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Saga Communications, Inc. (SGA)

Q1 2014 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 and welcome to the First Quarter 2014 Results Conference Call. At this time, all participants are in a listen-only mode. [Operator Instructions] As a reminder, today's conference is being recorded. And I will now turn the conference over to your host, President and CEO, Mr. Ed Christian. Please go ahead sir.

Edward K. Christian

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

Kiwi, thank you very much. And welcome to our Q1 conference call. I have Sam, for a change, if I could read the SEC language.

Samuel D. Bush

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

You're more than welcome to if you [indiscernible] (0:00:35).

Edward K. Christian

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

No, you told me I couldn't, because you said you'll screw it up. So with that said, we go for it, okay.

Samuel D. Bush

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

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. This call will also contain a discussion of certain non-GAAP financial measures. Reconciliation for all the non-GAAP financial measures to the most directly comparable GAAP measure are attached in the selected financial data table.

Now, for the quarter, net revenues increased 1.6%. Station operating expense increased \$859,000 for the quarter with \$482,000 of the increase being due to healthcare cost. Exclusive of the increase in healthcare cost, station operating expenses would have been up 1.7% for the quarter. I expect that we will see a 1.5% to 2% as an ongoing station operating expense increase for 2014.

Free cash flow for the quarter was \$3.4 million, and we anticipate free cash flow for the year of between \$21 million and \$23 million. National revenue accounted for approximately 13.1% of gross revenue for the quarter, compared to 11.6% for the same period last year.

Our total outstanding debt is \$46.1 million. Cash on hand at the end of the quarter was \$23.3 million. We continue to look at uses for our free cash flow, including acquisitions, dividends, stock buybacks and continuing investment in the company. Retrans revenue was \$621,000 in the quarter for our two TV markets, up from \$537,000 last year.

Retrans payments to the networks were \$165,000 in the quarter, compared to \$150,000 last year. Interest expense for the quarter declined to \$272,000 from \$358,000 last year. Capital expenditures were \$1.5 million for the quarter compared to \$1.2 million last year and we currently expect our CapEx for 2014 to be around \$5.5 million.

Ed will discuss how second quarter pacsings are going here in a couple of minutes. We expect interest expense for 2014 to be between \$1.1 million and \$1.4 million, given the existing interest rate environment and our anticipated total tax rate going forward will be between 40% and 41%. We anticipate deferred taxes for 2014 to be between \$2.7 million and \$3 million.

Ed and I will respond to those questions that were sent in that we feel appropriate to respond to in a couple of minutes. In the meantime, I'm going to turn it back over to Ed for more comments.

.....
Edward K. Christian

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

So on the question, what was the first sentence you read?

.....
Samuel D. Bush

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

The...

.....
Edward K. Christian

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

Yeah, [indiscernible] (0:03:14) what was it?

.....
Samuel D. Bush

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

During the quarter net revenues increased...

.....
Edward K. Christian

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

No, no, no, the beginning sentence.

.....
Samuel D. Bush

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

This call will contain forward-looking statements about our future performance and results of operations that involve risks and uncertainties that are described...

Edward K. Christian

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

So, be careful of your answer, do you consider me a risk than an uncertainty?

Samuel D. Bush

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

No.

Edward K. Christian

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

Okay. Just want to make sure.

Samuel D. Bush

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

No.

Edward K. Christian

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

I guess you've been telling me that for all these years and I'm not sure when I hear that, suddenly occurred to me that [indiscernible] (0:03:40) thanks Sam.

Listen, I'm going to save all of you a lot of time and the sheer tedium of rehashing Q1 and its problems that are all weather related. You've heard this ad nauseum on repeated calls from the other broadcast companies, and you really don't need to hear from us the number of days that our sales executives made angels in the snow at the studios. In essence, you know what it is. In short, we did well in comparison. I think that's a salient point I want you to take away with today. [indiscernible] (0:04:13) of the \$500,000 in insurance.

So, with that, I would like Sam to kind of jump back in here for a second, because we need just to kind of clarify this.

Samuel D. Bush

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

Yeah, and one of the questions we did have from Marci Ryvicker and John Huh at Wells Fargo was whether we consider the healthcare insurance costs that we saw this quarter is recurring or not. And I would answer that I would not say they are recurring. We are self-insured, which saves us quite a bit of money. Unfortunately, it also doesn't allow the quarter-to-quarter predictability we would like. We'll always have some quarters that are up. We'll also always have some quarters that are down. Being self-insured is proven to be a good way to keep our healthcare cost as reasonable as they can be, particularly in today's environment.

And while we continue to see some fluctuations, our cost per employee is well below [indiscernible] (0:05:05) healthcare premiums. As you know, Ed, we're always looking at ways to be more efficient in all of our expenses, whether it's healthcare or anything else and healthcare certainly has proven to be a challenge. But again we will

have quarters were we do better because the fluctuations and when we see the premiums that we see the costs primarily because of we are self-insured.

Edward K. Christian

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

We have run the comps on our insurance program versus other companies in the sector. And there is no question we could do – could save a lot of costs [indiscernible] (0:05:44) we believe that that's one of the benefit that attracts people to the company.

With that said, we're with BlueCross BlueShield. We're going out and rebidding it to United this year, United Healthcare and we'll see where we go. Certainly, this is a clause factor that's on everybody's mind. It's certainly is one of ours and we discussed it quite frequently as to what we can do without depriving employees of earned income to pay for the healthcare benefits and still providing good coverage. So we'll monitor that and report back to that quarter-by-quarter.

Let me talk to you about Q2, which we're in right now. I wish I could say that April showers brings me flowers, but the truth is that Q2 is turning out to be kind of a late bloomer. It is day by day sales to bring in the quarter. And let me give you the example on April. As I said many, many times in this call, if you listen to, or if you hear what we're saying about pacings, they usually track with every other company in the sector. So we're not the standalone. We're not the ones [indiscernible] (0:06:53) behavior. But Steve was in – Steven Goldstein, our Executive Vice President & Group Program Director was in – Group Brand Manager, I got to watch my new nomenclature – was in New York last week at a [indiscernible] (0:07:07) sponsored symposium on a Nielsen presentation. And there were a lot of group heads there, and Steve was talking with one who is in a private sector of broadcast groups and runs some tremendously highly revenue broadcast properties, and he said, how is your April. And the answer is we brought in just, and it all came in the last few days. And that's what we're seeing. So it's not us but it's also people in the top 10 markets are running this whole thing.

We're facing daily rushes of business. I guess, this is good because the revenues are growing, but this last minute buying is indeed really perplexing. And I've been thinking a lot about it as to what the [ph] colossal (0:07:56) factors are on this. And it's kind of like our clients are saying, look, it's good right now. So, let's get out there and advertise, which I'm pleased to see that they do. I think that that's a good sign that we're still seeing it, but if I were to tell you that Q2 was shaping up as a not-to-cover-off-the-ball quarter, I would be disingenuous, and I think you'll [indiscernible] (0:08:21) group.

In brief, excluding political, I anticipate Q2 to being sluggish. However, with that said, we're still quite profitable and, as Sam said, we have about \$23 million cash on hand and it continues to build. We are looking at acquisitions. But as you know, we are a very disciplined buyer in the market. And both the market and the price has to be [indiscernible] (0:08:53) matrix. Buying for the sake of buying has many perils. And if you look at the history of our industry over the last eight years, you can look at the groups that went out to mass accumulate swaps of radio stations or TV stations, and what happened to them during this period, and that's why we look at it.

As I said, we have a couple of things near the pipeline, but our pipeline is a smallish pipeline in terms of being able to get through it, small in terms of our criteria. We have things that we know will work for us and have done so. We also know that to try to buy a group, big group of radio stations, to try to assimilate the culture of another company, to try to assimilate the sellers, to try to get our arms around the management and everything else like that can really be off-putting in terms of startup time and energy. So, we look at smallish acquisitions as we have since we started the company since 28 years ago.

Let's go to some company news. One of the things that we've talked about on this call before is our metro signals. And I can't understate really where we feel the potential is on the metro signals for the future. And to give an idea, just recently in the last few months, here are some of the things that we've done to enhance not only our core competency and our core radio stations but to also launch new and independent formats in markets we serve. [indiscernible] (0:10:33) for instance, a week from yesterday, or next Monday, we will be launching an FM companion to our historic WGAN 560 News Talk, which will then give us an AM/FM in Portland.

In Charlottesville and Jonesville, Jonesville, that's great [indiscernible] (0:10:51). In Charlottesville and Jonesville, we've launched two metro signals that are Christian contemporary music, which is very applicable for the markets it's around.

We're ready to power up a new station in Des Moines. We're down to two formats, doing research as to which one has the most potential for us in the marketplace. Soon, we'll be launching a Sports/Talk companion to our WISE in Asheville, which gives us another element there.

We've launched an FM for our new start WKBK in Brattleboro and a new stronger signal for our new start WKBK in Keene, New Hampshire. Additionally, we've launched the CBS sports affiliated FM in Ithaca, which compliments everything that we do there.

We also have about three or four more teed up in the pipeline, waiting for regulatory approval to go ahead. I never counted the number of metro signals we have, but I would imagine and Sam maybe you can tell me, but it's probably close to 40, 30 plus I know.

Samuel D. Bush

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

Yes. I don't have an exact count here, but it'd be 35, 36 maybe.

Edward K. Christian

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

You know, we still have the other ones that were in the pipeline. So that's something that I ask you all to watch as we develop them. And we could sit here and talk about our digital efforts and our interactive efforts and all of those but the fact is we are in – we don't dismiss those. And we have a lot of initiatives going on in there. But the core basis for our revenue is in radio and television. It's on-air. We're also online. We're also on site and we have all that awareness, but that's just something I wanted to bring up to speed on.

Samuel D. Bush

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

I just counted real quick, Ed. It's 37 that we're currently operating, or will be on-air operating very, very shortly with another five in the pipeline or some state of build.

Edward K. Christian

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

Okay. So it's over 40.

Samuel D. Bush

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

Yes.

Edward K. Christian

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

Makes this one of the largest ones next to [ph] Christian Broadcasters (0:13:05), not as in my name, but as in the format. I wanted to do something here. Researchers are so terribly important in terms of qualitative research. And when I see some of the early [indiscernible] (0:13:16) I think it's important [indiscernible] (0:13:17), the Southern California Broadcasters Association – now we have no stations in Southern California, but under the direction of Tom Callahan, who is their relatively new Executive Director, he's done a marvelous job in building regions for radio advertising, especially in dealer groups and in automotive marketing.

And I think that if we could all, as an industry, get on the same page that Tom is pushing his association, and radio would be in a much better state. And if, any of you would like to look at the researches they're doing out there, its scba.com. But he has done a marvelous job. And I think it's just a beginning. And if everybody can embrace this and really preach the [ph] evangel (0:14:03) the goodness and the ability of radio to market and gain top of mind and top of voice.

And with that said, I would ask anybody here who is on this call to go to nyt.com and search for [indiscernible] (0:14:23) called, the Great Unwatched. That's the Great Unwatched. It's all about online video and what really occurs. Now, radio and TV might have some problems, but we are certainly safely compared to online videos. So, that's something new.

One final quick comment on TV joint JSAs and SSAs. I find it interesting that the NAB has put a time clock on [indiscernible] (0:14:54) at the NAB. And with seven days and counting on this to get some relief for this [indiscernible] (0:15:05) by this. I know it's probably driven by Sinclair and Nexstar, which have probably about a third of their portfolio in JSA and SSA stations. Nevertheless, the commission aired on this one was premature, and I think we will bring it back into normalcy. As you know, we have a couple that we share in our markets. But I am not concerned [indiscernible] (0:15:29). And I think that there is enough pressure on the FCC to revisit it, and be measured and [indiscernible] (0:15:41) in their application of this.

Sam, I think we might have some questions. Do we?

QUESTION AND ANSWER SECTION

Samuel D. Bush

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

A

We do have a few. You touched on already, you talked about, one of the question was it seems like M&A was your biggest free cash flow priority from the last call. Do you have anything in the pipeline? And you've talked about that a little a bit. Is there anything else you want to add to that?

Edward K. Christian

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

A

No. Again, we have four ways of – I don't know if it's four or five, I'm not sure – and that is through dividends, which we have shown in the last two years now that we can do special dividend. We can do ongoing dividends. We're going to stock buybacks. Our stock rebounded nicely today, up from what I was concerned about last week. And that would take the whole conference call to talk about how the market responds to smaller cap stocks. But we have acquisitions, we have the dividends, we have the stock buybacks and we can pay down debt. And all of those are options. We're certainly not going to get through a point where we're debt-free. I don't see that as a prudent use of money, but I like the fact that we are probably the most conservatively levered broadcast company. [indiscernible] (0:16:55 – 0:16:58).

Samuel D. Bush

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

A

Yeah, if you look at the very, very large, companies someone like a CBS or whatever, but beyond that we're comparable to our peers [indiscernible] (0:17:07).

Edward K. Christian

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

A

[indiscernible] (0:17:07) radio companies.

Samuel D. Bush

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

A

Yeah, that is low as it goes.

Edward K. Christian

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

A

Okay. Next question you might have.

Samuel D. Bush

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

A

The last two questions are both about the same thing. I'll just combine them. You mentioned on your last call the political for 2014 would be around \$4 million to \$6 million. Do we have any updates on that, and then it goes on to ask can we breakout the political for radio and TV in Q1?

Edward K. Christian

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

A

Yeah, I think our Q1 is about \$250,000.

Samuel D. Bush

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

Yeah, \$271,000 in total political.

A

Edward K. Christian

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

[indiscernible] (0:17:37)

A

Samuel D. Bush

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

Yeah, versus \$62,000 first quarter last year. TV was \$60,000, this year versus \$1,000 last year. Radio was \$211,000 political this year versus \$61,000 last year. And I would say our expectations are still for \$4 million to \$6 million in political for the year.

A

Edward K. Christian

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

CapEx, we have – we look for, Sam said, about \$5.5 million. That's our normal run rate. You have to feed these puppies and make sure that your transmitters and your SDLs and your antennas and your boards and your generators are in great shape, because the only thing you have to offer is the product that is generated by your technical capacity. And if you overlook that, or you skimp on that or you wait too long on that, the consequences are pretty short and dire. So we have no problem [indiscernible] (0:18:29) \$5 million to \$6 million in our CapEx. In fact, during the digital conversion, we were up like \$8 million I think.

A

Samuel D. Bush

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

Yes.

A

Edward K. Christian

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

Yeah. So, have we covered most of those?

A

Samuel D. Bush

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

That's it.

A

Edward K. Christian

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

Kiwi, are you there?

Operator: Yes, gentlemen.

Edward K. Christian

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

Oh, there we go, there she is. Okay, it's your turn now.

Operator: And are you through with your presentation?

Edward K. Christian

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

Yes, we are.

Operator: All right.

Edward K. Christian

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

That's why it's your turn.

Operator: Okay. And ladies and gentlemen that does conclude your conference for today. Thank you for your participation and for using AT&T Teleconference. You may now disconnect.

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