Corrected Transcript

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Saga Communications, Inc. (SGA)

Q3 2014 Earnings Call

CORPORATE PARTICIPANTS

Edward K. Christian
Chairman, President & Chief Executive Officer

Samuel D. Bush
CFO, Treasurer, SVP & Head-Investor Relations

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, we do appreciate your patience, and welcome to the Third Quarter 2014 Results Conference Call. At this time, all participants are in a listen-only mode. Later, we'll conduct a question-and-answer session; instructions will be given at that time. [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 of Saga Communication, Christian. Please go ahead, sir.

Edward K. Christian
Chairman, President & Chief Executive Officer

Hello, this is Ed Christian. Not to be confused with any other Christian upon. Thank you very much, moderator.

And with that, I will turn it over to Bush. Come on, Sam.

Samuel D. Bush
CFO, Treasurer, SVP & Head-Investor Relations

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. 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 increased 4.4% to $34.4 million. Station operating expenses increased $2.8 million. The increase was primarily due to an accrual attributable to the company's expectations of entering into license agreements with Nielsen, sometime in the fourth quarter. We expect there will be an additional charge in the fourth quarter once the agreements are finalized. Our expectations of the amount is that it will be significantly less than the third quarter accrual. The expense has been accrued in anticipation of reaching a resolution with Nielsen.

Free cash flow for the quarter was $4.9 million. We anticipate free cash flow for the year of between $19 million and $20 million. National accounted for approximately 13.3% for gross revenue for the quarter, compared to 14.1% for the same period last year.

Gross political revenue for the quarter was $1.1 million, compared to $206,000 for the same period last year. Radio was $942,000 this quarter, versus $69,000 last year. Television was $176,000, compared to $137,000. Total political year-to-date through third quarter was $1.7 million, versus $440,000 last year. We expect political revenue for the year to be between $4.4 million and $4.8 million.

Subsequent to the end of the quarter, we paid our second quarterly cash dividend of $0.20 per share. The dividend was paid on October 17th, and was in the amount of $1.1 million; bringing the total dividends paid in 2014 to $2.2 million. We've now returned over $19 million in cash to our shareholders. We intend to pay regular quarterly cash dividends in the future, as well as considering special cash and stock dividends as declared by our Board of Directors. At the end of the quarter, we had $40.1 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 with our leverage is not an issue.

Cash on hand at the end of the quarter was $28 million. Retrans revenue was $627,000 in the quarter, up from $582,000 last year. Retrans payments to the networks were $182,000 in the quarter, compared to $134,000 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 $268,000, from $308,000 last year. Capital expenditures were $887,000 for the quarter, compared to $1 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 $1.3 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 $2.8 million and $3 million. Fourth quarter is currently pacing up mid-single digits.

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

Edward K. Christian

Chairman, President & Chief Executive Officer

Thank you, Sam. So this is going to be a brief call as I'm in the process of recovering from a sinus infection which became a tad bronchial. If I leave the phone from – if I am on mute, it's because cough sounds kind of like charging right now. So bear with me.

Even getting a Z-Pak required work as the first question as anyone in [indiscernible] (04:52) asks when you call nowadays is have you've been out of country lately. I had to respond and said, yes, about a month ago. And then they ask, where, and I replied, Iceland. And healthcare providers take a step or two backwards. So I don't know what that's – any issue there. Nevertheless, I'm fine, just controlling my cough as best as possible, so bear with me on this.

Now let's talk about the quarter. I'm really pleased with the revenue. Certainly, this is still a challenging marketplace. And any up is good, any up is a good up, but I do think we made a difference with our sales efforts. On a caller basis, here is what radio and television is kind of up against and here's what we have overcome. Let's take a look at the U.S. for a second here.

Good sign, employment claims fell 10,000 in the last week and they're now at the lowest levels since 1979; nice. U.S. consumer spending held relatively steady in October; another good sign. And U.S. productivity grew 2% in quarter three. Greater productivity is considered a key factor in determining rising living standards, you all know that.

And finally, the overall economy, as measured by GDP, grew at an annual rate of 3.5% in Q3. So with all that good news, which buoys radio and TV advertising sales, why aren't we doing better. Now I guess the quick answer, and looking around, is that the global economies don't match the U.S.; and honestly, there still is a great deal [indiscernible] (06:26). And if you talk to a number of economists, you'll get different views, but number of them feel that Europe is on the edge of another recession. Growth is solid in China, we know that. That's not that anything is secret. Good economic news is not forthcoming from Germany, from France.

And believe it or not, news like this makes the consumer just a tad more cautious. Based on the recent history, we know that. Now, for instance, new home sales have slowed remarkably. And these are all things that really focus in. And sometimes the about it is the microeconomics of what we have to deal with [indiscernible] (07:08) you sell advertising. Again, we give away our product, it's free, it's one of the wonderful advantages we have with radio and TV. It's free over the air, anybody can have it, we have to make money in different – and other ways.

Can't tell you too many companies that give away their product to anybody who shows up, and are still profitable, but our industry is. We are watching market changes occur in the business. And while we're doing a very great job and relationship building with our advertisers, our national revenue is lacking, and we went from $14.1 million to $13.3 million that Sam just brought up to you.

We recognize the need to try to rebuild that area of our business. That's an important thing for us now. We're watching these changes occur. And [indiscernible] (07:28) are plays to our game book. We definitely need to rebalance and focus on agency national business in our larger markets, and we're beginning steps to facilitate this.

Now we talked about it a little bit on the last conference call, but it is becoming clear that programmatic buying is making inroads, and radio and TV is in its sites. Just recently, Honda, for instance, used programmatic buying to target [indiscernible] (08:27) shoppers on Facebook.

So stay with me for a minute here, because I'm going read something. It's put up by the Interactive Advertising Bureau, which I didn't really know there was one. A note to RAB and TVB to pick up the pace; and thanks to Warren Lada who sent this out to our mangers and sales managers.

Let me explain a little bit about programmatic buying, so you see where we're going on this. About programmatic buying – programmatic buying explained. It has the potential to transform how advertising is bought and sold. Yet programmatic buying maybe the least understood concept in radio, and has caused a great deal of confusion. Here's what you need to know.

What is programmatic, also known as automated buying or machine-based sales. Programmatic buying and selling of advertising inventory involves software platforms that connect a client with order agencies, and advertisers use demand side platforms, media companies use supply side platforms. Both types of platforms are often connected to an ad network or exchange. Real life humans are still required to optimize the ad campaigns and [indiscernible] (09:36) strategies. Well, at least that is somewhat reassuring, I guess.

Is real-time bidding, RTB, the same as I think as programmatic? A real-time bidding is a subset of programmatic buying, where audience impressions are auctioned off in real-time. What are the main types of programmatic transactions? There are four main types of programmatic buys, with two variables determining which bucket a buy fits into. How the price is set and what type of inventory is offered. Here we go.

Automated guaranteed. This type of transaction is [indiscernible] (10:09) a traditional direct sale. Pricing is fixed. Inventory is reserved and both are guaranteed. The deal is negotiated directly between buyer and seller, but the RFP and campaign trafficking are automated.

Unreserved fixed rate. Transactions that fall into this category exists with an exchange environment, but have pre-negotiated fixed pricing, such as a cost per 1,000 or a cost per click. Typically, unreserved fixed rate deals are driven by 1,000 – or are driven by advertiser's demand for a more predictable offering than auction-based sales.

Invitation-only auction. Well, I didn't know of one. One of the two types of transactions where buyers bid on inventory. Here a publisher restricts participation to select buyers, advertisers, via a whitelist or a blacklist. While they involve the unreserved inventory, the seller may exercise some information about what's being offered to add value.

And the open auction is the last one. Considered the Wild West of programmatic, an open auction is available to any and all buyers with typical, no direct relationship between buyer and seller.

Advertisers are often unaware about the publishers they're buying, think of Priceline. Publishers may choose to use blacklist and forward pricing to prevent advertisers from gaining access. This is from the Interactive Advertising Bureau.

If you'd like a copy of this, [indiscernible] (11:35) at sagacom.com and Warren will send it out to you. I think it's something you should most [indiscernible] (11:41) look at to understand what's going on.

So after much of review and discussion, we really know that we can no longer ignore what is coming. We need to do with craftsmanship our existing core competencies and broadcast sales, and embrace the methodology of buying and selling in a transactional world. Whether or not why are we getting to the point of having restricted – and non-restricted inventory is other issue. We'll need to find ways to work in both worlds and possess the tools that we're going to level playing field in an agency defined business.

[indiscernible] (12:21) there was a start-up cost and certain expenses, which were incurred in Q3. So that currently gives you an idea of what's happening a little bit on the programming side of everything. And the one thing, and I want to see what's new inside, no new stations that were active and seeking out opportunities that married our attention.

We're also evaluating all of our component parts, as we continue to focus on what Saga does best. And by year-end, we'll also have to come close to completing our contract with Ubiquiti and we now have 52 stations in our radio group broadcasting in high-def. Though it sounds like a paradox, nothing is changing, but changes are occurring and they're good for us. We're comfortable with the way Q4 is playing out. Sam told you where we're running up, fourth quarter. It looks good, all the way through December. If Decembers holds, it will be very nice for our industry, and gets everybody a good sense of balance on this.

Comfortable the way Q3 look, and Q4 is playing. [indiscernible] (13:28) and I think 2015 could be a good year even without political advertising.

My thanks again before we go to questions. If Sam has any, he's the helpful breed. Bunzl at Bunzl media report, if you do not subscribe to it, I urge you to take a look at it. They have some very good things in helping shape us a lot. It's bunzelmedia.com, and I look forward to getting this information, because it really puts kind of a perspective on what we are doing.

We've got good people doing good things. We need to change a little bit. We understand that. We are not [indiscernible] (14:03). We don't live in a vacuum, and we're making the moves to keep Saga moving forward as a growing company and keeping our shareholders happy and keeping our employees motivated and buoyed by what we do, which is compelling radio and television broadcasting.

And with that, Sam, do we have any questions?

Samuel D. Bush
CFO, Treasurer, SVP & Head-Investor Relations

We actually got several questions, Ed, but either you or I for the most part have answered the questions in our comments already; at least those that we can't answer in the detail, but that's being asked for. So we are good at this point, I think, to turn it back over to the moderator and...

Edward K. Christian
Chairman, President & Chief Executive Officer

Well, is it safe to say that they can call you, Sam, if anything [indiscernible] (14:46).

Samuel D. Bush
CFO, Treasurer, SVP & Head-Investor Relations

Absolutely.

Edward K. Christian
Chairman, President & Chief Executive Officer

Okay. 313-886-7150, ask for Sam or ask for Bush, I guess, that should get you at the right place.

And with that, we just look to our moderator do the wrap-up for us, or maybe not. Sam, do you want do the wrap-up?

Samuel D. Bush
CFO, Treasurer, SVP & Head-Investor Relations

I guess so.

Edward K. Christian
Chairman, President & Chief Executive Officer

Thank you all for joining us on this conference call. This has been a little bit erratic today, and it's a free form as we're known to do. The tapes will be available and a dial-in number and will be posted on our website once the transcript is ready. And thank you all for joining the third quarter Saga earnings call.

Samuel D. Bush
CFO, Treasurer, SVP & Head-Investor Relations

Thank you, Ed, for wrapping it up for us.

Edward K. Christian
Chairman, President & Chief Executive Officer

Say, good bye.

Samuel D. Bush

CFO, Treasurer, SVP & Head-Investor Relations

Bye.

Operator: And that does conclude our conference for today. We thank you for your participation and for using the AT&T Executive Teleconference. You may now disconnect.