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Saga Communications, Inc. (SGA)

Q4 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: Welcome to the Fourth Quarter 2013 and Year-End Results with Saga Communications. At this time, all participants are in a listen-only mode. [Operator Instructions]

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

Edward K. Christian
Chairman, President & Chief Executive Officer, Saga Communications, Inc.

Thank you, Rada, and good afternoon, everybody. And as usual we will kick things off with Sam Bush with the disclaimer and results.

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

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. 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 are attached in the selected financial data table.

During the quarter, we had $345,000 in gross political revenue compared to $4 million during the fourth quarter of 2012. Excluding political revenue, our gross revenues increased 3.8% for the fourth quarter. Net revenues decreased 5% this quarter. We experienced nice growth in both national and local again this quarter as gross national was up 9.1% and gross local revenue was up 3.5%.

Station operating expenses were only up 1% for the quarter as we continue to watch what we spend, while also continuing to invest for the future. National accounted for approximately 14.5% of gross revenue for the quarter, compared to 12.5% for the same period last year. For the year, we had $785,000 in gross political revenue compared to $6.7 million in 2012. Excluding political revenue, our gross revenues increased 3.3%.

Our stations did a great job of making up most of the decline in political revenue. As for the year, net revenues only declined 0.006. This was a decline of only $781,000, pretty good given the $6.7 million of political we had to make up. Station operating expense increased $2.8 million for the year with almost half of this increase being due to an $800,000 increase in music licensing fees and a $500,000 increase in healthcare cost.

Free cash flow for the year was $21.6 million. Saga continues to maintain a very solid balance sheet. Our total outstanding debt is $46.1 million after a $5 million pay down in November. On December 12, 2013 we paid our second special dividend in the amount of $10.3 million. This follows the special dividend that we paid on December 3, 2012 in the amount of $7 million.

It's a real pleasure to be able to reward our shareholders with these dividends for their confidence in Saga. We will continue to be looking at uses for our free cash flow including acquisitions, dividends, stock buybacks, and continuing investment in the company. On the TV stations, retransmission revenue was $574,000 in the fourth quarter, up from $467,000 last year.

Retrans payments to the networks were $153,000 in the quarter, compared to $99,000 last year. For the year our retrans revenue was $2.3 million and retrans payments to the networks were $590,000. And 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 $282,000 compared to $366,000 for the fourth quarter of 2012. For the year, interest expense was $1.3 million compared to $1.7 million last year. For the year, half of this decrease is due to a reduction in interest rates while the other half is due to the amount of debt we had outstanding.

As of today, we have approximately $22 million in cash on hand and at year end, the cash balance was $17.6 million. As reported in the press release capital expenditures were $1.7 million for the quarter compared to $1 million for the quarter last year. For the year, they were $5.1 million compared to $4.9 million last year. We currently expect our CapEx for 2014 to be around $5.5 million. We are also in the process of buying or building out a number of new metro stations. This is what we call the translators we own and operate in conjunction with our other station operations.

A number of these new metro stations will bring new programming to the markets they serve. I expect the cost to build out these stations to between – to add between $500,000 and $1 million to our capital expenditures in 2014. This estimate is not included in the $5.5 million indicated as our capital expenditures for 2014.

As far as how 2014 is starting out, we ended January and February with net revenue being up between 1% and 2%, March and April are both pacing up around 1%, so I think we can expect to see us in the first quarter up 1% to 2%.

Two other quick items for 2014, we expect interest expense for the year to be between $1.1 million and $1.4 million given the existing interest rate environment. Our anticipated total tax rate going forward will between 40% and 41%. We anticipate deferred taxes for 2014 to be between $2.7 million and $3 million.

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

Edward K. Christian

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

Sam, thank you. That's too formal. I was just thinking while we're doing this, we've done this for so long, that I always say and we'll have the disclaimer and then results. And I just thought for a second while you were doing that, I am sure glad that I don't have to -- have you do the, well [indiscernible] (6:16) we're going to have the results then the disclaimer then we would be starting to sound like a couple other broadcast companies, we don't want to go there.

I was hoping for a little better in quarter four, we can always do a little more, we can always do a little better, but with that, I think that I'm not disappointed, we're just pleased with the results. But we as I said we always look for just a little bit more. One thing that I can say that we learned from the quarter is a new set of sequential words which is polar vortex.

Saga operates in a lot of mid-America markets and a lot in New England and I really don't have to tell you what the last four months have been like or so in those markets, it's just outright miserable. For those of you who live in that area know exactly what I'm talking about. I was talking with one of our managers here today, and he said, you know, people were irritable and it's gloomy and people are lethargic. You can almost hear the outcry, I mean, enough of this, I'm just tired of this, this got to stop and because of this mindset when people say, I don't want to go out, I just want to stay in my house I want to keep warm.

If somebody says to you, hey, let's [ph] come up (7:40) for dinner tonight let's go to a restaurant, first thing is no, I don't want to go out. I don't want to do anything and you can't imagine in this environment somebody say, hey, gee, honey let's go on out and go car shopping. This has been a real impediment to us. A friend of mine in Maine was talking to me other day that she only goes out to the grocery store and back. To get groceries, it's a beeline out, beeline back and this is what is part of the thing that's inhibited us in the latter part of Q4 and certainly in the first part of Q1 where right now, I think we're pacing up probably about 2% in that area there, but again that should be more, but that's what we're facing with right now.

I really don't need to explain to you what this does for retail sales. Retail sales, I've said it time-and-time again, there were stimulus and a catalyst for our business. Now, weather is still continuing. Detroit is expected to get six to eight inches tonight through tomorrow, I mean this is March, people are going, come on we're in March can we get out of this?

So with that said, I think that you understand why Q4 was tough and Q1 is -- we're moving on a day-to-day basis. Now, I'm not going to blame the weather, you can't really blame weather, it just happens. Essentially to be candid with you, we didn't have a lot of categories that were up, but I do believe that our stations did a yeoman's job of massaging and expanding the revenue dollars that they did capture. Couple of other things touching on Sam's remarks, a lot is said about and I read this all the time about the streaming of radio stations and how it is somewhat the future of our business.

Well, I agree with that to a point that it's additive and it's nice to have radio available to computers and business environments. Now, we don't embrace streaming as a solid revenue model. We do it. We stream a lot of our stations. We've spoken about this many times and it's nice to see that research is beginning to bear us out, is not a revenue model. And I want to share in paraphrase from a report from Generator Research from RAIN News. This is rebuttals publication and if you don't subscribe to it, it's really very insightful one on both radio and the Internet and where we see, if I can see it right here.

By the way, it's rainnews.com. And the home music subscription sector is intrinsically unprofitable. That is a stark conclusion of a 150 page financial research report released by British company, Generator Research. Unsustainably high cost of operation will prevent possibility, according to the report, which examined Pandora, iTunes, Deezer, Spotify and other services in five major music markets.

The report makes the profitability problem, plainly and cost of content, newsflash, where all the payments to music rights holders, noting of between 60% and 70% of revenues are paid to labels and publishers. The study predicts that usage growth can never catch up to expenses. The key metric in the study's profit pessimism is operating cash flow or the percentage of incoming cash that survives the cost of operation. There is probably another 149.5 pages to report, but for those of you who are interested, take a look at it.

And with this in mind, this Pandora is trying to sell radio ads and there is all of this question of who and what and how? We actually came across Pandora, so we're sitting in a car store in Keene, New Hampshire. It's not limited to just the major markets, wherever they can find somebody to go and pit somebody you run into that. But, again, once again radio is free and portable and we do have our music streaming rights. But we're not in the horrendous condition because it's an ancillary product to us and not a mainstay. It is an enhancement for us, no question about it, it's enhancement to what we do already with our over-to-air products.

Now, for the remainder of 2014, I envision better times than we're currently experiencing. I mean it can't snow in June, well with that said, who knows. You have to remember there is a difference between weather and climate and that's an entirely different story. But National Retail Federation forecasts are predicted. They predicted in the couple of weeks ago, retail sales will rise 4.1% in 2014.

Report says though consumers continue to pinch pennies, analysts remain optimistic, the choppers will remain confident. And there is another report let me see if I can just find that right here. The other report is from BDO, which is looking at a 5.1% increase in sales which is pretty good. So we're pretty happy about both reports on that. We've always had a strong consumer confidence, reinforces strong radio and TV advertising revenues and with that said, I kind of breathe a sigh of relief and it reduces down the anxiety for 2014.

We have a number of initiatives that are coming up, that are on the drawing boards right now that we're working on to enhance our revenue for the year. And that's pretty important to us. We'll share those as the year goes on, it's a little pretty premature. Couple of them we might have even been able to talk about in a few weeks. Revenue growth has jumped, no doubt about that, that's our whole thing here is to continue to serve our markets. There are 244.4 million Americans who listen to radio in a given week. We have a healthy audience out there and we can do our job in both radio and TV.

It is job one for revenue growth and we are mindful of expenses and not cutting to the point of injuring the product. And I continue to see a cutting, pruning, trimming of expenses in the radio industry and the diminution of CapEx and by the way, Sam, I think we're high on our translator build-out estimate. Yeah.

Samuel D. Bush

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

I think so too, I was being conservative by all accounts?

Edward K. Christian

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

Okay. But that's more than I'm planning of spending so.

Samuel D. Bush

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

Well, you're going to know more than I do on that.

Edward K. Christian

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

Anyway, cutting and pruning and squeezing, it always reminds me of the consumer products inventory where they take the same package, but they shrink the size of it or they make the products larger and less content in it, whatever it might be.

And that seems to work for them, the way to get increases in profitability is, let's product in a bigger box or the same size box with most product in it. You can't do that in broadcasting, because shrinkage shows a quality. We let it hangout every day, what you hear on the air is our product and after a while, you might start saying, well, it doesn't sound good or doesn't sound the same.

And that's something that we as an industry have to be very, very watchful on, is to keep the quality there because it's only the quality that we have that encourages the listeners and it's only the localness that we have that encourages the listeners.

And without that, we're no better than a streaming signal on radio and that's something we really have to work at. So I think that's about it. We do have some questions, I think, don't we Sam?

QUESTION AND ANSWER SECTION

Samuel D. Bush A
CFO, Treasurer, SVP & Head-Investor Relations, Saga Communications, Inc.

Yeah. We have a number of questions from John and Marci at Wells Fargo, only one of which, I think we really did not address already. And that really was, I did talk about our free cash flow and that we've done the two special dividends one in 2012 and one in 2013. But the question is it seemed like M&A was your biggest free cash flow priority from the last call, do you have anything in the pipeline?

Edward K. Christian A
Chairman, President & Chief Executive Officer, Saga Communications, Inc.

Sure. We always do. The question is what is the size of what we have in the pipeline? There's no question that we're seeing some more acquisition opportunities come into marketplace. We're really very disciplined when it comes to that and it has to make a lot of strategic sense. I think everybody saw in the last downturn, those companies that went out and assembled for the sake of being a broadcast company, and bought anything that would have removed with over they could call a radio, are no longer part of the industry. And that's a problem is that you have to assemble easily and quickly.

I mean, there's some of the great mistakes in corporations in America have been made by too much brand extension and too far prong enterprises or factories. So, we're cautious of that and it has to fit a certain criteria before we do it. Well, that said we do have a couple of things that we're looking at now that do fit the criteria. And they're really not at this point on the market, there's standard indications that we can do something, but it takes a while to do it.

Samuel D. Bush A
CFO, Treasurer, SVP & Head-Investor Relations, Saga Communications, Inc.

Very good. I think, that's it with the questions, because, as I said, I think we addressed the most of the rest in either your or my comments already.

Edward K. Christian
Chairman, President & Chief Executive Officer, Saga Communications, Inc.

As usual, Sam, and I are ready for any questions that you might have offline, and we will be glad to talk to you about anything that you will. As you know, we love to chat and we're available.

And with that, Rada, we'll turn it back to you for closure on this.

Operator: Well, ladies and gentlemen, we think you for your participation and for using the AT&T Executive TeleConference Services. You may now all disconnect.

Samuel D. Bush

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

Thank you, very much, for your help.

Operator: You're welcome.

Samuel D. Bush

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

All right. Bye-bye.

Operator: Bye--bye.