



Final Transcript

SAGA COMMUNICATIONS: 2nd Quarter Results

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SPEAKERS

Ed Christian – President and CEO
Samuel Bush – Chief Financial Officer

PRESENTATION

Moderator Welcome to the Second Quarter Results Conference 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 Thank you, Cathy. I appreciate it and welcome to Q2 conference call.

Sam, I have a question for you as we always try to start off? Have you ever wondered who the composer is that writes the music on hold?

S. Bush On hold? I actually can't say that I have but I will now.

E. Christian Do you think it's copywritten?

S. Bush Probably so.

E. Christian Write protected that they have to pay royalties for it.

S. Bush Probably so.

E. Christian That's what I thought. Sam, if you wouldn't mind to begin.

S. Bush I'll be glad to. 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 tables.

During the quarter, net revenue increased 1.6% over the same period last year. Station operating expenses increased \$812,000. A little over \$750,000 of this increase was due to increases in our healthcare cost and in sales surveys, licensing fees. Free cash flow decreased \$281,000 to \$5.7 million.

National accounted for \$4.5 million, 12.1% of gross revenue for the quarter, compared to \$4.4 million, which was 11.8% for the same quarter last year. Gross political revenue for the quarter was \$158,000 compared to \$257,000 for the same period last year. Radio was \$148,000 in this quarter versus \$227,000 last year. Television had \$10,000 this quarter compared to \$30,000 last year.

During the quarter, we declared a quarterly cash dividend of \$0.20 per share that was paid on July 10th. We intend to continue 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. Cash on hand at the end of the quarter was \$27.4 million. Currently, we have cash on hand of a little over \$19 million as we closed on the first part of our

Harrisonburg, Virginia acquisitions last Friday using cash to fund the balance of the \$9.64 million purchase price.

Capital expenditures were \$1.3 million for the quarter, compared to \$1.5 million last year. We currently expect our cap ex for 2015 to be between \$5 million and \$5.5 million. This estimate includes approximately \$750,000 for the replacement of two transmitters at our Victoria television cluster. They took a lightning hit earlier this year resulting in this capital expense.

We are being reimbursed by insurance for the loss. We booked a \$417,000 gain on our second quarter financial statements as a result. Also, we expect to spend approximately \$700,000 for capital improvements associated with our Harrisonburg acquisitions. These expenditures will go toward upgrading the facilities and transmitting equipment as well as building up studio and production facilities for WSIG, which we will be adding at the end of this month to the cluster of two AMs, and three FMs that we just bought.

Even with the \$812,000 increase in station operating expense this quarter, we expect station operating expenses to be flat to up 1% for 2015 on a

same station basis. 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 approximately 41%, of which we anticipate deferred taxes to be between \$2.7 million and \$2.9 million for 2015. On a same station basis, third quarter is currently pacing down low single digits with it being flat to last year when political is excluded.

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

E. Christian Thanks, Sam. Let me just start with the headline of an article in the *Wall Street Journal* the other day. I think it says it all. "Economy Picks Up but Stays in a Rut." I couldn't have said it any better and if I've said it once, I've said it 100 of times, 100s of times actually. Broadcasting mirrors the economy.

Saga was up thankfully, but we are in a rut. It is not and I really underscore the word not, because we are an endangered industry. Just today in *Inside Radio*, there was the lead article that radio's audience hit

an all-time high in Q2, some 245 million people use radio in a given week, according to Nielsen. That's pretty impressive.

Now, if we do our craft properly, these 245 million people respond to our advertising messages and businesses continue to respect the power and reach of broadcast advertising. Please, do me a favor and disregard what the tin-foil-hat people say about radio and TV. We are not going to be replaced by targeted display. There is room for targeted display, but not entirely at our expense.

There is always a rush for new things. The new, hip restaurants, new clubs. However, successful and established clubs or restaurants don't close down because of it. If these places are smart, they adapt, remodel, concentrate on their core competency and super serve their clientele and we do the same in broadcasting.

Saga is not a flashy company. We increase business by hard work and determination that what we do works well for our customers. We don't use hip terms, we don't have silos, but I told Sam earlier, I think if there is one across the road from our agri business station, WNAX.

S. Bush And probably one or two across the road from Spencer, Iowa and Mitchell too.

E. Christian Well, no that's a farm supply.

S. Bush That could be.

E. Christian We do have a silo I guess, it's not ours, but it's a silo that we could talk about. Sam mentioned Harrisonburg. Let me tell you just a little bit about. We're very happy with that because it fits our criteria of dominance and having dominant, well respected stations.

For instance, WSVA-AM, a heritage radio station, it's been the market leader for 80 years with adults in the market and Harrisonburg again fits what we look for, it's a retail trading center, a great regional medical center, diverse economy, in the town, agriculture in the Shenandoah Valley and a major university with James Madison University with 22,000 students.

And as Sam mentioned, we finished the acquisition when we closed at the end of this month with WSIG and so we are also having four FMs, two

AM stations, WSIG being a classic country station with great ratings.

This will be a nice contributor, it's already very cash flow positive and will increase with the synergies and really having new market dominance.

We are also actively reviewing other potential growth opportunities, but I think I've said this before. We have a well-defined criteria and we just don't acquire for the sake of announce value. We never have and that isn't about the change. I've long said that any person or company can buy a radio or TV station. Operating them, paying for it is an entirely different matter, so we are very cautious with your money and our commitment to the acquisition.

We are not oblivious to market conditions and market trends, let me just make that right there. It's not like we are saying the only thing is radio and we don't look at anything else. We certainly believe in radio, we certainly try in television, we certainly try to find additional ways to enhance what we do. We have new initiatives and candidly in a tight market, this is what allows us to claim to the top of the rut and not fall into the abyss.

Let me give you two examples. I normally don't like to talk about all of our initiatives because as soon as I do then our competitors run out and say, go listen to such and such station and find out what they are doing and copy it. But let me specifically give you an idea of a few things that make a difference.

I will take about Des Moines, Iowa for a second. We have four FMs, two AMs in Des Moines and we are very active in recruitment advertising. We are not recruiting for ourselves, we are recruiting for other companies in the community and we do this, we have a presentation that we make to a number of HR people. We have trained our sales people on how to go on out and sell the benefits of recruitment advertising and why it works and this year, so far, we've done over \$0.5 million. So far we've done over \$0.5 million in recruitment advertising on our stations there.

Now, you can't go to classifieds in the newspaper anymore, the Internet really isn't paying off for the job lead generation for people. But radio gets the word out, as I said there is 245 million people that are using radio and they are listening and those people who are looking for work are hearing about it on the radio. The HR directors of these companies who are very judicious with their money are not sitting there going necessarily

on a cost per point basis or whatever it is and going to the point that they can reach people who want to work and help fill the positions that they need.

That's a lot of money for us and we are doing this in other markets, but I just singled out Des Moines, because I am not going to run down the litany of markets and stations. But speaking of Des Moines, we have another initiative we are trying here. For some reason this has been the alpha for some of the things that we're doing. And we have a prototype program right now where we are hiring a closer. We've hired a closer actually to work with the accountant executive during calls.

Most of the calls, most of the sales calls in the process fail at closing, closing is the most difficult part of doing it. So we have an experienced person doing it. For instance, you know when we got to car stores, the sales person will not let you out of the way until you go and meet the F&I guy and his job is to sit there and sell you the credit life insurance, to sell you the extended warranty on your tires. It used to be undercoating if you went there, all those warranties, you name it. But it's his job to extract the additional dollars and he is really the closer on this and the upsell.

That's the big part of your automotive sell and we are testing and we brought onboard an experienced broadcast sales executive whose sole function is to teach and help and contribute to the closing process. Now we are not Glengarry Glen Ross, this is not the steak knives or anything else like this, but this is a dedicated way for us to enhance and increase our business by teaching and training the experience in the closing process.

Cash by Creative, I think I mentioned this before, but we have an exclusive in our market contract with Cash by Creative where within two hours a spec spot is created for us with great rich copy customized with the client's name in it which allows our sellers to walk in there with the conversation starter. We are not saying that this commercial was the end all and be all for the client, but it's an idea when we walk in there and say, I've got something that I want to play for you. I've got something I want you to listen to. It starts a conversation and it gives us a toehold and it gets us in the door and it begins the sale process, so from beginning to end, we are trying to be in control of it.

I also mentioned that we look for parallel opportunities. In Bellingham, Washington, for instances, for years we had the transit contract where we also sold all of the bus sides, the tail lights, the rears, whatever it was until

the city in their wisdom cut the fleet and the size of the bus in half and also restricted the advertising by cutting about half of the available inventory which no longer made it a profitable endeavor for us. But there again, we looked at this as something else that we could have in our tool kit. These are all part of the initiatives that we have.

We also worked very hard in innovative ways to motivate. Google did a wonderful job, they researched the selling process and they researched sales and found that by raising commission rates, there was no real corollary that business would increase. In other words, intuitively you think that if I take the commission rate from 15% to 17%, people will work harder and sell more. But Google discovered that that wasn't the case, but what they found that fun sales contests would raise business.

Now we took a play from their play book and now have a company-wide simple contest. Sales people are awarded points for bringing in a business card from a new client and the higher the title on the card, the more points. And there is additional points if they take a selfie with the client. This is where they can stand there and hold their camera out and put their arm around the guy if they can and whatever it might be, to actually show physically that they were in there. So it's not a scavenger hunt and our

sales people aren't going to the bulletin board in the Home Depot and taking down all the cards of plumbers and electricians and everything else like to bring in and get points.

Part two is they get more points for a presentation, points for creative spec spot, and even more points for an order. Each market has prices tailored to their market and the winner in each market is entitled to a company-wide lottery. The winner gets an additional week of vacation. It doesn't count against their two or three weeks vacation, whatever they already have and a paid vacation from Saga. Again this is just part of thing of trying to creating a whole process here.

In addition to crafting this company to be part of the fabric of the community we served, that's a second part of what we do and this worked for 29 years. We've been profitable for 29 years. Apparently something is working. Sam talked briefly about the months ahead and frankly they look just as difficult as months behind us and plus we do face political comps.

Please rest assured that we will be on our game. Honest to God, Saga people don't want to disappoint their peers and patriots or our

shareholders. I am included in that group and we will continue to do what we do as we had for 29 years and that would be, how many quarters now, 30 times, 120, it's a little bit less than that. Have we had that many calls, I don't know, let's not focus on that. That's history.

Sam, did we have any questions today?

S. Bush We did have a couple of questions come in today, Ed, but for the most part we covered them in your comments and/or my comments, so I think we are good to go at this point.

E. Christian Cathy, then if you would be so kind as to give the wrap up and we will let people get back to business.

Moderator That does conclude our conference for today. Thank you for your participation and for using AT&T Executive Teleconference. You may now disconnect.