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Saga Communications, Inc. *(SGA)*

Q1 2013 Earnings Call

CORPORATE PARTICIPANTS

Edward K. Christian

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

Samuel D. Bush

CFO, Treasurer, SVP & Head-Investor Relations, Saga Communications, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Saga Communications First Quarter 2013 Results Call. For the conference, all the participants are in a listen-only-mode. As a reminder, today's today this call is being recorded.

I'll turn the conference now to, Mr. Ed Christian. Please go ahead, sir.

Edward K. Christian

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

Thank you, John. Good morning, good afternoon, wherever you might be in the U.S.A. listening right now. And thank you for joining us. As it has been our historic tradition, Sam Bush will kick it off with his summary of events.

Samuel D. Bush

CFO, Treasurer, SVP & Head-Investor Relations, Saga Communications, Inc.

Thank you, Ed. This call will contain forward – certain 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. 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. Reconciliations for all the non-GAAP financial measures to the most directly comparable GAAP measure is attached in the selected financial data table.

The quarter was challenging from a revenue perspective. During the first quarter last year, we had \$500,000 in gross political revenue compared to \$62,000 this year. Gross national revenue was down \$505,000 for the quarter this year when compared compare to last year. The bright spot was our local revenue efforts. We increased our gross local revenue by \$523,000 over first quarter last year, this went a long way to make up for the national decline, but it wasn't enough to make up for political as well, resulting in our net revenue being down 1.3% for the quarter.

National accounted for approximately 11.6% of gross revenue for the quarter compared to 13% for the same period last year. We are anticipating a bit of improvement in revenue growth for the second quarter as currently April finished up mid-single digits, May is relatively flat with last year and June is up low to mid-single-digits as of today. Keep in mind that last year, we did \$717,000 of political during the second quarter.

Station operating expense decreased \$272,000 for the quarter. Going forward, we expect station operating expense to be flat to up 1% for 2013. Retrans revenue from our TV stations was \$537,000 in the first quarter, up from \$431,000 last year. Retrans expenses, those payments that we give to the networks, were \$150,000 in the first quarter compared to \$127,000 last year. All of our existing retrans agreements are in place through 2014.

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 \$358,000. It was \$528,000 for the first quarter of 2012. This is primarily due to the reduction in the level of our outstanding debt and a meaningful reduction in the interest rate we are paying. As of today, we have approximately \$25 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 \$1.2 million, which is approximately the same as last year. We currently expect our CapEx for the year to be \$5 million. For 2013, we expect interest expense for the year to be between \$1.8 million and \$2 million, given the existing interest rate environment, our anticipated total tax rate going forward will be between 40% and 41%. We anticipate deferred taxes for 2013 to be between \$3.5 million and \$4 million. We did sell our Greenville, Mississippi, Television station on February 1. We recorded a \$223,000 gain net of taxes from this sale. On January 16, we completed a 4 for 3 stock split. And on March 6, we announced that our board of directors had approved increasing the amount available to repurchase shares of our Class A common stock to \$30 million.

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

Ed, back to you.

Edward K. Christian

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

Have we ever had questions that we couldn't feel we could appropriately respond?

Samuel D. Bush

CFO, Treasurer, SVP & Head-Investor Relations, Saga Communications, Inc.

No, actually not.

Edward K. Christian

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

I'm just wondering about that. Is that just something which you have to say?

Samuel D. Bush

CFO, Treasurer, SVP & Head-Investor Relations, Saga Communications, Inc.

Well, something I said for quite a while now. So, maybe I should look and see whether I really have to say it or not.

Edward K. Christian

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

I would like to know what an inappropriate question is.

Samuel D. Bush

CFO, Treasurer, SVP & Head-Investor Relations, Saga Communications, Inc.

All right. I will look into that.

Edward K. Christian

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

That would be good. Thanks, Sam.

The quarter was interesting. We kind of missed it a little bit because we thought it would break near the end of December that we're kind of waiting for that moment, what we saw – suddenly saw January would come alive and it didn't. and we recognize it probably about a week later than we should. But everything has been breaking so late – of late that we weren't overly concerned about it. And then, February came and that was flat. And then, March came and we got a glimmer of something decent in there, but – and balance it was what I call a grey quarter. And I'm not talking to any shades of grey, but what I'm really thinking about is if you are familiar with being in the north of the United States in a winter and you wake up in the morning and you look out and the sky is all clouds and it's all slight grey. And that's all you see all day long, this is grey sky. And that's kind of how first quarter went.

And then, we – I lived with it. It's over. I can't point a figure to any seminal event or person. I do think, however, that the winter and weather might have been part of the culprit for the thing. We can't blame anybody. I couldn't try and single out any air personalities or something like that and point a finger there. I take responsibility for it. And essentially, when you get down to it, it's a very simple answer. And that is we essentially didn't sell enough. And that's what happened in the first quarter. We miss the cut point and we didn't sell enough.

However, sometimes, we take some short term losses than long-term gains. From Sam's numbers, the takeaway is that we were off nationally. But we made up that entire shortfall locally. And that is keeping with our desire to transition away from transactional business to local station into all business. For those of you, who'd been on the call before you've heard me talk about the national being transactional, then local being relationship, this is where we believe the growth in revenues will be long-term. And that is – this is in the development and nurturing of local accounts into long-term radio and TV advertisers. We've made that shift in TV and it shows in our revenue. Radio might take a tad longer and it's more of a function of the industry than it is just Saga.

Additionally, as Sam said, if you delete political advertising from our numbers, we can compare apples-to-apples. We can say that we were flat. Even at that, we were still as profitable and that's one of the good things about broadcasting.

In the first quarter we had more markets up than down. That's good news. Our profitable market currently is Portland, Maine. We try and not to shelter our properties [ph] throughout this occasion (07:50) as we believe that we have the responsibility to call it as it is.

During the first quarter, we allocated about \$200,000 in Portland for strategic analysis, music tests, outside consultants, promotions and marketing. We learned a lot from this for our cluster. And we've recognized that frankly, we waited – here again, the problem of waiting. We frankly waited too long with the status quo. And now, we had to make resulting furthering changes to place our multiple properties back in contention. That sometimes is a fatal fall when you wait just hoping that whatever might – the reality might change itself.

Over the years, for those who have been historically with us on the calls, we've talked about other markets such as Columbus, Norfolk, Asheville, Milwaukee, all of which have had their ups and downs. We did the same full check diagnosis on each of those markets. And Asheville and Milwaukee are in nice upward transitions.

In the other markets, Columbus and Norfolk, for instance, everything has been put in place and your revenues are showing great upward trends. When I just saw the [ph] Miller campaign (09:02) for Norfolk today and compared to where it was a couple of years ago, it is a quantum leap for the stations in terms of where they are in the marketplace, and then we're really proud of Wayne Leland and his group down there.

Now at the end of the day, we can talk about sales categories, what are hot and not hot. But I think what you really want to know is, Ed, what are doing to enhance volume? And that's a very fair question. Sam said we did pay dividend last year. And Sam told you we also have about \$25 million – a little more than \$25 million in our cash position. Sam mentioned – didn't actually mention what the leverage number is, but we're currently at 1.5 times EBITDA. Solid company. One question to ask of us is, what do you see as problems ahead?

I guess, I can tell you that a fluctuating economy and that wouldn't be far off base, we suffer at the whims of consumer confidence. When people feel good, they buy. Our advertisers advertise, and we prosper. Feeling good has recently been more fleeting moments than normal. I had the opportunity to talk with a guy last week, who is in the wall, windows, and shades, and blinds and everything like this and we were talking about – and [indiscernible] (10:30) business. He said what's coming back? He said, you know, he said we just hit the wall in 2009. And so, I went from 34 employees to where I have four right now. And I'm one of the four, but I'm still in business. He said in my business, with blinds and drapes and whatever, he said, if you got a recession, no problem. That's not the first thing you should do. You don't walk into a house and say, [ph] mod (11:00) we're going to change the blinds this year.

You say that's good enough, they're going to last and they can wait. Now, he said how are you doing in advertising? He said we're back now. And I said, you know, it's kind of counterintuitive. You're supposed to advertise in a down market. He said, that's nice to say and intellectually you're probably correct. But when you got to pay the bills, even advertising suffers. That's kind of where we are right now. Let's see feeling good, feeling bad, nature of the economy.

If we look back, there's nobody out there that would dispute. That'd be several years starting with 2009 and that the broadcast industry was in kind of like nuclear winter. It lasted several years, where [indiscernible] (11:46), but the industry growth is not what we anticipated. And we're pretty good at anticipation and projection. I mean, I got to tell you that we've talked about this before that we can kind of nail it. One of my friends said to me, radio is really like the canary in a coal mine.

Now in the first quarter, with that said, canary was probably still singing, but I think he did have a bronchial cough of late. We have more so and less cough and that's good. So we're seeing a change. We're seeing things beginning to congeal a lot in front of us and that's a relief from the kind of frenetic [indiscernible] (12:28) pace that we went through in the first quarter.

I would like to put the last quarter behind us and we have. And it wasn't right [indiscernible] (12:36) and it frustrates me. We have great managers. We do nail it pretty good. But we ran out of boards to our clients in the first quarter. That changes. And I do want to touch on one other thing before we get on to some of the questions here.

The last time we were on the call, we talked about national advertising. And I talked about it early in the call about how when you look at things differently on transactional that we do on relationship. And we place a higher

emphasis on this. And there is something we will disagree with some of the comments that I've made last time. And I understand that, that's part of the thing, where I have a certain fault, that they have a certain fault and they can tell me what they think.

But what I'd like to, and I was saying about this before the call, when we have our next call, I'm going to ask Sam to call [indiscernible] (13:23) which is the company in [indiscernible] (13:27) New York, which provides a Holy Grail for advertisers which shows what the [ph] clause or pointer cost the CPM is for TV cost per point at (13:34) radio is across the country. And I'd like to look at this because intuitively I want to come back to you and talk to you about what I said earlier and that is what's happened on the transactional side versus what's happened on the relationship side.

I submit to you that if Saga Communications can increase by over \$500,000 in retail sales in our first quarter, but that is an accomplishment. We're bucking the trend when national was off and we were off. And that's where we try to really work on our business and concentrate on that.

Let me put this perspective for a second. I'll just tell you this. There was an article in Adweek last week written by Anthony Crupi and I'll just read a couple of paragraphs out of it.

And – while it will be a number of weeks before the networks will be able to accurately count, the house insiders suggest that the 2013 to 2014 upfront is likely to be a bit less robust than those of years past.

I'm talking about how the network television is down in audience view and something we all know. Then we go into something else here, just [indiscernible] (14:52) said they anticipate a relatively moderate marketplace, with CPM increases limited to the mid-single digits. Of course, pre-front chatter is by its very nature propaganda. [indiscernible] (15:05) tend to downgrade the market by a point or two, but in this case, Wall Street watchers can curve, Pivotal Research Group analyst Brian Wieser said he believes CBS will lead the pack with an average CPM hikes of 7% percent while the other nets should fall within the 4% to 6% percent range.

Well, kudos. You know what – clap hands, mega claps, the television here in a down market where they're losing viewers to cable, raises the CPM by 7%. And what do we hear from radio other than silence from our industry? That's what I want to come back to next time on our next call so. Yeah, it gives you something to stay tuned to or to tune for [ph] is it like being this (15:52). Since I think that you're being able to appreciate a little better, what our long-term game plan is, that's pretty much which I have for this.

In the interim, please rest assure that with Saga are ever vigilant expenses, but not at the expense of diluting our franchises, very important during what I call the nuclear winter. We never cut into the [ph] Meryl (16:21) of the company. We kept it [indiscernible] (16:22) so that what we did was fill the localism that makes radio and television great in the marketplaces. We continue to expand and evolve our sales presence so that we are market leaders. We're filled with forward momentum regarding the worth of our products. Sam, I think we have some questions here?

QUESTION AND ANSWER SECTION

Samuel D. Bush

CFO, Treasurer, SVP & Head-Investor Relations, Saga Communications, Inc.

We do. We got a few questions from Eric and Marci over to...

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Edward K. Christian

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

Did I talk too much?

A

Samuel D. Bush

CFO, Treasurer, SVP & Head-Investor Relations, Saga Communications, Inc.

No, you always do very well with that.

A

Edward K. Christian

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

Thank you.

A

Samuel D. Bush

CFO, Treasurer, SVP & Head-Investor Relations, Saga Communications, Inc.

We got a few questions from Eric and Marci of Wells Fargo, and also from Aaron at Sidoti. A lot of them we've already covered, so I'm just going to go through some of the ones that we haven't covered. They both kind of asked a question about, in a little different way, but M&A activity has been very active in television. How are you seeing it in radio and what are your thoughts for 2013 in the M&A environment?

A

Edward K. Christian

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

Boy, boy, television has been a kick a – I'm telling you this has been a whirlwind of activity in the television marketplace. And it's not something that we see in the radio. I think it's because there's a lot – less TV stations than there are radio stations when you're dealing with the universe of 12,000. Also television kind of held their value pretty well. I mean, they didn't have the horrendous switch in valuation that radio has gone through. In television right now, the multiple is still 10 times cash flow, maybe a little bit more, maybe a touch less. But maybe it was 14 and heavy days. And that's not that much of a disconnect if you push it from 11 to a 14.

A

But when radio, when you go from a 15 times cash flow down to a 5 or 6, it's a big disconnect. So, we still have a fractured marketplace. Properties have been moving. There have been companies that – where their private equity or their investors or whatever said is enough, just take this out to market and see what happens. I think if you flush that inventory out, which is going pretty quick than what you have, is a second wave coming up. And I think you see that more not in 2013 but in 2014. There's still a tremendous amount of pent-up inventory that where people are hoping that they can get back to the good old days.

And I'm talking about big companies that have these levels of expectation that if we just wait, we'll get back up. And I don't necessary see that happening right away. And I don't think they have the expectancy of life and to wait it out to watch this change. So, it's tough plus you really don't have the banks who are out maybe three times cash flow right now. And you got private equity, which is in a lot of respects, abandoned the radio industry. I mean

they're – that's the first fickle friends to fly away when this occurs. And that's what we have happening right now. So, we don't have debt. We don't have equity. We have pricing where nobody is happy about it. So, we're still a confused industry right at this moment.

Samuel D. Bush

CFO, Treasurer, SVP & Head-Investor Relations, Saga Communications, Inc.

A

There's a follow-up question to that, Ed, talking about how we're going to use the cash that we have on hand in our cash flow, as how do you prioritize uses of free cash flow.

Edward K. Christian

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

A

We're going to buy the amusement park.

Samuel D. Bush

CFO, Treasurer, SVP & Head-Investor Relations, Saga Communications, Inc.

A

I think somebody tried that one and didn't work so well for them.

Edward K. Christian

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

A

Okay. Three flags over Saga. You don't like that idea?

Samuel D. Bush

CFO, Treasurer, SVP & Head-Investor Relations, Saga Communications, Inc.

A

It would be amusing.

Edward K. Christian

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

A

Yeah. Very good. We know that our requirements to run the joint – but having \$4 million cash on hand. So that leaves again a delta there of 20-some-odd million dollars. And what do we do with it? Well, obviously last year, we looked and we said let's reward some of the patient stockholders that had been with us for years and years and years. Again, we don't believe that paying down a debt below a certain point is in the best interest of our cash because I believe that every company needs a certain amount of debt to be a healthy company. So, that's not something you should probably see. So, if we can do an acquisition? We'd love to. I mean, we're not out of the acquisition business. We have a temporary hiatus and we've actually had kind of our interest peeked on a couple of opportunities that didn't come off fruition. So, we would consider that. We'd certainly look at doing the dividend again.

We certainly look at a stock buyback, if we feel that there is a prudent price point in our stock to do that. Those are really the three options that we're doing. We're not trying to hoard our cash because it decreases in value by hoarding it. That's when the things when, I – the interest we get on \$25 million literally pays our bank fees. And that's certainly not a prudent use of cash. So, we're discussing it. And directors are ever vigilant in reviewing which way we go.

Samuel D. Bush

CFO, Treasurer, SVP & Head-Investor Relations, Saga Communications, Inc.

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Final question, it's more towards the operations and basically any updates on digital initiatives and what are your thoughts on digital right now?

Edward K. Christian

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

A

Well, there's some very some interesting things going on in digital and especially in the music side right now, where the digital rights are taking on different platforms. Publishers are pulling them from performing rights organizations and keeping digital catalogs for their streaming and are going to source licensing. And if you're talking in digital about what do we do on our website? I think we're finding ways to monetize that. We're not inserting commercials on the streaming because we believe that we can add more value to a peer replication of our analog signal.

We do use digital to have additional facilities in the marketplace through the use of translators to enhance a digital signal. And digital [ph] display (22:13) is not going away and I'm really proud of [ph] ambiguity (22:19) because now they're beginning to place more and more HD radios in the dash. And that's a whole other subject is the new dashboard. And what it's going to do in the next several years, how it will everything. I have a lot of people come to me and say – oh my God, aren't you afraid of – what happens for streaming, once we're able to do this and you can put your iPhone in there and you can access it and stream whatever might be Pandora or whatever in your car? Well, I know that I can't keep a cell call for longer than five minutes in certain places. And it's certainly can't – cannot travel across the United States without losing a signal in a very short period of time. I think digital in terms of that is still problematic in cars. There's no question we're seeing it in our markets in terms of digital listening on computers or PCs or tablets or whatever it might be. In fact, I don't know if I can just pull my hands on it right now.

But I just got a tremendous thing on our digital audiences, on our stations and how many hours are being listened. And it was really quite impressive to look at the growth on it [indiscernible] (23:33) have it here. But I don't want and I'll just – I'm not going to [ph] pun and (23:40) fake it. I don't, but I will be glad to answer that. I know it's here somewhere and I'll be glad to answer questions as to what we look in stream and what the additive value is to us on that. But we got to report each month on the quarter, the hours streamed by station and the number of people that are on there. So we can monitor and track which ones of ours are growing. And then, we can know how to expand those, whether we expand bandwidth on those stations to accomplish that and accommodate more people where some of our stations that are not as utility minded, might have their – we have to readdress that. It's here. We have to deal with it. It's not going away. It's how do we apply it properly and prudently without losing focus on what we do.

Samuel D. Bush

CFO, Treasurer, SVP & Head-Investor Relations, Saga Communications, Inc.

A

I think that's good and I think, John...

Edward K. Christian

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

A

Well, thank you. I appreciate that. And, John, if you think it was good?

Operator: That was very good.

Edward K. Christian

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

A

Thanks, John. All right. We're done now. So, it's your turn.

Samuel D. Bush

CFO, Treasurer, SVP & Head-Investor Relations, Saga Communications, Inc.

We'll turn it back over to you to wrap it up. And thanks, everybody, for calling in today.

Operator: And, ladies and gentlemen, that does conclude your conference. Thank you for your participation. You may now disconnect.

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