

Saga Communications, Inc.

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FQ3 2018 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 very much for standing by. Welcome to the Third Quarter Earnings Call. [Operator Instructions] I'd like to turn the call over to Mr. Samuel Bush. Please go ahead.

Edward K. Christian
President, CEO & Chairman

Okay. Hi, everybody, this is Ed. And we're sorry we're late. It's not our fault, we say it politely. In the last days, I've had to deal with Frontier, Verizon, Comcast and AT&T on issues. So on the length over to your radio signals, probably landlines are having a little bit of a problem. But welcome to our call. With that, here is Sam and we do not have call in questions. We will use our regular format. Sam?

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 measures are attached in the selected financial data table.

First, it's great to be doing this call only a few days after we announced we are entering into an agreement to buy 4 FM radio stations in the Gainesville-Ocala radio market. As Ed has been working to buy these stations for quite a few years, we see a lot of opportunity with these stations in this market. It is a great opportunity and we are pleased that the Dicks family has seen fit to entrust Saga with the ongoing stewardship of these stations.

As you look at this quarter, and this was the case for the first and second quarters, keep in mind for the comparable periods in 2017, we 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 diluted earnings per share information.

We also acquired the stations in Charleston and Hilton Head South Carolina as of the same date.

For the quarter, our net revenue increased 4.6% on an as-reported basis and was flat on a same-station basis. Free cash flow from continuing operations increased \$1.2 million to \$5.2 million for the quarter. Operating income was down \$188,000 on an as-reported basis and \$200,000 on a same-station basis. However, income from continuing operations, net of tax, increased \$730,000 for the quarter.

For the 9-month period, our net revenue increased 6% on an as-reported basis and was flat on a same-station basis. Free cash flow from continuing operations increased \$2.7 million to \$13.5 million for the 9 months. Operating income was up \$315,000 on an as-reported basis and \$385,000 on a same-station

basis. Income from continuing operations, net of tax, increased \$2 million compared to the same period last year.

To better understand our calculations of free cash flow, net income and net income per share from continuing operations, we've included a couple of additional reconciliation tables as a part of the supplemental Financial Data section of our press release.

As a result of the Tax Cut and Jobs Act passed in 2017, we expect our ongoing tax rate to be 29% to 30%, including a 13% to 14% deferred tax. Our expectations are subject to change given the various states in which we operate may adjust their tax rates in response to the federal act.

CapEx for continuing operations was \$1.5 million for the quarter compared to \$1.4 million last year. In 2018, we are continuing to upgrade several of our tower and studio sites. At this point, we expect CapEx for the year to be approximately \$6 million.

At the end of the quarter, we had \$20 million in debt outstanding. Cash on hand at the end of the quarter was \$48.8 million. As of October 31, we had \$50.5 million of cash. Including the \$0.30 per share dividend, which we paid on September 14, we have now paid \$59 million in dividends since December 3, 2012. We intend you to continue to pay regularly quarterly cash dividends in the future as well as considering special cash and stock dividends as declared by our Board of Directors.

Additionally, as we previously reported, we have a stock buyback program pursuant to the SEC's Rule 10b-5. During the quarter, we repurchased 20,096 shares for \$748,000. For the year, we have now purchased 34,602 shares for a total of approximately \$1.3 million.

Political did pick up during the third quarter. During the third quarter, gross political revenue was \$486,000 compared to \$333,000 in 2017.

For the 9-month period, gross political revenue was \$1.3 million compared to \$621,000 last year. Political continued to accelerate in October. We picked up over \$400,000 in the month with another quarter of \$1 million in November, and I expect that number to continue to go up through next Tuesday.

Currently, we expect the fourth quarter revenue to be up low to mid-single digits and while political is doing well in October and November, it is only a part of the growth we are experiencing.

We expect same-station operating expenses to still be up 1% to 2% for 2018. We expect interest expense for 2018 to be around \$1 million. And 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 over to you.

Edward K. Christian
President, CEO & Chairman

Sam, you mentioned to me that this is -- no, it couldn't be, that Beasley's conference call started at 11 also. You don't think that they took line cuts in kind of like AT&T?

Samuel D. Bush
Senior VP, Treasurer & CFO

You never know.

Edward K. Christian
President, CEO & Chairman

Slowed down and let's have a jump here so that we get 10 minutes before. Caroline would never do that. Shout out to Beasley if they did get on at 11:00 and I'm just...

Samuel D. Bush
Senior VP, Treasurer & CFO

You never know.

Edward K. Christian
President, CEO & Chairman

Absolutely not. They have been too good a company. I've known George and the family for all these years. It's -- nobody's has done that. I can think of a couple of companies that would, but that's certainly not one.

Let me add a little bit of a counterbalance to the political. October, we had the -- Sam mentioned, \$400,000. But actually we were up -- we're talking about fourth quarter now, or at the end of the third quarter, we were up. But in line with that, we were also getting new money coming in October, and actually the amount of new money or new businesses and existing businesses was more than the political spend. So we had a really good month there and I think that was just a good thing for us that -- certainly, whatever happened, the fish had returned to our nets. And we're very thankful for this.

We also do consider ourselves skilled fisherman and we do know the spots to fish and the spots to stay away from, mostly. And by the way, I learned this, Sam, from watching Deadliest Catch, in case you're curious.

And be that as it may, we are buoyed -- notice the play on words there, I just want to keep a nautical theme today. By this lift and perhaps, it will silence some of the naysayers in the country when they talk about radio. And it looks that the trend for November is very good. And it's a little early even for December by the looks of it, as Sam said, quite good in that respect there.

But I'd also like to talk to you about one thing that happened in September, and there's one part we could have done something about, one part we couldn't have done. I think it's Governor McMaster of South Carolina. As soon as he made the pronouncement that everybody evacuate the shoreline and move inland, the phones and the computers started coming in with cancellations in our markets in Charleston. and Hilton Head -- and also Norfolk. And it was kind of like our own little personal tsunami in terms of watching the cancellations come in. And coupled with that was, when they announced that they were supposed to 20 inches of rain in Asheville. Asheville got slammed in terms of some cancellations there. The total amount was about \$150,000 non-recoupable, but that's just something to know that, that happened to us, it was good, all set to run, until suddenly, fate changed what happens.

The other thing that I just want to bring your attention to, it's something that we kind of caused and I'll take full responsibility for it, but we had a diminution of about \$150,000 revenue in one of our markets, and no question, errors were made as tactics rather than strategy that were applied. And these are not in our playbooks. It was an attempt to boost revenue for the short haul, which is something that we do not do and we discovered this tactic after it had been in place and the damage occurred. I, as I should, I take responsibility for this as it occurred on my watch, and we should've caught this prior to its implementation, but it did cost us some money there. And it's basically the old thing of, you can sell more spots at a lower rate and you sell a lot of them, eventually you'll do better and a mistake was made on this. So it won't happen again.

And I do have a personal slogan that I use with our managers, and that is, send me money not problems, treat the staff right, do compelling radio and we'll leave you alone. At least in that market, we got 2 out of 3 right. So that's something I want to bring to your attention.

Let's talk about the acquisition for a little bit now. Add a little color to it. Yes, this is something that I've had on my radar for a number of years. And I made my first phone call to the Dix family about 10 years ago. Actually, it was a letter, inquiring as to whether they want to do anything and if it ever came to that point, I'm the one to hear from them. We didn't hear back. Call it -- 5 years ago, I did talk to somebody, and he said no, thank you very much, I appreciate it. And then Sam will tell you about 2 years ago, he came in my office and said hey, I got a phone call and the Dix family wants to do something. Well, I did a little happy dance until he told me it was the radio station in Maryland, which doesn't really fit our criteria. And then a number of months ago, they came back and said it's the family -- fifth-generation has decided that the -- we're exiting the market and we're looking for a

good steward. And we have that track record with every family that we have -- been chosen by the family to continue their tradition of broadcasting.

One of the things in our acquisition strategy and I should mention this a little bit. As you know, we buy -- we're kind of a boutique, we buy 1 at a time. We don't buy a swathes of radio station. We target very specifically and have, again, certain criteria that we have to check the boxes on everything. We like -- as I think you know, and you've heard me mention this, state capitals, college towns, non-closeable military bases, certain notes of agricultural. And several years ago, we quietly added another category to this, which is large retirement areas with high incomes. Thus, you will now understand if you look at Asheville, North Carolina. And the last year with the purchase of Hilton Head, South Carolina, and now Gainesville-Ocala and the Villages. Just so you know, Gainesville-Ocala really are 2 separate towns, they're about 30 miles apart and in between the 2 towns, what's that called, Sam, is that the -- it's not the swamp, there's an area that's...

Samuel D. Bush
Senior VP, Treasurer & CFO

Yes. I remember, you're right, it's not a swamp, but it's the marshland area.

Edward K. Christian
President, CEO & Chairman

It's a marshland area. It really changes and the nature of the look of the land and everything changes from Gainesville to Ocala. Gainesville itself, 0.25 million people up there, plus 40-some-odd-thousand students, University of Florida, 2000-acre campus. They also have a huge hospital, so it's a regional medical center. Good town. And then Ocala is really kind of like the Lexington, Kentucky of the South. It's beautiful. But when we went there, the growth is just spectacular in terms of growing like crazy. I mean it's just -- with new build, new construction, new homes. It's in Marion County, which is 330,000 people. Marion County is as large as Rhode Island, which gives you an idea of where Ocala is. And then right below it is Sumter and Lake. And 10 miles below Ocala is the villages, which I think kind of -- it's close to 100,000 people now. Correct me if I'm wrong on that, but the average household income in retirement, if it is retirement, I mean if you call it that, that's really quite spectacular, is \$91,000. And they're starting to build new housing to accommodate another 30,000 people. And there's no radio down there in that area. No FM radio to really compete, because Orlando is 87 miles away from Ocala, and so you don't have those stations really coming in and affecting it. So these are tremendous areas and if you look at K Country, WOGK, which is -- has just this beautiful signal. I mean it's 100,000 watts at 1,321 feet, it's magnificent, kind of has like this you blue mist of a signal overall of North Central Western Florida, all the way up to the -- literally the Georgia state line. And the other stations are 3 stations that simulcast as Wind, which is a classic rock station. It's great.

We had the opportunity on Tuesday of going there to meet the staff. I have been to every one of these when we've done an acquisition, I have been there to talk to them about Saga, and what -- where we see the future? Why we're so impressed with what the family has done and what they've done? And it will be a tremendous addition. And we hope to grow it in several different ways and that's in our plans here.

Additionally, we're still looking for acquisitions. If we bought 1 in a couple of months, we could. We bought 1 in a year, that's a possibility. It is, when the right one occurs and that's our timing on it. Anyway, that's the story. Good staff, good people, great market, a lot of upside potential for us. And it fits in with everything else that we really have in the company which is doing well. I can't really report on any problems. We have projects in way with a new tower in Norfolk, Virginia, new facilities that we're building in a couple of markets to continue on with the look and feel of the company the way it is.

And I think, Sam, that's pretty much what I have to say. Is there -- were there any questions that came in?

Samuel D. Bush
Senior VP, Treasurer & CFO

No, Ed. We've been doing this long enough. It appears that the questions that came in, we already had in our comments, either yours or mine covered them . So I think we're good.

Edward K. Christian
President, CEO & Chairman

Okay, and again, we apologize -- well, actually AT&T should apologize. Maybe Colin will apologize when he signs off the call in a few minutes for the delay. But I think that's it. Sam and I are available if any of you have any questions whatsoever on Ocala or future acquisitions or other plans we might have or anything like that. Feel free to call us, we're here all day. And we won't put you on hold because our answering message is pretty repetitive after about the first 30 seconds. So with that, Sam, Colin, we have no other issues and we take questions via email prior to the call. So if you want to wrap it up, you can go for it.

Operator

Yes, sir. And I would like to very much apologize for the delay in getting this morning's call started. That does conclude the conference call for today, and you may now disconnect.

Samuel D. Bush
Senior VP, Treasurer & CFO
Thank you, Colin.

Edward K. Christian
President, CEO & Chairman
Thank you.

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