

06-Nov-2012

# Saga Communications, Inc. *(SGA)*

Q3 2012 Earnings Call

## CORPORATE PARTICIPANTS

### Edward K. Christian

*Chairman, President & Chief Executive Officer, Saga Communications, Inc.*

### Samuel D. Bush

*Senior Vice President, Treasurer, and Chief Financial Officer, Saga Communications, Inc.*

### Warren S. Lada

*Executive Vice President, Operations, Saga Communications, Inc.*

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Ladies and gentlemen, thank you for standing by, and welcome to the Third Quarter 2012 Results for Saga Communications. At this time, all participants are in a listen-only-mode. [Operator Instructions] As a reminder, this conference is being recorded.

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

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### Edward K. Christian

*Chairman, President & Chief Executive Officer, Saga Communications, Inc.*

Thank you very much, Roma. Thank you all for joining us today. As usual, Sam will start off with the obligatory information. And with his comments – and I will join back in just a few minutes.

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### Samuel D. Bush

*Senior Vice President, Treasurer, and Chief Financial Officer, Saga Communications, Inc.*

Thank you, Ed. This call will contain forward-looking statements about our future performance and results of operation that involve risks and uncertainties that are described in the Risk Factors section of our most recent Form 10-K. Actual results may differ materially from those expressed in this conference call.

This call will also contain a discussion of certain non-GAAP financial measures within the meaning of Item 10 of Reg S-K. Reconciliation for all the non-GAAP financial measures to the most directly comparable GAAP measure is attached in the selected financial data table.

The third quarter continued to show growth in free cash flow as it grew 2.2% to \$6.1 million. For the quarter, we had \$1.5 million in gross political revenue, compared to \$390,000 for the same period last year. Radio, including the networks had \$669,000 this quarter of gross political revenue, compared to \$382,000 for the same period last year. TV's gross political was \$816,000 compared to \$8,000 last year.

National accounted for approximately 12.8% of gross revenue for the quarter, compared to 15.9% for the same period last year. Our network's net revenue of \$903,000 for the quarter compares to \$1 million for the same period last year. Gross political revenue for the quarter this year for the networks was \$229,000, compared to \$93,000 last year.

Station operating expense decreased \$560,000 for the quarter. This does include \$281,000 reduction in music license fees as we discussed on the second quarter conference call. Going forward we expect station operating expenses to be flat to up 1% for the remainder of the year.

In the other income or expense area, you will continue to see that we saw a nice reduction in our interest expense for the quarter. Interest expense for the quarter was \$381,000. Last year it was \$646,000. This is primarily due to the reduction in the level of our outstanding debt, and a meaningful reduction in interest rate we are paying.

We paid down \$10.250 million bank debt so far this year and as of today have \$18.6 million in cash on hand. As long as our leverage stays below two times EBITDA, we have no more required debt repayments. Our outstanding bank debt is currently \$57.750 million. As reported in the press release, capital expenditures in the quarter were \$1.4 million, compared to \$1.6 million last year. And we currently expect our CapEx for the year to be between \$5 million and \$5.5 million.

Two other quick items, for 2012 we expect interest expense for the year to be between \$1.8 million and \$2.1 million. Our anticipated total tax rate going forward will be between 40% and 41%. We anticipate deferred taxes for 2012 to be between \$4 million and \$4.4 million. Keep in mind that during the second quarter we entered into an agreement to sell our Greenville, Mississippi TV station, and now have it classified as a discontinued operation for both the current quarter, as well as previous quarters. The sale is subject to FCC approval. The sale will not have a material impact on our financial statements.

It was exciting that after the end of the quarter we announced that Saga would pay a special cash dividend of \$1.65 per share. The dividend will be paid on December 3 to shareholders of record on November 15. The aggregate amount of the payment to be made in connection with the special dividend will be approximately \$7 million. This dividend will be paid from cash that we currently have on hand.

As usual, we asked for your questions to be submitted via email prior to the call. Ed and I will respond to those questions that we feel we appropriately can respond to later in the call.

And I'll turn it back over to Ed.

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## Edward K. Christian

*Chairman, President & Chief Executive Officer, Saga Communications, Inc.*

Thank you, Sam. And we'll talk a little bit about the quarter and trying to give a little bit more visibility as to what went on. Actually we were kind of rolling along to a nice summer and also through the fall until we came up short in September. This is not the first time you've heard it. If you've been on other calls, you will hear the same thing that somewhere September just came along and was very trying for all of us in the industry.

We don't know why like everybody else, I checked first off to see if it was a blue moon. But that occurred in August, so we can't use that. I had Sam research that today. That was part of our thing. If we could use the blue moon thing, that's good for one time.

Actually we don't know, but what we're proposing is we have a new way to solve this problem. Warren Lada is here with me, and he has brought with him today his instant excuse eight ball, and we thought we'd try to give you some reasons why we came up short in September. So with that, I'm now shaking the eight ball looking for my first excuse.

Number one excuse for missing September: my fish died. Talk to my guys. Lighten up, would you? My number two excuse for missing our September revenue. There's nothing coming up here.

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**Warren S. Lada**

*Executive Vice President, Operations, Saga Communications, Inc.*

That is no excuse.

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**Edward K. Christian**

*Chairman, President & Chief Executive Officer, Saga Communications, Inc.*

No excuse, no. Well, I'll do one more then, okay. Car trouble was number two. That's why we didn't hit our numbers in September. We're actually off 3.4% in September. Fish died came up again. That's...

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**Warren S. Lada**

*Executive Vice President, Operations, Saga Communications, Inc.*

Have you got that?

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**Edward K. Christian**

*Chairman, President & Chief Executive Officer, Saga Communications, Inc.*

No, there's got to be one more -ah, jury duty.

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**Warren S. Lada**

*Executive Vice President, Operations, Saga Communications, Inc.*

Jury duty.

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**Edward K. Christian**

*Chairman, President & Chief Executive Officer, Saga Communications, Inc.*

I had jury duty during the month of September, as did Warren and all of our sales managers.

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**Samuel D. Bush**

*Senior Vice President, Treasurer, and Chief Financial Officer, Saga Communications, Inc.*

I did as well.

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**Edward K. Christian**

*Chairman, President & Chief Executive Officer, Saga Communications, Inc.*

That did it right there. Actually that's – I'm not trying to make light of it, but it's always very troubling when you see it – it just happened. And there wasn't a lot of warning. We were watching our pre-booking, and usually things break late, as I've been telling you. But this time things just shouldn't break at all, and it was a very difficult time for us.

With that in mind, the political for the quarter, as Sam told you, was about \$1.4 million. And if we look at all the political – and I'll tell you the number today for Q4, which we really haven't announced yet – we had about \$3.146 million for Q4. So all-in if you look at where we are – or I'm sorry, \$3.666 million of which \$3.146 was radio and \$520,000 was in television.

So this year we did about \$5 million in political for – which is very good. But that's down from 2008 from about six-point...

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## Samuel D. Bush

*Senior Vice President, Treasurer, and Chief Financial Officer, Saga Communications, Inc.*

\$6.5 million.

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## Edward K. Christian

*Chairman, President & Chief Executive Officer, Saga Communications, Inc.*

...\$6.5 million. So we were down, and that basically was that in 2008 we had some more important House and Senate races, which added additional dollars into it. Political did break late this year. We were all sitting around in September waiting for it to come. And finally the gates – the floodgates opened up and kept building through – even today we're still running some political, but that all comes to a quick end as of tomorrow.

I think Q4 will still be up for the quarter. It's showing that way and pacing that way. But it is still, as it always has been, kind of a day-to-day struggle for us here.

One of the things that I do want to mention in the Q3 is that national was down for us. Actually national was down 19% for the quarter. Now for us, because of the markets we're in it's not as sizable a number it would be as if we had all top 10 or top 25 or top 50 markets. But that for us is still a lot of money.

I noticed that other companies are reporting that their national was down. One company mixed political in and counted it as national, which is something that again makes it difficult to look at comps for everybody. But I suspect if you took the political out, their national would have been down as well for that period of time.

The only one that was up reported yesterday was AEO as Clear Channel. It's nice when you own the rep, and they did a very good job on that, but they did have an up one. And that's troubling too, and I think I'll take just a second here to kind of share with you some thoughts on national and where it's headed.

As you've heard me talk before, part of the issue that we've been facing in the industry is the total depersonalization of the relationship between the station and the advertising agency, especially in major markets where it has become transactional. And as I think I mentioned it one time that – years ago I had a friend of mine who was working for another radio company. And he at that time said – and this is about 10 years ago or more. He said he called his station rep Fax because everything would just come in on the fax machine and losing contact that way.

And now the agent – the relationship has even changed to now where we are getting by email in our major markets forms to fill out, listing the station call letters, explaining to us what the cost per point is. And you fill in the blanks of my cost per point is this, my schedule with my dollar cost is this. And then you hit return, and that goes back. And this is how I feel the trend is starting to even more remove the personalization or the interpersonal relationship that exists.

I kid you not, but I think that, if we look back a few years ago when Google tried to enter into the business of buying a remnant inventory and selling that, at that point in time, Google had it set up because we also owned the automation equipment that they would go directly into your logs stations and add spots in at night for remnant inventory.

So the potential was there, and it wouldn't surprise me if in five years from now we ended up with a rep called Watson, which was a giant – or a small computer, as it would be at that point in time where it would automatically interface with the agencies and would fill in the parameters because it would have all the stored information that they needed to do that.

I'm not a futurist, but it is troubling, and it is a concern for the industry. Fortunately again we try to make our money in markets where we are not dependent upon national. That our interpersonal relationship – we work on our skills all night long. But that again is something that I did want to bring up and kind of explain to everybody.

There really isn't a lot of excuses for why national is off. It either is or it is not. I suggest that part of it is also due to pricing that is something – at some point in time [ph] Squad (11:18) or somebody else would do a report, which could show what the cost per points have been. Or on a global trend – we're not global, but more of a national trend as to what they're seeing and which way it's going.

There continues to be high rate pressure. There continues to be packaging. There continues to be deals made with certain advertising agencies or bundling. And it is an evolving strategy in national business. Again as I said, our goal here is to try to maintain and grow our local revenues, and that's always been the philosophy of the Company.

Only other thing – that there is really no new trends in the industry. We haven't heard about HD radio for some point in time. That's a revenue in anticipation from several years ago that never materialized for us. But I think that the tried and true ways of running broadcast stations are still the same.

Just to kind of give you an idea of certain product categories for the market, we'll go dive a little bit deeper into specific category performance. We did see growth in auto. It was 9% for us in the quarter. Seeing a resurgence in home improvement; that's coming back for us too. Housing started to come up; home improvement appreciates. It was about 6% for the group here.

And the other thing I should say – oddly enough we're seeing an uptick in the recruitment advertising in markets like Des Moines, Columbus, and Charlottesville. Asheville was starting to show some growth in that area, too. But that's an interesting trend that we're watching to see where that goes. And hopefully if we can use that as a mirror of something in the economy, then perhaps we'll have good news for 2014.

With that in mind, we do have some questions here that I would be glad to read out and we'll just – Sam and I will determine who takes it.

## QUESTION AND ANSWER SECTION

**Edward K. Christian**

*Chairman, President & Chief Executive Officer, Saga Communications, Inc.*

Q

[ph] Jim Boyle (13:18) in a year when the radio industry has easy comparisons from 2011, along with some political boost, are you surprised even in a slow growth economy that the radio industry revenue appears headed for minimal growth. Why can't the radio industry do better? Is it the external advertising competition, the internal radio advertising competition, or is it something else that some radio group's management might be misleading in operational choices?

If I were betting on this, I would say that it's probably the internal radio advertising competition in the major markets. That certainly would be my guess on that. In the secondary markets, I think it's a sluggish business. So if you put those – a sluggish business in terms of the retail sector.

And again as we have in the past, we really haven't talked a lot of product categories that have gotten better or new categories. And if we all remember, for a couple years there, healthcare was the new buzzword where we were getting lots of dollars out of healthcare. And we're not seeing new product categories come along. And I don't think it's the fault of not selling, but more of the fault of just a general cut-back in terms of what's happening in that area.

Businesses still sound, fundamentally sound. There's no issues that I could sit here and tell you are the big uh-oh's that are moving in the horizon for us. It is just one step at a time. But I must admit that there are days I feel like Bartholomew in Bartholomew and the Oobleck. For those of you who haven't read Dr. Seuss's books, it involves a chemical ingredient which slows down growth and makes everybody move very slowly. And that's what we're seeing here.

**Edward K. Christian**

*Chairman, President & Chief Executive Officer, Saga Communications, Inc.*

Q

[indiscernible] (15:04) – oh, here we go, question number two. Saga has long been known for investment in local radio, local people, local programming, and local management. Are you pleased that other groups are seemingly headed for increased centralization, lower investment, and local programming, people, promotion, and community involvement, and carrying more national syndicated voice tracking on top of increased commercial load and higher bonus spots since Saga might benefit from these operational strategic choices?

Let me give you one example we just finished a budget not more than an hour ago with Charlottesville, Virginia. And I was talking with our manager about the fact that one of our stations, WINA, which is a news/talk AM station, has 4, 5, 6, 7, 8, 9, 10, 11 hours out of – I'm sorry, 12 hours out of 18 hours a day of live local.

And his thing is that, when he goes into the community and talks to people and they complain about his rates, he says, unlike a lot of other people who bring in and import from distant states or distant lands syndicated programming, we have top talent here that talk about relevant community issues and community news and information. And it costs us more money to do this, and therefore we have to pay for this because you're also getting more people listening to the localism.

And I think it's a part of the thing that we saw totally subscribe to – is that that makes a big difference in what we're doing. There happens to be another news/talk station in the market that has all of the "nationally syndicated

franchises," and – which we don't really even have time for because we're also – and I didn't mention this – the flagship station for the University of Virginia sports. And by the time we carry the football and the basketball games and local high school football, our quotient of local programming really gets to the point in time.

That's where we're going, and that's what we're staying. The other ones might want to do this for cost savings, but as I've always said, I don't believe you can save your way to prosperity.

Sam, I'll toss this to you: are there any reasons why 2013 estimates and 2014 could be noticeably different to the radio industry for revenue growth?

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**Samuel D. Bush**

*Senior Vice President, Treasurer, and Chief Financial Officer, Saga Communications, Inc.*

A

I think that – a lot of that has to do with what Ed has already talked about. And that's just in a fact of where the economy's going to go and where the overall stability in the markets are. That has a huge impact on it – radio with the listenership that we have that you hear about all the time. Relative to the high listenership, television obviously is still very pertinent.

And obviously I think we're going to see some increase in the revenue growth in both 2013 and 2014. But obviously only time will tell and that's going to be based on to a great degree the economic impact as we go forward.

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**Edward K. Christian**

*Chairman, President & Chief Executive Officer, Saga Communications, Inc.*

Q

Question four: looking back, are you now very happy now to own large market stations?

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**Edward K. Christian**

*Chairman, President & Chief Executive Officer, Saga Communications, Inc.*

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Well, I believe that our – no, because we do quite well in Norfolk and Columbus. Milwaukee is proving to have some challenges. But I think that we're passed – we have crossed over the Rubicon on that and are on our way to conquest again with that.

We're glad that we have the mix that we do so that we're not solely dependent upon major market radio for our livelihood. That does report an important part of Saga, but it is not the essential component. And personally, yeah, I like doing real radio, and I feel that you have to compromise if you're doing business in the larger markets today. And that's not particularly the vision I had for running a broadcast company.

With that, Roma, I think we have done our questions and our reports, trying to keep everything somewhat brief, and on track today. So I'll turn it back to you.

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**Operator:** And ladies and gentlemen, it does conclude your conference for today. Thank you for your participation and for using AT&T Executive Teleconference. You may now disconnect.



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