Transcript

Saga Communications, Inc., Q1 2018 Earnings Call, May 08, 2018

Saga Communications, Inc. (AMEX:SGA)
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Executives
Edward K. Christian - President, CEO & Chairman
Samuel D. Bush - Senior VP, Treasurer & CFO

Analysts

Presentation

Operator
Ladies and gentlemen, thank you for standing by, and welcome to the Saga First Quarter Earnings Call. [Operator Instructions] And as a reminder, today's conference is being recorded. I'd now like to turn the conference over to President and CEO, Ed Christian. Please, go ahead.

Edward K. Christian
Thank you, Ryan. Good morning, everybody. And as always, for many years now, sitting here next to me is Sam Bush.

Samuel D. Bush
Thank you, Ed. Now the preliminaries, of course, at first. 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.

First, as you look at this quarter, and this will be true for the second and third quarters of this year as well, you need to keep in mind that for the comparable periods in 2017, we have 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. Now to the numbers.

For the quarter, our net revenue increased 7.1% on an as-reported basis and 0.3% on a same station basis.

Operating income from continuing operations increased 17.5%, and station operating expense increased 9.6% on an as-reported basis.

On a same station basis, operating income increased 26.3%, and station operating expense increased 0.5%. We're still doing a really good job, I believe, of keeping expenses under control.

Free cash flow from continuing operations increased $191,000 to $2.3 million.

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.

One additional item to note is that we reported other operating income of $251,000 for the quarter this year. This primarily is due to the sale of a tower outside of Keene, New Hampshire that we are no longer using.

As a result of the Tax Cuts and Jobs Act passed in 2017, we 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.

CapEx for continuing operations was $1.5 million for the quarter compared to $1.3 million last year. In 2018, we will be continuing to upgrade a couple of our tower and studio sites, including the studio facility in Charleston 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 quarter, we had $25 million in debt outstanding. Cash on hand at the end of the quarter was $47.8 million. Currently, we have cash on hand of approximately $50 million.

Including a $0.30 per share dividend, which was paid on March 30, 2018, we've now paid over $55 million in dividends since December 3, 2012. We intend 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.

Additionally, as we have previously reported, we have a stock buyback program that is active pursuant to the SEC's Rule 10b-5.

During the quarter, we repurchased approximately 2,500 shares for $93,000. Subsequent to the end of the quarter, we repurchased another approximately 9,000 shares for $337,000. Currently, we expect the second quarter revenue to be flat. We do expect political to have a positive impact on revenue later in the year, as the political season progresses.

During the first quarter, gross political revenue was $277,000, compared to $43,000 in 2017. 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 $18 million to $19 million.

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

Edward K. Christian
Let me say that's a lot of what I'd be expecting, right?

Samuel D. Bush
That's right.

Edward K. Christian
Okay. There we go. By the way, I'm looking at Sam. There's about a 1 second delay between the 2 phones at once. So it's got...

Samuel D. Bush
We have a little bit of an echo as well.

Edward K. Christian
Well. All right, Sam. Well, another quarter where the Dread Pirate Roberts did not appear, okay? Let's add a little bit of color to quarter 1. If we go back to our last call, as we returned to those thrilling tales of yesteryear, I said I was a little queasy about Q1. Well, it's true. We did manage to move the needle just a bit upwards, and it's better than I anticipated, and I was skeptical about the conditions surrounding Q1.

Some of the categories were disappointing, both automotive and medical, primarily hospital spend. And automotive is a category that is either hot or it is not, and Q1 saw the burner turn down in car store spend. I think it's because the automotive sales were off in a couple of months and there were some caution exercised by the dealers and the dealer groups.

Hospital is another story, we're in markets -- we saw that there were several hospitals, more than that actually, that put out reduction in force notices to their staff in anticipation of further loss of admissions.

Now several years ago, I was on the Board of Directors of a hospital for about a decade, and I still talk to some friends of mine and acquaintances. And they tell me that there was fear of a paradigm shift in the loss of share and value to a growing outpatient service demand rather than inpatient, not that hospitals are becoming obsolescent, but there is more of a growth in the outpatient area.

For radio, and this is, I think, where we have to ramp up a little bit. We can shift our focus to working with outpatient service centers and providers. It does take, as I said, a little bit of ramp-up time to get there. But that's one that we're working on hard, trying to identify -- well, not identify, we have already -- categories and trying to figure the approaches on working that for branding and advertising.

Our plan to expand our product categories continues to grow well, and we did see some really nice increases such as employees-needed category. That's working well for us, especially in a low environment -- well, rate environment for unemployment. And our branding business, working with clients, new clients, to establish branding for their products and using radio to create a brand awareness with long-term marketing is beginning to work out very well for us.

Two other factors to consider about Q1. They're not excuses as we do accept pain head on. These are somewhat realities that we have had to face during Q1. Frankly, it was an awful winter in the Northeast. In our markets in Massachusetts, Vermont, New Hampshire and Maine got slammed with the weather. I remember at nearly the end of the season, there were like 4 heavy snowfalls in a row that kept coming and coming and coming. And it's very disruptive for the businesses in that area there, and it really did hurt our business, with cancellations, when businesses are closed or whatever else it might be.

And another weather-related thing that I haven't seen this before, we closed on Charleston. And suddenly, the town ended up being closed for a week, literally. Sam mentioned this morning that the airport in Charleston, South Carolina, which closed because of icing for a week. And that's -- how did they get the sea and weather transports out?

Samuel D. Bush
They pretty much left nothing. I mean, there's a big old joint military base there, an air command with the Navy and the Air Force. And they were not able to fly anything in and out of Charleston along with the commercial airport for almost 1.5 week, which is unheard-of.

Edward K. Christian
Yes. Well, that plus the hurricane did create a little bit of a problem down there.

Now when weather conditions happen, and we do have alternate service revenues that kick in, so it's just generator sales, roof repairs, but it's not enough to make up for the cancellations that occurred. So the weather was a little bit of an element for us in Q1.

And also, talking about the new acquisition with Charleston and Hilton Head. In Charleston, we experienced longer ramp-up conditions than we anticipated. The previous management had, frankly, well exceeded our normative value of commercial limitations, and we had to reduce the inventory markedly and put in place strict limits for commercial inventory, which is in keeping with things we do in all of our markets.

Another area that we're watching is the ag sector and the effect the weather and tariffs are going to have on agribusiness. So far this year, we're having another excellent year with the -- our ag radio stations. I don't think see this changing. We are cautious, especially on the tariffs and how they could affect the farming industry for soybeans.

Saga has been in business now for over 30 years. Every year has been profitable. We have stayed true to our principle of being a disciplined buyer. We do not buy companies with a number of markets and try to bring them in and consolidate them. This is -- it's a tough merger for us into our culture. And we do take our time to look at and analyze individual properties to see if they fit and they make sense for us. We've been doing that for 30 years. The formula seems to work. We have absolutely no intention of changing that.

We do champion the independence of management in our markets, and our managers know they are independent but not autonomous. I think I've mentioned this before. We insist that they treat out staff well and do compelling radio and focus on forward movement and new sales development. Very simple philosophy. We believe this position -- these positions put us in a good shape.

We'll continue to look daily for the opportunities to selectively grow our enterprise. We are not stopping growing. We are looking, and if we see something that we like and it fits the criteria, and we do our diligence, we move quickly and bring it into the fold.

We're patient. And we don't have to buy for the sake of making acquisitions, nor would you want us to do that.

Like it or not, I just want to bring up this one thing here. Like it or not, our country could well be facing some depressing economics. We keep seeing some really -- things that are a little bit troubling. Internally at Saga, well, we've referred to the environment in which we operate as a jitterbug economy. And I think that basically puts it up. And as I've said so many times before, we're really dependent upon the economy and the feeling of well-being in this country as a radio industry. But dealing with a jitterbug economy, and this is why we manage our cash, we limit our downside, why we pay dividends, which Sam has said so far totaled $55 million. We didn't initially because we were using our money to grow the company as we could. Right now, we happen to have powered past that point where dividends are part of our daily life.

We have a great company and we have some fears, but mostly it is caution. The future of our industry is sound and the markets in which we operate. And I sincerely appreciate that all of our employees always work towards balance and excellence.

And for anybody who's on the call that is a shareholder, I really personally thank you for your belief in Saga and what we do. We're always available to talk. And we're here, Sam is here, I'm here. Any of our people are here to talk about radio, and we love to do that. And I think I pretty well covered most of it. Do we have any questions?

Samuel D. Bush

We do have a few questions. But once again, I think we anticipated a lot of what the questions were going to be, and I think we answered them all in between yours and my comments.

Edward K. Christian
Oh, yes, and one thing I will say, Sam. I'm also feeling that we have some good states, good election states in a few -- where we are, and I think that, that could be a hopefully surprising factor for us coming up in the year. Other than that, we'll continue on just doing what we're doing.

Ryan, I told you 15 minutes. We're probably at 16 or 17, but it's back to you.

Operator
Okay. Ladies and gentlemen, that does conclude today's conference. Thank you for your participation, and you can disconnect. Thank you.

Samuel D. Bush
Thanks, Ryan.