12-Mar-2013

Saga Communications, Inc. *(SGA)*

Q4 2012 Earnings Call

CORPORATE PARTICIPANTS

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MANAGEMENT DISCUSSION SECTION

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

I would now like to turn the conference over to your host, Mr. Ed Christian, President and CEO. Please go ahead.

Edward K. Christian
Chairman, President & Chief Executive Officer, Saga Communications, Inc.

Thank you very much and welcome to our year-end conference call. Sam Bush has the obligatory opening language and the details and I'll be back in a few minutes.

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 Factors 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 S-K. Reconciliations for all the non-GAAP financial measures to the most directly comparable GAAP measure is attached in the selected financial data table.

Good day. Even with the continued economic volatility, free cash grew 9.5% to $25.1 million last year and 11.2% to $8.2 million for the fourth quarter. Net operating revenue increased 4% to $130.3 million for the year and 10.3% to $35.5 million for the quarter. For the quarter, we had $4 million in gross political revenue, compared to $516,000 for the same period last year. For the year, we had $6.7 million compared to $1.2 million in 2011. Radio, including the networks had $3.4 million for the quarter and $5 million for the year. TV's gross political for the quarter was $578,000 and $1.7 million for the year. National accounted for approximately 12.5% of gross revenue for the quarter compared to 16.9% for the same period last year. For the whole year, in 2012, national was 12.7% compared to 15.5% in 2011.

Our network's net revenue of $1.2 million for the quarter compared to $1 million for the same period last year. For the year, the networks had net revenue of $3.7 million compared to $4 million in 2011.

Station operating expense increased $836,000 for the quarter and decreased $405,000 for the year. This does include a $1.8 million reduction in music license fees, most of which we recorded in the second quarter. Going forward, we expect station operating expense to be flat to up 1% for 2013.

Retrans revenue was $467,000 in the fourth quarter for our television stations, up from $124,000 in the fourth quarter of 2011. For the year, total retrans revenue was $1.8 million, up from $529,000 in 2011. Retrans expenses, those payments we made to the networks associated with retrans, was $99,000 in 2012 fourth quarter and $435,000 for the overall year. Prior to 2012, we did not have any payments to the networks relative to retrans.

In the other income or expense area, you will continue to see that we saw a nice reduction in our interest expense for the quarter. Interest expense for the quarter was $366,000. It was $583,000 for the fourth quarter of 2011. For the year, it was $1.7 million in 2012 compared to $3.4 million in 2011. This was primarily due to the reduction in the level of our outstanding debt and meaningful reduction in the interest rate we were paying. We paid down $10,250,000 in bank debt so far for the year in 2012 and as of today we have approximately $24 million in cash on hand. As long as our leverage stays below two times EBITDA, we have no more required debt payments. Our outstanding bank debt is currently $57,750,000. As reported in the press release, capital expenditures in the quarter were $956,000 compared to $1.4 million last year. For the entire year, we spent $4.9 million on CapEx compared to $5.6 million in 2011. We currently expect our CapEx for the year to be $4.5 million to $5 million.

Two other quick items for 2013, we expect interest expense for the year to be between $1.5 million and $1.75 million given the existing interest rate environment. Our anticipated total tax rate going forward will be between 40% and 41%. We anticipate deferred taxes for 2013 to be between $3.5 million and $4 million. We previously reported that we had entered into an agreement to sell our Greenville, Mississippi TV station and had it declassified as a discontinued operation. The sale did close as of February 1 of this year. You'll continue to see the lingering impact of the operation on our first quarter 2013 financial statements based on the actual sale date.

During the quarter, Saga paid a special cash dividend on December 3 and announced that we would be doing a 4-for-3 stock split on January 16, 2013. The cash dividend was $1.65 per share. Adjusted for the stock split, it was $1.24 per share. The aggregate amount of the special dividend was approximately $7 million and we funded it out of cash we had on hand.

Finally, on March 6 of this year, we announced that our board of directors had approved increasing the amount available to repurchase shares of our Class A common stock to $30 million. As usual, we asked 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 later in this call. Ed, back to you.

Edward K. Christian

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

Thank you, Sam. Well, essentially what I can say about 2012 is that it was a flat year that was made into a very good year by political. And there is nothing wrong with that because every two years radio has or actually every year because we do have political business, even running in this year in 2013, but for every two years, we do very well as an industry in radio. But it certainly helped the last year, bring it in.

The question usually is coming up when I talk to investors or other people is what's 2013 look like and there's no question that if you talk to others in the industry, they will tell you that January was tough and probably we'll show a down month. February was a little better, but still down and March, if we take out the networks, is probably close to a little flat for us.

I am not buoyed by it. I'm not concerned. Well, I'm certainly concerned but not terrified of the way this quarter's starting out for the year because I think things are coming back. There's no question that certain things such as the fiscal cliff or the – as far as sequestration which came into an actual event, created a certain amount of uncertainty and we certainly saw it in a couple of product categories like automotive for a while was very timid and were just kind of hedging their bets and waiting to see will it start.

All in all, I think we're going to bring 2013 in as a decent year. Again we can't use political as a comp because it won't be there this year. But I think on basis, everybody is saying that it's not going to be a great year but it's not going to be a bad year for the industry. So with that, I think that's a very good observation point for us. Where are our good points, where are our bad points in all candor, our radio networks and news [ph] and farm (08:16) are having their problems in sales, not in programming because these are doing a wonderful job in that arena.

But it's been a very interesting year in terms of network radio and I think you'll begin to see as companies announce and you read in the trade that the business cycle has really changed not in favor of the networks in radio.

Part of it is that there's way too much inventory out there. A lot of it is pricing. In our case, we're finding new competitors that are coming into there where as the state radio networks used to have pretty much of a lock hold on that; now we find that more and more of the other networks are concentrating on becoming state and localized. They – their delivery mechanism now allows them to target particular markets and really do a pretty good job in that arena.

Also the uncertainty – well, I'll give you an example. There is an organization called NASRN, which is the National Association of State Radio Networks. And they contract with a rep firm to represent them, StateNets, and StateNets just announced that they will be discontinuing operations as a company come June 30 of this year.

And so the National Association of State Radio Networks is taking presentations from other companies who wish to enter into the representation field for state radio networks. But it's unusual to find a rep firm just saying, hey, that's it, we're kind of closing our doors after – I don't know exactly – decades of service, to serving the state radio networks. That kind of shows you that there are some sea-change avenues that are occurring there.

With that said, we're looking at how we can best operate our networks going forward in the future, having to realize that there could be a shift in the business model for state radio networks. That's something that's taking quite a bit of our time just trying to analyze that and find the best way to proceed. That is probably the one big thing there. It's giving us some problems and a little angst. If – well, I'll give you an example. Our state networks were off nationally 40%, they're becoming up minus 2% in local. So you can see where really the big disconnect is coming at that point in time.

If you take a look at where we did in finishing 2012, in some of the markets – we only have like six markets that have [ph] Norfolk (11:10) – Norfolk the market was up 12%. We were up 27.8%. In Columbus, the market was up 6.8%, and we were up 9.5%. Des Moines, the market is up 2%., we are up 3.8%. And in Springfield, Mass., the market was off 0.5%, we were up 2.3%. So we're up pretty much our problem markets continue to be two radio markets that are giving us a little bit of problems here, Portland, Maine and Milwaukee. I think we're in turnaround modes certainly in Milwaukee and buoyed by the things that are happening in terms of the positioning of the radio stations and how we're running there. It's in all balance if we can correct the problems in both those markets, not if, when we correct the problems and both of those markets will be in really good shape, but that's requiring our time.

Again, Columbus and Norfolk which, if you were a historian on these calls you will know that for a number of years, we mentioned that there were problems in Norfolk and Columbus. And then you can see that we certainly finally addressed those and those have turned around and to be very good stellar performers for us.

That's pretty much what I have to report today. I know we have some questions and I think we should get to them and a lot of things we can – will come up as we settle the questions. Sam, do you have one right there you want to start [indiscernible] (12:444)?

Samuel D. Bush

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

Yes. I think you've already read some questions about pacing, but I think you've already addressed that. Difference between local and national, and I know we talk about that in a lot of our conference calls.

Edward K. Christian

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

Boy, here we go again, and this starts us up. Frankly, we have started an initiative and Warren Lada who's also in this call will kind of talk about it, but we're trying to shift our culture into – or away from the reliance on national revenue. As I've said many times it either is or is not, and there's a lot of factors that are affecting us as broadcasters on the national basis. They're not pretty, and I will tell you the environment out there is challenging.

And, Warren you like -- just want to share a few thoughts on that right now?

Warren S. Lada

Executive Vice President-Operations, Saga Communications, Inc.

Yes, and we've just geared ourselves up and have geared ourselves up over last year and even more so going into this year to assure ourselves that regardless of what the national climate is, we can – if it's not doing well, we can more than make up the difference locally or at least attempt to make up the difference locally.

So in that regard, we've invested very heavily in developing our creative ability to deliver to advertisers commercial campaigns that are several rungs above what normally is provided by in a radio station and we've worked very hard at not only cultivating the relationships locally and even with the agencies, but also providing them a creative tool that can significantly enhance the advertisers' ability to use our stations.

So it helps to mitigate a little bit when we've had issues on the transactional business that occurs primarily through national, and we find ourselves in a position where some of that business, as you heard before, our national business represents even a smaller amount of our overall business. And so, we need to take more control, even in our large markets, Milwaukee would be a good example where the agency percentage of business was much higher than it is today, because of the focus on local. So we have invested in the creative component. We've also invested very heavily in processing all of the creatives so that when it gets on the air, it frees up our production directors, time-wise, to be able to spend more time on creating effective campaigns, and our salespeople, time-wise, on being able to be face-to-face with clients more regularly than they would be had they not have the system.

And last, on the integration of media, we're just finishing up a entire platform change and in a few weeks, we will be 100% on our own website platform using WordPress as its primary component, this gives us a tremendous amount of flexibility to respond to the digital needs that our clients ask us for and to not have to rely on providers of an Internet platform but rather control the entire platform ourselves. So we've made great progress on the interactive side and on the website side, texting and email and all of that. So all in all, we're just putting some dollars into our salespeople's hands in the form of tools that will allow them to more closely cultivate a relationship with our advertisers and insulate us from some of the ups and downs that occur on the transactional end, that's our national advertising and large regional agencies.

Edward K. Christian

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

I think – and when talking about the national advertising and where we stand in it, there is no question that what we're seeing right now is a tremendous push by agencies to once again test the bottom and we've seen this in 2009, 2011 and now we're seeing it in 2013, where there's a tremendous pressure on rates.

In Milwaukee, for instance, we've gone from a $68 cost per point down to a $45 cost per point in the market. In Des Moines, it's gone from a $45 cost per point down to a $22 cost per point. So I submit to you that actually there are probably more spots being run but at a much lower rate. So national business is – as long as the agencies continue to push and somebody will supply. It's not pretty when you see some of the results of it come out of it. I was talking with one of our managers the other day and he told me about a lawn national, lawn care campaign where the agency ended up buying Urban and CHR stations in markets, which was totally fit categorically in terms of the ratings into the target mix, but might not have been the best in terms of trying to reach manner whatever it might be.

So you've – a lot of time you're losing the ability with the agencies today to present what the quality of your audience is, what it does, what the dollars that they have to spend, where they should spend it properly because the only thing that they're looking at is just stuffing spots into areas that are cheap and to those stations it will continue to drop the rates and put downward pressure on the marketplace.

Again, it's certainly not pretty, this is going on and we see it in larger markets and in smaller markets, but it really is – it's a very difficult thing in the industry and sooner or later the industry has to just, say, we're not going to take this anymore. No, where is the bottom, where does it stop, where do we start and getting the initiative to again regain the momentum that we had.

And I think part of the problem really comes from the fact that when people later came in there was a lot of overpromise and under delivery where the mantra at that time was your cumes are radio audience is going to skyrocket because your cumes are going to be growing tremendously and that will be used the metric instead of average quarter hour and agencies get ready to spend a lot more money because you're going to be reaching a lot more people and that really hasn't happened, it's the inverse is really – has occurred on this where the rates have gone down in market after market after market and really haven't risen. So that's a problem that we, as an industry, have to address. And again, our solution for that is to spend as much time and energy on the creative process with our local clients and build the relationships and build it.

Now, with that said, it takes instead of a $10,000 national order, we might have to have three $3,000 or $4,000 orders to fill it in, but eventually we will get to the point where that we succeed and move forward on that. Sam, I probably was way too long on this, and I apologize.

Samuel D. Bush

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

No, but very detailed which is good. Two more questions, the first of which is, Ed, what are your thoughts on the M&A environment and particularly, radio has not been as active as television, do you see that changing?

Edward K. Christian

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

It's interesting, now the deals that have come to market are not too many of late, there have been a few companies that have timed out in their portfolios in the private equity firms and have been brought to market. Unfortunately, we're seeing lower prices, I think a couple of the deals that have gone down recently are in the 5.5 to 6 times cash flow range, BCF range.

And I think you'll see in the larger markets or healthier stations that probably moves up a couple of tics to eight, but is certainly way down from where it used to be. I think it's still part of – the later part of 2013, we'll see a lot more inventory come on the market. There's been a lot of television transactions and the values on TV is up, markedly higher than radio but that has been a very active market where radio – while the radio has not really enriched all the brokers as it once did.

Samuel D. Bush

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

One final question for you, Ed. Investors have aired concerns that as the dashboards continues to shift and make it easier for listeners to choose other audio sources in the car, radio listenership may decline. How does radio remain competitive?

Edward K. Christian

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

Let me rephrase that question, okay, I'm just going to change a few words. Investors have aired concerns that as the cable industry continues to shift and make it easier for viewers to choose other video sources in home, television – regular television viewership will decline.

What we have here is very much something in the cable industry that 40, 50 years ago and then when they said, it will be the desktop television that gets all of these other channels coming in. And here we are in 2013 and we look at the networks and the local TV stations are still succeeding, audience are still there, revenues are still there, prices for the television industry have stabilized or up very decent multiples. And yet here we're dealing in a world inside of just four networks or three networks as it was so many years ago. We have hundreds of cable channels with little barrier to entry except paying the cable companies for your [audio gap] (22:42 – 22:44). If we look at this – and, Sam, am I still there?

Samuel D. Bush

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

Yes, you're still there.

Edward K. Christian

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

Good, I'm sorry. [indiscernible] (22:52) If we look at this what we really see is the same thing is happening in radio and the television industry survived and the radio industry will survive and it's the same thing. I won't – saying with the dashboard, it still presumes that I know that there are many places in the country where I can't get a decent signal on my cell phone. Right here where I am now, I can go out my driveway and turning to quarter of a mile and I guarantee you every single day I will lose when I'm driving in one direction the call at that point in time. And there are a lot of places like that. So will people would be satisfied with having to lose the call, and then in certain point in time, especially if there's bandwidth involved or however it might be if you're listening to this, you're going to start seeing the wireline services start charging for this, and that could be a real problem. And it won't take years and years and years before you can get an Internet to fully sync up and provide service to your car. So, look, it's a ways away. There's no question that there is technology on it. I think that the localism still prevails and you'll find that there'd be ways to try and test it.

Let me just kind of put this in – and competition, it's always good. Don't get me wrong. I mean, I love to think about that. But 10 years ago, when we started one of these calls or 15 years ago, whatever it was, and everybody was saying, oh, my god. Sirius is going to be – sync the radio industry. Oh, my god. Sirius is coming out and you'll have 125 more channels for that, and this was the whole thing. It's all over for radio stations.

I went to an [ph] NAV (24:46) in Naples' board meeting a number of years ago, 15 years ago, where we were also to give up all of our regular analog signals and move on to the L-band, and everybody returning their AM and FM license, so we could be competitive with the – and satellite coverage. And actually it took a vote of the [ph] NAV (25:07) board at that point in time and they voted to support and investigate further [ph] Eureka 137 (25:12) or whatever it was the system [indiscernible] (25:15) that they were talking to this country, but more – and because this is the threat of satellite coming in.

But yesterday, two days ago in the New York Post, there's big article on Howard Stern and Howard Stern being groomed perhaps to take Jimmy Fallon's show, as Fallon moves up to replace the Jay Leno. I find it interesting that nowhere in the article that they mentioned the word Sirius. And the word radio was used twice in a very long ordeal and it was just as a once word descriptor. But they really didn't even mention anything about it. And in social media today, Howard Stern is not thought of as a radio jockey. He's thought of as the judge on America's Got Talent. And so what we have here is suddenly and in fact I called a friend of mine in New York and I was talking about this article and he said, you got to understand, that's old news. Sirius is old news. This is hot news now that there is no real interest, no buzz in Sirius anymore and yet they're there. And it's a competitor and as Pandora is a competitor, but we still have the edge. Yes, and I like to think that we do. Is radio going away? No. I mean the carmakers will not take us off the dash, bank on that. Radio is still real and plays an important part in Americans today.

Do we have other questions? Warren, have you got anything you want to add?

Warren S. Lada

Executive Vice President-Operations, Saga Communications, Inc.

No. I think you've covered a quite a bit of it actually.

Edward K. Christian

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

Well, I was probably verbose today and I probably over-spoke on it. Sam, is there anything else we need to...?

Samuel D. Bush

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

No, that's the questions. And I think to your point, Ed, the thing that you've preached very well religiously throughout your career with Saga and before is do compelling local radio and the rest follows and Saga does that very well.

Edward K. Christian

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

Yes. If you do compelling radio and you have great creative and you run it with great frequency, advertisers will be happy because they'll get results and they're going to come back and they will spend more money and life is good. So with that, I thank everybody for joining us. Sam and I will be available should there be any follow-up questions, feel free to call. Thanks, Sam.

Samuel D. Bush

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

Thanks, Ed. And Terrie, we'll turn it back over to you to wrap it up.

Operator: Thank you. And ladies and gentlemen, that goes conclude your conference call for today. Thank you for your participation and for using AT&T Executive Teleconference Service. You may now disconnect.