Final Transcript

SAGA COMMUNICATIONS: 1st Quarter Results

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SPEAKERS

Ed Christian – President and CEO
Sam Bush – Senior Vice President and CFO

PRESENTATION

Moderator Welcome to the Saga Communications First Quarter Results call. At this time, all participants are in a listen-only mode. As a reminder, this conference is being recorded.

I'd now like to turn the conference over to our host, Mr. Ed Christian, President and CEO.

E. Christian Good morning, everybody. Welcome to our call. It should be a somewhat brief one this morning, but as usual, we will have the introduction and the financial information from Sam Bush.

S. Bush 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 first quarter, free cash flow increased 5.2% to $3.6 million, up from $3.4 million for the same period last year. Net revenues have decreased slightly, $362,000 to $29.1 million. Station operating expenses decreased $182,000 to $22.8 million primarily due to decreases attributable to healthcare costs, the sale of four of our five networks and a slight increase in licensing fees.

National accounted for approximately 11.4% of gross revenue for the quarter compared to 13.1% last year. Gross political revenue for the quarter was $125,000 compared to $271,000 for the same period last year. Radio was $125,000 this quarter versus $211,000 last year. Television had no political this quarter compared to $60,000 last year.

During the quarter, we declared a quarterly cash dividend of $0.20 per share; that was paid on April 17th. 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 a $90 million revolver. The term loan is fully drawn. The revolver can be drawn up again at any time for use in acquisitions, dividend or buybacks subject to pro forma covenant compliance.

Cash on hand at the end of the quarter was $24.5 million. Retrans revenue was $929,000 in the quarter, up from $621,000 last year. Retrans payments to the networks were $239,000 in the quarter compared to $165,000 last year. We expect retrans revenue to be $3.8 million and retrans expense to be $1.5 million for the year.

Capital expenditures were $950,000 for the quarter compared to $1.5 million last year. We currently expect our cap ex for 2015 to be between $4.5 million and $5 million.

The Harrisonburg, Virginia acquisition that we recently announced and that Ed will talk about in a moment is expected to close early in the third quarter. We will use cash on hand for the purchase.

We expect station operating expenses to be flat, up 1% for 2015 relative to our historic markets. We expect interest expense for 2015 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 2015 to be between $2.6 million and $2.8 million.

Second quarter is currently pacing up, which Ed will talk a little bit more about later, in low single digits. As usual, we ask for your questions to be submitted via e-mail prior to the call. Ed, I will turn it back over to you.

E. Christian — It just occurred to me that whenever you start this, every time you talk about our operations that involve risks and uncertainties, are you talking about me? Is there a hidden message here that I've missed for all these years? Are you trying to telegraph something to—?

S. Bush — I don’t believe so, Ed, not at all.

E. Christian — I don't know if I'm a risk or an uncertainty.

S. Bush — I'll have to give it some thought. We'll do an analysis.

E. Christian — Please do. Can we change it in the future stuff?

S. Bush — I understand.

E. Christian — Thanks. Let's cut to the chase. Most probably nobody in the broadcast industry is happy with Q1. It would be an overstatement to call it dismal, but there is no joy and no real spend, and most importantly, there can't be any finger pointing.

We're off if you actually look at the loss of national and a few other things like this, but we were off. Free cash was up, and candidly, as James Carville put on a whiteboard years ago, the economy is stupid. By the way, there was no in. It's the economy is stupid. That came later; that’s just part of the snow cone.

We, in broadcasting, can morph this into advertising sales stupid. Sales are there. It's taking a lot of pulling and pushing. Our fundamentals are solid. Our procedures are solid, and operationally, there is no shakeup needed. We just need both an economic boost and a shot of consumer confidence.

Now, this is going to happen. It's just when, and if there are thoughts of broadcasting as a troubled industry, please dispel them. Our vitals are good, and there is a healthy pulse. We are relevant. We're not aged.

In short, radio and TV advertising, if done properly, still works and generates results. Five a.m. to five p.m. is the most valuable time for broadcast networks. Head of BBDO just said that radio was tremendously undervalued. We know that we're still good.

Yes, advertising agencies are chasing the new shiny pennies that appear in the media landscape daily and temporarily appear to be more fashionable, but fashion, as we know, is fickle and what is old does become new again.

Let's talk about time and Q2. We've talked about Q1 and it's been hashed to death in the industry recently with all of the conference calls that you’ve been hearing. In Q2, at this junction, Sam predicted, should be decent. April was a good month, surprisingly very good, and would have been better if there hadn’t been a lackluster in national.

One of our markets, Manchester, New Hampshire, for instance, was off I think $80,000, and that’s not because we missed buys. There just weren't the buys. Big chunks of money weren't there in the month of April. Now, we understand they're coming back, but they were MIA, and again, we didn’t miss the buys. But when there is nothing there, and as you saw in the first quarter, our national was found out at 11%, which is kind of the way that we look at things.

May is pacing flat right now, and June is up. Good signs. Not as great as we would like it, but pretty good signs. We do have several initiatives that will make us better, and we're implementing them. Mostly, they're creative ideas and events and we'll get around to talking about them on our next call. Let's wait and see how they are doing rather than try to trumpet them right now before we get into it.

Now, an update from the last call, we discussed that it could be time for some well-defined and thought out acquisitions. It's been quite a while, and it is time. Let me take a moment and just comment on our criteria because somebody asked me the other day what do you look for when you do this, and while there are people who go around just aggregating anything that they can and something comes from sale, I'll buy it; something comes for sale, I'll buy it; something comes for sale, we'll add it in because the more we have, the more we can bulk up. We can steroidally appear to be a strong radio company. That’s not our philosophy, and it's not our criteria.

We are middle-market focused. I had somebody the other day at one of the larger groups say to me, "I just looked at your company and you're just like you're right in the middle there in what you do." And I said, "Yes, that's where we appear to be because we feel that we are in more control of our advertising dollars." We love to dominate markets, I hate to use that word, dominate, I shouldn't say that. We sincerely desire to—

S. Bush — Lead.

E. Christian — Lead the markets that we're in. Why'd I say dominate? Lead the markets we're in or achieve a very respectable high position. We avoid industrial towns. We concentrate on four areas.

We like markets that are major university towns, state capitals, brack proof large military bases or strong agriculturally-based communities. With that in mind, several weeks ago, we announced the acquisition of three FM stations, two AM stations and an FM metro signal in Harrisonburg, Virginia, home to James Madison University with 20,000 plus students, a wide agricultural base in the Shenandoah Valley. There's a new medical center there. It's retail trading area and adjacent just over the mountains is our cluster in Charlottesville, Virginia.

As we speak now, as of a couple of minutes ago, we announced the acquisition of two additional stations in Harrisonburg and Stanton, Virginia. However, because of FCC rules, we cannot own the Stanton station as we'd be over the cap. With the closing of all these stations, we'll own and operate the leading AM news talk station that has been there forever with 5,000 watts in 550. It has an FM metro signal.

We'll have a 50,000 watt top 40 CHR, an adult contemporary FM station, an active rock FM station, an all-sports AM station and a classic country FM station. That's the new one that we're announcing today. We'll have all food groups covered, and we are paying for the acquisitions with cash on hand. It's not affecting our line or anything else; it's internally generated cash.

Additionally, we're reviewing several other opportunities. Now, I should mention that both of the above opportunities in Harrisonburg were individual opportunities reported to Saga. No bidding wars occurred. Candidly, we are a very disciplined buyer, and sometimes it takes us a long time from start to finish. We have always likened ourselves kind of as the turtle and we don't need to remind you who did win the race.

I'm optimistic about our future in our company. I, however, would really appreciate that there is a wider acceptance of the fact that both for the US and globally, there were significant economic issues that are vitally needed to be addressed as we can't forever continue in this [indiscernible]. It's unfortunate when we get on our conference calls and I'm not being [indiscernible] but we talk about our industry and we have to look at our industry as directly a mirror of what happens in the economy.

We have a can-do spirit, but we need the must-do commitment to make things happen. Interesting fact the other day—a family with two breadwinners made slightly less money in 2013 than in 2003. Inflation-adjusted census data tells us this. In truth, if we look at this whole issue globally, America and the global economy are struggling with an oversupply of labor, productive capacity and capital. Too many people and too many dollars are chasing after insufficient work. This is an opinion. It's proppered [ph] by Daniel Alpert at Westwood Capital, and I too share it. If we recognize our riches, we can overcome them.

In the interim, you do have our commitment at Saga that we will continue to super serve our markets, outperform our market peers and we are kind of the little engine that could. I think we have some questions actually; don't we, Sam?

S. Bush: Most of the questions that we got we've already answered in the comments either between yours or mine, but we did get one interesting question that is kind of forward-looking relative to what's going on in radio and it comes from Frank Sacks. He said, "Considering all the changes in radio, do you think that radio station of the future will have the same, less, more employees?"

E. Christian: Well, first of all, I will tell you that Frank Sacks announced the other day that he is leaving inside radio and he is probably one of the most well thought of journalists in the industry, and it's a tremendous loss for broadcasting when you have somebody who is as insightful and dedicated to understanding and covering the radio industries, Frank. We'll miss him tremendously and miss his writing and analysis. But that's a good question.

I guess it depends on the company. There are certain companies that are hell bent to reduce down and come perilously close to cutting into the marrow. That's not good for the industry. There are other companies that are like us and believe that this business is built on people and our assets go home every day and if we don't have well-trained committed people in our stations, then we lose. I think that that's one of the big issues that the industry faces right now is we have this race to squeeze and see how much we can rely on having empty shelves of radio stations by importing them. Again, it's a company-centric thing and it's a philosophy on what you do.

Are you trying to get it under margin or are you trying to get it under revenue? Our thinking has always been that if we get it on the revenue side, then we can afford more expenses to sustain what we have. You can't save yourself by cutting the bottom side without injuring the top side. The idea of the audience won't know is really a fallacy.

You have to have strong mornings. You have to have strong afternoons. You have to have strong imaging. You have to have strong marketing. You have to have strong people doing it. So, the answer is a combination of both. You have several companies who do that.

Will they in the long run be the leaders in the industry? They might have more stations than others, but ours is different. Look, you can go buy bulk cheese from the US government or you can buy artisanal cheese, and frankly, our preference is that we don't want to be USDA given out in 50-pound blocks to families or 10-pound blocks, that we would rather be artisanal cheese that's well-crafted and defined. Maybe I spilled a little bit too much there; I apologize.

Anything else, or was that it?

S. Bush — No, I think that's it. We had questions about the Harrisonburg acquisition and you spoke to that to an extent, and with the new acquisition that we're just announcing today, the add-on acquisition, that'll become a lot clearer in the future as we build on that.

E. Christian — Yes, and before we turn it back to Lola for closing comments, both Sam and I are standing by. We're available, 313-886-7070. There is nobody in queue right now to ask questions. So, if you act quickly and call us if you want me and we'll also throw Sam in also, and that shipping and handling is additional.

Lola, it's back to you. We'll talk later.

Moderator	Ladies and gentlemen, that does conclude your conference for today. Thank you for your participation and using AT&T Executive Teleconference. You may now disconnect.