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, and welcome to the Saga Communications First Quarter Earnings Conference Call. [Operator Instructions]

I would now like to turn the conference over to your host, Mr. Ed Christian. Please go ahead, sir.

Edward K. Christian
President, CEO & Chairman

Thank you, Marybeth. Appreciate it, and by the way, you've been a great voiceover person, seriously.

Anyway, Sam and I are here as we have done for eons, decades now. So I will turn it over to Sam to begin, and then I have some comments, as usual, right after that.

Samuel D. Bush
Senior VP, Treasurer & CFO

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. A reconciliation for all the non-GAAP financial measures to the most directly comparable GAAP measure are attached in the selected financial data table.

As you look at the first quarter for 2019, keep in mind that we closed on the purchase of 4 FM radio stations serving the Gainesville-Ocala radio market on December 31, 2018, for $9.3 million. Also note that we reported $251,000 in other operating income in the first quarter of 2018 compared to a $3,000 expense in 2019. The gain in 2018 was principally due to the sale of a tower in Keene, New Hampshire that we no longer were using.

As reported in the press release, for the quarter, our net revenue decreased by $193,000 or approximately of 0.7%. There were a number of factors involved, including an increase that we saw in our local revenue. Ed will expand on this in his comments shortly. Free cash flow was up to $2.6 million for the quarter compared to $2.3 million last year.

I'm pleased to report that our ongoing focus on expense controls continues to pay off. Station operating expense for the quarter decreased $234,000 on a historical basis and $1.1 million on a same-station basis. We will continue to be diligent about our operating expense levels as we progress through the year. To better understand our calculations of free cash flow, net income and net income per share, we have included a couple of additional reconciliation tables as part of the Supplemental Financial Data section of our press release.

We spent $1.2 million for the quarter in CapEx, which was down from $1.5 million for the same period last year. In 2019, we are continuing to upgrade several of our tower and studio sites, and at this point, we expect CapEx for the year to be between $5 million and $5.5 million. At the end of the quarter, we had $15 million in debt outstanding. Cash on hand at the end of the quarter was $39.2 million. As of May 6, we had $40.7 million in cash and $15 million in bank debt outstanding still.

Including the recent $0.30 per share dividend, which was paid on March 29, we will have paid over $64 million in dividends since December 3 of 2012. 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. During the quarter, we repurchased 2,505 shares for $80,000. Last year, we repurchased 53,713 shares for a total of $2 million. Since we began our repurchases, we have repurchased 2.1 million shares for a total of $55.5 million.

Gross political revenue for the quarter was $63,000 compared to $278,000 last year. We expect political to pick up as we go through the year. For ease of reference, in 2018, we had political revenue of $512,000, $488,000 and $1.6 million for the second, third and fourth quarters, respectively. Tough comps coming up, but with the crowded field of challengers, we expect political to pick up sooner and to be stronger than we've experienced in other years that were years just prior to a presidential election year.

We expect same-station operating expenses to be flat to down 1% or 2% for 2019. We expect interest expense for 2019 to be around $1 million. We expect our ongoing tax rate to be 29% to 30%, including a 9% to 10% deferred tax rate.

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

Edward K. Christian
President, CEO & Chairman

Thanks, Sam. And as always, I appreciate the work that our analysts and Cathy Bobinski and you put into the quarterly compilation. And when I was thinking this before, I said mentally in my head the quarterly complication, but I thought that really wasn't too appropriate for the whole thing. For the compilation, thank you, Sam. It's about what I expected but not the way that I wanted for Q1.

Before I launch into an overview, let's just kind of reaffirm a few things that Sam said. Political is down Q1 by $215,000. There were -- we expected this as there were no material political events that were advertised during Q1. What was not anticipated and is always difficult to predict was national sales, which were down by, gulp, $502,600.

We were up company-wide in the -- on regional by $300,000, but it doesn't help the shortfall in national or the absence of political. What I have said, I must admit that I am not content with our performance compared to our potential. I had set a higher bar for our local sales departments than the company-wide $300,000.

We have great assets, great markets. We handpicked the markets over the years for the resiliency of the market and the upside potential of the growing economies in the market. Without going through market by market, we did have many good performers during Q1. Let's make that abundantly clear. Many good performers. But those stations who were off their game, frankly, really missed the mark and did indeed misread their compass directions and headings.

Back in New Year's, I sent an e-mail to all of our market managers welcoming them to a new sales reality and advise them then that I thought Q1 would be troubling for a number of reasons. And I also discussed the subtle but important changes that would be occurring in our sales performance. There was nothing in the e-mail that can be considered earth-shaking or cause crying and weeping. Essentially, what it did was discuss what I believe were necessary changes in sales strategy and sales tactics.

First off was the need for a laser-like focus on the local direct business development, especially in the service industry. I can't tell you how long the lists are of various different service-related companies that are -- could be and should be prime users of radio advertising. Jordan Guagliumi, our sales manager in Manchester, New Hampshire has a strong background in digital and prepared for us just a first partial list with sales categories that we are going, "Whoa, we never thought about that one. Well, gosh, here's another one." So we know it's there. We know the potential is there.

We need to boost the local revenues through an enhanced dedication and commitment to marketing, sales promotion and client relationships and enhancements. And if, as I said, it's properly executed, we have a high potential for growth.

Now there's only X number of hours in a day, so we have to then reach our available sales time and we would have to redirect more of it to this area.

Additionally, we need a renewed effort to reaffirm our rock-solid position in our communities. This is especially true with the local advertising agencies. These agencies and their clients need continued reassertion that we can drive business to clients and that a media vibe would not be complete without our group of stations. We tell our sellers be tall. I'm not talking about height, but I'm saying be tall. It's not that we hire a 6'5 sellers or basketball players. Be tall and be confident and tell a true story, pause.

Most of our stations got the message. Our larger markets already understood the above, and I'm sincerely appreciative of their efforts in Q1. Unfortunately, several stations chose to stay with their well-traveled and worn past and ignored the fact that business and the reality of doing business is changing. I personally apologize that we are not effective in a complete conversion as it is our responsibility at Saga and the management level to ensure that a redirection had been understood, embraced and a compliance had occurred.

It's a complicated sales universe right now. No question about it. There is so much misinformation in all base thoughts that are being circulated.

Radio is not over. True, we are challenged, but there are false statistics that are used to predict our future.

Let me give you an example. I'm not going to talk about bots or digital fraud, but there are many misconceptions, well, for instance, with millennials. It's contemporary belief that retail stores are doomed. Yet, according to Barron's last week, a worldwide study found 82% of millennials prefer shopping in a bricks-and-mortar store. Or how about this? Also with millennials and again according to Barron's, car ownership for adults under 35 is at 83.6%. This is about the same as it was in 1981. Radio works for both stores and cars, and it's proven. And I would be glad to show you various studies that reaffirm what we were just talking about.

What do we expect going forward? National is still down for Q2 but not nearly as bad as Q1. However, that could always just change on a day's notice. One never really knows. But perhaps, just perhaps, this means that the rate dropping to the floor by certain groups and the effort to grab share rather than rate is retreating. If so, I mean, like hallelujah because radio has been in a race to the bottom for diminishing national dollars. Local direct is up and, it will grow and is growing. However, acquiring new local business is like planting beautiful flowers where you start with the seed, patiently water, seek sunlight and then, voila, a beautiful flower and a relationship begins.

Let me kind of close a little bit with a story on determination and confidence. Down in Florida, where we began operating WOGK K-Country and WYND and affiliates in January, we had a number of new people join us at that time. Our new sales manager, Dean, is a very determined person, and he's done a great job for us in just the short time he's been there. Dean has been in the market for 20-plus years.

And I want to tell you about a call that he made with a new salesperson. They decided to call on a client who's an upscale realtor. This client had not used radio and was just like absolutely no, no way. Didn't believe in it, didn't want it, didn't want to do anything. Well, Dean and the account rep at this station, before the clock, created a really, really good spec spot. And they went to the client and were gated out. Essentially, there was this whole, "Oh my gosh. You can't even get in. Sorry, nothing. There's no chance here."

Our sales manager, Dean, asked the manager's representative of the real estate office, "Can we just play the spot?" And he was told, "No." Okay? And they were asked to leave. Okay. Thank you. Goodbye. Dean asked again and was told the same, "No."

On the way up, the representative from the real estate agency was right behind them as they were walking them out to the door. And Dean turned to his salesperson and said, "Play the spot anyway." And they started playing on a Bluetooth speaker that our salespeople carry for spec spots and -- as they walked slowly to the exit.

By the time they got there, the representative from the realtor said, "Well, that was really pretty good." And they left, and 2 days later, they had a new client and a first time schedule. The grit and determination, the old bromide in sales, "The sale starts when a client says no," is still valid.

Our management now is stronger. And yes, in the past several months, we have made changes in a few sales departments. We may have slipped a small amount in Q1, and on my watch, that's just -- that's not acceptable. We have kind of a mantra here that we must always be a little better. And another mantra with the stations, it's not we want something now, we want it right now.

The pace is increasing. The intensity is going to increase. The stations that had not made certain changes will be making them shortly. And we will continue to do what we have done now for 33 years, and that is be profitable and move forward and pay dividends and buy additional stations and grow the company. And that's pretty much what I have, Sam.
And do we have any questions?

Question and Answer

Samuel D. Bush
Senior VP, Treasurer & CFO

We did, Ed. We had 2 questions that came in. The first one is, what are your thoughts about the potential changes to the FCC's caps on radio ownership and how this could impact the industry and particularly Saga?

Edward K. Christian
President, CEO & Chairman

It's interesting because the bigger companies don't want more. A few of them have already come on record saying that we -- the caps are fine and leave us alone because they already have their thing and don't want to see new entrants coming in and creating clusters. A lot of the small operators are for it, some in some markets are not. It's a mixed bag at this point in time. But I think the interesting thing that will probably come out of this is that we will see caps being lifted to certain levels, but it will be not in the major markets, but more in markets like 50 and above, somewhere in there, I think, that you'll see that.

Right now, in a major a market with enough stations, you can have 5 FM stations and [indiscernible] you at some point in time. But I do think in some markets where you're limited now to 3 or 4 stations, you might see them increase and do that. Consolidation has not proven, sometimes, to be the best thing for the industry. And there are pros and cons on that, and we could talk about that for hours. But I do think that there is a likelihood, strong likelihood that, that's going to happen. Perhaps not so much on TV. The TV caps went well. They could come off, too. But there's a lot more pushback in TV than there is in -- from the communities and other interests than there is in radio.

Okay. Question? Is there another question?

Samuel D. Bush
Senior VP, Treasurer & CFO

We had a second question, and you've already talked a little bit about it when you were talking about national dollars and the challenges there as well as the rates there. But the question is, how do you view the potential impact on the industry of the big 3 getting more rational in their capital structures? And how will this impact advertising rates?

Edward K. Christian
President, CEO & Chairman

Well, I think you already are beginning to see the fact that -- with a couple of [AFD], big ones -- I don't want to say restructuring their capital or paying it down. They basically have just come out of chapter and reduced their debt that way, which is not the preferred way or choice of making your investors or stockholders happy. But I have noticed -- I think it was Radio One just yesterday or Urban One announced that they paid down debt. And more and more people are focusing on that, which I think is very healthy. As we look at the ability for companies to grow, their -- and multiples are changing in terms of cash flow multiples for the value of stations, I think it's a very healthy thing to do that.

So you're going to start seeing that happen. And hopefully, as the pressure relaxes on some of these groups, they will begin to see the fact that we have such value that we no longer need to create small networks or price the way we do -- a way they do, not the way we do, in terms of national dollars. I know one group that specifically has said that they will have no unsold time on their stations. And if you have 12 minutes an hour, you will have 12 minutes of commercials. And it's not a fact on price. It's a fact on filling every available inventory with whatever remnant rate is available in a particular time. And we just don't work that way.

So I'm really hopeful that we begin to get some -- well, there's a number of words I could use here, but let's just call it integrity and recognize the true value of radio broadcasting. I mean it's tremendous, and it shouldn't happen this way. We should not allow ourselves to be cheap, pushed aside by -- into -- driven into penance by buyers of our advertising and be told, "This is what you will pay. And this is all we will pay." And we have to have some dignity and say, "No, we're not -- we're worth more than that. We have value. We do good things for your clients. And for you to insult us like this is demeaning, hurtful, and it's not worth our time and energy to do business with you."

Wow, I said a lot on that one. That's probably what I had for today.

Samuel D. Bush
Senior VP, Treasurer & CFO

Well, that's good. I think that wraps it up. So Marybeth, we'll turn it back over to you.

Operator
Ladies and gentlemen, that does conclude our conference for today. We do thank you for your participation and using AT&T Executive Teleconference services. Host and speakers, you may stand by for debrief. All others, you may now disconnect.