



Final Transcript

SAGA COMMUNICATIONS: 4th Quarter and Year End Results

March 8, 2016/11:00 a.m. EST

SPEAKERS

Ed Christian - President, Chief Executive Officer

Sam Bush - Senior Vice President, Chief Financial Officer

PRESENTATION

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

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

E. Christian Thank you, and thank you for joining us on today's call. As is our history for 60 times now; is that about right? Sixty times we've been doing this?

S. Bush Actually, I thought about that, but it has been a while.

E. Christian Maybe we'll change roles next time.

S. Bush I can do the start and turn it over to you.

E. Christian No, no. I'll do yours. It's a lot easier just to read through a thing there.
Sam Bush, ladies and gentlemen.

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. This call will also contain a discussion of certain non-GAAP financial measures. Reconciliation for all the non-GAAP financial measures to the most directly comparable GAAP measures are attached in the Financial Data Table.

During the quarter, gross revenue without political increased 2.1% for the quarter and 0.7% for the year, a little less than one-percent. Gross political revenue for the quarter was \$927,000 compared to \$3 million for

the same period last year. All the political revenue for the quarter was in radio this year. Last year, we had \$2.1 million in radio and \$888,000 in television.

Gross political revenue for the year was \$1.3 million compared to \$4.7 million for the same period last year. \$1.3 million of the political revenue for the year was in radio this year compared to \$3.5 million last year. In television, we had \$10,000 compared to \$1.2 million last year.

National accounted for approximately 11% of gross revenue for the quarter compared to 14% last year. It accounted for 11.5% of gross revenue for the year compared to 13% last year. This was a \$2.6 million reduction in national revenue for the year.

During the quarter, we entered into an asset purchase agreement to purchase WLVQ-FM in Columbus, Ohio for \$13 million. Ed will talk more about this later. We did start operating LVQ under a local marketing agreement on November 16th and subsequent to the end of the year, we closed on the purchase as of February 3rd.

During the quarter, we declared a quarterly cash dividend of \$0.25 per share as well as declaring a special cash dividend of \$0.25 per share. Both were paid on December 11th. Additionally, last week, our board of directors declared a \$0.25 per share quarterly cash dividend with a record date of March 28th and a payment date of April 15th. We intend 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.

At the end of the quarter, we had \$36.4 million debt outstanding. Cash on hand at the end of the quarter was \$21.6 million. Currently, we have cash on hand of approximately \$14.5 million. Subsequent to the end of the quarter, we closed on our LVQ acquisition using \$12.4 million of our cash on hand.

Retrans revenue was \$1.1 million in the quarter, up from \$635,000 last year. Retrans payments to the networks were \$244,000 in the quarter compared to \$389,000 last year. For the year, retrans revenue was \$4.1 million and retrans expense was \$986,000.

Capital expenditures were \$1.1 million for the quarter compared to \$1.7 million last year. For the year, capital expenditures were \$5.5 million,

which is almost identical to last year. We currently expect our capex for 2016 to be between \$5 million and \$5.5 million.

We expect station operating expenses to be up one-percent to 2% on a same station basis for 2016. We expect interest expense for 2016 to be between \$1.1 million and \$1.3 million given the existing interest rate environment.

Our anticipated total tax rate going forward will be between 40% and 41%. We anticipated deferred taxes for 2016 to be between \$3.4 million and \$3.6 million.

Pacing is a tough item because it's a mixed bag. January was up mid-single digits, flat to up one-percent without political. February was up mid- to high-single digits, up mid-single digits without political, and March is currently pacing flat to down one-percent, down one-percent to 2% without political. Ed will talk more about our trends in a minute.

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 this call. Ed, back to you.

E. Christian Thank you, Sam. It does seem to me, and I don't mean to say this disingenuously, but my brain sometimes just fogs over. So, could you spice it up next time a little bit.

S. Bush I'll try. Throw in a story or two?

E. Christian No, no, no. Find something bold, like talk about foreign currency transactions or something. That would spice it up okay.

And also [indiscernible] a little bit more engaged audience because I think suddenly they have to, I don't want to say wake up when you get done, but thus we begin.

I'm not going to amplify what Sam said in his remarks, but I want to tell you the interesting things that set us apart. Well, the fact that we are up does set us apart from [indiscernible].

First off, Sam mentioned that we acquired WLVQ-FM in Columbus. This iconic rock station has been a factor in the market literally since the acquisition of WSNY some 30-plus years ago. WLVQ was just a monster

in the market and has remained that way. It offers us a male audience to complement and enhance WSNY Rewind and Mix. Those stations tip towards females. Therefore, it really solidifies our position with adults over 30 in the market.

We closed on WLWQ, as Sam said, a little bit over a month ago. On a forward-looking basis, we believe the station comes in at about a seven multiple, or even a tad less than that in cash flow. Formatically, we have tweaked the station and have added needed salespeople since there were some sales issues with the radio station, which we're in the process of fixing. On balance, it's a wonderful acquisition for us, and Columbus has always been a very stable and fine radio market.

Also, last year, we completed the acquisition, I think you know, of an initial group of five radio stations and one metro signal in Harrisonburg, Virginia. We added a sixth station, another FM station. So, we have four FM and two AM, plus actually three metro signals. Two of the metro signals rebroadcast our AM stations and one is new. It's a classic rock station, V101 The Valley's Best Rock. So, we really have all food groups pretty well covered in that market there, and we're very happy with it.

On a forward-looking basis, we believe that this acquisition could come in as a six multiple of BCF, which is very good for us, complementary to Charlottesville; perfect acquisition for Saga.

In subtractions, last year, we finished the disposition of our news and farm networks. Minnesota and Michigan were sold to Learfield Communications. This company has a very big presence in that arena, in farm and in news networks. The Illinois Radio Network was assimilated into the other news network already operating in Illinois, the Illinois News Network. All of this is reported in our year-end report.

Oh, we also filed and accepted and will be granted new metro signals for four of our markets with a fifth one pending, which we believe will come through any day now. The markets where we added FM metro signals to our AM stations were Milwaukee, Portland, Maine, Charlottesville, Virginia and Greenfield, Mass where the Clarksville, Tennessee is the one that is pending. In total, over the year, we now operate over 50 metro signals. Sam, do you remember how many exactly?

S. Bush

I don't know exactly, and we do have a couple more pending as well, but it will be over 50. I think 52, but in that neighborhood.

E. Christian

Yes. Nineteen of these rebroadcast our AM news, talk or sports stations on the FM band. So, that has always been a priority, to have an FM companion to our big powerhouse AM radio stations.

We also in Q4 launched a new format, which I'm really kind of excited about it; I really enjoy it. Right now, it's on four metro stations. It's called The Outlaw. This is a unique blend of music from the '70s on forward. I guess we would best describe it as music heard in honkytonks and saloons. It's on air in Des Moines, Ashville, Jonesborough, and Springfield, Illinois, and we plan on rolling it out to a few other markets. It's a really fun format.

If you'd like to listen, if you've got a pen right there, I'll give you the URL for the website in Des Moines where all you have to do is click and listen. It's www.937theoutlaw.com. Bob Lawrence and I came up with this format a few months ago and knocked it around and polished it up. We've done some corporate things to it. I think it'll show you how you can use metro—if you listen to it, you'll see how you can use metro signals to really enhance the presence of our other stations in the markets.

This is one example, and we've done other metro signals with different formats on it.

There are probably only about four or five, maybe six more metro signals that we would like, and then I think we'll say we have enough.

[Indiscernible]

S. Bush I'll believe that when I see it.

E. Christian No, no, no. No, seriously. We have three I'd like to acquire in Bellingham, two more in Maine and maybe one in Springfield, Mass.

We're in the hunt right now for properly priced translators because there has been a silly season out there of late. You have to remember that in the cold light of day, these are still 250 watt translators. However, if you get good height, they're fine and they're equivalent probably in some cases to a Class A, three kilowatt Class A station. They work fine for us, and they do exactly what they're intended to do.

We would have certainly liked to—some of them—in Des Moines, for instance, we’re getting females on The Outlaw saying, “Gee, we wish you had a larger signal.” So, that’s the downside on that.

On the TV side, we are also constrained under SCC mandate from discussing the upcoming spectrum auction, but I can assure you that we’re monitoring this for its effects to the TV industry.

On 2016, Sam told you Q1 is shaping up to be decent, but there was choppiness in March. All of a sudden, just out there, boomf, it happened. Visibility is clouded for the near-term and it has been for quite some time.

I don’t feel bad about 2016, but on the other hand, we’re not going and high-fiving each other and shouting, “We’re out of the storm.” The seas are no longer calm and we’ll back with full sails. We monitor it on basically almost, well, it’s scary to say, but a month-by-month basis.

What I can tell you about everything that’s going on is that our discipline has paid off. We were able to raise our quarterly dividend last year as Sam mentioned. We have a decent cash business and it’s growing, and we are quietly looking for those special acquisitions that fit our model.

No question there is still some turbulence, especially in the national arena. I wish that I could tell you that sanity had returned, but we continue gasp at the national pricing of others in the rating space. I do believe that national could well be up instead of down. I mean we look at a down national advertising market, but in truth, the industry has sold more ads at lower prices and surprisingly ridiculously low prices. It's that simple. This proves challenging for all us engaged.

Specifically, for the last year, national at Saga was down to 11% in radio. I remember several years ago when Warren and I would talk about the fact that our run rate was 18%, maybe 20%. I remember the 20% figure that was used, that this is an 80/20 business, 80% local. But, that's not happening right now.

On contrast, TV right now runs about 15%, our TV and last year, national at Saga in radio was down to 11%. For us to be up in revenue overall speaks volumes is a lot of local efforts. So, if we're down to 11% of our business is national, down from where it was, you can certainly see that we're doing the job locally.

Even in our largest markets like Milwaukee, 90% of our revenue comes from local sources. Now, this does include local agency business, but only 10% is national. So, it kind of shows you how it's shifting and it shows you what we're doing.

Listen, there's no question. I'm old school with new techniques. We believe in relationship sales and crafting superb stations that attract listeners. There is indeed a symbiotic relationship between sales and programming, and monies must be spent on both to ensure professionalism and results which therefore beget profits.

Again, this is part of it. You've got to put the money on the table. You got to push it out there and spend it on programming and promotion and marketing and also on sales. That will ensure the profits come in there.

[Indiscernible] 2016 and this is what it is, and it does help that this is a political year. We want to continually refine our process and what we're doing.

But, one quick example, and let me take a minute here and we'll kind of wrap this up, for those of you who have been around with me and know

that I preach that we placed a local community identity at the top of the poll, in Ithaca, New York, Chet Osadchey created a vignette called Business Over Coffee.

Now, what Chet does is he takes a recording device out and he interviews business owners about their feeling about the economy, their philosophy, about operating a business, and a little history of their business. The interview itself is five to seven minutes, which is edited down to a 60 second feature, which runs not only on our news/talk station, but on other stations in the [indiscernible] Radio Group. The feature runs in commercial clusters where there is open inventory.

The entire feature runs on our websites as a podcast. It is not a commercial. It is a business feature, and we do this for clients and non-clients and with kind of the hope that they will become clients because of the feedback of, "We heard you on the radio. We heard on the radio." It's working by the way.

In Milwaukee, the feature is entitled "I Love Milwaukee" and Annmarie Topel does it with both businessmen and women and community leaders. Milwaukee has been panned with negativism lately and our efforts have

been awarded by both business and community leaders. The feature is in the process of appearing in each and every Saga market. It's a commitment to professionalism and localism, and it's also a very good business practice for us.

Frankly, you're going to see more ideas like this in 2016. Creating concepts similar to what I just mentioned is what we really love about our business. When we see the results, frankly it's even more powerful and it's what makes Saga where we are, what allows us to not tremble and shake before we come on conference calls. If we do it right it's going to work out for us.

Sam, I'm not sure if we had any questions at all. Did anything come in?

S. Bush No. Everything that came in either in your comments—

E. Christian We already answered it?

S. Bush Yes, your comments, my comments or the press release already had it answered.

E. Christian Well, that was good. We did this in 20 minutes today.

S. Bush Pretty good timing.

E. Christian Not bad. If we—our helpers there.

S. Bush Yes, Tricia, we'll turn it back over to you to wrap it up.

Moderator Okay. Ladies and gentlemen, that does conclude your conference for today. Thank you for your participation and for using AT&T Executive Teleconference Service. You may now disconnect.

S. Bush Thank you, Tricia.

Moderator You're welcome.