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Saga Communications, Inc. *(SGA)*

Q1 2012 Earnings Call

CORPORATE PARTICIPANTS

Edward K. Christian

Chairman, President & Chief Executive Officer, Saga Communications, Inc.

Samuel D. Bush

CFO, Treasurer, SVP & Head-Investor Relations, Saga Communications, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the First Quarter 2012 Results Conference Call. At this time, all participants are muted or in a listen-only-mode. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to turn the conference over to our host, Ed Christian, President and CEO of Saga. Please go ahead, sir.

Edward K. Christian

Chairman, President & Chief Executive Officer, Saga Communications, Inc.

Thank you, Cathy, and good afternoon, everybody. Thank you for joining us as usual, and this is our Q1 call, and Sam will do both the necessary language and then the executive summary. How's that?

Samuel D. Bush

CFO, Treasurer, SVP & Head-Investor Relations, Saga Communications, Inc.

Thank you, Ed. This call will contain forward-looking statements about our future performance and results of operations that involve risks and uncertainties that are described in the Risk Factor section of our most recent Form 10-K. Actual results may differ materially from those expressed in this conference call.

This call will also contain a discussion of certain non-GAAP financial measures within the meaning of Item 10 of Reg SK. Reconciliation for all the non-GAAP financial measures to the most directly comparable GAAP measure is attached to the selected financial data table.

The year started off positive with free cash flow growing 23.8% to \$4.0 million in the first quarter. Net revenue for the quarter increased 4.3% to \$29.9 million. For the quarter, we had \$511,000 in gross political revenue compared to \$99,000 for the same period last year. This broke out with Radio, which we include the networks, had \$404,000 this quarter of gross political revenue compared to \$98,000 for the same period last year. TVs was \$107,000 during the quarter this year compared to \$1,000 last year.

National accounted for approximately 13% of gross revenue for the quarter compared to 14% for the same period last year. Our network's net revenue of \$785,000 for the quarter compares to \$755,000 for the same period last year. We had \$176,000 of gross political revenue for the quarter this year while we had none last year. Station operating expense increased 1% for the quarter this year, and we expect it to be up somewhere between 1.5% to 2% for the overall year.

In the other income or expense area, you will see that we saw a nice reduction in our interest expense for the quarter. This year we paid \$528,000 while last year it was almost \$1.2 million. This is primarily due to the continued reduction in the level of our outstanding debt, a meaningful reduction in the interest rate we are paying and a reduction in the amortization of bank fees. We paid down \$7.75 million in bank debt so far this year, and still have \$7 million in cash on hand. Now that our total long term debt, including current maturities to trailing 12 consolidated EBITDA, is below two times, we have no more required debt repayments. A \$750,000 quarterly payment on our outstanding term debt will kick back in if our leverage ratio increases back above two times. Our outstanding bank debt is currently is \$60 million.

As reported in the press release, capital expenditures in the quarter were \$1.2 million, which is approximately the same as last year. We are planning to spend between \$4 million and \$4.5 million in CapEx in 2012. For 2011, we expect interest expense for the year to be between \$2.3 million and \$2.6 million. Our anticipated total tax rate going forward to will be 39% to 40%. We anticipate deferred taxes for 2012 to be between \$3 million and \$3.5 million. Current taxes will vary based on the income in each quarter.

Subsequent to the end of the quarter we entered into an agreement to sell our Greenville, Mississippi TV station to H3 Communications. This sale will not have a material impact on our financial statements. The sale is subject to FCC approval and is expected to close during the third quarter. Once again this quarter, we ask for your questions to be submitted via email prior to the call. Ed and I will respond to those questions that we feel we can appropriately respond to later in the call.

Ed, I'll turn it back over to you.

Edward K. Christian

Chairman, President & Chief Executive Officer, Saga Communications, Inc.

Thanks, Sam. One of the things I'd just add right here is the Greenville TV Station that [indiscernible] (4:26) as you mentioned. We are still happy with television. We look for other opportunities there. This was an asset that we look at where it could be placed and for the best advantage of the TV station, but in terms of our other markets, we're extremely pleased to be there.

The interesting thing about first quarter is that our share of National went down from \$14 to \$13 and that's why – and because that again, it's like so many times, it's really business that we don't control and either is was not, and if it does come in, it's almost like a reverse auction where you raise your paddle and every person raise their paddle, the rates go down until the next person raises their paddle until the rate is accepted.

We're really focusing more in controlling our own destiny. It was nice National was up. We think we're going to have a very good National year because we're in certain states that are becoming hot buttons right now such as Ohio, Virginia, Iowa, Wisconsin, Missouri, Michigan and New Hampshire. So that bodes very well for us. I know they're just the hot states and doesn't mention the other action is going on in the states. So we think that this is going to be a good year and it was off to a good start in the first quarter.

And I'm pleased about that. Again, I'm pleased that even with National being down as it was that [ph] wire local (5:43) was up, and we did some things there, not steroidally, but we had no real sales or anything else like that. That really just a basic concentration on our core competency to do that. Well, actually we did have one thing. We had a kind of a sales contest. But when we do the sales contest, they're more for a camaraderie building function within the sales departments, and this time we shared the information across our entire platform so that other stations were able to see what all the other markets were doing on a weekly basis. And it was a simple contest basically. It was new business that had not been on the air for a year that we concentrated on, and it was very

successful for us. And then again it shows something that I've always said about our business, and that is we sit here and we talk about doing a good job, but I've always felt that if I took the entire sales to half of a station and put them on like one of those little airport buses and drove around and said, "Who's calling on this account? Who's calling on this account? Who's calling on this account? We'd find a lot of businesses that are still not being covered.

And that's our responsibility to try and do that and look and see where we go to make more business. We said this a number of times. And I think it's pretty true. You can probably say this could be off or whatever. But I think each year, a station will lose 15% to 20% of its basic business through closures, media plan changes, whatever it might be, going out of business, who knows what it might be. The sector is no longer deciding to do that. So you always have to replace it. So, it's the old thing from Glengarry Glen Ross, AVC always be closing and always be selling, not so amusing. That type of thing is a role model, but that's always a line that we try to emulate. Certainly, we're not selling land. We're selling something else.

The business itself, when we looked at the first quarter, there was also an increase there in retransmission consensus that we – because then the contracts kicked in which is proving to be very good for us. So I think if you follow any other companies, you'll notice that there is a TV company, that there is some CV companies, that there is lucrative areas appearing in retransmission running as a result of resetting the values up from the contracts from several years ago.

Boy, oh boy, what else can I really bring everybody up to speed on? Getting back to the idea of the direct selling and what we do, so I guess a little different We've always said that. We don't create stories. We really don't seek industry press, and we don't do magic. By that, you can't hide your tricks in Radio or TV. We don't have any black background or hidden mirrors that we can use to create an illusion of whatever might be, You've gotta come right out in the open and do it.

So our whole thing is if you got do it that way, do Comp and then Radio. And I've said it time and time again it's Radio really hasn't changed in terms of the implementation of the real nugget of the business. There is no real secret sauce because we have to have all of our tricks available to everybody else. And it's just the basics over and over again, and it's finding the right sales people – keeping them, the right management – keeping them, incentivizing people to do good, creating an environment where people can grow and they can feel good about coming in and doing their job. And I've always felt if have somewhat of an entrepreneurial spirit just at the station levels where the management is empowered to really try to run and grow their business and do things and attract competency, that those are the keys to success, and it's proven well for us and we don't really envision changing our formula at all. We make no apologies. We are a Radio and TV company with some networks. Oh, oh and speaking of networks, let me – well, actually, we'll get to that in Q2 in a second, we can talk about that. We know what we are. We don't hide behind anything else and it always somewhat amusing to me when I see a number of companies trying to deny what they are by changing their names to, "We are a new media company. We are an interactive company that – by the way, we have radio stations that are going to – that we use to promote our interactive thing."

Now we're radio and TV. We're just kind of the traditional model, and I think that's our view of things in terms of looking at how our Interactive folds into it. Yes, we're successful in Interactive. We're also re-evaluating it. Be candid when I tell you that we're looking at streaming and saying with the sound exchange rates that we pay, and in our small markets, we pay about close to \$400,000 a year to sounding stream, to the rights to do stream. And you add SEESAC on top of that, you add the bandwidth we have to buy and everything else and you look at what the profit percentage is on that and what the streaming count really is, and you have to evaluate it.

Jerry Lee has done very nicely with WEB in Philadelphia for years without streaming. And so we are looking at what is the bright line test and where do we do this. And also, when you get into streaming – and lot of people hype this – it splits the seller's concentration from sub – I mean his core competency on the product radio and TV. It's not to say we're banning Interactive because we are very well with our websites and our platform and being online, but we're just re-evaluating the streaming component and as to where it will stream and what place it will hold in our radio stations. And if we want to continue trying to monetize the stream or just use the stream as an add-on benefit for the additional – for the regular advertisers that we're on, and we'll have more probably on that in another couple of months. That's just something we're evaluating right now. But we don't stand there and say that we are not a broadcast company. And I don't click my heels with my ruby slippers and say three times that we are a new media company, we are a new media company, and we are a new media company, and then wake up and say suddenly, "I guess we are". We're not, and we don't make any apologies for being what we do and do the best on it. We intend to continue growing the company. We intend to look at number of different things. We will get into that on Q&A. And with that, Sam, I think we're going to be brief today.

Samuel D. Bush

CFO, Treasurer, SVP & Head-Investor Relations, Saga Communications, Inc.

We are.

Edward K. Christian

Chairman, President & Chief Executive Officer, Saga Communications, Inc.

We have some questions there.

QUESTION AND ANSWER SECTION

Samuel D. Bush

CFO, Treasurer, SVP & Head-Investor Relations, Saga Communications, Inc.

Yeah, how is – this comes from [ph] Marci and Daniel (12:22) at Wachovia. Wells Fargo now, excuse me.

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Edward K. Christian

Chairman, President & Chief Executive Officer, Saga Communications, Inc.

Yeah, there you go.

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Samuel D. Bush

CFO, Treasurer, SVP & Head-Investor Relations, Saga Communications, Inc.

How is Q2 pacing?

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Edward K. Christian

Chairman, President & Chief Executive Officer, Saga Communications, Inc.

Q2 is – and I think that you'll see this in every call that comes up – it's kind of like the yellow flag is out there. It's not the red flag. It's not the green flag. The drivers that we do – their speed, one month is up, the next month is down. It's really kind of difficult to get a handle on. That's why I'm glad that we can have more control over our [ph] local (12:54) destiny in terms of creating business rather than waiting for business to come in, and that's something that works well for us, but we'll tell you it's month by month. And if anybody tells you that everything is going tickety boom, they're not looking at – they are not reading the [indiscernible] (13:12) correctly, but will we

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be fine? Yeah. Will we get through it? Sure. Is it something Q2 was right now making me feel giddy and euphoric? No. But I know that we have the determination to get through it somehow. Is that guidance? I guess it is.

Samuel D. Bush

CFO, Treasurer, SVP & Head-Investor Relations, Saga Communications, Inc.

Kind of in a nice way.

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Edward K. Christian

Chairman, President & Chief Executive Officer, Saga Communications, Inc.

Yeah.

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Samuel D. Bush

CFO, Treasurer, SVP & Head-Investor Relations, Saga Communications, Inc.

Can you characterize the M&A environment?

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Edward K. Christian

Chairman, President & Chief Executive Officer, Saga Communications, Inc.

M&A is getting really interesting, and that's – I think that we have seen in the last several months a lot of companies which were inactive by their private equity owners or whatever, solidly slip themselves into the marketplace and putting their toes in the water to see what type of pricing they can yet. And we've seen that on a number of levels where I can – the stuff that we're going to be getting offered, and we're not exactly the highest of the food chain in terms of getting the offerings. Well, actually we are because from our balance sheet and our financial capabilities.

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But I will tell you that I think that this is going to be a good year, and some of the people who are in the representation business, brokers, are also feeling this and they're beginning to change where they've been sitting around feeling kind of isolated for years. They're booied by this. We've seen a lot of transactions in Television, a lot of group transactions. We're going to be seeing group transaction in Radio and readjustment of portfolios, and I think that this a good opportunity. We still have the disconnect between expectations and reality values because there has been a reset in that, but in terms of where we are, I'm booied by the – some of the opportunities we're seeing. And we're a very picky buyer. But nevertheless, I think that we will find some truffles in this basket as we progress through the year.

Samuel D. Bush

CFO, Treasurer, SVP & Head-Investor Relations, Saga Communications, Inc.

I think you mentioned balance or capital balance or capital debt and so forth in talking about M&A because we do have a good balance sheet, and I had mentioned in my comments that we have bank debt of roughly \$60 million right now.

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Edward K. Christian

Chairman, President & Chief Executive Officer, Saga Communications, Inc.

It went up from, what, \$130 million, when it was our high?

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Samuel D. Bush

CFO, Treasurer, SVP & Head-Investor Relations, Saga Communications, Inc.

Yeah, higher than \$130 million. We were in the mid-130s back in 2009 before we started the paydowns.

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Edward K. Christian

Chairman, President & Chief Executive Officer, Saga Communications, Inc.

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Yeah, thank you. [ph] That leaves \$5 million in debt. Thank you, Sam. (15:33)

Samuel D. Bush

CFO, Treasurer, SVP & Head-Investor Relations, Saga Communications, Inc.

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Yeah, that's pretty good. But the next question was how do you think about your balance sheet specifically at this point with such low leverage? And again, my comments I mentioned that because we were below two times, we were no longer required to make any sort of debt reduction.

Edward K. Christian

Chairman, President & Chief Executive Officer, Saga Communications, Inc.

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Well, I – and I said this before, I think that every company has to have a certain amount of debt. It's healthy. I think having zero debt is not really the particular way to go, and I think where we are now like 1.8 times EBITDA, we're really pretty good and steady, and I think we're down to where we should be and remain in terms of doing that. Also, sitting in cash is not something that I really want to do. We are certainly not one of those companies that we chase huge amounts of money. So we have to look at what's the best use of this and we've had discussions. In fact, we're going to be having a discussion coming up in our Board meeting pretty soon of either retain money for acquisitions because the company does have to grow, possibly look at dividends for the first time. Certainly is something that we are doing by – I have done stock buybacks in the past. It's not out of the question, but it's not something that we're leaning towards. And again, retaining a certain amount of money to operate the company. And then the other is dependent upon the circumstances. I think we'll probably let it grow for a little bit just to see in case if there are some opportunities that break for us. I used to say, cheer and Sam would correct me that I could buy a free station each year because we got like an extra \$20 million and I go, "Oh goody, I can spend \$10 million and it won't affect anything." And I'm almost feeling that way again, but we haven't seen the opportunities. So again, it's a measure of response. The Board will look at it, I look at it and we'll find the best use of how we can apply our excess cash.

Samuel D. Bush

CFO, Treasurer, SVP & Head-Investor Relations, Saga Communications, Inc.

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Very good. There's one final question. There's a perception that local advertising is shifting to non-traditional mediums, specifically mobile. Are you seeing this take place with your local ad buyers?

Edward K. Christian

Chairman, President & Chief Executive Officer, Saga Communications, Inc.

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I just got a text on my phone the other day from like Wal-Mart and I'm going, "How did that happen? And I'm not sure. So I I think we're fine. We just had a very successful texting contest, and we're building a huge database posting email and text. And I think that we're trying to find good ways to monetize that. And I saw the figures on some contests we've run where we capture email addresses, on where we capture some email addresses and some texting numbers, and they're really very impressive, and it allows us to look at possibly using them ourselves. I haven't seen any business really say, "Well, we're going to use texting rather than Radio." What I seen are claims that Pandora is now trying to gather a big sales effort and create that. And then again, people say Pandora is not going to run commercials on it. I think the – that we're seeing people looking at Facebook advertising and things like that. I wouldn't say there's been an erosion away from Radio. I think that there's been just a reevaluation, and that again goes back to my comments earlier that there is a fiduciary responsibility that you have for your company, you continually look for new avenues and find new ways to recruit new businesses. I'll give you an example. I was listening to to WINA, our AM station in Charlotte – that's our new talk station there – and I heard

them advertising for a camp, a summer camp for kids, to the parents where – they obviously when you're talking to a news talk audience, you're talking to all of their audience's parents, grandparents and using the radio advertising prime recruit campers. And I said, "Okay, here's something that we as an industry probably go, "duh, of course they're out there."" They're looking for people and they're using radio for the first time to try and do this. And that's just one example of the type of things that can happen and the type of things you can do. Do we have any other questions?

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Samuel D. Bush

CFO, Treasurer, SVP & Head-Investor Relations, Saga Communications, Inc.

No, that's it.

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Edward K. Christian

Chairman, President & Chief Executive Officer, Saga Communications, Inc.

That's it?

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Samuel D. Bush

CFO, Treasurer, SVP & Head-Investor Relations, Saga Communications, Inc.

That's it for today.

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Edward K. Christian

Chairman, President & Chief Executive Officer, Saga Communications, Inc.

Come on. Make something up, Sam. We'll let the nice people go who are listening to our call.

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Samuel D. Bush

CFO, Treasurer, SVP & Head-Investor Relations, Saga Communications, Inc.

We will.

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Edward K. Christian

Chairman, President & Chief Executive Officer, Saga Communications, Inc.

All right, thank you. And Cathy, if you're there, you can do the summary for us.

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Operator: Thank you. Ladies and gentlemen, this does conclude our conference for today. Thank you for using AT&T Executive Teleconference Service. You may now disconnect.

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Samuel D. Bush

CFO, Treasurer, SVP & Head-Investor Relations, Saga Communications, Inc.

Thank you, Cathy.

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Operator: You're welcome.

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