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Saga Communications, Inc. (SGA)

Q4 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, thank you for standing by, and welcome to the Fourth Quarter and Year-End for Saga Communications Conference Call. At this time, all participants are in a listen-only mode. [Operator Instructions] As a reminder, today's call is being recorded.

And now I'll turn the conference over to your host, President and CEO, Ed Christian. Please go ahead.

Edward K. Christian

Chairman, President & Chief Executive Officer

Thank you, Sean. And very quick welcome all to the call. And with that, we will get right into it with Sam, with his – as always, focused on [ph] petty (00:31) comments.

Samuel D. Bush

CFO, Treasurer, SVP & Head-Investor Relations

Thank you, Ed.

Edward K. Christian

Chairman, President & Chief Executive Officer

I didn't say – I said [ph] petty (00:36).

Samuel D. Bush

CFO, Treasurer, SVP & Head-Investor Relations

I understood.

Edward K. Christian

Chairman, President & Chief Executive Officer

Okay. That's fine.

Samuel D. Bush

CFO, Treasurer, SVP & Head-Investor Relations

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 measures are attached in the selected financial data table.

During the quarter, net revenues increased 7.7% to \$36.4 million. Station operating expenses increased \$1.8 million. This increase along with the station operating expense increase of \$2.8 million recorded in the third quarter were primarily due to the expense attributable to agreements entered into by the company to license historical Nielsen data in selected markets in conjunction with entering into licenses to receive Nielsen reports and services during future periods in those markets.

Free cash flow for the quarter was \$6.7 million compared to \$5.6 million for the same period last year. For the year, our net revenues increased 3.5% to \$134 million, station operating expenses increased \$5.4 million.

In addition to the Nielsen expense impact on our operating expenses, which we've already talked about, our healthcare cost also contributed to the increased expenses for the year with an approximate \$510,000 increase year-over-year. Our 10-K will give more details as to various other expense increases.

Free cash flow for the year was \$21 million compared to \$21.6 million for the same period last year. National accounted for approximately 13.9% of gross revenue for the quarter, compared to 14.5% for the same period last year, and 13% this year compared to 13.4% last year.

Gross political revenue for the quarter was \$3 million compared to \$345,000 for the same period last year. Radio was \$2.2 million this quarter versus \$342,000 last year. Television was \$888,000 compared to \$3,000 last year. Total political for the year was \$4.7 million versus \$785,000 last year.

During the quarter, we paid quarterly cash dividends of \$0.20 per share on October 17, and again, on December 29. On December 29, we also paid our third annual special dividend of \$1.20 per share. We've now returned over \$27 million in cash to our shareholders through dividends. 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 \$36.1 million debt outstanding. Our current debt structure includes a \$30 million term loan and \$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 \$17.9 million. Retransmission revenue was \$635,000 in the quarter, up from \$574,000 last year. Retrans payments to the networks were \$389,000 in the quarter compared to \$153,000 last year. For the year, retrans revenue was \$2.5 million compared to \$2.3 million last year and our network payments were \$729,000 compared to \$590,000 last year. We're currently involved in retrans negotiations in both our TV markets. I will update you as to the impact of these negotiations will have on our 2015 retrans revenue with our first quarter conference call in May.

During the quarter, we closed on the sale of four of our five radio networks. We continue to own the Illinois Radio Network. On our financial statements, we reported a \$1.2 million gain on the sale as other operating income. Interest expense for the year declined to \$1.1 million from \$1.3 million last year primarily due to a reduction in the debt outstanding. Capital expenditures were \$5.5 million for the year compared to \$5.2 million last year.

We currently expect our CapEx for 2015 to be between \$4.5 million and \$5 million. We expect station operating expenses to be flat to up 1% for 2015. This includes the ongoing license expenses attributable to the Nielsen reports and services we will be using in select markets, as well as the change in expenses anticipated from the sale

of four of our five radio networks. We expect interest expense for the 2015 year 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% with our anticipated deferred taxes for 2015 to be between \$2.6 million and \$2.8 million. First quarter is currently pacing down 0.5% to 1% from a revenue perspective.

Edward K. Christian

Chairman, President & Chief Executive Officer

Yeah, don't scare me there.

Samuel D. Bush

CFO, Treasurer, SVP & Head-Investor Relations

No, 0.5% to 1% hopefully, so I get it right. Ed, back to you.

Edward K. Christian

Chairman, President & Chief Executive Officer

Thank you, Sam. For the brief and cogent summary on both 2014 and Q4 and a little visibility into our first quarter right here. Perhaps I can offer some additional clarity to certain causal relationships.

Certainly, 2014 was not a jump-up and shout-out year. The political certainly helped and we always appreciate that every other year when it comes in. 2014 wasn't a great year for other industry. And a lot of other industries and product categories will candidly admit that it was a buy year. 2015 is starting off the same way. I kind of refer to it as a calm river of business with no apparent rapids or [indiscernible] (06:27).

Let's take a minute and kind of look at a broader picture [ph] unless we (06:31) paint with a small brush and, perhaps, single out broadcasting. Columnist Jonathon Trugman said it so well. How in a world can you do that? When gas prices are falling 40% and the latest job numbers show growth. Retail sales for January and February came up negative. And even in January, when people used most of the gift cards, it's still going to help simulate January and the sales were negative.

Historically, falling prices at the pump have been very beneficial for retail sales. So where is all of that extra money saved at fill-up going if it's not finding its way into the retail [ph] tale? (07:07) Retail sales are one of more statistically powered gauges of economic prosperity as they're not based on sentiment, or expectation, or any other [ph] BS (07:18). We look at retail sales and that's the mirror for us. Trugman, by the way, is positing that healthcare increases for individuals have soaked up this money and that additionally consumers are setting aside the gas premium for rainy day. More and more people are saying it and I think that there is a very strong position of truth in that saying. Coupled this with the knowledge that 2014 was the ninth straight year where the economy has grown less than 3% a year.

New business formations, they are in a 35-year low. And yet with all of this negative information, broadcasting revenue was up and we're flat. Like it or not, that's a win and a vote of confidence in what we do for our advertisers, radio, TV advertising works and it offers a great return on investment. Radio and TV advertising works and it offers a great return on investment.

Now there is another conundrum that I'd like to take a minute on. All this really ties back into radio and TV. And as I said earlier, we are the mirror of the economy and the feelings of the nation. We really get such conflicting

information at times and it's hard to really understand. And that's one of the quickest rushes to judgment is to reach out and label the broadcast industry as outdated, outmoded, obsolete, whatever. We get slammed. And it's as though those pundits associate no correlation between the economy and our performance. In truth, I can understand a little bit of why that occurs as we do receive such conflicting information.

Let me give you an example. Last week, the Fed announced that the job market boomed in February. This announcement contradicted literally all of the other economic information that has recently been released. The Atlanta Federal Reserve released information that its GDPNow indicator was showing at the end of the first week of March, annualized growth for the first quarter was just 1.2%. Now, about that booming drop market, George Will, excellent columnist, in a column, shows that in the late 1960s, there was 300,000 plus jobs created in over nine months. In the 1980s, the 1980s had 23 months of 300,000 plus jobs. And the population of 1989 was 73 million smaller than today's 320 million. Nicole Gelinas writes in City Journal, a healthy economy should add 200,000 new jobs every month even when it's not recovering from a recession.

By that standard, America should have 133 million people working in the private sector right now, not 118 million. We just have to live through the slow growth and we will. And even with that, our industry has the ability to have substantial free cash, substantial free cash. In fact, when Sam gave the figure that we were at \$17 million, that was the end of Q4, we're \$23 million in cash on hand right now.

This is all predicated on the fact that we don't screw up our operations. That means operating our stations with maximum community involvement and integration and super serving our client advertisers. Thus, I'm really asking you to realize and admit what is really going on in the U.S. and not view broadcasting as a non-responsive industry. Paul Sperry, a Hoover Institute media fellow, comments on the current happy illusion of good times are here again. And he says, pay no attention to the real economy behind the curtain. I really like that as being a fan of the Wizard of Oz.

As for Saga, we have some stations that are up and some that are soft, but nothing that isn't manageable, or substantial enough to jeopardize our economic balance. Now, those of you who have listened to our calls before know that at times I can be slightly [indiscernible] (11:35). And today, I thought I would try to be kind of cute and clever, start off in a pretty light mode and blame the West Coast dockworkers' strike on Q4 by saying that we had preordered a number of spots from Asia and they were held in hostage in containers in the West Coast. And we couldn't get them into the distribution system in time for Thanksgiving and Christmas.

However, I was advised by Sam that somebody might actually believe this and [indiscernible] (12:02) it, that I can understand. Sometimes being cute and clever is not the best approach on a conference call. I also had [indiscernible] (12:14) by the way that Saga in 2015 will be offering only antibiotic-free commercials. With that said, we do have one station that is carbon neutral WCLZ in Portland, Maine. I have no idea what that means. But we do have the bragging rights on that; thanks to Atlantic Records.

What about 2015? Well, it could look like 2014 with a caveat that elections come next year and things could be changing near the end of 2015, hopefully, for the better. Couple of other open items and then I'm finished here. We're seeing some interesting opportunities. Yes, after all these years of getting a high, a huge rush on buying translators, metro signals, we are actually seeing some real buying opportunities. And these are in markets, which we previously defined as fitting our acquisition parameters.

Any acquisition that we would make are both strategic and structural. This has always been our mantra that buying for the sake of buying has never been a philosophy for Saga is after all when the thrill of looking at your new shiny coin evaporate, you still have to run the enterprise. We just don't jeopardize our cash on bragging rights. Sam also mentioned that we've reduced our network to just one state and that's in Illinois, picked a winner

there, it's – I'm sorry, Illinois. It is proper for us there that we already have successful clusters in Champaign, Illinois and especially, Springfield, Illinois, which is the capital and fits well with a network of station relationship.

Finally, Sam and I have been asked by investors about the TV spectrum report from Green Hill that's commissioned by the Federal Communications Commission, and what if any Saga's participation. We have evaluated and because of our operational setup, there is an opportunity for participation. And we're studying this and this week we'll be attending an FCC meeting to receive and evaluate further information. The spectrum auction, actually reverse auction, is scheduled for 2016. And finally, we have our challenges and we have our opportunities. We'll work through both and continue reward all of you, our investment partners with confident results from Saga.

Thank you for being Saga's stockholder, thank you for being interested in Saga, thank you for attending our conference. Is that enough thank-you Sam?

Samuel D. Bush

CFO, Treasurer, SVP & Head-Investor Relations

I think that covers pretty much everything.

Edward K. Christian

Chairman, President & Chief Executive Officer

And do we have any questions? [indiscernible] (14:47) asked already.

Samuel D. Bush

CFO, Treasurer, SVP & Head-Investor Relations

Yeah, we have a number of questions, but all those that we can't talk specifically about, we've already answered and some like retrans more specific about what's going on with retrans in 2015. I indicated we'd give more color into that in our May conference call for first quarter, so I think we're in good shape.

Edward K. Christian

Chairman, President & Chief Executive Officer

I think we're closer to ramping up retrans.

Samuel D. Bush

CFO, Treasurer, SVP & Head-Investor Relations

We are. We've got a couple of contracts. We're still negotiating. They should come out very favorable to Saga, but I don't want to quote any numbers now until we ramp up a couple other big ones.

Edward K. Christian

Chairman, President & Chief Executive Officer

Those are the secrets you're talking about we can't talk about.

Samuel D. Bush

CFO, Treasurer, SVP & Head-Investor Relations

That's correct. So we'll talk more about that in May.

Edward K. Christian

Chairman, President & Chief Executive Officer

Okay. We're done till May?

Samuel D. Bush

CFO, Treasurer, SVP & Head-Investor Relations

We are done till May.

Edward K. Christian

Chairman, President & Chief Executive Officer

Okay thanks. And, Sean, it's your turn.

Operator: Thank you. Ladies and gentlemen, thank you for your participation and for using the AT&T Executive Teleconference. You may now disconnect.

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