up the phone lines for any questions anyone may have.

Operator: Certainly. At this time I would like to inform everyone in order to ask a question over the phone, please press “star” “one” on your telephone keypad. Your first question comes from the line of Aaron Watts from Deutsche Bank. Please go ahead.

Aaron Watts: Hi guys, thanks for having me on. Just a couple questions from me. Maybe I'll start with core advertising. Both in 2Q and for the 3Q outlook, can you talk about some of the gives and takes there, what's strong right now?

What's weak, maybe specifically auto? And then also, I know it's early, but any opportunity set you see for the legalized sports betting that's coming on?

Hilton Howell: I'll take the second part of the question first. I think that opportunity, while we're excited about it for the long term, I think will take a little time to develop. It's certainly not in our thought process in the immediate short term, but certainly, a category opening up for the industry is always good for everybody.

As far as Q2, on a category level, we definitely have weakness -- continuing weakness in auto. It was down a touch over 10 percent.

Communications was also down. Again, as we commented on the last call or 2, we've got a couple large MVPDs that has cut back advertising with us given a change in their overall marketing plan.

Generally, in Q2, we saw weakness in most categories, which was unfortunate. The quarter did slow in June, which I think hurt us a little bit in core local.

And also, in core local, though June, political was pretty strong. So there would be some displacement in there too. Exactly how much, to be very honest, would be almost anybody's guess.

Looking at Q3, auto is continuing to be soft at present, and I stress this is 1 day in a month on a comparative basis, and there's a million timing issues and variables, but it looks like it's a little better than Q2.

We are seeing continuing weakness, especially in Dodge Chrysler Jeep, which I believe other people have commented on. Our Communications segment is going to see the impact of those two MVPDs cutting back at least for the rest of this year. In Q3, we're also seeing some weakness in restaurants.

If you remember, in Q1, we commented that McDonald's was out and had gone to network. They brought a reasonable bout of money back in Q2 and we're very pleased. But it looks like they are back out in Q3. So it's a little frustrating for us. But sometimes, you just have to deal with it.

Aaron Watts: OK. So overall, it's, I guess, down 4-ish in 2Q, and 3Q is looking similar overall, is that fair?

James Ryan: Yes. Q2, if you -- down 4 as reported. It was down a little bit more on a combined historical basis. Q2 is about the same, down 4-ish. I think the key there and it is -- political has the potential to come in stronger than we currently anticipate. We certainly love to have that type of problem.

It's impossible to predict right now. So the only thing I'd say is the stronger the political number in Q3, probably is going to put pressure on core just because of the displacement.

Aaron Watts: No, I appreciate the detail. I know it gets noisy. Jim, one more for you. Given how 2Q shook out and your outlook for 3Q, any change in your expectations on leverage at year-end pro forma for Raycom? I think you had previously said you would land around 5x, if I remember, right?

James Ryan: No, we still expect to land at close pro forma right around 5x.

Operator: Your next question comes from the line of Marci Ryvicker from Wells Fargo.

Marci Ryvicker: I should have calculated this before the call, but we were sort of busy. What does the net retrans margin now imply for you for full year?

Kevin Latek: Marci, it's Kevin. It's roughly about 52 percent.

Marci Ryvicker: OK. And then given the Raycom acquisition and coupled with the fact that there is a lot of other assets that seem to be coming in the market at this point in time, what is your ability to look at other asset once Raycom is closed and integrated?

Hilton Howell: We will look at everything that's easy and free, but we said on the call on June 25 and we'll reiterate today that our number one focus is closing Raycom and nothing is going to get in the way of us closing Raycom and having a smooth transition. And our first priority thereafter is to pay down the debt.

If there are good attractive opportunities that could be best described as tuck-ins, we'll certainly look to see if you could do those if they are going to be particularly attractive from a financial standpoint or otherwise very, very additive to our company, but I don't think you're going to see -- it's not going to be a repeat of past years where we're doing 4 and 5 and 6 transactions over the course of couple months.

Our priorities really are absolutely getting Raycom integrated and marching forward under that new unified company starting on day one.

Marci Ryvicker: OK. And then, I just want to clarify when or if political does come in ahead for Q3, then we should be taking Q3 core down lower than what you're guiding, correct?

James Ryan: It has the potential, Marci. You know it's really difficult to tell. But yes, if political Q3 really, really pops, I would expect core to come down a little bit more than what we're currently thinking. I already have so many units to sell in Q3. You know how it's going to work. So...

Operator: Your next question comes from the line of Kyle Evans from Stephens.

Kyle Evans: There were, sound like, a lot of moving parts in gross and net retrans. Can you hone in on sub count in the quarter?

Kevin Latek: Kyle, it's Kevin. Sub count was pretty stable. In the first quarter, the MVPDs, we actually saw a couple of the larger MVPDs go up a little bit, I mean, not a lot, but positive. We had a couple guys then go down by about an equal amount and then there was two operators that seemed to be shedding subs, but they're not particularly large for us.

And obviously, we're continuing to see the OTT roll through and sub numbers pick up there. The lag time in the OTT reports is worse than what we have on MVPDs, but I think we're pretty comfortable on Q1 and on a traditional MVPD basis, it was down a particularly small amount, I mean, nothing that would get our attention and a rounding error at best.

Kyle Evans: Got you. When you are done -- I mean, if and when you're done with Raycom closing, integration, are there any stations there, larger market stations, that you might kind of review strategically and be willing to sell?

Kevin Latek: We haven't considered that.

Kyle Evans: And lastly, would you review your MVPD in network renewal by sub count percent rather?

Kevin Latek: Our retrans are all in 3-year cycles. We did a vast bulk of our retrans agreements, 400 separate negotiations for contracts that expired essentially at the beginning of this year or shortly thereafter. All of those were done. There were no drops and there were no public disputes. And obviously, we're very pleased with the result on those.

End of this year, we have a very small handful of contracts that are up or we refer to them as off-cycle, that's less than 3 percent of our sub base. In the end of '19, we have next tranche, which is, I think, around 38 percent -- 35 percent -- yes, somewhere between 35 percent and 40 percent end of '19.

On the flip side, our NBCs are up for renewal at the end of this year. Last year, we had one or two markets up with CBS, and we did a deal to extend out those by a couple years and to extend out all the rest of our CBS affiliations.

As those older contracts that were done in 2014 expire in 2019 -- August 31, 2019, they will be priced into the new rate card that was negotiated last year. And then all of our FOXs -- I don't think this is unusual for the business.

All of our FOXs expire June 30 of next year. FOX, again, is less than 5 percent of the company. So in (inaudible) and LPs, so the -- we mentioned it because of the Big 4 for industry purposes, but not a big -- really a major player for us. We expect to have the NBC contract will be certainly more expensive than what we negotiated with NBC in 2014.

But until that deal is finalized, we don't really know what -- we don't know how that's going to work out. We expect it will be another long-term agreement on terms that are good for us and good for them. We have, I think, something like 25 -- the top 25 telecasted NBC stations in the last rating book I looked at. So they are very important to us and I think we're very important to them.

So a strong relationship, and we'll get things worked out there certainly before the end of the year, and we'll have a little more guidance on what those rates would be after we have that deal finalized.

Kyle Evans: Great. One quick one for Jim. This cash tax guide that you gave last quarter for $36 million, is that the right number still for the year?

James Ryan: Yes, that's in the right ballpark.

Operator: Your next question comes from the line of Dan Kurnos from The Benchmark Co.

Daniel Kurnos: One quick housekeeping question, Jim or Kevin. Just on the Raycom deal, how much -- what are kind of the onetime cost you guys have accumulated so far or expect to accumulate in Q3 because most other companies strip that out from the adjusted EBITDA?

James Ryan: We expect, as far as professional fees associated with the deal, $2 million to $3 million of cost in Q3. As a matter of fact, in the release, in the guidance section, I think we made a specific comment on that. It was -- yes, we said $2 million to $3 million is our current estimate.

Daniel Kurnos: And how much was it in Q2? Was there any?

James Ryan: It was $3 million and change in Q2 and year-to-date, it was like $3.6 million or $3.8 million through Q2.

Daniel Kurnos: Got it. All right. And then on the expense side, you guys have, obviously, done an incredible job keeping expenses down. The guide is, I think, a lot lower than most of us anticipated.

I know -- I think Hilton announced some top-down restructuring. I don't know how long you guys can sort of keep expenses running at this level, but just sort of your confidence in being able to keep OpEx down and sort of what kind of runway you still have on that line?

Hilton Howell: Dan, this is Hilton. I'll just comment on that briefly. It's something we look at all the time. We try to run as leanly and as meanly as we can get this company, and I'm very proud of our expense control. And I expect to see that as a continuing bright line in our operations going forward for a while.

Operator: Your next question comes from the line of Leo Kulp from RBC Capital Markets.

Leo Kulp: Jim, just one for you. You mentioned that historically you've gotten 50 percent of your political revenue in 4Q. Is there any reason why that would be different this year? Any tough comps or something you're seeing there?

James Ryan: No. I mean, literally, every political cycle is far back as I've been with the company, which is now just about to be 20 years in October, it has been 50-percent plus. So I have no reason to believe this year wouldn't be any different.

Operator: Your next question comes from the line of Jim Goss from Barrington Research.

James Goss: I'm curious of what you think the impact will be of Raycom -- adding Raycom in the mix in terms of the retrans negotiations and the reverse comp negotiations. Whether one or the other might be more beneficial to you?

And to the extent that you've just talked about the NBC contract that you said it would be more expensive than before. Will this help moderate any upside to that? Just wondering how you are looking at it. Go ahead, Kevin.

Kevin Latek: Hi Jim, it's Kevin. My comment on NBC will be more expensive in 2019 than it's in 2018 is just a simple fact that this is a rising market on both sides, right? Every year, we pay more to a network than we did the year before and every year, we get paid more in gross than we did a year before.

So don't imply anything negative and what -- truly the fact, next year, we will pay more to each network, not just NBC, than we're paying this year. And our gross next year will be higher for every channel we have than it is this year.

So there is nothing -- I don't mean to imply anything negative there. It's just we have -- NBC is the only deal that we've not locked down for next year.

Feel good about it, but it's not -- until it's locked down, we've nothing to talk about there publicly. Adding Raycom is going to change the overall profile of the company in a lot of different ways.

We think there's probably some good opportunities across the board from national sales to newsgathering to sharing resources among stations. Our portfolio is the best hand in glove that I think possible in the industry.

We've got a lot of stations where they have a little -- they have a little stations and we have a lot. And there's a lot of stuff that we can really execute on. In terms of specific pieces of where that fits in the P&L, we honestly haven't given that all that much thought.

We've not put anything in terms of our synergy model around what a bigger company might look like and how that might impact our revenue or expenses. There are, obviously, synergies that we booked in terms of running the company more efficiently than two separate companies.

The best asset -- our synergy models and our acquisition logic here had nothing to do with us just becoming a bigger company for the sake of going out and negotiating as a bigger company, is that we're going to do with what we can do on a day-to-day basis at a station level that provides a better experience for advertisers and for our viewers and our own employees. So I don't have any specific thoughts on retrans or any other vendors to be honest.

James Goss: OK. With the OTT getting to be a more important piece, and CBS detailed some of it the other day, the -- does that change the dynamic at all in terms of maybe starting the cap the retrans ask a little bit? Or does that really not have enough of an impact yet, it's still too small?

James Ryan: It is too small. I think an interesting data point in negotiation over retrans that there are millions of people who believe that CBS -- access to CBS is worth $6 a month.

And if it's worth $6 a month to have the #1 network with more football than the NFL channel, news operation, all the strong local stations we have affiliated with CBS, live award shows, et cetera, then surely, we're worth more than what we're getting paid in retrans today, and that's part of the battle constantly in our MVPD retrans.

So to an extent, OTT is really impacting those conversations, and so I think all access has set the price for what CBS is worth in the marketplace today to consumers on an ala carte basis and that's very helpful. Beyond that, I don't -- there hasn't been much of an impact in negotiations I don't think. And that -- of course, that could change if OTT accelerates.

James Goss: OK and maybe one for Jim. You were just talking about the political and how this doesn't seem that much different or they are patterns that have taken place over the 20 years you've been with Gray. Does this political season seem any different or more intense as I thought it might be going into the year? But I'm not quite sure, still trying to get a read on that.

James Ryan: Hi Jim, I mean, the tone of political season this year, I think, is good given all the data points we've seen so far this year, not only us but other people in the -- the whole industry has seen.

So I think it will be a strong year just because of the mood of the country. That being said, as we have seen in every single political cycle as far back as you want to think about, there are always surprises before you get to election day.

Some of them are very positive surprises and others are not so great and are actually very disappointing. So how it all exactly plays out between now and election day in November is anybody's guess.

But I certainly would expect it to be a very good political year for the industry and a very good political year for Gray. But as we have consistently said all year long, we are not going to put out a full year number because no matter what we say today, we are guaranteed to be wrong.

James Goss: As long as you want to be wrong, do you have any preview for 2 years from now, I mean, getting to the presidential year?

Hilton Howell: Higher.

James Ryan: I think 2020 will take care of itself as well, but let's get through '18 first, then we can start talking about '20.

Operator: Your next question comes from the line of Davis Hebert from Wells Fargo Securities.

Davis Hebert: I want to ask the political question maybe a little bit differently. Kevin since you're close to DC, are you noticing anything different around the fundraising aspect, how people are -- candidates are positioning. Just anything that might be different this election cycle versus prior years?

Kevin Latek: Fundraising appears to be more robust than we saw in '16. In '16, if you remember, I hear a lot of people say, "Well, Donald Trump didn't advertise and that was the problem." The problem in '16 as we detailed on our earnings call that day of that election was that neither candidate spent anywhere near what historical level is.

Neither one of the political parties supported their candidates with political spending, and we also didn't have the super packs to anywhere near the extent we had seen even in 2014. This year, it seems to be completely opposite in all of that.

We had a couple of primaries that we did not expect with Trump intervening and money follow -- there's money following Trump and there's money not following Trump, and it seems we have people galvanized on both sides.

Obviously, the Supreme Court has triggered more issue money for us. We have had -- we've had runoffs that we did not expect. We've had some real noteworthy additions for Governor and Senate and House that we weren't expecting at the beginning of this year. And as always, we do have some things that disallow.

So it's not that every single race is better than expected, but a lot of them are, and that's -- again, that's because there's money behind them and we're seeing money -- I think money being raised and money being permitted for this cycle in ways we did not see in '16 and even for that matter in '14.

So I think there's a lot of excitement and probably a lot of paranoia and a lot of fear, and those things drive political dollars, political fundraising.

Davis Hebert: That's really helpful. And given some of the backlash on Facebook and digital advertising in general, especially with regards to political, do you sense that, that is rewarding local broadcast TV? Or do you think that's kind of a minimal impact?

Kevin Latek: We've seen the event sort of contrary versus Wall Street on this. Our political advertisers when we deal with directly, because we don't have any reps, have been pretty clear to us on both sides of the aisle that political -- the political dollars work on the local TV, they don't work in digital and so money goes to digital to organize rallies and to raise money, but people don't change their votes and people don't go out and vote because they saw an ad on Facebook.

The political buyers are -- believe in local television. I think we've seen that time and time again. We're certainly seeing it this year. So we have never really thought that political dollars move to digital in any great numbers. So there is -- people are starting to see the emperor has no clothes on some of the digital stuff, that's fine with us. It certainly can hurt.

But we've never really -- our competition on political ad dollars is more about cable than it is about digital. That's what we look out for. So digital is interesting, but political buyers understand the power of local television, especially local news stations.

Davis Hebert: Got it. Understood. And just a couple of quick ones for Jim. I know the core is perhaps a little weaker than you guys anticipated at the start of the year. How has digital performed? Has that performed in line with your expectations?

James Ryan: Yes. As you know, our -- all of our digital is organic ad sales within our market, so that's why we have for years now grouped it into local. But yes, our digital has been doing fine and basically at expectation, yes.

Davis Hebert: OK. And then last one, Jim, just housekeeping. LTM net leverage, I think the number you gave was two year average, correct?

James Ryan: Yes. So, hold for just a sec, I've got to look it up. LTM net all cash was 4.17 on a 323, 254 operating cash flow number. Yes, 3.3.

Operator: Your next question comes from the line of Michael Kupinski from NOBLE Capital Market.

Michael Kupinski: And you touched on this with previous question, but I wanted just to kind of clarify. I was wondering post acquisition of Raycom if there would be any changes in your acquisition strategy, specifically as it relates to network affiliations, market size, geographic interest, just in general, how you see your acquisition strategy post Raycom?

Kevin Latek: Our -- this is Kevin, Michael. Our acquisition strategy for the last several years, I mean, before I joined the company, was we look at every number one, strong number two TV station regardless of affiliation, regardless of geographic location and if it made sense -- and again, geographic location and network, sort of, now are things we look at, but we look at everything and it's only -- that has not changed.

We looked at and we really would have loved to purchase the number one TV station in San Diego and Las Vegas, but we couldn't -- we couldn't justify the prices that were paid. Post Raycom, I see no reason why that would change.

I think our focus is going to be on integrating Raycom and paying debt down more so than now trying to grow the company through additional acquisitions. I think we plan to continue to look at the same kind of things. There's -- I've never heard a hint that we should change our acquisition strategy.

We have the highest quality portfolio right now of number one and number two TV stations. As you know, 100 percent of our stations -- 100 percent of our markets have number one or number two. When we close Raycom, that percentage will come down a bit.

We will still have the highest quality portfolio in the industry. And we think that's very important for the long-term growth of our shareholder value. So we're not going to depart from acquisition strategy because of Raycom. We may not be as acquisitive as we have been, but we're absolutely not going to change our criteria or what we want this company to be.

Michael Kupinski: Great. Thanks for the color. And then on -- just kind of in terms of participation and trying -- maybe in the industry efforts and trying to change the trajectory of the core advertising, particularly national, what has the company been doing in terms of investing in programmatic and maybe automated buying mechanisms and technology and things like that?

And then maybe if you can give me an update on where your thought process is on ATS 3.0 -- ATSC 3.0? ATSC 3.0, I got it that right?

Hilton Howell: Yes. So we completely agree that it is -- the transaction costs are too high to buy local television, especially for national advertisers. And the other ways of spending national advertising dollars is certainly getting easier, and we recognize the problem. For the last couple of years, we have been working -- testing a couple of the automated platforms that are out there.

There are -- there is not one automated platform that all the agencies are using and all the buyers are using, all the stations are using and all the traffic systems are using. So there's nothing we can always turn to tomorrow.

The different automated platforms have different pros and cons and interact with our traffic and billing and client systems differently, and we decided it was best to work with all three of them and help them see the way we operate and try to find a good solution or a good -- or a couple good solutions.

I think the industry has made tremendous progress. These vendors have made tremendous progress in just even the last two years, but there is no 1 standard yet for automated.

In terms of programmatic, we define programmatic perhaps differently than some of you all do. Programmatic involves no humans and that's what we think of is a race to the bottom.

So we're not -- we're not involved in -- we're not interested in putting high-value local ad dollars -- or ad inventory on programmatic systems like computers priced down. The automated systems we think have great promise.

Again, we've made a lot -- the vendors have made great strides, and we're very hopeful that we're going to continue to do better strides, especially on the national side in the near term.

In terms of ATSC 3.0, we've been a cheerleader because the markets in which Gray is operating in we don't see a near-term opportunity to profit from ATSC 3.0. We have said, we've been supporting publicly wherever we can on 3.0. We worked a little on the standards setting up bodies.

We ranked -- when I joined the company, we were one of the few broadcasters that had mobile DTV up. We actually built our 4 stations in mobile DTV and spent the money and thought other people (inaudible) has returned them all and then we started thinking putting all our stations out on the Internet and think back before any one sort of doing that and didn't really get any traction.

When we beta tested something with CBS, it became All Access, launched that, that's been pretty successful for us and, I think, for CBS affiliates generally.

We're willing to try a lot of different things, but when it came to 3.0, we decided at this time around we were going to let some folks in the larger markets, who have frankly more dollars to spend and more ways to experiment with the technology actually go ahead and do that a little bit and prove a test case.

So our view has been that we will convert a station on a station-by-station basis without regard to market size based on the ROI.

So if there is hypothetically a ROI that would justify converting our TV stations in North Platte, Nebraska before our stations in Lexington, Kentucky, then we will convert North Platte, Nebraska before Lexington, Kentucky.

It will driven by the return on the investment. Buying Raycom is going to certainly alter our analysis a bit because we will be in larger markets like Toledo, like Tampa, like West Palm.

But what that means for 3.0 is just frankly too early for us to know because we're still running Gray, and there's a lot of expertise at Raycom, and frankly, we're working a lot on the integration and haven't had much to think about -- much time to think about what 3.0 is going to be for this company in 2020, 2021.

It's not a 2018 event. It's probably not a 2019 event for the combined company either. But it is a near-term possibility for us we think and probably more opportunities to move more aggressively with 3.0 on a positive basis with Raycom stations because of larger markets.

Operator: Your next question comes from the line of Aaron Watts from Deutsche Bank.

Aaron Watts: One bigger picture question. The reports of the DOJ investigating certain ad sales practices of independent station owners.

I'm curious if, a, Gray has been contacted? And then, b, regardless of that, any sense for the fallout for Gray or the industry as a whole from whatever it is that the DOJ is honing in on?

Hilton Howell: Aaron, we don't talk about litigation or rumors of litigation or rumors of investigations.

Operator: And there are no further questions at this time. I will now turn the call back over to Hilton Howell for closing remarks.

Hilton Howell: Great. Thank you, (Kelly). Thank you, everyone, for being here today. We're very proud of our performance this quarter. We think we're going to have an outstanding third quarter, and we can't look forward anymore than having our call with you once we have closed our Raycom transaction and having Pat Laplatney joining us here with this group.

It's going to be a transformative transaction that's going to put Gray in a remarkable position and we're exceptionally proud of and exceptionally proud of the partnership that we are building with the men and women in Raycom. Thank you for your time this morning, and we look forward to talking to you next quarter.

Operator: This concludes today's conference call. You may now disconnect.

END