S&P Global
Market Intelligence

Saga Communications, Inc.
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FQ2 2019 Earnings Call Transcripts

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S&P Global Market Intelligence Estimates

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 second quarter 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, Mr. Ed Christian. Please go ahead.

Edward K. Christian
President, CEO & Chairman

Thank you, Greg. Appreciate it. And ladies and gentlemen, welcome again to another one of our conference calls. I have looked over and I see the curtains slowly rising and standing in center stage at the microphone alone is Samuel Bush. So with that, we'll have a brief applause. And Sam, it's up to you.

Samuel D. Bush
Senior VP, Treasurer & CFO

Thank you, Mr. Christian. 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. A reconciliation for all non-GAAP financial measures to the most directly comparable GAAP measure are attached in the selected financial data table.

As reported in the press release for the quarter, our net revenue was approximately flat with last year at $32.2 million. Note that gross political revenue for the quarter this year was $195,000 compared to $510,000 for the quarter last year, a swing of $315,000.

Station operating expense remained a strong point, with a decrease of $261,000 for the quarter including our picking up the expenses associated with our new stations in the Gainesville-Ocala market. This helped increase operating income to $6.6 million compared to $6 million last year. On a same-station basis, our expense controls resulted in a $1.2 million reduction in station operating expenses for the quarter.

Free cash flow was $5.6 million for the quarter compared to $6 million last year. Of the roughly $2 million we spent on CapEx during the second quarter, almost $900,000 of that was related to upgrading the existing studio buildings in Charleston and Ocala as well as buying a piece of property where we intend to build a new Hilton Head studio building to replace our existing leased facility.

For the 6-month period, political was $259,000 compared to $787,000 last year. We expect political to pick up as we go through the year. In 2018, we had $488,000 and $1.6 million for the third and fourth quarters, respectively. Political is always a tough call but we expect it to pick up and potentially to be stronger than we've experienced in other years that were just prior to a presidential election year.

Even with the additional CapEx-related expenses associated with our Charleston, Hilton Head and Gainesville-Ocala acquisitions, our CapEx for the first 6 months was only $300,000 over the same period last year. In 2019, we are continuing to upgrade several of our existing tower and studio sites, and at this point, we expect CapEx for the year to be between $5 million and $5.5 million.

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

At the end of the quarter, we had $10 million in debt outstanding. Cash on hand at the end of the quarter was $38.5 million. As of August 5, we had $39.3 million in cash. Including the recent $0.30 per share dividend, which we paid on July 5, 2019, we will have paid almost $66 million of 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 8,602 shares for $247,000. For the year, we purchased 11,107 shares for $327,000. Last year, we repurchased 53,713 shares for a total of $2 million. Since we began our repurchases, we have repurchased 2.1 million shares for our total of $55.7 million.

We expect same-station operating expenses to be flat to down 1% or 2% for 2019. We expect interest expense for 2019 to be around $1 million. We expect our ongoing tax rate to be 29% to 30%, including a 9% to 10% deferred tax rate.

And now, I'll turn to center stage and the curtain and microphone back over to Mr. Christian.

Edward K. Christian
President, CEO & Chairman

As he silently walks on the stage. Here we go. Sam, as usual, a cogent and precise reporting of the factual events over the last quarter for Saga.

Now let's start to peel the onion a little bit. Despite the fact that it was another flat quarter with decent margins and profits, it was still not thrilling. I underscore the word thrilling. I wish that I can have the legendary announcer for the Lone Ranger, Fred Foy, here right now to do the open of the Lone Ranger. Aha. Set up. Sam, you probably don't know who Fred Foy is, but let me just tell you that if you go back 70 years in the radio, there was Fred Foy who was kind of -- I consider the god of announcers.

Now this was back in the days when radio stations had studio announcers. And Fred Foy just had it. He had the gift. He had the gift of tone, the gift of message, the gift of pacing and he was a magnificent presence.

I remember as a child, sometimes riding to work with my father to his automotive parts business. We would pass this studio that said WXYZ radio, which is about 4 miles from where I'm sitting right now. They were on Jefferson Avenue. I would look at this little Tudor building and know that in that building, they produced not only the Lone Ranger but Sergeant Preston of the Yukon and The Green Hornet. So Fred Foy was really, really -- again, I'm going to do something and please don't look at me a little goofy, but I want do something that will tie it up. So bear with me for a second.

"Plays intro to The Lone Ranger"

Now that is imagery and warms your broadcast blood. The point being here is that imagery is 70-plus years old. There are 108 million Americans over the age of 50. This is a forbidden category where the agencies never talk about the fact that there are 108 million people, 44%, of which work. And most of them can probably remember the Lone Ranger and can remember the voice of Fred Foy, not knowing who he is. But understand the meaning, the thrill, the passion that existed with radio. The point is if it happened 70 years ago, it can happen today, and we can make it just as relevant as we did back then. With that many people with memories still after all these years. By the way, you can go online to just Google Fred Foy and there's a whole website dedicated to him with a lot of his other writings and other things that he voiced. It will be quite impressive. So the quarter wasn't thrilling, notice how we tied that in. It wasn't bad but, please, no trumpets necessary.

Remember back 6 months ago, we talked about what Saga anticipated for 2019. This was a year of evolution and re-education and analysis. I was wrong on my time table. We could have accomplished this if we just sent in new plays, but our way of oversight is one of collaboration and understanding and a hard analysis to determine the correct path of action. We'll get to the truth a little bit later and then we'll tie this in. But suffice it to say, we are still 3 months away from having most everything in place to deal with the new realities in radio. And so an interesting and challenging time. Old precepts still hold true, but the radio industry cannot stand on ceremony and must both defend old premises and adapt new business practices.

We defend radio. It is a valid media with lots of gas still in the tank...but we recognize that we must add services to be able to enhance radio without destroying the core competency of what we do. What we do well and also works. So what are we doing? What are our goals? What are we changing? And how will this make us better,stronger and grow the position of Saga and radio?

First off, we have changed the order of priorities. We are now focusing and developing new training for our sales representatives on local direct business with priorities directed to the service industry. This area has not been well mined and it is a treasure trove of business. It does take time for retaining and customer focus, and for all of the other attributes necessary for successful sales in local direct. We'll do it right and it will pay rewards.

On the other side, we recognize that national business has markedly changed. Now we'll do something a little bit different here. Let me take a moment and read part of an article from Broadcasting & Cable Magazine. Though it deals with the TV industry, it has solid ramifications for radio as well. This is from the August 1, 2019, Broadcasting & cable.

By Hank Price/August 1, 2019/5:35 a.m. ET.

"Earlier this year Gray Television made the decision to drop national representation for its newly acquired Raycom stations. Now Tegna has announced the same move, sending shockwaves through the rep community. Are these moves smart or will they create opportunity for competitors?

Gray and Tegna are not the only groups having serious discussions about the future of rep firms. The continuing drop in national revenue is a hot topic in every boardroom. For now, most continue to use representation, indicating a desire to make the system work, but no one can ignore the dramatic changes in landscape. Unless the reps want to serve the new marketplace, their days are numbered.

The current system is fairly straightforward. National account executives build relationships with buyers. Buyers issue "avail requests", listing all parameters from demographic targets to air dates and total budget. Account executives respond with a proposed cost per point in schedule. Buyers then negotiate with account executives until an agreement is reached.

This is a passive system. Reps have no opportunity to influence client budgets or parameters. They're also competing with other reps over revenue share, which creates a commodity market.

As national television budgets shrink, profits are shrinking too leaving stations incredibly frustrated. National money is not going away, it is being rerouted to a host of other new media and other competitors. Stations are left out.

Compare this to what is happening locally. Today's station account executives are sophisticated sellers with a host of products their clients want and need. Traditional spot is still the backbone, but mobile, web, third-party, OTT and secondary channel are all in the toolbox. The goal is not to sell product to every client. It is to become a partner who helps solve client needs. When this is done well, it creates incredible loyalty. It also makes pricing secondary.

The National marketplace is different. Agencies have different units for different media, technical buying systems are different, even different kinds of people to deal with. But these things are exactly why the rep business must be reinvented. Otherwise stations will continue to be left out, forcing them to look for new ways to do business.

As we move toward addressability and the ability to link advertising to results, we also run the risk of greater commodity buying. Here is the great irony. The people best positioned to build the future are the rep firms themselves, but they must have the will to do so. The best reps do a great job of relationships, so they could start by setting up meetings with major agency heads to talk about their total business, not just television. How can they work together to make everyone's life better? What can they do to make everyone more money? And by the way, how can they also change the way spot television is sold to be more efficient. Answering those questions and many others will provide the nucleus of a restructuring plan.

Whatever the answer,continuing to try and survive in a shrinking marketplace is a losing proposition. If that happens, Gray and Tegna will not be the last announcements we will hear.It does not have to be that way. The folks running rep firms are smart, experienced and want success, but the clock is ticking and it's time to play offensive ball."

I know it was a long article, but I wanted to read it because the similarities between broadcast television and broadcast radio. Saga must also deal with the automated buying and electronic insertion of lower priced orders pushed by rep firms.

Finally comes the issue of quality of creative radio ads. I'm a big believer in creative. It stimulates the mind and creates a brand and a call to action, as we did with Fred Foy. I challenge other broadcasters to listen to the quality and observe the quantity of poorly produced and non-productive creative that are running on the radio stations.

Many ads are inserted electronically without supervision or quality control. We are actually inviting our audience to leave – I'm not making this up, we're inviting them to leave. Thus at Saga, we're stressing quality of message, frequency of message, and proper presentation of radio to prospective clients. We're selling a relationship, a bonding, and most importantly a partnership. "We will prosper if you do" is our message to the client.

Taking it a step further, a lone voice of advice to other broadcasters. Don't be afraid to tell clients that we are RADIO, all in caps. Tell the truth. Talk about radio, not numbers or out-boarded concepts. Don't mask it. It's saddens me when a cohort says, "We're really excited about our podcast business," or "We are specialists in digital and have our salespeople required to make digital presentations," or "We have great concert connections". Finally, "We are re-examining more ways to be efficient and use more cross platforming to achieve economies".

If proud and departed broadcasters listening from the grand transmitter in the sky heard this they would be appalled Their plaintive cry would be "What happened to radio?". At Saga you have our assurance that we are radio. Certainly we utilize our skills to bring in other dollars, such as digital, and we do a fine and growing job, but it is a part of what we do, not an accent on new media and small "r" for radio. We do have an interactive department which is also being updated to be more productive without compromising our core.

We will continue to grow Saga when we see opportunities that fit our defined criteria. We will continue to be profitable. We will continue to pay dividends. We will have images and facilities that send the message to the community that we are a class act. We will continue to build our brands and we'll continue to super-serve our communities so that the stickiness creates a strong bond between local radio and local audience...and changing tenses I won't disappoint because I love what I do. To me, I'm left with fond memories of the thrilling days of yesterday -- yesteryear and anticipate thrilling days of radio in the future. Sam, I heard somebody say that we have some audio issues. I hope not.

Samuel D. Bush
Senior VP, Treasurer & CFO

Well, we apparently did. I was getting texts from a couple of people, and all I can tell you at this point is that we will post a transcript later today. So if any of you did have trouble hearing part of what Ed or I said, audio difficulties with hearing it, the transcript, once I get it and we edit it to make sure it's accurate and any missing pieces are filled in will be posted to our website. It'll be sometime later this afternoon, evening or, worst case, first thing tomorrow morning. I'm never quite sure when I'm going to get the transcript but it will be on the website corrected as soon as I can.

And with that, because of the audio difficulties, I think, Greg, we'll turn it back over to you to wrap up the call.

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.