Saga Communications, Inc. (AMEX:SGA)
Tuesday, March 6, 2018 11:00 AM
PRELIMINARY VERSION - The edited version will be available shortly.

Executives

Edward K. Christian - Chairman, Chief Executive Officer and President
Samuel D. Bush - Chief Financial Officer, Senior Vice President and Treasurer

Analysts

Presentation

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Fourth Quarter and Year-end Earnings Conference Call. [Operator Instructions] As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, President and CEO of Saga Communications, Mr. Ed Christian. Please go ahead.

Edward K. Christian

Thanks, Greg. Appreciate it. Welcome, everybody. As usual, we have the highlights and the low lights from Sam Bush, and then we'll have some dialogue on that. And if there are any questions that have been sent in, we'll deal with those right at that point in time. Sam?

Samuel D. Bush

Thank you. Thank you, Ed. I prefer the highlights versus the low lights. But we'll cover all everything we can cover. 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.

Again this quarter, I'm not going to spend much time talking about the numbers for the quarter and year-end. I think the time is better spent in making sure that it is clear what the numbers represent. The press release mentions 4 items you need to keep in mind as you were looking at our comparative numbers.

First, the television stations sales, which closed September 1, resulted in an approximate gain of $51 million pretax or $30 million net of tax. This gain does not reflect in our free cash flow for the year since the television segment was reported as a discontinued operation.

In reality, we had over $50 million in free cash flow 2017 if you include both the operating and sale results. Second is the sale we reported during third quarter of 2016 of one of our towers in Norfolk, Virginia. We previously reported a net gain of $1.4 million on this transaction. Third is the $1.5 million charge we recorded during the fourth quarter of 2017 for impairment of intangible assets due to our analysis of the Springfield, Illinois market. The market is heavily impacted by the State of Illinois' financial difficulties. We do expect to begin she shift growth in this market as soon as this year. Unfortunately, the fair value requirements only allow for decreases in license values and not increases when warranted.

It should also be noted that this charge is a noncash charge. Finally, we reported an $11.2 million income tax benefit during the fourth quarter primarily due to the reduction in our deferred tax liability as a result of the recent Tax Cuts and Jobs Act. As a result of this act, we also expect our ongoing tax rate to decline from our historic level of 40% to 41% to a current level of 29% to 30%, including a 13% to 14% deferred tax rate. Our expectations are subject to change given the various states in which we operate may adjust their rates in response to the federal act.

During the fourth quarter, gross political revenue was $880,000 compared to $1.9 million in 2016. For the year, gross political revenue was $1.5 million compared to $3.8 million in 2016. Gross revenue on a historical reporting basis would have been up 0.8%, 8/10 of 1% for the year, excluding political. On a same station basis, excluding political for the year, gross revenue would be down 1.7%.

It should also be noted that in a difficult revenue environment, we continue to do a very good job controlling expenses. Our same-station operating expense was down $1.5 million for the year and $556,000 for the quarter. These amounts represent the clients of 1.7% and 2.5%, respectively.

CapEx for continuing operations was $6.3 million for the year. In addition to routine maintenance CapEx, we spent more than $1.5 million on studio building upgrades and more than $1 million on a tower acquisition and other tower upgrades.

In 2018, we will be continuing to upgrade a couple of our tower and studio sites, including the studio facility in Charlston that we recently purchased. At this point, we expect CapEx for the year to be between $5 million and $6 million. At the end of the year, we had $25 million in debt outstanding. Cash on hand at the end of the year was $53 million. Currently, we have cash on hand of approximately $49 million.

On February 28, our Board of Directors declared a $0.30 per share quarterly cash dividend with a record date of March 12 and a payment date of March 30. This will bring the total dividends paid, including special dividends since December 3, 2012, to over $55 million. We intend to be pay regular quarterly cash dividends in the future as well as considering special cash stock dividends as declared by our Board of Directors.

We expect same-station operating expenses to be up 1% to 2% for 2018. We expect interest expense for 2018 to be around $1 million. At this point, we expect free cash flow for the year to be in the range of $19 million to $20 million.

And with that, Ed, I will turn it back to you.

Edward K. Christian
Great, that is a long one.

Samuel D. Bush
A lot to cover with the TV sales and the tax change and everything else.

Edward K. Christian
You think we need to read it over again. If you can do that, some people might had a counting dose there for a few seconds.

Samuel D. Bush
They can call me and I'll be glad to add in the detail.

Edward K. Christian
Okay. Well, why don't you just refer them to the press release.

Samuel D. Bush
Can do so.

Edward K. Christian
All right. You know I need to recognize Goldman Sachs for inspiration on this. And they have a publication entitled Outlook, and they had a great number of excellent articles on the economy. The cover of the report just came out shows our sailboat in a storm and the headline was, and I really love this, and this is kind of where we are with our -- I think with everything. Steady as she goes, under the picture was an adage that rang home, and it's so true in Saga. We cannot direct the wind, but we can adjust the sales. And that says it all. There are elements we cannot control, but we're skilled sailors and with this knowledge, Saga will continue to sell through this sunny skies and the unexpected storms.

Quick comments from me on what Sam brought up with all of his reports. In summary, we had a flat to a little off year radio, similar to other radio companies, we made up for it by selling the TV stations, which we own for many years. But we exited the sector because we didn't have scale and sold to a company who needed more stations and then we paid taxes. Well, we didn't pay all of us to as we differed taxes by buying more radio stations, which is what we do. Well, we still paid a lot of taxes. But the government changed the laws and we got money credited to us and we can acquire more radio stations. If we found some that we like, but at this time, we do not get any tax credit because it's too light, but we can get some really fast depreciation if we buy hard assets. And like at, Sam, did I do pretty good?

Samuel D. Bush
I like that one1.

Edward K. Christian
Good. Thanks. We did exit the TV sector for a reason. As I just mentioned at. And we're really a brand focused company, where we create brands and radio. In TV, we were contracting for a brand that we didn't control and we're depending upon another company with a network of the supplies with the brand. And now, we can spend in all of our time working on brand development with our existing stations and new acquisitions. And some quick comment for me on '17. As Sam said, political was down, but we did okay. Our side of national business was about 10.5%. And what I can remember when it was '18 and I go back to a days you it was 20%, it was the 80-20, 80% local, 20% national. That's okay because we want to be in control of the sale process. And that dependent upon transactional business. We really do prefer to create, maintain and grow local direct business. The bonus here for Saga is we operate in markets where there is the ability to work directly companies and a few dependent upon intermediaries. I got to tell you, the advertising sector is going through a major transformation. And so it's a long story.

But in essence, the advertising industry is down to like 5 mega agencies that control the big product dollars. They -- the agencies are getting squeezed by the clients and they're passing the squeeze down to the year. Now radio still pays agency a 15% commission, which dates back close to 100 years, about 1920s when it started, that 15% it's been there. In 1956, however, the court's ruled a commission were discount was illegal as it didn't treat direct advertisers is equal, but 15% is still there. Today, in addition to agencies, thereby and services, independent companies that do nothing but buy the media. Buying services and companies that contract with the agencies to deliver media buying and they charge 4% to the agency. There's 11% somewhere that comes in there as big risk. Actually, it gets a little bit more complicated than this.

In fact, there's a great book out that -- by Michael Farmer, who is a former Madison Avenue advertising executive guru. It really explains a great detail and easy to understand language and easy to follow charts, which going out with an agency business right now. The book is entitled, "Madison Avenue Manslaughter." An inside a view of, as the book says, an inside view of the fee cutting clients, profit hungry owners and declining ad agencies. Now I bought a number of copies for our managers. And if any of you are interested, we have a few left. If you contact Sam Bush, we'll send one to you.

If you're interested in radio, then you should also try to understand a components parts of our business. I mentioned earlier, we're in an transformative phase. It's good and it will be better. But it's not something that occurs overnight. We at Saga have always played the long ball. We develop and nurture our stations to obtain a tough hierarchy in our markets. We're building more and more relationships with local businesses and working with them to build their brands and image through radio. And if needed, we work with these clients, adding white label digital advertising as a supplement to the white label products that we supplied to them. It takes time to affects with change.

In Camberley, the radio industry did get seduced by the heady days. No question if we look back a decade or shorter or longer. In previous years, business was quite the lyrics from the iconic Broadway musical, David R. And I love the sound. The money keeps rolling in. And I just quote 2 lines from that. I'm not going to sing it, so don't get nervous. "When the money keeps rolling in, you don't ask how. Think about the people guaranteed a good time now." And that was kind of the industry. We enjoy this flesh of enrolling in from advertising agencies and seeing the cycle wouldn't end. But it has changed. And that's good, and we don't mind that.

Radio is still a valuable tool for branding, and we can do good work and help advertisers for top of mind that were us for all of the excellent attributes that they claim. We have a thing called brandsformation, which really originated in Des Moines, our market there, which we concentrate specifically with an advertiser and bring them into the media on a 52-week schedule and creating a way for them to gain brand awareness in the marketplace, and it really has paid off. And we are spreading it and rolling it out to market after market in Saga. It's going to be great.

Our sector still has great cash streams. Please remember that. And if you remember the old us again sold in group matrix, the definition of cash cow doesn't need apply well to radio companies.

Well, what about '18? We work our plan. January was off a bit for us. But I think when other broadcast companies report larger markets got hit harder, some even got slammed in January. We had some charges didn't help on our expense side in January, where we had to write off some unexpected bad debt that was under books when we acquired the radio group in both Charleston, South Carolina and Hilton Head, South Carolina market.

February, revenue wise, was about the same, maybe a tad better than January. But March is coming in basic up for the first time in a while. And Saga and other companies are beginning to breath normally in terms of certain categories. Some are way down with automotive advertising leading the way in January. Health care was also challenged. Margins in that sector are beginning to show some deterioration. And also, just like every other industry, our operation in expenses were increasing but we're also spending more time in seeking ways.

Sam said to keep our product solid and streamline production without impacting brand, image, sound or effectiveness. Trust me when I tell you that we're not keeping our packages the same size and shrinking the content wink. Our managers are compensated on profits, not sales. And we have the integrity of our brands we must maintain to be able to get the sales, which then begets the profits.

Now I do tend to run on a time. So I need to watch myself. And I could keep talking about radio philosophy of good media, sales, effectiveness, towers, transmitters, when they were for some time. But we do kind of had internal rule at Saga and that after 15 minutes, your eyes and ears tend to kind of gloss over, which you're hearing for the message. And I'm running fairly close to the 15 minutes.

We're fine. We do good work. We created great broadcast environment for our people. We don't discipline our audiences and we won't disappoint you, if you're a shareholder of our company. And tying it back in the Goldman Sachs. Our books won't sync on our watch. Sam, do you have any questions we're getting at this time?

Samuel D. Bush
We did get a couple of questions in. But I believe we've answered them between your comments and my comments. As always, as you suggest, if anybody has additional questions or who wants to further with our comments, please give us a call.

Edward K. Christian
Yes, and don't forget to call Sam and asked for the book. It's really good, compelling reading. And it provides a 10 general look at a sector that we have a dependency on and we're trying to reduce and change a little bit on that. Sam, I don't think we have anybody else. Greg, if you're there you can wrap it up and the thank you, everybody, for being on the call today.

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