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# EDITED TRANSCRIPT

SGA - Q3 2016 Saga Communications Inc Earnings Call

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## CORPORATE PARTICIPANTS

**Ed Christian** *Saga Communications Inc - President and CEO*

**Samuel Bush** *Saga Communications Inc - SVP, Treasurer and CFO*

## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by and welcome to the Saga Communications third-quarter earnings call.

(Operator Instructions)

As a reminder, today's call is being recorded. With that, I'll turn the conference over to Mr. Ed Christian, President and CEO. Please go ahead, sir.

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**Ed Christian** - *Saga Communications Inc - President and CEO*

Thank you very much. Welcome, everybody, to Q3 and our review. With that, we'll start and I'll turn this over to after many, many years same voices. How it stays the same I don't know. We need to change this. Maybe I should read this.

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**Samuel Bush** - *Saga Communications Inc - SVP, Treasurer and CFO*

You could do that and I could do the introduction.

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**Ed Christian** - *Saga Communications Inc - President and CEO*

You think so? We could do that. I don't think that would work too well. I would probably screw it up and that's why you are here for numbers. Numbers Bush will now go ahead.

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**Samuel Bush** - *Saga Communications Inc - SVP, Treasurer and CFO*

Thank you, Ed. First the obligatory; 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 set 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. It was a good quarter. During the quarter historical net revenue increased 6.8%. Adjusting for same station, net revenue increased 2.2%.

Gross political revenue for the quarter was \$1.8 million compared to \$130,000 for the third quarter last year. All \$130,000 for the quarter last year was radio. For the quarter this year radio was \$529,000 while television was \$1.2 million.

I should point out that we reported \$1.4 million of other operating income in the quarter. This is the result of our selling a tower in the Norfolk, Virginia market to SBA Towers for \$1.6 million. We also entered into a favorable long-term lease on the tower for our radio station, one of our radio stations in the market.

Year to date through the end of the third quarter, historical net revenue increased 8.3%. Adjusting for same station, net revenue increased 3.1%. Gross political revenue through the third quarter was \$3.4 million compared to \$413,000 for the same period last year.

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All but \$10,000 of last year's political revenue was radio. Year to date, radio was \$1.9 million and television was \$1.5 million. Keep in mind that relative to a same station and historical comparison, we closed on the bulk of our Harrisonburg acquisition last year on August 1 with the final piece closing on September 1.

Harrisonburg will be fully reported in our historical numbers with the fourth quarter. We started operating our acquisition at WLWQ in Columbus through an MLA on November 1 last year, so it would still be a part of the same station historical reporting in fourth quarter.

National accounted for approximately 11.9% of gross revenue for the quarter, compared to 11.5% last year. During the quarter, our Board of Directors declared a \$0.30 per share quarterly cash dividend with a record date of September 14 and a payment date of September 30. This represented a 20% increase over the previously paid \$0.25 dividend.

This is our 10th straight quarterly cash dividend, the first six at \$0.20 per share, followed by three at \$0.25 per share, and the now the one paid during the third quarter at \$0.30 per share. This brings the total dividends paid, including the special dividends over the last four years, to almost \$38.9 million.

We intend to pay regular quarterly cash dividends in the future as well as considering special cash and stock dividend 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 \$22.7 million. Currently we have cash on hand approximately \$28.4 million.

Retrans revenue was \$1.2 million in the quarter, up from \$1.1 million last year. Retrans payments to the networks were \$297,000 in the quarter compared to \$256,000 last year. Capital expenditures were \$1.6 million for the quarter compared to \$2.2 million last year.

We currently expect our CapEx for 2016 to be between \$5 million and \$5.5 million. One never knows about pacing, but currently we anticipate fourth-quarter revenue to be up low to mid-single digits. We expect station operating expenses to be up 6% to 7% on a historical basis and 2% to 3% on a same station basis for 2016.

We expect interest expense for 2016 to be between \$700,000 and \$800,000, given the existing interest rate environment. Our anticipated total tax rate going forward will be between 40% and 41%, with deferred taxes for 2016 being between \$3.2 million and \$3.4 million. And with that, I'll turn it back over to Ed.

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**Ed Christian** - *Saga Communications Inc - President and CEO*

Did you pick today on purpose to announce?

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**Samuel Bush** - *Saga Communications Inc - SVP, Treasurer and CFO*

I figured with the election it would make a big difference on who people voted for.

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**Ed Christian** - *Saga Communications Inc - President and CEO*

Yes. You think so?

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**Samuel Bush** - *Saga Communications Inc - SVP, Treasurer and CFO*

Well, maybe not.



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**Ed Christian** - *Saga Communications Inc - President and CEO*

I don't know. I'm not sure if that. One other question, why do you always start out your discussion using the words risk and uncertainties? That's a really a downer when you start up with that. Could you try next time to use some happy words for the opening words?

**Samuel Bush** - *Saga Communications Inc - SVP, Treasurer and CFO*

I will say if the SEC will let me use happy words. I'm not sure they will.

**Ed Christian** - *Saga Communications Inc - President and CEO*

I always get nervous with this contains risks and uncertainties. I think our business is somewhat certain. A couple things I'd like to talk to you about today. National is still under pressure, no question about that.

We've been holding about the 12%, between 11% to 12%, and I think you should know if you've been on these calls for years at least we will be able to talk about 18% to 20% national. I don't think that there is any less in terms of national business, in terms of spots, but what we've seen is an erosion, continued erosion in the rates and the pricing nationally with groups and stations under a tremendous amount of pressure on that.

And it's about time that the industry needs to understand the pricing paradigm and why conduit industries that uses this model for demand pricing. If not, I think in a couple of years, a few years down the road not in the immediate future, we could see things where places say listen, we have a \$100 coupon here for you for advertising. To get you to get back into that.

It's really getting down to that point. And so I ask others on the call who, friends in the broadcasting industry to really begin to look at the pricing models and paradigms and shifts and everything, and we are in an industry that really just doesn't embrace that. It's been attempted over the past.

There have been companies that you could go in and subscribe to them or use their service for pricing models. There was a point in time when one of the large companies used the hotel revenue models for pricing. None of that has really stuck, and I think it's time that somebody starts looking at how we need to, as an industry, join with a lot of other people in terms of the pricing on that.

Local, still the backbone of what we do. One of the things with local, and we've done a really great job on this and I'm really pleased in terms of local production and local revenue enhancement. And with that we need to look at the products that we use as enhancements for our revenue generation.

We've done a really job with that, and I just want to talk about a few of them here. Events, yes, you'll hear this from a lot of companies about the events they do, but we do signature events. For instance in Norfolk there is about six signature events.

We own a couple of them; Lunatic Luau is one that we're in there. The other ones, about half of them or maybe even a little bit more, we cosponsor them. And so we do it on a less risk/reward basis where we don't have the risk and we have a very good return on it without worrying about rain days or any of the other things that we do on that.

That's a model that we are looking at embracing more and more is partnership. Partnering with other companies to promote the things and get the reward on that, the events on that. BaconFest, another one. Our signature events, we have been doing that in a number of markets. The one I'm thinking right now, we have like Rock 102, BaconFest and --

**Samuel Bush** - *Saga Communications Inc - SVP, Treasurer and CFO*

A lot of golf tournaments.

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**Ed Christian** - *Saga Communications Inc - President and CEO*

Lot of golf tournaments. Lot of things like that. We're doing one now, [Layland] in Norfolk just did a Jeep tournament. Was that it? Or a mountaineering -- what was that one that Wayne just talked about?

**Samuel Bush** - *Saga Communications Inc - SVP, Treasurer and CFO*

Was it auto --

**Ed Christian** - *Saga Communications Inc - President and CEO*

Auto tours, some sort of things like that. These are the types of things that we find that we can use to enhance exactly what we are doing and the product enhancers. We keep looking for different things to do. In new categories, let me just talk a little bit about that, things that have been very successful initiatives for me.

We have gone very deeply into recruitment advertising. That's become a very important product category for us as newspapers have lost the want ads or the hiring. Radio has been a natural for this. We do recruitment seminars where we invite HR leaders in the community to attend a meeting where we discuss radio reach or the frequency on a radio and what it can do.

And in some of our markets there's hundreds of thousands of dollars per market coming in in recruitment advertising that hasn't been done in the past. It's a very, very big thing for us. And then there's the one-offs we do on that. We call these like Hire Me Columbus, Hire Me Des Moines. Whatever it might be.

Those are how we promote it on the air and also the websites right here. Warner is writing a note that says if you can hold the note up it says -- yes, that's cash by creative, it's something we've talked about before. That's a company that we use where we have -- there are three companies in the United States.

We have market exclusivity on it, which is creative services which we use as revenue enhancers or door openers. It's huge for local for us. We already go in with a pre-produced spot which the company does within hours.

So that when the person goes in they have something to discuss and show in the creative process rather than walking in and start cold by trying to talk about radio. They actually have a commercial produced. These are the types of things we look at.

Another one that we're working on right now is we are rolling it out in Clarksville, it's called I believe it's Homes on Open Saturday where we are using this to promote a lot of independent realtors are using this service, because they are holding open houses. The real estate companies don't give them money to do this so they are looking for different widespread shotgun approaches to advertise this.

We have outboarded a website with maps and it shows exactly where the homes are and what the pricing is and we promote it then on the air and for home showings on Saturday. Again, this is taking a lot of the revenue that historically when to print. It's kind of floating around out there and we're converting into broadcast revenue.

Line extensions, tremendous for us. Partial now has been very successful for us. It's in the high six figures in revenue now and running as a freestanding online paper with just several full-time staff members associated with it. We've rolled this out in two markets.

In 2017 we are rolling it out in two more markets. Probably in Bellingham and Ithaca, and we have three additional markets scheduled right now for 2018 roll outs in this. This again is revenue enhancement for us, it's not used in place of the common product but as a supplement to it for other people on it.

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Going to give another example, we were talking about this the other day, which is kind of neat. We haven't figured out exactly how to continue to monetize this, but in Portland, Maine for instance we do 40 micro-concerts a year where we actually use space in our building to invite people in for a lunchtime concert with artists who are performing in clubs or whatever it might be.

We record then we will play it back on WCLZ on Saturday night or whatever it might be. We bring in 40, 50 people into the radio station to sit down for a lunchtime concert. We are looking at this with sponsorship opportunities, food opportunities, a lot of other things and venues on this.

This again is with the WCLZ, our AAA station that we are looking at enhancing this in our other AAA markets which are North Hampton, Keane, Ithaca, Asheville, and Charlottesville. These are the types of things that are going to keep us focused on what we do and its why we did what we did this last quarter.

Political is certainly nice. It's also a vote of confidence in the radio industry when you look at that and you look at where political dollars went historically, they still continue to flow into radio.

Last thing I want to talk about, it occurred to me this morning, for some reason and I'm not quite sure why thinking about Will Rogers. Probably because he was such a political pundit and today is election day.

One of the things that Will Rogers was known for was a wonderful quote that he did. He said all I know, well, all I know is what I read in the papers. Will Rogers. I got my papers this morning and I'm still a print reader. I have to feel and hold a newspaper so I really can't read them online.

I cut out a few things that I just want to -- and I'll tie this up so I won't spend a lot of time on it. Here was today's paper. Article Golfsmith survives closures; Golfsmith is closing 60 or roughly two-thirds of its US retail stores.

Time runs short for Concordia. The paid at Concordia industry shows no sign of abating. The embattled drug maker reports a third-quarter loss of \$1.47 a share on Monday, missing analysts' expectations. Concordia suspends its full-year sales and profitability guidance.

Sun profit falls. Local-based company announcing 27% profit decline. Priceline takes hit from Open Table. Priceline will scale back expansion plans for its Open Table dining service.

Gas prices could fall if oil declines. Gas prices have the potential to plummet, the result of oil hitting a six-week low after an unexpected record high in domestic inventories. AAA response. News Corp. posts loss as ad revenue slides.

News Corp. swung to a loss in its September quarter amid a challenging print advertising environment versus newspapers. Holiday help on hold; interesting. Retailers cut back. Good luck finding help at some of the country's largest retailers during the holidays.

As shopping season kicks into high gear most retailers are cutting back on sales help in their stores, a survey of hiring announcements revealed. Walmart, which last year proudly announced it was hiring 60,000 extra workers for the holiday shopping season this year is staying uncharacteristically silent on its plans.

Sotheby's reports a loss of \$54.5 million. Trying to overcome a softening art market with an improved focus on private sales. And the last one here, this is just a -- it's a flat over chicken. Investors say a pricing index used by grocers has kept retail price of poultry high.

Best price as the grocery stores are lower so too are -- beef prices at grocery stores are lower, so too are pork prices but chicken steady as she goes and that's because of the Georgia Dock chicken pricing index, also referred to as the Earner-Barry index. We are not alone in having indexes in broadcasting.

So what does this have to do with us? What does this have to do with radio? You've asked yourself that and we've been thoroughly entertained with a quick review of the print today.



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When was the last time you picked up a newspaper and saw a headline that says something like Banana broadcasting or whatever closes 30 radio stations, will continue to operate in 60 markets? Or something like Butternut radio down because of electricity cost increases? Or how about this?

Radio industry down because of lack of new products? What I am trying to tie together here is you don't find headlines in this. I can't tell you when a company said we're shuttering the local radio station, we are closing it down, we are doing companywide closure of the whatever might be that we are operating costs are soaring because of raw materials.

Our materials are electricity for raw materials, other than our people costs. Lack of new products that's what I just talked about earlier. We constantly look at trying to find and invent new ways for radio.

You don't see this happening in our industry, and yet everybody starts painting doom and gloom scenarios about what we do and the minute that I start seeing the fact that people are abandoning their stores and closing their stores and running down and deciding if they are shutting down and moving out of markets, then we might have something to talk about. Until then, radio is still very strong as television is still a very strong industry and we do our best in that. With that, I think I have pretty well done it. Anything?

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**Samuel Bush** - *Saga Communications Inc - SVP, Treasurer and CFO*

No, that's good. And we always ask for questions but we must have nailed it. As my six-year-old granddaughter would say after a good event because the questions that we were asked were all covered in your or my comments, Ed. We are good. Applause there in the background.

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**Ed Christian** - *Saga Communications Inc - President and CEO*

Thank you all for coming today. We appreciate it and thank you for voting the American way today, and we will turn it back to the operator for final summary instructions.

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**Operator**

Ladies and gentlemen, that does conclude your conference. Thank you for your participation. You may now disconnect.

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