S&P Global
Market Intelligence

Saga Communications, Inc. AMEX:SGA

FQ2 2018 Earnings Call Transcripts

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S&P Global Market Intelligence Estimates

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Call Participants

EXECUTIVES

Edward K. Christian
President, CEO & Chairman

Samuel D. Bush
Senior VP, Treasurer & CFO

Presentation

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Saga Communications Second Quarter Earnings Call. [Operator Instructions] And as a reminder, this conference is being recorded.

I'd now like to turn the conference over to President and CEO, Ed Christian. Please go ahead.

Samuel D. Bush
Senior VP, Treasurer & CFO

Thank you, and good morning, and Sam is here. And as usual and has been our practice for so, so many years, Sam starts off.

Samuel D. Bush
Senior VP, Treasurer & CFO

It has been a while. 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.

First, as you look at this quarter, and this was the case for the first quarter and will be the case for the third quarter, keep in mind that for the comparable periods in 2017, we have reported the financial performance of the television stations that we sold on September 1, 2017, as income from discontinued operations net of tax. This is important to note when you compare the net income, free cash flow and diluted earnings per share information. We also acquired the stations in Charleston and Hilton Head, South Carolina as of the same date.

Now to the numbers. For the quarter, our net revenue increased 6.5% on an as-reported basis and was basically flat on a same-station basis. Operating income increased 2.7% and station operating expense increased to 8% on an as-reported basis. On a same-station basis, operating income increased 1.5% and station operating expense decreased 1%. Free cash flow from continuing operations increased $1.2 million to $6 million.

For the 6-month period, our net revenue increased 6.8% on an as-reported basis and was basically flat on a same-station basis. Operating income increased 6.4% and station operating expense increased 8.8% on an as-reported basis. On a same-station basis, operating income increased 7.3% and station operating expense was flat year-to-year. Free cash flow from the continuing operations increased $1.4 million to $8.3 million for the 6-month period.

To better understand our calculations of free cash flow, net income and net income per share from continuing operations, we've included a couple of additional reconciliation tables as part of the supplemental Financial Data section of our press release.

As a result of the Tax Cut and Jobs Acts passed in 2017, we expect our ongoing tax rate to decline from our historic level of 40% to 41% to a current level of 29% to 30%, including a 13% to 14% deferred tax rate. Our expectations are subject to change given the various states in which we operate, and they adjust their rates in response to the federal act.

CapEx for continuing operations was $1.4 million for the quarter compared to $2 million last year. In 2018, we are continuing to upgrade several of our tower and studio sites. At this point, we expect CapEx for the year to be between $5 million and $6 million.

At the end of the quarter, we had $25 million in debt outstanding. In June, we amended our existing credit agreement to extend the maturity on our $100 million revolving line of credit to June 2023. The interest rate can fluctuate based on our leverage ratio. Currently, we are paying the LIBOR plus 100 basis points. Cash on hand at the end of the quarter was $52.9 million. Currently, as of yesterday, we had cash on hand of approximately $53 million.

Including the $0.30 per share dividend, which was paid on June 22, we have now paid over $57 million in dividends since December 3, 2012. 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.

Additionally, as been previously reported, we have a stock buyback program that is active pursuant to the SEC's Rule 10b-5. During the quarter, we repurchased approximately 12,033 shares for $454,000. After the end of the quarter, we repurchased another 4,441 shares for $167,000. For the year, we have now purchased 18,947 shares for a total of $714,000.

Currently, we expect the third revenue to be flat. We have not seen a lot of political yet, but we do expect political to have a positive impact on revenue later this year as the political season progresses.

During the second quarter, gross political revenue was $510,000 compared to $246,000 in 2017. For the 6-month period, gross political revenue was $787,000 compared to $291,000 last year. We expect same-station operating expenses to be up 1% to 2% for 2018. We expect interest expense for 2018 to be around $1 million. At this point, we expect free cash flow for the year to be in the range of $18 million to $19 million.

Finally, on August 1, we announced that Saga had been approved for listing on the Nasdaq Global Market. Our last day of trading on the NYSE American will be August 15, 2018, and our first day of trading on the Nasdaq will be August 16, 2018.

And with that, Ed, I will pass it back to you.

Edward K. Christian
President, CEO & Chairman

Sam, you sounded like a guy on the commercials for the lease rates in cars who does the speed we're getting at the end. Good grief.

Samuel D. Bush
Senior VP, Treasurer & CFO

Maybe I need to learn to reel.

Edward K. Christian
President, CEO & Chairman

Come on, slow down, boy. All right. Come on, let me go. All right, I thought you did an excellent job as usual in summing up our Q2.

We're at 128 quarters since the start of Saga without any quarters of losses. As you've said, $57 million paid in dividends and $54 million of stock repurchased. Over twice amount of cash versus our debt on hand, not a bad story at all. We have no second [indiscernible] radio stations if you need focus and attention, and we're working diligently on making the subtle necessary changes.

Let's spend a few minutes on some bigger issues in the future. Acquisitions comes up usually in some of the questions, we'll see if we get Sam and tell me what the questions are, if there are any.

And so let's spend a few minutes and discuss through something. Sam and I spent the last quarter evaluating 4 opportunities that we've discovered. Three, we visited with the owners or manager, and one, we discarded directly as its structure was not as envisioned. Of the remaining 3, 2 of them are ongoing discussions. And interesting opportunities presented -- for those of you on the call, we'll voice it for you, you know that we do not purchase bunch of radio stations at one time. Every acquisition has been evaluated using our criteria and reviewing local metrics and analysis, that's how we get to where we are. There is not rapid and dangerous growth, and there is no assurance that we have that to even the deals we're working at now will come a fruition, but it is our job to find ways to grow the company in a measured sense with quality products and stations that we bring online. So we are continuing to do that, and that's part of our daily plan.

So let's take a couple of minutes here. I mean, I was thinking about this earlier this morning and talk about straight [indiscernible] history. I know that if I were you listening your call is you don't want to hear how station and x market is doing or why market is doing and what's going on in there. That's the usual kind of minutiae that people talk about, but let's talk about the state of the industry. It's a good. Actually, it's very good. And from a listener perspective, let me just change that, 93% of the U.S. was [in story], which we give her that figure, hammered into your brain, time after time, week after week. The figure stays the same, which is great. I mean, for years now, it's been 93%, which means we are not a declining medium, and it's necessary to note that. I think and I'm sure that magazines and newspapers would love to give us the term of 93% of Americans read magazines and newspapers in a weekly basis.

Now the sheen actually is finally beginning to come off on Digital, and we're seeing certain things that are happening on that. Let me tell you my own story. I like Brooks Brothers Board Shorts, okay? My wife refers to me as short-aholic. I just have -- if you have the dictionary, buying shorts is not a problem. And I like Brooks Brothers. I'm a good and loyal customer to their shorts, I am -- shhh, quietly said online, but I do. And what I've noticed over the last number of months is I'm really kind of angry. Actually, they're pressing my hot buttons because it seems to me that they're following me around. Every web page that I go to, to look at something, in the corner of my eye, I see a Brooks Brothers ad. I go on to the next website and suddenly, pop, there goes a Brooks Brothers ad. I go on somewhere totally different when relating to radio, and then pop, a Brooks Brothers ad. They're following me around and it creeps me out. They're stalking me. And I'm sure you know what I'm talking about, and I'm sure you recognize that this is what is happening and this is beginning to the trouble people. They're feeling a little paranoid about, you were saying, the websites. That, coupled with the fact that Facebook research, has shown that there is only a 2% effective retention rate on viewership of digital postings. People actually have trained their eyes not to see or notice a display -- digital display. I know that I do that now. I just don't look at it. I don't even think about it. It's there, but it doesn't attract my attention. That's a problem that is starting in digital.

Now what's radio doing with this opportunity? Well, unfortunately, not much. Without naming companies, some are delaying in the wrong way. What we've noticed, commercial stop sets are creeping up to unlistenable levels with a number of commercials at a stop set, and I'm talking 5, 10, 15s, 30s and 60s, sometimes we're pushing up to 25 units a set. That's unconscionable. Now I understand what's happening is when rates are driven down, broadcasters attempt to make this up in volume, and that's an awfully and poor way to do business.

So more and more priceless work sometimes in manufacturing, but not in radio. At Saga, we do review our commercial policies, and in fact, after this call, I go into a meeting with the -- with audit as we are reviewing physically the bio and the length of each of our radio station commercial stops, that's the way to review of recent prime daily logs. There has to be quality control on our part, and this is something that the industry really needs to push forward or applying theirselves in a declining mode. And this message has to get out that there is concern and not just from my voice, but from other voices recognizing that they are tampering with a very special franchise, and that is radio.

There has to be quality control, as I said. It comes 2 ways, length and content. Last week, I was talking with Jerry Lee, most of you are in the call probably don't know Jerry, but he is legendary in radio broadcasting for his attention to detail. He had 1 radio station, WBEB in Philadelphia, and Jerry was a maniac about control of commercial lengths and control of commercial quality. And when we spoke last week, there were 2 takeaways. One in [snapshot] length, which was beginning to bother him quite a bit, the same as it bothers me, and the other was on commercial content. And Jerry told me a story where he actually in his radio stations has outside company that listens to and rates every commercial that's played in terms of its effectiveness and its retentive value. And so we did an interesting experiment, we went to Chicago and took the top 50 advertisers in Chicago, and had this company reviewed the commercials that we're running on Chicago radio stations. 71% of them did not have retentive value, and that's just something right there that we really have to as broadcasters think, especially in creative. And when we go on out and when the creative that we run from the agencies or the creative that we create ourselves, it has to be compelling and sonically resonate with the station. We have this happened in broadcasting. It's using 1 commercial to run on all of e different formats we have in one market. One size does not fit all, it has to be tailored for the individual market. In fact, I'm kind of known in this company here for having an occasion. I'm trying to tamper myself on this. I'm calling a manager station and say, would you go to this client and tell them we have to change this commercial because it doesn't fit. It's destroying the ambience of the radio station, it's destroying his image, and this is something that we, as broadcasters, have to do a better job in our commercial creative endeavors, both working with agencies as our partners and also working with our clients, our direct retail clients and the creative that we create for them. That's part of the thing that keeps the brilliance in the sheen on radio is the quality of what we do.

Now -- all right, I do apologize, I'm running a little long here and getting into a little editorial policy and my passion is slipping in. I needed to share that because we're really kind of proud of what we do here at Saga in keeping radio alive and viable, both as a community service and a viable advertising medium. I guarantee we'll continue to do what we do best, and I invite everybody on the call. Usually, I say, if you're in a market, stop by and visit our station and see it. Now I'm asking any of you to listen to one of our Saga radio stations. And if you hear something you don't like, let us know. We'll talk about it, because it's feedback from listeners that we depend on to mirror the image of the communities we're in. So I need your help, too, and I'm asking for it.

Sam, I don't know if we have any questions that came in here or not, but if we do...

Samuel D. Bush
Senior VP, Treasurer & CFO

We had a couple of questions came in that we've already answered. The one question that came in, and it's an easy answer and a hard answer at the same time is the question that comes up a lot of times about what are we seeing out there in the way of deals relative to multiples and are we seeing multiples on deals going up or down relative to what's out there in the market today.

Edward K. Christian
President, CEO & Chairman

Oh, gosh. That's really a question that has no answer, and I say that because a lot of times we're in multiple issues, and then you have to break it down into small markets and maybe markets and larger markets. Small markets supposedly could have a smaller -- I'd say, well, 5.5x of the small markets or 6x. Here, I can show you some small market radio stations that are tremendous in terms of their efficiency and conversion and in terms of profitability. Then I can also show you some that no matter what the value is, it would have a difficult time selling it. People are quoting a 7.5x, but that again is how do you determine cash flow, how do you look at that? We have -- we kind of have a way of looking and say, "what do we expect our investments to provide as a return to us?" And when you look at it in different metrics, and people go, huh? Well, what multiple are you paying? It's -- what does the station return? And what is that -- if we were investing in something else, how does it look? Is it better than we could do in markets? Is it better than we could do that we're in our own environment? What is the growth potential? When you look at it, you want to take some. For us, we could pay certainly more than 7.5x based on what the station is or we could certainly pay less. I don't think you're seeing in the last several years, the quote trade multiple or industry multiple has been holding about the same or hasn't been in any decrease in that, and we think the industry's underpriced or undervalued. Wasn't all that long ago, back in the battle days of 2007, that we were seeing multiples of 13 every day for stations, 12 as a normal multiple, 13, some are even a little bit higher than that. During '08, '09, there was probably just a dearth of -- there was no trading going on at that point in time, because nobody knew what was going to go on or happen to it. If somebody said to me, what is a hard number for the multiples. I would say that it's probably the average of what's been going on. They're certainly not moving up in this industry, and the industry has the challenge to make them move up and can do so by certain things to increase the appreciative value, when I say that, I'm talking about from an investor point of view of what the radio industry is. It's the old thing right now, we don't get any respect. Well, we have to. You earn respect, and that's one of the things we need to concentrate on now. Is that too long an answer? I think it is.

Samuel D. Bush

Senior VP, Treasurer & CFO

I thought that was a good answer.

Edward K. Christian
President, CEO & Chairman

Okay. I'm pretty well done, I guess.

Samuel D. Bush
Senior VP, Treasurer & CFO

No, I think with that, we can turn it back over to you and allow you to wrap up the call for us.

Operator
Certainly. Thank you, all. That does conclude our conference for today. Thank you for your participation and for using AT&T Teleconference. You may now disconnect.