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SGA - Q4 2016 Saga Communications Inc Earnings Call

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CORPORATE PARTICIPANTS

Ed Christian *Saga Communications - President and CEO*

Samuel Bush *Saga Communications - SVP, Treasurer and CFO*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the fourth-quarter and year-ending earnings call.

(Operator Instructions)

And today's call is being recorded. I'd now like to turn the conference over to Ed Christian, President and CEO of Saga Communications. Please go ahead.

Ed Christian - *Saga Communications - President and CEO*

Thank you. Welcome it's 11:00. Samuel Bush is ready to start. I'm Ed Christian, and I will be back after Mr. Bush's marvelous presentation.

Samuel Bush - *Saga Communications - SVP, Treasurer and CFO*

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. 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 measure are attached in the selected financial data table.

During the fourth-quarter 2016, historical net revenue increased 4.7%. Adjusting for same station, net revenue increased 2.9%. Gross political revenue for the quarter was \$3.3 million compared to \$929,000 for the fourth quarter in 2015. All \$929,000 for the quarter in 2015 was radio. For the 2016 quarter, radio was \$1.9 million, while television was \$1.4 million.

For the year ended December 31, 2016, historical net revenue increased 7.3%. Adjusting for same station, net revenue increased 3%. Gross political revenue for the year was \$6.7 million, compared to \$1.3 million for the same period in 2015. All but \$10,000 of 2015 political revenue was radio.

For the full-year 2016, radio was \$3.8 million and television was \$2.9 million. I should remind you that when you are comparing 2016 to 2015 year-end numbers, we reported \$1.4 million of other operating income in the third quarter of 2016 as a result of our selling a tower in the Norfolk, Virginia market to SBA Towers for \$1.6 million. We also entered into an extremely favorable long-term lease on the tower.

Keep in mind that relative to a same-station and historical comparison, we closed on the bulk of our Harrisonburg acquisition on August 1, 2015, with the final piece closing on September 1, 2015. So Harrisonburg was fully reported in our historical numbers with the fourth quarter. We started operating our acquisition at WLVQ in Columbus through an LMA on November 1, 2015, so it was still a part of the same-station historical reporting in fourth quarter and for the year.

National accounted for approximately 11.2% of gross revenue for the quarter, compared to 11.4% for the quarter in 2015. During the fourth-quarter 2016, our Board of Directors declared a \$0.30-per-share quarterly cash dividend with a record date of December 5, 2016 and a payment date of December 23, 2016.

This is our 11th straight quarterly cash dividend, the first six of \$0.20 per share followed by three at \$0.25 per share, and now two at \$0.30 per share. This brings the total dividends paid, including special dividends over the past five years, to almost \$42 million.



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During the first quarter of 2017, our Board of Directors declared another \$0.30-per-share quarterly dividend, with a record date of March 28, 2017 and a payment date of April 14, 2017. 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 2016, we had \$36.4 million debt outstanding. Cash on hand at the end of 2016 was \$26.6 million. Currently, we have cash on hand of approximately \$30.8 million.

Retrans revenue was \$1.2 million in the quarter, up from \$1.1 million for the quarter in 2015. Retrans payments to the networks were \$262,000 compared to \$244,000 in 2015.

Capital expenditures were \$712,000 for the quarter in 2016, compared to \$1.1 million in 2015 and \$4.9 million for the year in 2016, compared to \$5.5 million for the year in 2015. We currently expect our CapEx for 2017 to be between \$5 million and \$5.5 million.

Pacing is always a bit uncertain these days, but currently, we anticipate first-quarter revenue to be down low single digits. We expect station operating expenses to be up 2% to 3% on a historical basis for 2017. We expect interest expense for 2017 to be between \$800,000 and \$900,000 given the existing interest rate environment.

Our anticipated total tax rate going forward will be between 40% and 41%. We anticipate deferred taxes for 2017 to be between \$3.2 million and \$3.4 million. And with that, I will turn it back over to you, Ed.

Ed Christian - *Saga Communications - President and CEO*

Sam, thank you very much, and I really only have one request right now. Maybe you could be Mr. Peabody and I'll be Sherman, and we can step into the way-back machine and we can make this 2016 again.

Samuel Bush - *Saga Communications - SVP, Treasurer and CFO*

I always liked that show and if I could, I would definitely do that.

Ed Christian - *Saga Communications - President and CEO*

I think it was really a great show. We won't go into the creator and everything else that happened, but it was one of my favorite shows. Being a revisionist of history always is fun.

It was a very nice year, and I'm thankful for everything that happened. Business was good. Political was appreciated. And by the way, I was thinking about that. And remember that when several years ago, a number of years ago, when Iowa said that they were going to have a caucus ahead of New Hampshire, I said, Oh, I just don't know. Because New Hampshire really is like the golden egg for political money.

And but I want to thank all of the candidates for stopping by the caucuses in Iowa, because that was very helpful for Iowa and very helpful in New Hampshire. (Inaudible) Made it good for us for the year.

As I said, business is good, and as Sam told you, Sam said that Harrisonburg and Columbus are up and running, excellent radio stations and very good markets. Can we do this again in 2017? Well, we don't have any political, so that does make a difference.

Sam did a very good summary on last quarter, so let's take a quiet moment, thank you for the quiet moment, and let's talk about 2017 and our future. Sam touched on it, but candidly, Q1 especially January, was a cold water wake-up call. It wasn't just for us, but for business in general, and it was painful for broadcasters.



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Business either wasn't there or broke late, and I'm talking very late. It was just like scary late at times. Certain sectors pulled back in January, such as automotive, big chunks from car stores were missing, along with medical, two big categories.

I did notice in January that car payment defaults were up substantially, by the way, and that perhaps was indicative of too easy credit for buyers, kind of a mini repeat of the housing boom. Now I believe that's been quickly corrected, and hopefully, we will see -- we are seeing signs -- we'll see, but we are seeing signs from car stores that car store spending will return.

Q1 could actually probably be down in low single digits, as Sam said, and that's something we like to tell you that before. I think January was the one that was a little stark reality. March, I heard from our managers, is coming alive very quickly, so let's keep our fingers crossed.

By the way, this isn't only Saga. As Sam and I have had candid conversations and remarks with other broadcasters, and this is countrywide. It will be interesting to watch other companies when they announce, and I think you'll see that the pattern has been established, that this is what we're seeing right now in the industry.

Now, I'm not alarmed, I'm not ringing the bell and shouting alert, alert, okay? It's not 2008, but it is time to be somewhat watchful. Car stores, I understand that. Medical, I think is probably related to uncertainty in legislation, but we're watching this very much so. But there are really good signs too, and I think that's something that we need to focus on for a bit.

Home improvement, big category for us. It's holding its own, and in a number of cases is up. Last week, for instance, Lowe's out-spent Home Depot in radio. Lowe's bought about 40,000 radio commercials in the week, countrywide, making it the largest radio spender. Home Depot was number five, and they had about 28,600 spots running last week nationwide.

The big jump in national for the week was Walgreens, up to 9th from 99th, and Geico continued their belief in radio with 46,684 radio spots last week. So obviously, on the national side, radio is still working for advertisers.

But I do see a divide coming. Certain national retailers are getting stronger and the bottom tier is falling out. Now usually, that's good management and good branding and advertising, and it is winning where smaller national companies that don't have scale and momentum are getting hurt.

Categories in the store count, they're both compressing, and it leaves broadcasting in good shape, but we're subject to market swings. I really do think 2017 will be okay, and I do wish that momentum will return and that we can get past small and sustainable growth.

Now, don't take this as doom or gloom or anything like that, because business is still good for our industry. It does require more focus and dedication, and it's also going to require more grit on what we control.

At Saga, we're reevaluating operational strategies and seeking greater areas of efficiency. Right now for instance, we are reviewing the metrics for goal setting and achievement levels for our management team. We do need to rethink our structure and operational levels without causing damage to our marketing image and infrastructure.

I think that I say that for the industry because we're starting to see that in the industry, everybody is saying, how can we do this better but maybe be a little bit more efficient in what we do? We're having those conversations a lot recently.

We do see measured, if not modest growth for 2017, and our most important product categories will not be reshaped. For instance, let me talk about this restaurant, and we also did very well in restaurant sales. They are projected to be this year \$800 billion in 2017, and that's up from \$766 billion.

But the growth is coming in quicker and convenience-oriented options, much more so than full service. The quicker and convenience options are projected to be up 2.5%, and a lot of it's in the southeast, which is interesting. Midwest not so much. We also have targeted in on the southeast as a growth opportunity area for Saga to really investigate.



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And speaking of growth, we've already talked about our two market acquisitions we did last year. And I should mention that as of about two days ago, we took over operational control of WUVA in Charlottesville, Virginia. A little asterisk here, the call notes -- and we have FCC approval. The transaction has been approved; it's been finalized by the FCC, and we're just awaiting for closing, which should occur very quickly.

And the call letters will be changed as our agreement with the broadcasting group that had the radio station, which was kind of the alumni offshoot from the University of Virginia, that we will not retain the WUVA call letters. And upon closing, it will be WCVL FM for Charlottesville. CVL is a word that is used as a substitute for Charlottesville throughout the marketplace, and so we're really fortunate we got really good call letters.

The format is country, and it's 90s and today country. And CVL country is what we're branding it as. And we're right now running 10,000 songs in a row commercial free to get our footprint established in the marketplace. I think it's going to be a really nice addition. We will then have four FM's and two AM's in Charlottesville, Virginia.

We've also identified several other opportunities that I'm working on right now, and we have the dry powder to accomplish them with our reserves. Sam mentioned currently we're sitting on about \$30.8 million, so we can do this from the reserves without having to go back and expand our credit. We have this much ability just on hand. We usually like to leave about \$5 million to \$7 million just to run the Company and the risk of use for the dividends, anything else that the Board looks at, and certainly acquisitions.

Acquisitions, definitely on the forefront, but we are -- we spend a lot of time, we're very measured and very researched-oriented in terms of what we do. And at the forefront, we super analyze transactions. Very quickly, we don't agonize over it.

We have defined and redefined what we do and we're also patient. And patience has always been a virtue for us in terms of being able to find the right properties to add. WUVA was one that we responded very quickly, it was efficiently managed. It's in. We're operating it from our studios right now, with the -- while they still maintain their main studios, and it's going to be a good little investment for the Company.

For those of you who are investors in Saga, I just want to thank you for your trust. I do that sincerely. We've had a number of long-term holders who have watched us grow in a measured way and been rewarded with our dividends.

And for those of you on the call who are new to Saga, pick up the phone and call Sam or me. We're very loquacious when it comes to this. We would love to discuss radio and broadcasting and television or whatever, and discuss the dynamics, and especially the challenges in broadcasting. For those of you that know us, we just don't hold back on our thoughts. We're very open and accessible. And with that, Sam, do we have any questions?

QUESTIONS AND ANSWERS

Samuel Bush - *Saga Communications - SVP, Treasurer and CFO*

Most of them we've already answered as we typically do, but the one that did come up was from one of our shareholders. Given the nature of some of the transaction we're seeing, specifically referring to the Intercom CBS and the Beasley deals, how do you think, how does Ed think about transformative deals, both for the industry and for Saga?

Ed Christian - *Saga Communications - President and CEO*

Well, I think certainly we're -- it's good because we went through this dry spell for so long where there weren't really any acquisitions done. And I think that that's changing now. It's also interesting to note that a couple of weeks ago, and it wasn't really made a big deal, but I think it's something that should be watched and observed.

And that is that the commission for the first time approved 100% ownership, foreign ownership of radio stations. Up until recently, it's been limited 25% or so. But several weeks ago, they approved a couple who owned minority interest in stations in Alaska and also in Texas, and allowed them, they're Australians, allowed them to increase to 100% ownership.

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Now that's precedent in terms of what it might be. So we could be looking at a lot of infusion of foreign money into broadcasting in the US, because now we now have a precedent established on that. And that's something to park on the side and think about. If that happens, it's changing.

Also there's been a lot of conversation since the new chairman got into the FCC on releasing broadcast holdings. I remember when I started in the business, that there was -- you could own 7 AM's and 7 FM's and that was it. And then we went to 14 radio stations, and then we came into a number of years ago, just opening the market up to where you could have up to 6 or 7 -- 7 stations in a marketplace. No more than 5 in one service in the very large markets.

And now, there's some very serious talk about removing the market caps and really changing things around. Now where that will be, I don't know and I don't know how long it will take. But I certainly do see as we have watched in other industries, airlines whatever it might be, you know the winnowing down of the field, and stations more in their mainstay focus.

Our thing is mid-market, there's no question about that. We like to flow below the radar and above the letter, so those are two things that we look at. But for to see us going into big markets, no that's not in our DNA, that's not really what we do. We like the middle sized markets, and we feel we have the ability to really have more ball control in those markets.

So I do see more consolidation coming. I do see some of the smaller players or the private equity funds actually might be getting out in some respects. And it will be interesting to see what happens.

But yes, we are in a transformative time. And the CBS Intercom thing shows a tremendous amount of confidence in the industry by the Field family and at Intercom, because I know that this has been on their radar scope to try and accomplish for a number of years now. And yes, I think there's going to be some fall out from some companies that got ahead of themselves in terms of structure and debt a number of years ago. I think that's going to have to be reworked. And I think there will be opportunities when that comes. Depends on how the restructuring occurs.

And in total, radio and TV is a good sector. We really don't have scale in television, but there are plenty of mergers and acquisitions going on there, and the Commission could well lift the caps on the TV side also. And if that's happening, you could see some very definite growth with, say, the big leaders in broadcasting, just as we've seen in other industries.

The big get bigger and the small tend to retreat or be a precious few in terms of what it is. But this is happening globally, and this is happening in our industry or will be, I think, happening in being in our industry. Was that too long an answer?

Samuel Bush - *Saga Communications - SVP, Treasurer and CFO*

I think that was a good answer, Ed.

Ed Christian - *Saga Communications - President and CEO*

Okay, just checking. And with that we said we would do 15 minutes, we're about 20 so we actually ran over probably with that answer.

Samuel Bush - *Saga Communications - SVP, Treasurer and CFO*

I think we can turn it back over to Art, and Art, if you'll wrap up the call for us?

Ed Christian - *Saga Communications - President and CEO*

Well I could do the end if Art is not available.

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Operator

I'm here, I'm sorry, I was muted. Ladies and gentlemen, that does conclude your conference for today.

Ed Christian - Saga Communications - President and CEO

That's okay I could do it too. We could sing along if you want. Go ahead.

Operator

Thank you for using AT&T Executive Teleconference Service. You may now disconnect.

Ed Christian - Saga Communications - President and CEO

Thanks.

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