

Saga Communications, Inc. NasdaqGM:SGA FQ1 2020 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

Good morning, ladies and gentlemen, and welcome to the Saga Communications Inc. Q1 Earnings Conference Call.
[Operator Instructions]

It is now my pleasure to turn the phone to your host, Ed Christian, President and CEO of Saga Communications. Sir, the floor is yours.

Edward K. Christian
President, CEO & Chairman

Thank you very much, Catherine. Good morning, everybody, and it's the usual Ed and Sam Bush. We're gathering here for our little morning talk. This is interesting for us because usually -- we're usually third or fourth on the list of the broadcast companies who have announced their report, but they've been late and -- or should I say, tardy. I think tardy is more applicable word.

And Sam, I know that when my son was in school, if you were daylight, you got marked down a grade. And do you think that happens to reporting companies?

Samuel D. Bush
Senior VP, Treasurer & CFO

I don't know whether it does or not, but it certainly sounds worthwhile.

Edward K. Christian
President, CEO & Chairman

Yes. So you get down to maybe a C and if you had a B on it before, you were C. I don't know how that works. Anyway, we have completed all of ours and are timely on this. We have our annual meeting call next week. For those who enjoy this so much who want to join in can -- if you're a shareholder, can so certainly do so.

In the meantime, I'll turn it over to Sam for his summary of Q1 or whatever.

Samuel D. Bush
Senior VP, Treasurer & CFO

Thanks, 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.

Well, with the onset of the COVID-19 pandemic and the resulting impact on the overall economy, as Ed pointed out just a minute ago, I'm not sure that a review of the first quarter's numbers is very meaningful.

That said, as reported in the press release, we did have a \$310,000 increase in net income for the first quarter compared to last year. Early in the year, we were off to a good start. As through February, we were showing increases in net revenue, including gross political revenue of \$1 million for the quarter compared to \$64,000 last year. Broadcast cash flow through February was also showing solid growth year-over-year. That all came to an end in mid-March with the significant disruptions to our advertising revenue as the 19 states that we operate in issued various shelter-in-place orders as well as requiring certain retailers, including restaurants and auto dealers, to partially or completely close.

For the quarter, CapEx was \$1 million. We are currently looking at only spending the capital dollars needed to protect our infrastructure, while we determine the impact and longevity of the COVID-19 pandemic. At the end of the quarter, we had \$10 million in debt outstanding. Cash on hand at the end of the quarter was \$46.3 million. As of May 4, we had \$47 million in cash.

We're fortunate that with Ed's historical focus on financial stability, Saga does not have any debt covenant or liquidity issues. We have and will continue to take steps to reduce expenses in reaction to the current revenue trends. We are

also taking steps to help our local communities and advertising clients to be prepared to act quickly as the impact of the pandemic begins to lessen. Including the \$0.32 per share dividend, which was paid on April 10, 2020, we paid over \$71.3 million in dividends since December 3, 2012.

Right, now our results for the rest of the month let alone the rest of the year are hard to project. We expect second quarter performance to be significantly below last year. We believe we are well positioned to see a gradual improvement in this year's financial performance beginning in the third quarter. This is based on the states where our radio stations operate continuing to loosen their shelter-in-place orders and our advertising clients beginning to see improvements in their business, which I know Ed is going to talk more about.

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

Edward K. Christian
President, CEO & Chairman

Thank you, Sam. As Sam said, it's very difficult to get any visibility at all on the runway. In fact right now, I think, we're probably fogged in with the hope that the end of fog will look shortly. And that depends on 50 governors in 50 states. We're finding the different states obviously have different things.

So for instance, Maine, yesterday, opened hair salons and car dealers, golf courses and marinas. However, if you are coming into Maine from outside of Maine, you were still to announce yourself and self-quarantine for 2 weeks. So we have a myriad of different rules, laws, regulations, executive proclamations that we have to negotiate to try and get a clear idea exactly when everything is happening.

With that said, I have really nothing prepared, but I have comments. So bear with me as we kind of go through this here. Actually, I'm going to start off on something that just was spoken to me a few minutes ago by Chris Forgy, who is our Senior Vice President and in-charge of operations. And Chris was on the phone earlier this morning doing a Teams call, conference call with the sellers in Manchester, New Hampshire. And his topic of the sales meeting is that hope is not a strategy. And I think this is probably one of the things that we look at is that we don't hope for change. We have to effectuate change, we have to make change.

And so really what we have been focusing on of late during this rather than sitting around waiting for the economy to heal itself so that clients come back to us is we have been taking a very proactive part on the role of Saga of really reviewing our strategy tactics and the culture change, which we feel is necessary to do it.

The focus would change. And since Saga has always been known as a company to play a long ball, which we look at as we take the long view of where we want to go and what do we need to do to sustain the image, the reputation and the credibility of Saga radio stations. And one of the things that we have to really look at is -- and enhance even further than we have, and there's a two-pronged or kind of bifurcated thrust here. One is on community loyalty. And I can't stress enough to you. A lot of companies say, "Oh, yes, we're local. We're live, we're local." Well, being live and local isn't enough today. Today has to be more tactics, creating a stickiness with the communities in which we operate.

In the 30 -- close to 34 years since Saga has been a company, it has been put together with a particular plan of action in terms of the markets that we have identified in which we choose to operate and want to operate. There's still several left out there waiting for us to get the right opportunity to buy, and our plans are to continue to do that. But they are really mid-market communities where localism and loyalty are 2 tenants, which are embraced by not only the people in the community, but also the merchants and the service providers. And we've been pretty good at that. But pretty good is not a commercial. You know, "Well, it's good, it's pretty good." And that's not enough for us right now. We have to go one step further, and we started that on day 1 when we recognized -- well, actually, it wasn't day 1 because I think everybody was in denial for 3 or 4 or 5 days like this. This will pass like the flu, which certainly turned out to be a false flag that it wasn't that way at all.

But what -- when we talk about our relationships with the clients, what we discovered very early on is now is our time to really step it up and be much more interactive with our clients and with new clients, who are -- we're not necessarily advertisers, but became advertisers as a result of this, and -- where we would call on them because they were trying to find an identity, they were trying to establish who they were and what they were and to do this. And a lot of this had to do with one-on-one relationships in the community and even go and work with the individual accounts and the car dealers and whomever else it was to establish a game plan for them on how to operate and how to survive their business.

And part of the thing that we did with that is we also created programs to help them without benefit to us. And if we found a client who'd been with us for a number of years, who was loyal, we'd continue their advertising at no charge. And in Norfolk alone, for instance, Wayne Leland and his crew -- and Wayne just told me this morning that they have donated to Hampton Roads' merchants and stores and businesses over \$600,000 in advertising that we didn't charge for. Now one of the other managers at another group-owned station told him, "That's just stupid that you're giving away you're advertising." Well, no, it's not. Because during that time when the person couldn't afford to advertise because they were looking at the wellness of their business, and we were there saying, "Listen, we're with you. We're part of the community. We're part of the growth in Hampton Roads." And we wouldn't even go to other stations or to clients of other stations in town.

And let me give you an example on Norfolk, which I think is classic on it. One of our sellers there called on an account in HVAC that was dealing with another radio station in town and went in to see them and said, "Look, you're not advertising on us, and you've been spending your money." But here's what I want to do. I also want to run a schedule for you now because we believe it's important that you continue your marketing and your marketing push during this downtime so that you have it, so let us do this. And the person is, "What's your catch?" No catch. No catch. We just want to -- actually, we'll design the commercial, we'll work with you on it, we'll build it, we'll run it with no charge. What do you mean no charge? No charge, nothing, 0. And of course, there is a skeptic that comes out in any way when you do this. And the person at the place said, "Look, if you think I'm going to commit to buying advertising afterwards, I can't make that commitment." I said, that's fine. So they came out to our station and they recorded a commercial. And the woman walked out of the production studio and said, "By the way, your Production Director is just fabulous. He's great. What a joy to work with him." And this is great. And she said -- and now nothing else, but he said, "No, ma'am, thank you. We'll take care of the schedule. We'll run it. It's just on us, because we want you to be successful. You're part of the Hampton Roads community. We're part of the Hampton Roads community, and we're all in." And she said, "You know, I'm going to find money for you." And those are magic words because that shows that the plan that we have -- and that's just one example. I mean, I could sit here for -- and you don't want me to go through hours of other examples that I have that I've heard from our salespeople and our sales managers and everything.

And we've also used this as an opportunity for us to kind of, I don't want to say, upgrade, but to make sure that our staff is made of steel. And in past, we might have had a few tin soldiers in there, but that's changing because we need to only have the best, the ones who get it, the ones who understand what it is to emote and talk to their clients, to talk to them, to be with them, to be there for them with the radio station centric on supporting the community and talking through the community. We're not into the, we care, we'll get through this. We take a very, very optimistic approach on what we're doing and we're different than others because other companies are selling on a bulk commodity basis, and ours is in relationship sales. There isn't a difference between indifference versus caring and a lot of the companies are indifferent because they're so big and they're so large. There are other radio companies. And we're small and we're tight in terms of message where we're going to go. And again, it's a long-term vision versus a short-term reorganization.

When I said earlier about steel, there is a thing when you pick up a shiny piece of steel when you hold it in your hands, you know there's weight and you know there's heft. And there's a time when you pick up some tin and you know that, that can be easily bent and the fabric isn't there. We want to just keep steel soldiers in our place, in our business, maintaining the relationships so we build up.

I'm blessed with the fact that we have great salespeople, also blessed that we have great employees. Jerry Elliott, who is with us at WLVQ in Columbus, Ohio, station we acquired a number of years ago, not too many years ago, but Jerry had been the morning man at WLVQ from an original show, Wags & Elliott. And Jerry on his own called and said, "You know, this company really is different. It's something. And I just want to know that if you need me to take a pay cut, I will."

Now I will tell you that the line wasn't very long behind him. So if you're thinking that everybody queued up, no. But Jerry did, and that was so meaningful to me because he's one of the newer people who has been with a number of other companies that owned that station and seen how they happen, the little difference that we have with Saga on this.

There is an environment of -- for professionalism versus buildings of despair. And I really think and I look at, that's what we've created. Our whole thing is a positive-centric kind of where it's going. We just don't tolerate.

Well -- okay, if you go back in history and some of this might be over, I might be too old for some people on this, but Al Capp, the Li'l Abner cartoons, went back one for those of you that used to read the Sunday funnies when there was such a thing as Sunday funnies. And he had a caricature called Joe Btfsplk, and Joe Btfsplk was a well-meaning, but the world's worst jinx, who brought disastrous misfortune to everyone around him. And there was always Al Capp, who would

show him as a small, dark rain cloud perpetually hovers over his head to symbolize his bad luck. The hapless Btfsplk and his ever-present cloud became one of the most iconic images of Li'l Abner cartoons.

We won't have that. We won't have that because that spirit would inculcate into the rest of the company and begin to tear it down. We're focused on the fact of rebuilding. Yes, we have a long way to go. This was disastrous to us as an industry. The broadcasting industry in radio and television are estimated to be down 50% and 60% in April and May each month with an uptick starting in June. Now whether that comes true or not, I don't know. But the fact is you can manage your way up and out into this, and we believe there is a way and that's in performance, and we'll show it to you, and we're not talking about numbers or figures or covenants or ratios or anything else like that.

I believe in Saga. Our people believe in Saga. We believe in the way, in the path that we've set up to do it. We're committed to that. We're committed to serving our clients, building our client base. We've come up with more creative ideas in the last couple of months from our salespeople and our sales managers in terms of, "Hey, well, we haven't tried this, let's do this, let's try this." The creativity is flowing like never before. So bear with us. Bear with us. Bear with the country because we'll get it right. And we'll be around, and we'll have these calls for years to come, not like this, but before I had earning calls for years to come.

Sam, I'll toss it over to you. I don't know if you have any questions or anything else like that or if that kind of wraps it up for tonight.

Samuel D. Bush
Senior VP, Treasurer & CFO

No, I think that wraps it up for now. We did not get any questions coming in because I think everybody is focused on what's happening in the future as opposed to what's going on right now, so.

Edward K. Christian
President, CEO & Chairman

Well, as ever, if anybody does have questions, Sam and I are around for the rest of today. And feel free for your individual questions, to just give us a call. Catherine, we'll turn it back to you.

Operator

Thank you, ladies and gentlemen. This does conclude today's conference call. You may disconnect your phone lines at this time, and have a wonderful day. Thank you for your participation.

Samuel D. Bush
Senior VP, Treasurer & CFO

Thank you, Catherine.

Operator
Have a good day, guys.

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