



## Final Transcript

### **SAGA Communications: 3<sup>rd</sup> Quarter Results**

November 05, 2015/11:00 a.m. EST

#### **SPEAKERS**

Ed Christian – President, CEO, and Chairman  
Samuel Bush – Senior Vice President, Treasurer, and CFO

#### **PRESENTATION**

Moderator                    Ladies and gentlemen, we thank you for standing by and welcome you to the 3<sup>rd</sup> Quarter Results for SAGA Communications. At this time, all participants are in a listen-only mode. Later we will conduct a question and answer session with instructions given at that time. I apologize; there will be no questions on this conference call. Otherwise, the conference is being recorded.

I will now turn the conference over to your host, Ed Christian, President and CEO of SAGA Communications. Please go ahead.

E. Christian                    Thanks, Amanda, and you don't have to apologize. We ask people to send our questions in advance, but that's good.

Hello, and welcome again to a quarterly conference call. One of the serial conference calls that Sam and I have had over the years. And without further ado, we will turn it over to Mr. Bush for his cogent explanation of the last quarter.

S. Bush

Thank you, Mr. Christian. 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 factor 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 revenue decreased 1.6% over the same period last year. On a gross revenue basis and net of political, the quarter would have been flat to last year. On a same station basis adjusted for the sale of four of our networks last year and the Harrisonburg acquisitions this year, gross revenue would have been up almost 1% for the quarter and up 1.6% for the nine month period.

Station operating expenses decreased \$2 million. Most of the decrease was related to a change to our historical and ongoing contractual expenses as we've discussed in previous quarterly calls. Free cash flow increased \$557,000 to \$5.5 million. National accounted for approximately 10.9% of gross revenue for the quarter compared to 13.3% last year. Gross political revenue for the quarter was \$129,000 compared to \$1.1 million for the same period last year. Radio was the \$129,000 this quarter versus \$942,000 last year. Television had no political this quarter compared to \$176,000 last year.

During the quarter we declared a quarterly cash dividend of \$0.20 per share that was paid on October 2<sup>nd</sup>. 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 \$36.4 million debt outstanding. Cash on hand at the end of the quarter was \$18.9 million. Currently we have cash on hand of a little over \$20 million.

During the quarter we closed on our two Harrisonburg, Virginia acquisitions using \$11.5 million of our cash on hand. This included purchasing the accounts receivable for the acquisitions. In one of the Harrisonburg acquisitions we got WBOP FM which the FCC per their multiple ownership guidelines wouldn't allow us to own. We donated the station to Liberty University.

On our financial statements you will see a \$433,000 other operating expense, \$400,000 of this was associated with the value of the station donation. On the financial statements you will also see a \$557,000 write-off of debt issuance costs in the quarter. In August we closed on our new credit facility. The new facility provides us with \$100 million revolving loan compared to our previous facility which was a part term loan and part revolving loan.

We paid approximately \$261,000 in bank related and legal fees for the new facility as well as being required to write-off all the fees associated with our previous facility. The new facility is for a five-year term with our borrowing currently at LIBOR plus 1%. Our interest rate grid can go up to LIBOR plus 2% if our leverage ratio goes above 3X. There are no floors on the LIBOR.

Retrans revenue was \$1.1 million in the quarter, up from \$627,000 last year. Retrans payments to the networks were \$256,000 in the quarter compared to \$11,000 last year. We expect retrans revenue to be \$4.1 million and retrans expense to be \$989,000 for the year.

Capital expenditures were \$2.2 million for the quarter compared to \$887,000 last year; \$870,000 of the total this quarter was due to special projects including the replacement of transmitter in our Victoria Television market for \$339,000. We did receive insurance reimbursement for this as we reported we were going to in the second quarter.

Two hundred forty-two thousand spent relative to the Harrisonburg acquisitions; \$290,000.00 for automation system upgrades in two of our markets and a new transmitter in one other market. We currently expect our cap ex for 2015 to be between \$5.5 and \$6 million, and keep in mind that \$700 and some thousand of that we were reimbursed for by insurance.

We still expect station operating expenses to be flat for 2015 on a same station basis. We expect interest expense for 2015 to be between \$1 million and \$1.2 million given the existing interest rate environment. Our anticipated total tax rate going forward will be between 42% and 43%. We anticipate deferred taxes for 2015 to be between \$3.8 million and \$4 million.

We announced yesterday the acquisition of the WLVQ FM in Columbus, Ohio. This was a nice acquisition for us as we already own four other FM

stations in the market. Ed will discuss this in more detail in a few minutes.

As usual we received your questions via email prior to the call. I believe that in reading those questions, all of these questions are being answered by mine and Ed's comments this quarter.

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

E. Christian            Sam, I guess the new buzz word is constant currency. I was reading it on a couple of things, and that's international money. Did we have that when we had, a decade ago, when we had Iceland?

S. Bush                 Well, Ed, it was a long time ago. I do hate to remind you that we didn't have any currency or profits to be constant in Iceland but I guess it would have applied in certain circumstance.

E. Christian            That was a great adventure though.

S. Bush                 It was a very good adventure.

E. Christian            A very good adventure. Alright, so I can't use the word constant currency right now?

S. Bush                 I don't think so.

E. Christian            Okay, fine. Harrisonburg. We'll talk about that briefly. Everything is now consolidated in one building, which we're very pleased about. We have four FMs up and running. We modified the format on two of the FM stations. Both of our AMs now have companion metro signals that are really outstanding signals in the marketplace. The last one that went on was for the ESPN affiliate that we have there on the AM and it's now on FM so that we can carry a Virginia Tech. We also are the flagship for James Madison University with 24,000 students for the Dukes. So we have that.

We have another metro signal going on, which should happen shortly. We've actually been launching a number of metro signals. We just put a new one on the air in Des Moines with a format that were called The Outlaw, which is Legends and Young Guns. Basically it's music for honky-tonks and saloons, kind of an interesting format. We're going to be launching that and a few other markets with our metro signals.

I think we have somewhere to 30 to 40—

S. Bush                    We are at 43 metro signals with a couple more pending.

E. Christian              That's it. We have some in the pipeline. Right?

S. Bush                    Yes we do.

E. Christian              Anyway, at Columbus, very exciting on that. We've been doing business in Columbus prior to SAGA. That's something I think we have had for 35 years with Sunny 95 and back then WLVQ was a formidable station in the market as a rock station. We're fortunate that we had the opportunity. This was a transaction that took us several years to accomplish in terms of discussions and there was a lot of moving parts to it. We start an LMA on the station shortly, within the next few weeks. It will be moved into our building in that time. We had the staff over yesterday to visit the new facilities from where they currently are. So, again, the new WLVQ studio, which will be operational by tomorrow I believe we should have that up and running, we're moving in by then.

This is really good. In terms of what it does for us in the market, it really helps us. With Sunny having a dominance in women and WLVQ having a wonderful share in men with a tremendous upside potential with using some of the research and information we have from other successful classic rock stations like, WKLH in Milwaukee and Rock 102 in Springfield, Mass. I think we can do some really good things there.

The station's profitable now. It has a history of profits. It has a history of just great acceptance in the marketplace and it was a good acquisition. Actually [indiscernible] Harrisonburg fits perfectly with what we try to do, as does the acquisition in Columbus. So stay tuned on that one. I think we're going to do, in fact, I know we're going to do very well in both markets. We'll add some very nice cash flow to the company.

I want to talk for a second on the upcoming TV auction. The information has to go in in December if we are participating in that and we're doing a lot of research and looking at that. A note of caution, anybody, if you look at the Greenhill or even the updated FCC numbers as to what are to be expected for pricing in the markets, we believe these are not only higher than the values that will come out, substantially higher, but have a lot of moving parts to it. If you talk to five people in the industry who specialize

in working on this, right now you will get five different answers as to how they feel it's going to come out.

There's a lot of moving pieces based on the spectrum needs; for the government in some markets they only need one station. Some markets they need no stations. If the need is supplied by an adjoining market or a nearby market, then that market doesn't even come up. It's premature for us, really, to discuss the effects on it, except that we're monitoring it very closely to see what happens.

My thoughts on the last quarter. The killer there was August. We went into August believing that it looked really good. And then about midway through August all of a sudden, man, it was like, cancellations started coming in. The phones were ringing off the hook. I'm not going to say it was the Chinese issue, or whatever, but something happened in August.

To not only us, but other stations, other companies were experiencing the same thing. If you ask anybody about August, they'll tell you there was an aberration in there and the one thing we really can't project on, we try to project as much as we can as far out as we can, which has limited visibility in today's marketplace. But with the cancellations, we honestly didn't see that coming and we would have had a much more effective quarter had it not been for the cancellations that occurred in August.

Q4 pacings. October was flat. We had disappointing results in our remaining state radio network in Illinois. We do depend quite a bit on state agencies and departments advertising. This is historic in state radio networks. They get a lot of money from the states. Their various departments foreboding various clauses, various involvement with the state in a number of ways.

Unfortunately we happen to be in Illinois and I'm not going to dwell on the financial issues of Illinois, what they're going through, but we are doing a thorough evaluation of our state radio network and believe that other owners and operators of state radio networks are seeing similar situations right now. There's not a particularly great state to do business in, in Illinois. I'm not discouraging the state but I'm just stating what they're going through. They haven't had an operational budget for the state for some time and there's a lot of moving parts there.

I want to talk to you about some new revenues and new revenue initiatives that we're doing, and I think are pretty exciting. We'll just do a few of

them. I've talked in the past about our recruitment advertising, and that's been a tremendous revenue source for us. Des Moines is kind of like the poster child. Recruitment advertising is basically where we go on out and hold seminars for HR managers. We'll get a banquet facility and invite them in for lunch. We did one in our TV market. I think we had about 30 HR managers in the Joplin, Missouri area come in, where we do what radio or television advertising can do to help them recruit people.

It works better in tight labor markets like Des Moines where you're down to 4% unemployment or less depending on the area. It basically provides HR people a way for instant response. They can judge it, they can quantify it, and it's showing that radio and television really does work tremendously as classified advertising per se, looking for employees, is kind of a thing of the past. So, that's one really good thing.

Another, one of our managers came up with an interesting approach, which we're doing a pilot test on right now. But she was in a [indiscernible] in Tennessee, in Clarksville Tennessee, was in a real estate office and talking with one of the realtors there and they said let me show you my open houses for the weekend. And showed them and showed her what the newspaper listing looked like and she said, look, they didn't even match the color, the lines are off and everything else like this.

Then the person said the magic word, and I spend, I spend \$2,000 a month of my money advertising my open houses. And we said, okay, fine, we can then create an edge onto our website or we can use *ClarksvilleNow* which is our internet newspaper down there to feature your websites, your open houses. And we can also then sell you a—we can put you, not sell you—but we can run a schedule for you on road blocking it and on all of our radio stations discussing the open house and you would've enjoyed talking about it and also then saying, "Hi, I'm so and so, I'm Sam Bush, I'm from Bush Realty. In the last three months I've sold 40 homes and I'd love to meet with you. If you'd like to see me, come to my open house on such and such on this."

So we're using the power of radio to drive to the internet link to show the open house and at the same time, building the brand for the real estate sales person. So we'll keep you posted on that. We're kind of excited about that.

By the way, good news today in consumer confidence but as always it conflicts on global news. This is what is confusing economists. It's the,

on one hand—or on the other hand situation—it seems like every economist can come up with two perfectly sound and opposite financial forecasts. So we don't even really try to go there anymore. If we can't get agreements from experts, we can't forecast it. But as we said earlier, we didn't see any cancellations in August coming at all.

We control what we can. We develop new ideas and opportunities. Know that radio advertising and TV advertising are sound investments for our clients. That's really what our mantra is.

I want to take a second, because one of the questions came in on programmatic buying, or as I actually call it, problematic buying. But, that is the new buzz thing in our industry, which essentially takes the human element out of buying and has it where the agencies computer talks to another computer who then talks to our computer to set rates and everything else like this. To me, it's somewhat disturbing. I'm still trying to wrap my mind around it because I believe in radio in a different manner than just something like that.

I read something I want to share with you for a minute on Whole Foods. It was interesting article. It was in *The New York Times* just the other day. So bear with me, I think I can tie this all together rather than try to explain the vagaries on this computer type of buying with a little bit of information here. So I'm going to quote from *The New York Times* article. "John Mackey, Co-Founder and Chief Executive of Whole Foods, and in many ways its personification, agrees that there is more competition, but he objects to the conventional wisdom that the cure is to lower prices."

This is in regards to the Wall Street saying that Whole Foods is out of favor. But of course, what sector isn't out of favor with Wall Street, but that's another issue. He objects to the conventional wisdom that the cure is to lower prices. "The Whole Food Market brand may never shake that label." Mr. Mackey said, I'm sorry, "Mr. Mackey said, in a wide-ranging interview. Walter Robb, the other chief executive, argues that Wall Street's relentless pressure on the chain to reduce prices is a race to the bottom."

That's an expression that we've used.

"Sure we could sell cheaper farmed salmon, but it's terrible for the environment."

Here's the point I wanted to get to. "He said he recently purchased four certified steaks at a mainstream retailer and had them analyzed. The steaks, he said, came from organic dairy cows that had been," you'll love this word, "decommissioned at about 40 months. Most beef cattle are slaughtered by 24 months for taste and food safety. Sure those steaks technically meet the organic standard but in terms of taste and flavor, they're not the best example of organic meet, Mr. Robb said."

This is essentially programmatic buying where it comes in and says we want 100 steaks aged 24 to 40 and we want the lowest price for them. Well, okay, that's fine and that's what you're going to get and it might be fine if you're buying for institutional food use, but otherwise you can't come out and say that. In the first place, you're probably going to get dairy cows instead of beef cows and the term organic can apply to both, but what you're missing there is the quality and the taste and the feel.

So to go on out and try to buy 100 spots in a wide range of 24 to 40-year-olds and you could get mostly 40-year-olds in that entire sample, or you could get 24-year-olds if you got lucky. I don't mean it that way. This is what happens here. When you're buying radio, shame on the advertising agencies and shame on them for their clients thinking that you can just go on out and buy mass amounts and you're accomplishing a thing, when indeed what we're selling is a lifestyle experience of being able to reach and target the consumers that you want in the various income and socioeconomic stratas and everything else and that's what radio is.

This is what programmatic buying doesn't look at. It's just raw numbers taken in one fell swoop and we say we've done our job. I don't think that that's necessarily the case. I don't think that that works out too well.

So, enough of the soap box on that, but I urge people when you hear it, it is not something that is going to overwhelm the industry or necessarily bring new dollars into it; be careful and understand what it is.

Now, as a company, SAGA has demonstrated we understand the consumer psyche. We've done that for 29 years. We know and we've shown that we can get results for our advertisers. We're not stopping now. We will continue to find new and exciting ways to marry radio and television advertising with other avenues and other venues without losing focus on our core competency. And that's it. We are a radio and TV company. We know what we do, we know how to make it work. And trust us, we'll continue to do that.

I think, we have, in a short period of time, covered all the questions. Have we not Sam?

S. Bush We have.

E. Christian Have I missed anything?

S. Bush I think you've got it all covered.

E. Christian Do you understand the thing about dairy cow and beef cows?

S. Bush I do; I learned a lot today.

E. Christian Every day we should learn something.

S. Bush That we should; I agree with that.

E. Christian Did you know that 100% of the avocados in the United—no, I'm sorry, the artichokes in the United States come from California?

S. Bush That I did not know.

E. Christian Okay, that's your learning fact for today. Every day learn something new.

S. Bush I appreciate it.

E. Christian Alright, Amanda, are you there?

Moderator Yes, I'm here.

E. Christian I thought we scared you away there for a second.

Moderator I'm here.

E. Christian Can you do the wrap up? Thank you, dear.

Moderator Oh, you're welcome.

E. Christian Okay.

Moderator Well ladies and gentlemen, that does conclude our conference for today. Thank you for your participation and for using the AT&T Executive TeleConference Service. You may now disconnect.

S. Bush Thank you, Amanda.

Moderator You're welcome.

S. Bush Bye.

Moderator Bye.