

11-Aug-2014

# Saga Communications, Inc. (SGA)

Q2 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.*

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Ladies and gentlemen thank you for standing by. Welcome to the Second Quarter 2014 Results Conference call. At this time, all participants are 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 your host, President and CEO, Mr. Ed Christian. Please go ahead.

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Edward K. Christian

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

Hello, I'm your host. [indiscernible] (00:32) that always sound pretty good, doesn't it Samuel?

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Samuel D. Bush

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

You are the host.

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Edward K. Christian

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

Am I the host? Well, see you about [indiscernible] (00:37). Anyway, I'm thanking all for joining us. And as usual with the intro and the information, here is Sam Bush.

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Samuel D. Bush

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

Good afternoon. 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.

During the quarter, net revenues were flat remaining at \$33.8 million. Station operating expenses were also flat remaining at \$23.5 million. Free cash flow for the quarter was \$5.9 million compared to \$6.2 million for the same period last year. The biggest part of the difference is that we spent \$167,000 more on CapEx during the second quarter this year.

We still anticipate free cash flow for the year to be between \$20 million and \$22 million. National accounted for approximately 11.8% of gross revenue for the quarter compared to 13.1% for the same period last year.

Gross political revenue for the quarter was \$257,000 compared to \$172,000 for the same period last year. Of that, radio was \$227,000 this quarter versus \$88,000 last year, television was \$30,000 compared to \$84,000. Currently, we expect our station operating expenses to increase 2% to 3% over the remainder of the year. Keep in mind that this could fluctuate a bit as you have seen so far this year. Healthcare costs primarily caused the 3.9% increase in station operating expenses in the first quarter as well as the small increase in healthcare costs allowed the second quarter expenses to be flat.

Subsequent to the end of the quarter, we paid our first quarterly cash dividend of \$0.20 per share. The dividend was paid on July 25 and was in the amount of \$1.1 million. We have now returned over \$18 million in cash to our shareholders in the past one-and-a-half-years. We intend to pay regular quarterly cash dividends in the future as are declared by our board of directors. Additionally, in July, we paid down debt by another \$5 million, leaving our total outstanding debt at \$41.1 million. At the end of the quarter, we had \$46.1 million debt outstanding.

Keep in mind that our current debt structure includes a \$30 million term loan and a \$90 million revolver. The term loan is fully drawn. The revolver can be drawn up again at any time for use in an acquisition, dividend, or buyback, subject to pro forma covenant compliance, which with our leverage is not an issue.

Cash on hand at the end of the quarter was \$25.9 million. As of today, we had \$23.9 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 \$636,000 in the quarter, up from \$589,000 last year. Retrans payments to the networks were \$165,000 in the quarter compared to \$153,000 last year. We will be entering into retrans negotiations in both our TV markets later this year, there will be no significant impact from these negotiations for the remainder of 2014.

Interest expense for the quarter declined to \$272,000 from \$357,000 last year, primarily due to a reduction in the debt outstanding. Capital expenditures were \$1.5 million for the quarter compared to \$1.3 million last year. We currently expect our CapEx for 2014 to be around \$5.5 million.

We expect interest expense for 2014 to be between \$1.1 million and \$1.4 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 2014 to be between \$2.9 million and \$3.2 million. Third quarter is currently pacing up between 2% and 3%; without political, we'd be pacing up around 1%.

As usual, 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, back to you.

Edward K. Christian

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

For thousands of years, the word flat was just fine, okay, because the world was flat.

Samuel D. Bush

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

It was flat.

Edward K. Christian

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

That all changed. So we announced that we are flat. That's not really acceptable, but understandable. And I noticed on listening to a lot of calls and reading all of the write-ups and reviews of the other calls in our sector, that a lot of words came out. We've heard some new ones. Sam just told me about one the other day, lumpy, that we have earned, which is a good word to describe what's going on. Choppy is another one. Uneven is another one. Soft or easy word erratic. And I did say we had to come up with something different, because we can't be like the other ones. [ph] Lumpy was certainly (05:42) good, but –so I came up with corrugated, okay.

Samuel D. Bush

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

Okay. I have to ask about corrugated.

Edward K. Christian

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

Well, you know, you have seen those corrugated roofs or kind of like that.

Samuel D. Bush

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

Yeah.

Edward K. Christian

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

That kind of describe...

Samuel D. Bush

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

Up and down, up and down, up and down.

Edward K. Christian

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

Up and down, up and down, up and down, okay.

Samuel D. Bush

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

I agree.

Edward K. Christian

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

So [ph] if we're quoted it all (06:02), it should be Ed Christian says that everything was corrugated for the first six months. Now, I have my word for the day. People usually ask about product categories first, and I think it's kind of interesting to look at that.

So let's take a moment and go through some highlights on worldwide Samuel. Our automotive was up very nicely actually. For the company it was up \$0.25 million, up 6%. Home improvement was up 4.5%. Professional services up 5%. But the downs, interestingly for – like entertainment down 2.5%. And the ones that really hurt were restaurants, that was a small number, but it's still a meaningful number. Restaurant business was off 10%, roughly 10%, about 9.6%. Retail, another tough one for us, was down 17% and that's the one that really kind of parted us on that – some of the others that are up financial, insurance services up 5%, automotive and other, which is aftermarket, other things, was up 12%.

Again, the one that troubled me was the retail, because that's our bread and butter one. That's where we stood in terms of the ups and downs. One of the other questions that usually comes up in the call is, so tell me how are your markets doing? And I think I can mention to you that, there [indiscernible] (07:34) flat, use that word again. Some – but our markets are doing corrugated, how's that, see how [indiscernible] (07:39) put that word in.

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### Samuel D. Bush

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

Very good. I would agree.

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### Edward K. Christian

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

Mostly up, some flat, some down. The up markets, our leading markets would be like Asheville, Columbus, Milwaukee, [indiscernible] (07:53) we have a couple; Norfolk which was up, 4% per year, but has had some trouble months. I'm not worried about that. It's, I think, an aberrant situation. We have a gifted management with Wayne Leland and Carol Commander out there that I know will fix that, and they're working pretty hard, and have just came up with some really prudent sales plans and other activities, which is to add substantial revenue to the station, using the power of the stations but not in a traditional way. So I'm really pleased with that.

Another market Yankton, [ph] one of our farmer markets (08:29) flat. The reason for that is that corn farmers face a cash crunch. The [ph] price swap means many growers won't cover costs (08:40), for the first time since 2006. And when you're in those top ag areas like we are with the Minnesota Farm Radio Network, Michigan Farm Radio Network and three agro business radio stations that are dependent upon corn and soys and the wet weather this winter and everything else like that has [ph] made just bump our crop (09:00) and the supply and demand. So agriculture is something that touches on us and that's something that – we can't fix the weather. If we could, we would be in good shape on that [indiscernible] (09:13) measured rainfall for everything, but that's something we look at.

Another one that has been a trouble for us, some times for us is Portland. We have a great new management team in place there with Bob Adams, who is doing a great job with that and we really feel that what he is doing up there with the people he is bringing in that this is a turnaround and that will happen very quickly for us. I'm pleased with that. I'm pleased with what we see on that.

I want to talk for a little bit if I can about a couple of things we see in the country right now. And that is that – we know that the U.S. economy rebounded last quarter, up 4% in the second quarter, which is, I think, is very good. And again, this I get from [indiscernible] (10:02) a pretty good job in just giving summary information for the broadcast industry.

But what we have to recognize is that, we are in a changing economic environment and that the new economy that the new economy that we've powered through for a lot of years is no more. The recovery from the recession of 2008 and 2009 has been the weakest of the post-war eras and evidence is bounding that America's potential

growth rate has plummeted. Two big determinants is supply of workers and the rise of productivity have both fallen short. So this is something that concerns us for the future.

Once again, let us just go on record here of saying that we are not down on the industry whatsoever. That is not something that we believe and I think that there is a lot of apologists in our industry who say, well, we're going to go on and add second and third platforms and do all these sort of things for you.

Our industry seems to put a target [ph] on its spank at time (11:04) and doesn't fight back over all the allegations that arise about us being a sector in decline, that we're a sector that's over. In a lot of respects, we kind of bow our heads and ask for contrition and gently ask, like please, sir, may I have some more porridge. We instead of apologizing in our own polite way and we ask forgiveness with promise of doing better on establishing multi-part platforms that are more attuned for sales growth. I'm one who says in a very proud way that everyday radio/TV does their job for advertisers in helping to increase demand and share for advertisers' products.

I was pleased with David Sehi, who noted in his call the other day for Enercon on how bullish he is on radios' future prospects and I'm just using a little quote here, broadcast radio fundamentals are strong and growing, massive audience reach, and a superior ROI to competitive forms of media. And Nielsen is now providing us without setting research, showing that radio is the number one medium in a country from 5 AM to 5 PM daily and that radio delivers a 6 to 1 return on investments, outperforming television and digital "adage". This is an ROI doubled out of even the best results from many recent studies of digital TV, digital or TV media.

Now, I think it is very important to note, and I think that Nielsen is really doing an excellent job since they've moved into our sector of creating information for us that we can use to positively reinforce the image of radio. It's a different world out there now that Nielsen is in place and what they're proposing. One of our people having talked with one of their people and which brought out, about the fact that we gives a lot of information that is client-driven in terms of how many [ph] or which source (12:59) are going to going to buy new cars in next six months. And it was very encouraging to hear that that they also believed in the marriage of qualitative and quantitative, and that is something I think kind of really, substantially help broadcasting in the years upcoming here.

I don't have a lot to say on this call. I think it's been said, if you've read the transcripts, it's kind of late in the cycle of announcing without being repetitive in terms of where everybody else is, but we do have some questions. And I think we can start with that and then we can see where it goes. Sam?

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## Samuel D. Bush

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

Yeah, we had a few, what I'd call, very macro questions but then one more specific relative to our expectations for political this year given it has started off slow. And the question is really where do we expect political to end up the year.

And I guess I will start up by pointing out, Ed, in 2010, which is closer to the nature of the elections that are being held this year, we did slightly over \$4 million of political revenue as compared to 2012 when we did \$6.7 million. I would say political has started off slow. I would think that we have a good shot at getting to the numbers that we posted in 2010 or roughly the \$4 million range. You never know though because things heat up and all it takes is [indiscernible] (14:23).

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## Edward K. Christian

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

We got some hot races.

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Samuel D. Bush

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

We do?

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Edward K. Christian

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

With Arkansas and Virginia and...

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Samuel D. Bush

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

Governor's race in Texas.

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Edward K. Christian

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

Yeah. In Missouri. I mean they were things that bode well for us. I think when the question is asked how is political doing; it really is location-dependent.

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Samuel D. Bush

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

Yes.

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Edward K. Christian

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

And there can be, as we found out the last time in Texas, where there was little political dollars for TV, as there wasn't anything markedly significant down there, we happen to be in a good situation this time.

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Samuel D. Bush

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

The next question, wondering if you had any thoughts on the talk of programmatic buying and what it could mean for radio in the future?

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Edward K. Christian

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

Remember the Star Trek with the Borg Collective, okay, where it was one thought and one mind control coming in and everybody [indiscernible] (15:16). You know I remember years ago a friend of mine, a broadcaster saying – he said, he called his rep fax because that's how he ever heard from him was through the fax machine. And then there were people who [ph] passed it and really (15:32) discussed the fact that programming buying, [ph] and by that what we're (15:37) talking about I believe, I mean the question is, if we just taken feed, the raw data into the computers and we have it online with the radio stations could then the transaction be matched through that way. And I believe, yes, I think there has been a lot of movement in that direction to trying to find a way to do it.

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In the past several companies who have brought that up have been more involved in buying remnant inventory, and saying come online, we'll offer you on a daily basis what we would pay today for remnant inventories. That's gone nowhere. I would hate to see that because that would take out the last part of the expression remnant of stability in the transactional process, because at least now you have the chance to negotiate to a point and discuss back and forward. But if it's strictly numbers in and numbers out, and here is where you stand and here is where it is, it removes the emotion, the passion, and it makes the provider of the information, the arbiter as to your success or failure.

I hope it doesn't come to that, but with technology one never know, which is always a hot new technology where a country that believes that there is always a next new best thing coming up, and this is the new hot company, this is the new hot area. We certainly saw this with the internet and though that hasn't, in my opinion, lived up to the game changer that everybody thought about. And I was saying about this earlier today, the only thing that I could really come up, I would say that has really made a market difference in new technology has been iTunes, because it absolutely changed recording industry. When the iTunes came with the entire idea of distribution of CDs, it just dissipated. And that's – we haven't seen that, that's the only [indiscernible] (17:40) such a huge change in it. [indiscernible] (17:45), sure. Will it happen? I hope not in my time in this industry or on my watch.

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### Samuel D. Bush

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

Okay. Another question for you. On his call, Radio One's Alfred Liggins said he's pretty convinced share shift out of radio is one of the reasons business is a bit tough, bit tougher than expected this year. Do you agree and is it all going to digital?

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### Edward K. Christian

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

No, I don't agree. I really don't. I think it – I can appreciate Alfred's position in looking at that, and it's a nice way to say that. It's somebody else's closed problem. It's the old thing that he made me hit her type of thing that you might have. No, I think that, and there was a – I just saw in one of the cable channels they were interviewing somebody else from broadcasting on their earnings. And the reporter showed a chart showing that radio share of audience would be going down two percentage points over the next number of years and the digital would go skyrocket.

There's a whole – and I guess I'm going to get kind of wound up on a question here. There's a whole different world out there on what advertising and marketing is on the Internet. And we recently saw a video and if anybody would like to see the link on it, with Bob Hoffman and – the point that I just thought his video was so spot on, it was a YouTube video. I've heard him speaking at a conference in the UK and Bob Hoffman is a – I think he still is in the advertising as a CEO or he has been an [indiscernible] (19:26) person. And I've never seen anything so spot on and it's like, even the questions afterwards, where he said that, when do agencies wake up and realize 25-54 is no longer the fashionable demographic, that when we're dealing with a country that's [indiscernible] (19:41) in some respect, and the buying power is in the 35 to 64. [indiscernible] (19:8). But he made some very significant points about let's not confuse social media with social media marketing. And what we always – when we started out, we called it interactive, now we don't want to call things interactive, because we've recognize that the click through or whatever else that is not quite the same.

There's a lot of misleading information on what's happening on digital. Is there money going there? Absolutely. Is it new fresh money? Does it create brands? I ask anybody to tell me a brand other than the name of the individual company like the Yahoo! or whatever it is, that was created our awareness or traffic generated as a result of internet advertising and that we can look at them and say here's the classic example as opposed to [ph] trial for

(20:40) how it's done right to launch the brands solely using interactive, I mean sorry of using the internet or social media whatever it might be.

Most people on social media really don't want to interact with the brand. They don't want to talk to brand people. They – that's an entirely different thing. I found that out at, I'm an adjunct professor at Central Michigan University, in one of the classes that I was doing on marketing when you reach out and you realize how agnostic people are about brands. And the only thing it would get them to switch would be the word free. How would you change products, if somebody gave me a sample-free? I would do that. I mean the reason you join the airline clubs, I mean the frequent flyer clubs is not because you're fan of the airline, you want a free ticket. So let's not confuse that.

The other thing it really – I'll wrap it up because [ph] I don't roll here (21:34). The only thing that has really been successful in the Internet that is really just stands out is search engines. I mean, they have put the Yellow Pages and their \$1 billion industry out of business. And then, we can look at that and say, well, I guess it will be like iTunes, search engines would be the iTunes to the Yellow Pages. I'm sorry, I took too long in the question.

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### Samuel D. Bush

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

Okay. One final question for you, Ed. It seems like M&A was your biggest free cash flow priority from the last call, do you have anything in the pipeline?

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### Edward K. Christian

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

Well, we had. Again, two things, once [indiscernible] (22:11) got the email from the seller saying, I changed my mind, I'm not ready to sell you [indiscernible] (22:20) station. We do certainly don't force people into sales. And, the other one, the response we've got after going down the road for [indiscernible] (22:28 – 22:33) who said here is my price, it's my bottom number. And I don't know if you'll take it or not, if you don't I understand because I'm not a very good seller. And so, the two deals that we had probably had teed-up kind of vaporized. That doesn't mean that we're not watching on a daily basis for [indiscernible] (22:50), so.

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### Samuel D. Bush

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

Very good. I think we're good great. I think that wraps up the call.

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**Operator:** Okay. Ladies and gentlemen, that does conclude your conference for today. Thank you for your participation and for using AT&T Executive TeleConference. You may now disconnect.

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