



Final Transcript

SAGA COMMUNICATIONS: 2nd Quarter 2013 Results

August 6, 2013/2:00 p.m. EDT

SPEAKERS

Ed Christian – President and Chief Executive Officer

Sam Bush – Senior Vice President and Chief Financial Officer

PRESENTATION

Moderator Ladies and gentlemen, thank you for standing by. Welcome to the Second Quarter 2013 Results Conference call. At this time, all participants are in a listen-only mode. As a reminder, this conference is being recorded.

I would now like to turn the conference over to our host, Mr. Ed Christian.

E. Christian Thank you very much. Welcome to Q2. And with that, with some short verbiage and analysis, here is Sam Bush.

S. Bush 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 Factor 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.

Net revenues increased 2.6% this quarter. During the quarter, we had \$172,000 in gross political revenue, compared to \$717,000 last year. Netting out the political revenue, our gross revenues increased 4.1% for the second quarter.

We experienced nice growth in both national and local this quarter. Our gross local revenue increased 4.4% or almost \$1.2 million over second quarter last year. National increased 7.6%, or \$342,000 over the same period last year and national accounted for approximately 13.1% of gross revenue for the quarter, compared to 12.5% for the same period last year.

We are anticipating a bit of a revenue challenge in the third quarter, as last year we had almost \$1.5 million in political for the quarter. That said, July started the quarter off nicely, being up low-single digits. August and September are both pacing down low-single digits, but in reality, it's too early to tell how they will finish.

As stated in the press release, station operating expense increased \$1.5 million for the quarter. Over half of this increase was due to the expense in the second quarter of last year being reduced by the \$851,000 credit we received from music licensing fees. Normalizing for comparison, our expenses were up 3% for the quarter.

Retrans revenue was \$588,000 in the second quarter, up from \$466,000 last year. Retrans expenses, payments to the networks, were \$153,000 in the second quarter, compared to \$106,000 last year. You'll see similar results in the third and fourth quarter for this year.

In the other income or expense area, we continue to see a nice reduction in our interest expense for the quarter. Interest expense for the quarter was \$357,000 compared to \$458,000 for the second quarter of 2012. This is primarily due to the reduction in the level of our interest rate, as well as in the amount of debt we had outstanding. As of today, we have approximately \$23 million in cash on hand.

On May 31st, we amended our credit facility to extend the maturity two years to May 31, 2018. The facility is for \$120 million and consists of a \$30 million term loan, which is fully drawn, and a \$90 million revolver, which has a \$20 million outstanding balance. Our current rate, based on our leverage, is 1.25% over LIBOR, and we do not have any floor on LIBOR.

As long as our leverage stays below 2 times EBITDA, we have no required debt repayments. Our current leverage is 1.35 times. We paid the outstanding principal balance down \$7,750,000 during the quarter.

As reported in the press release, capital expenditures in the quarter were \$1.3 million, which is approximately the same as last year. We currently expect our cap ex for the year to be between \$5 million and \$5.5 million.

Two other quick items for 2013. We expect interest expense for the year to be between \$1.4 million and \$1.6 million. Given the existing interest rate environment, our anticipated total tax rate going forward will be between 40% and 41%, with deferred taxes for 2013 to be between \$3.5 million and \$4 million.

As usual, we asked for your questions to be submitted via email prior to the call. Ed and I will respond to those that we haven't already responded to at the end of Ed's comments. Ed, back to you.

E. Christian

Thank you, Sam. Also in the room with us today is Warren Lada. So in the background, if you hear somebody going, "Go boy" or "You rock," that's Warren kind of urging us on as we continue on with our comments.

I'm going to give you my monic right now or another way to remember something and it's monosodium glutamate, MSG, and I did this with Warren and Sam before the call, so they would know. And Warren said, "Oh yes, that's associated with Chinese restaurants." Actually, it's called the Chinese restaurant syndrome because, one, MSG was very big at that time. It had caused or it was portended to cause headaches when they go into Chinese restaurants and we're not saying anything about that, except that MSG will help you remember moderate sluggish growth, which is what I feel that we're in right now.

Moderate sluggish growth. It's a wonderful way of explaining exactly what's going on; moderate, sluggish, and we're still growing. That's what we're in right now. I think I'm afraid that we're going to be in it for some time and not only as an industry, but also as a country. Bad news, the economy could be near ... speed, I don't think so. I don't see a recession. GDP was up 1.7% for Q2.

Now most broadcasters outpaced that, which is good news, because I always try to make sure that we're doing more in revenue than what the economy is doing in GDP. Good measure. You've got to keep ahead of

that curve. Broadcast industry might be moderate right now, but it is an industry with a steady cash trail. Sam mentioned, we paid down \$7,750,000, and we still have about \$23 million cash on hand. It makes us feel very comfortable.

Let me tell you a little bit about some market news, what's going on. We have Miller Kaplan in about six of our markets for reporting revenues, which is our barometer. Not entirely helpful for the whole company, but it does give us a little peek inside the window.

Two of our markets the revenue was up, Columbus, as a market, it was up 6.6%, and Des Moines, by 3.1%. Others were down such as Asheville, down 6.6%; Milwaukee, 10.7%; Norfolk, 0.8%; and Springfield, Mass, down 4.7%. With our own stations reporting in those markets, we are up 12.5% in Columbus and 16% in Norfolk; very impressive.

In our other revenue reporting markets, we were flat to down. No clear trends. But it, again, shows that it is mixed and somewhat choppy and difficult to predict.

Sometimes markets are tough to cough up sales. We're all under a lot of sales pressure to keep momentum moving and to keep revenues increasing and to do everything we can to buoy our salespeople in the markets. You really have to be cautious, though, because even if you're trying to cough up more dollars, if you push on the diaphragm too hard, you could end up coughing up a hairball, and that's certainly not pleasant at all. We have to watch that in what we do. As an industry, over the years we've tried every possible trick to hype sales.

I was thinking about a few of them before the call, and we'll go back to the early '60s with guy by the name of Ralph Atlass who was legendary as an owner, and he owned WIND in Chicago. And one morning, all the salespeople came in to work and they walked into the sales office, and their desks and their chairs were gone. It was an empty room and they stood there for a moment kind of wondering what was happening. Ralph Atlass walked in, they said, "Mr. Atlass, we don't have any desks and chairs." and he said, "No, and you won't." He said, "I actually thought about gluing the chairs to the desks upside down, but that would damage the furniture." But he said, "You'll get your desks and chairs back when we increase our revenue." These are the early Ha-ha stories.

Another one that comes to my mind, another legendary sales manager, Hal Tower in Allentown, Pennsylvania at the time. Hal made sure that his sales office had the phones mounted to the wall. They were like wall phones and your desk was kind of a box that had little chains on it that would fall down. And if you were lucky, you got a bar stool to sit on. This was your desk with the phone right there. One morning, the sales staff came in and they found that when they tried to remove the desk from the hooks, that he had installed little padlocks on all the desks and told the salespeople that they wouldn't get anything until they went out and sold more.

These were in a very interesting and different time. Today, we take a little bit more harsh reaction to our salespeople and I don't think that that's necessarily the best way to behave in that environment. Look, we tried everything in this business. Spend \$10,000 and get a free piano, join us on a trip to Cancun. In the end, it comes down to having a well-crafted product that people listen to. I've said this time and time again. Also, then, if you have effective advertising copy, advertising on the radio and television works. As long as we and sales, our people in sales, remember fundamental steps; attention, interest, desire, conviction and action, we can make it happen.

This is why broadcasting is great. A factor of advertising works. It is just coaxing the money out from the advertisers that take a little bit of time.

We try to incorporate the questions we were asked in our dialogue this time, so we don't end up doing that. I had one question on the Omnicom and Publicis merger that was announced just last week. And it's huge when you think about it. The revenue in these two combined agencies, with all their sub-agencies, will be \$23 billion, and the radio industry alone does \$16.5 billion. So what we have are two agencies with all of their revenues just more than the entire radio industry in the United States. Pretty heavy.

But I want to read a little bit out of an article here that was in the *Economist*, a British publication, which is wonderful but wordy. It talks about this, and I just want to read you a couple of paragraphs because it kind of portends a little bit of the future that, perhaps, is going to be happening to the large advertising segment.

"Online advertising is getting speedier and smarter. Many online ads are now bought and sold automatically with real-time bidding. Days of old ad

executives would ring round various publishers to find good rates, and then consult the client before placing the ads. Now, advertisers can specify which sort of audience they want to reach and how much they want to pay and use ad exchanges to buy space."

Michael Rubinstein, the President of AppNexus, one such exchange, says, "This has improved ad-buying in the same way that eBay was a big improvement on garage sales."

This is not a comforting thought. I would daresay it's not even really witty, but all of these developments make the future role of the advertising agency a lot murkier. Omnicom and Publicis are trying to take part in this technology revolution, operating trading desks that buy display ads for their clients on the new exchanges. So far real-time bidding is still a small part of the online advertising business, around 19%. It could grow to 29% by 2017 and it is only a matter of time before digital radio, outdoor and television commercials start to be sold the same way too.

A little future, a little thing that we look at, which is why we like local selling and why we encourage a lot of developments on energy with our sellers in the market. That's my view on the Omnicom-Publicis thing. I think that the article in the *Economist* did a great job on that.

Acquisitions; we had a question on acquisitions. Yes, we'll still do them. Even with our cash billed, we are in the market. We review several opportunities a month. Unfortunately, they are really not opportunities when we dig into them a little bit. We have certain metrics that we look for in meeting in our acquisitions, and we hold firm to those. And we've never been burnt by not doing a deal. Anything we have purchased and acquired for Saga will be synergistic to our core competency and our core markets. We don't buy for the sake of announced value; we buy for the sake of building, long-term, the company.

Quick summary for you; a short call today. Radio: All markets are good, except Portland. We mentioned that on the last call and we've asked management to bring the cars into the shop for an inspection. Change out and tune up. Mechanics are standing by at this moment on that.

Networks: Everybody has been using the word shopping, in describing networks. We will use that word also. Suffice it to say, it is something that we are looking at all the time, trying to make it stronger and better.

In television segment, we only have two markets. Victoria: We really are in a nice position down there, as we have ABC and FOX full power. We own and operate these stations. And then, additionally, we have CBS, NBC, Univision and Telemundo and This TV or That TV, or whatever it is or one of the other ones.

In Joplin, Missouri, we have both CBS and FOX. Both of them are extremely strong in the Nielsen ratings and do a wonderful job in our community of leaders. In fact, we are celebrating the 60th anniversary for KOAM TV this month. Sam, Warren and I will be out there for the party to see our many friends in the Joplin market.

I think that's it. We were speeding through this, but do you have anything else?

- S. Bush No, I think that pretty well does it. As Ed said, most of the questions we got, we incorporated our answers already into either Ed's or my comments, so I think we've covered everything.
- E. Christian Warren says goodbye also. So thank you, all, for joining us on this call, and we'll speak to you in about 90 days.
- Moderator Ladies and gentlemen, this concludes our conference for today, and thank you for using AT&T Executive TeleConference Service. You may now disconnect.