Saga Communications, Inc.

NasdaqGM:SGA

FQ4 2018 Earnings Call Transcripts

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S&P Global Market Intelligence Estimates

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Call Participants

EXECUTIVES

Edward K. Christian
President, CEO & Chairman

Samuel D. Bush
Senior VP, Treasurer & CFO

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, Ed Christian. Please go ahead.

Edward K. Christian
President, CEO & Chairman

Thank you, Craig, appreciate it. And welcome, everybody, and we'll try to keep this as cogent and as short as possible. And with that, said, here for the 88th time, we figured, Sam's tenure is the 89th call or the 88th call?

Samuel D. Bush
Senior VP, Treasurer & CFO

I'm not sure, but it's in that neighborhood.

Edward K. Christian
President, CEO & Chairman

Go ahead.

Samuel D. Bush
Senior VP, Treasurer & CFO

Thank you, Ed. This call will contain forward-looking statements about our future performance and results of operations that involve risks and uncertainties are that 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.

As you look at the fourth quarter and full year for 2018, and this was the case for the first, second and third quarters as well, keep in mind that for the comparable periods in 2017, we've reported the financial performance of the television stations that we sold on September 1, 2017, as income from discontinued operations net of tax. This is important to note when you compare the net income, free cash flow and earnings per share information. We also acquired the stations -- radio stations in Charleston and Hilton Head, South Carolina as of the same date.

It's also important to note that on December 22, 2017, the Tax Cuts and Jobs Act was enacted. As a result of this act, we recorded $11.5 million reduction in our deferred tax liability. This is also important to note when you compare the income from the continuing operations net of tax, net income and earnings per share.

One final note to keep in mind as you look at our comparative number as of that in the fourth quarter of 2017, we recognized a noncash impairment charge of $1.5 million. WE did not have any impairment charge to record in in 2018.

For the quarter, our net revenue increased 4.7% on both an as-reported basis and a same-station basis. Free cash flow was $5.9 million for the quarter. For the 12-month period, our net revenue increased 5.7% on an as-reported basis and 1.1% on a same station basis. Free cash flow was $19.5 million for the year, operating income netting out the 2017 impairment charge was up $1 million on an as-reported basis, and $1.1 million on a same-station basis.

To better understand our calculations of free cash flow net income and net income per share for continuing operations we have included a couple of additional reconciliation tables as a part of the supplemental financial data of our press release.

As a result of the Tax Cuts and Jobs Act passed in 2017, we expect our ongoing tax rate to be 29% to 30%, including a 14% to 15% deferred tax. Our expectations are subject to change given the various states in, which we operate, may adjust for their rates in response of the federal tax.

CapEx for continuing operations was $1.5 million for the quarter, which was flat with the same period last year. For the year, we spent a $5.9 million compared to $6.3 million last year. In 2019, we are continuing to upgrade several of our tower and studio sites and at this point, we expect CapEx for the year to be between $5 million and $5.5 million.

At the end of the quarter we had $20 million in Debt outstanding, cash on hand at the end of the quarter was $44.7 million. As of March 11, we had $40.7 million in cash and $15 million in bank debt. Keep in mind that we closed on the radio stations in Gainesville/Ocala on December 31st. We paid for that acquisition out of cash, roughly $9.3 million for the purchase price plus about $0.5 million to acquire the accounts receivable.

Including the recently announced $0.30/share which will be paid on March 29, 2019, we will have paid over $64 million in dividends since December 3, 2012. We intend to continue 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.

During the quarter, we repurchased 2,505 shares for 79,000 -- approximately $79,000. Last year, we repurchased 53,713 shares for the entire year for a total of about $2 million.

Gross political revenue was $1.6 million compared to $900,000 during the third quarter. For the year, gross political revenue was $2.9 million compared to $1.5 million last year.

We expect same station operating expenses to be up 1% to 2% for 2019, we expect interest expense for 2019 to be around $1 million. At this point, we expect free cash flow for the year to be in the range of $17 million to $19 million.

Finally, it should be noted that Saga's Board of Directors and Ed have agreed to extend the maturity date of this contract to March 31, 2025. We previously filed an 8-K on March 1, with the details if you're interested.

Ed, with that, I'll turn it back over to you.

Edward K. Christian
President, CEO & Chairman

Thank you, Sam. You're breaking up a little bit there, I hope it's not my line and if I drop [indiscernible] on this but if I do, we happen to have a problem it's because Verizon sold their fiber to a different carrier, and we've

been having some problems with the fiber. Anyway, so be about that.

Sam, as usual, a mini comprehensive review of the last year and the last quarter. I'm sure, people can't wait till the release of the Annual Report and its associated documents, which will be compelling reading just as you speak to us. Seriously though, I believe by the fact that at the end of this month with the payment of the quarterly dividend, we will have paid out $64 million in dividends for shareholders.

I do have one interesting fact about Q4. There perhaps is thought that the reason for the lift was political, but an analysis of revenue and the political shows that our up in revenue was about half in political and half nonpolitical commercial advertising, which I think is a very good sign. We continue on the local basis, making adjustments and changes to try to ensure that we can continue on to grow the company.

Let's speak for a moment on the acquisition of the 4 stations that Sam mentioned in Ocala/Gainesville. The market is rated by Nielsen, as being in the top 60s, but there's really interesting factor here. Years ago, the market was different. Gainesville was rated as a market by itself as was Ocala. Actually, the market was Ocala/Leesburg at that time. The broadcasters in Gainesville and Ocala got together and decided that if they had, then Arbitron, which is a predecessor to Nielsen add the markets together, but dropped Leesburg from the market summary they would be market like 65. In truth, Gainesville and Ocala are different markets, about 30 miles apart. There's a cross-pollination as Gainesville is home to the University in Florida and Ocala is known for it's horse country. The market is also growing tremendously in Ocala market because of ingress of families to Florida.

But, however, we view Ocala as the Gainesville, Ocala market is 750,000, but if we go back to the all defined market of Leesburg and Ocala just by itself, there's well over 750,000 people just in Marion, somewhere in Lake County's [indiscernible] if you throw in the Ocala part of it, it's well over 1 million people in there. The Marion and Sumner, which are not in the -- I'm sorry, the lake and Sumner, which are not in the market right now, also include about 100,000 people and the Villages, which is a retirement community, with an average income of $98,000 per household, the market, which is really very impressive. The market is growing like a weed. Villages is also expanding and it's projected that it could double its population.

Marion County, we referred to it as horse capital, there's construction underway for a new equestrian center of 258 acres, which when completed in January '21 -- 2021 actually, will be the second largest in the world, which is very impressive. And I happened to have a tour of it last week, and I think it's like 18 horse farms on the property, all new, which will hold 2,100 horses for events and and a 5 star hotel, it goes on and on. I think it's a game-changer for that entire market there.

We closed on the 1st of January, as Sam said. And under our new management team, we have already exceeded revenues for the first 2 months of the year. We have really put together a really great staff down there and the future is excellent.

However, I do want to telegraph a little note that the winds were not as kind in some of our other markets. Many of our markets overperformed in that first quarter, which though isn't finished, we have a pretty good indication what it will bring. We had 3 markets that had larger-than-normal downturns in Q1 of this year. One was an agricultural market because of the tariffs, which have not been kind to farmers and agricultural has suffered quite a bit in the market. We're working on it now. We have put together another plan, combining 2 of our other ag stations into a mini network, which will help try to bring back some business on that.

One other market had a management change, and we believe our problems there to be an aberration and another market is going through what we call kind of a reeducation, basics -- sales basics. I say this in a kind manner as we do not make our staff sing songs or wave flags or whatever it is but it is essentially back to basics and a more structured basics, and we believe that will be improved. I am disappointed in that, I should just go on record in saying that.

This will also be somewhat an expensive year as far as capital goes as we're building new towers, as Sam mentioned, the last time, I think the old tower, which we did not build is suffering from salt erosion in the air at about the 300 to 500 foot level, and that the tower needs to be replaced.

We have equipped a tower nearby, from which to broadcast while the change occurs. We have to take down the old tower and install a new tower. We have to go down 35 feet into the bedrock to be able to support the concrete for the tower. The process will take us about several weeks once we start the construction. We are also remodeling our facilities in Springfield, Illinois, and in Charleston, South Carolina. And, as Sam mentioned, we have plans for a new building in Hilton Head and Ocala. Other major capital items, will be purchased -- will be I think 8 or 9 new transmitters for facilities.

And it's an interesting -- to me, it's interesting, that a number of years ago, [indiscernible] we got about 20 to 25 years lifespan out of a transmitter. That's dropped down now at about 17, 18 years. And if you kind of look at manufacturing, whereas before, we had like 7 or 8 or more transmitter manufacturers for radio broadcasting, we really have 2 left. One is a Canadian company and one is U.S. company, which I think is interesting that we're allowed to just really 2 major and a few somewhat smaller manufacturers, but just really 2 major suppliers in that area.

I would also like to mention that we are still in the acquisition business, that should be apparent to all that we believe in talent-driven radio and patience in finding just the right acquisition. A couple of brokers have actually called me Goldilocks, which I don't know if it's a good thing or a bad thing. I think it's good because we don't buy barrels of different types of porridge at the same time. We acquire 1 bowl at a time, and a bowl that is just right, and that's worked for us for 32 years. There's no reason for us to change the metric. We do not buy batches and batches of stations at one time because frankly, we would just overwhelm our infrastructure and that could cause ramifications for our shareholders and for us.

We do have a credit line, it's $100 million, and we keep cash reserves available. Sometimes, it takes us longer than other times to find a proper station. In a case of Ocala, our first conversation about the properties occurred with a call about 10 years ago with a polite response from them of, "thank you, but we're not interested." I guess, our persistence does pay off.

We have 4 properties that we are kind of looking at, at this time, right now. It will take time, none of them are tomorrow, but they could be tomorrow. That's the type of relationship that we build where events cause somebody to respond to us because they know we can perform quickly.

As you have all noted, 2018 or even the first part of 2019, we've witnessed unusual, I actually call it strange weather patterns. Many businesses would say the same for industries and broadcasting shares the same view. Last year was an unusual thing, it wasn't so much for us, but I'll tell you that we don't like some of the weather patterns that we've seen. We are hoping for calm waters, but we carry a lot of extra canvas on our boats, which allows us to make immediate repairs, should we have to. We are in good shape financially, we're in good shape for the stations we have. We have operated them prudently and well, we make the changes were necessary. And as I said earlier, we really do believe in the talent-driven industry. I think one of the things that's happened a little bit is there has been too much pruning by some of the other groups of talent, and we, as an industry, have to keep the talent portion as that is really what the driver is for our business.

Sam, that's about it. Do we have any questions that we should look at?

Samuel D. Bush

Senior VP, Treasurer & CFO

We had a couple of questions. One, I think we've already answered with the comments I made about extending your contract to 2025. This was about what are your pending plans to retire, and we all know that's not in the cards anytime soon. The other one is the typical conversation, at least, that we have all the time, internally and externally, is about where our stock price is trading and effectively, you've talked a little bit about cash management. But basically, [indiscernible] the stock price but talk about what we're doing with the cash we have and relative to share buyback, dividends and acquisitions, but more about that.

[Technical Difficulty]

Edward K. Christian

President, CEO & Chairman

You are breaking up. Are you on your cellphone?

Samuel D. Bush

Senior VP, Treasurer & CFO

No, I'm not.

Edward K. Christian

President, CEO & Chairman

Well, okay.

Samuel D. Bush

Senior VP, Treasurer & CFO

That's interesting.

Edward K. Christian
President, CEO & Chairman

Yes, did I break up at all? Maybe it's just the line. We do have the reserves available for us. We believe in having adequate reserves in case we decided, we can move quickly on something. We are pleased to be able to show that to anybody who is looking, I'd say, perspective on, but I guess, that would be appropriate to us. And we do have the line of credit, so we are very much available in that. I think I know where this call came from, it's one of 2 people. But it's something that the board looks at. We still have what, $1 million in interest that we had to pay on our bank loan, which we did pay some down.

Samuel D. Bush
Senior VP, Treasurer & CFO

[Technical Difficulty]

We just lost it. Phone just disconnected.

Operator

Yes, his line has disconnected.

Samuel D. Bush
Senior VP, Treasurer & CFO

Okay. I think he will make a call back in here. I know he's been having some lines problems for the last month or so. But the worry was basically going was we, obviously, look at all the alternatives of what we can do with cash. We do want to be sure that we're prepared if there is a forthcoming downturn in the economy, which, obviously, will impact radio as well. We want to be prepared to have cash on hand for acquisitions and we do have to stock buyback in place.

Edward K. Christian
President, CEO & Chairman

Well, here I am. I guess, we figured it out that it was my end with my carrier, which -- by the way, just to put it all in perspective, I think that they paid way too much and they have too many bonds out there, which is affecting performance, we said politely, we won't name who it is, you can probably figure it out if you follow telephone. That's pretty much what I have, Sam. Saying that it's one of 2 people that probably ask that questions. And we review this every single time we have a shareholder meeting. And we review it every time that we sit down with the Board of Directors as to what is the basic use of our cash and it's to grow the company, which is something that we grow strongly on bit by bit by bit. And we've been fortunate in having that availability. I think that's all I have. And...

Samuel D. Bush
Senior VP, Treasurer & CFO

I think we can wrap it up with that, Greg.

Operator

All right, typically said, that does conclude your conference for today. Thank you for your participation and for using AT&T Executive Teleconference. You may now disconnect.