Final Transcript

SAGA COMMUNICATIONS: Second Quarter Earnings Call

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SPEAKERS

Ed Christian – President & Chief Executive Officer
Samuel Bush – Senior Vice President & Chief Financial Officer

PRESENTATION

Moderator Good morning, ladies and gentlemen. Thank you for standing by. Welcome to the SAGA Communications Second Quarter Earnings conference call. At this time, your telephone lines are in a listen-only mode. [Operator instructions]. As a reminder, today's conference call is being recorded.

I would now like to turn the conference call over to your first speaker, President and CEO, Ed Christian. Please go ahead.

E. Christian Allen, thank you so much. Good morning, everybody, and thank you for joining us on our Q2 earnings call. I do need to pause and do a regulatory thing.

S. Bush You can do so.

E. Christian Usually, you have the big regulatory thing; mine will be short. Shall I use my radio voice or not? No?

S. Bush Use your radio voice; that would be good.

E. Christian Okay. Please be advised that Mr. Samuel Bush will be using lots of words, not big words, but lots of words—in fact, too many words. So, warning: This conversation is not for small children. Go ahead.

S. Bush Thank you, 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 factor 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. And as Ed said, this call is going to differ a little bit from our historicals calls because as was noted in the press release, our reporting this quarter changed from our historical earnings reports due to the pending sale of our television stations.

Our television stations are now classified as held for sale and as such are being reported as discontinued operations. Thus, the sum total of their operations data for the quarter and for the six-month period ending June 30, 2017 is reported on the selected consolidated financial data as one line: income from discontinued operations. We did include additional financial data on the operations of the television stations, including net operating revenue, station operating expense, operating income, etc., in a supplemental schedule that was included with our full press release. When you're looking at the press release, keep in mind that to do a full comparison with previous releases you will need to refer not only to the selected consolidated financial data schedule, but also to the included supplemental schedules.

We expect the television station sale to close on September 1, 2017. At the closing, part of the proceeds from this sale will be deposited into a Section 1031 Like Kind Exchange escrow account. We will then use $23 million from this account to purchase the radio stations in Charleston and Hilton Head allowing us to defer a portion of the gain. This acquisition is also expected to occur with an effective date of September 1st. We are confident that during the 180 days following the closing, as allowed by the IRS, we will be able to make at least one more acquisition to further increase the gain to be deferred. Our goal with the 1031 Exchange is to minimize the current tax implications from this sale.

If we were reporting for the quarter as was done prior to the television station sale being announced, and the television stations being moved to discontinued operations for reporting purposes we would have reported net revenue was down 1.3% to $36 million, station operating expense was down 1.4% to $25.1 million, and station operating income was $7.9 million. All of this was calculated by consolidating the specific line items from the Continuing Operations table and the Discontinued Operations table.

For radio, National accounted for approximately 10.2% of gross revenue for the quarter compared to 11.1% for the quarter in 2016. For television, retrans revenue was $1.3 million in the quarter, up from $1.2 million for the quarter last year. Retrans payments to the networks were $302,000 compared to $245,000 last year. At the end of the quarter we had $36.4 million debt outstanding. Cash on hand at the end of the quarter was $30.1 million. Currently, we have cash on hand of approximately $33 million.

During the quarter our board of directors declared a $0.30 per share quarterly cash dividend with a record date of May 22nd and a payment date of June 9th. This was our 13th quarterly cash dividend, bringing the total dividend paid, including special dividends over the last five years to $45.3 million. 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.

Capital expenditures were $2 million for the quarter, compared to $1.5 million in 2016. We still currently expect our capex for 2017 to be between $5 million and $5.5 million. Radio pacing continues to be choppy. July was down slightly, over 1%, while August is currently down 3.6%. Ed will talk more about this shortly.

We expect same station operating expenses to be up approximately 1% for 2017. We expect interest expense for 2017 to be between $800,000 and

$900,000, given the existing interest rate environment. Our anticipated total tax rate going forward will be between 41% and 42%. Without the deferral from the like-kind exchange transactions, we anticipate deferred taxes for 2017 to be between $3 million and $3.2 million.

Finally, you will note that the last few weeks, and particularly early last week there was some great volatility in the trading of our stock. The NYSE American activated their Pillar platform on Monday, July 24th, which was designed to allow the American Exchange to move to an all-electronic trading platform. NYSE Arca has been using the platform since 2016.

On that Monday, our stock opened at $42, traded to a high of $42.15, and then was listed with a bid of approximately $41 at the closing bell. Somehow, a trade took place right at the closing bell for $37.75. One of our existing shareholders had a bid out at a higher price that did not get filled, as it was passed over for the $37.75 closing trade. While we moved up on Tuesday to close at $38.70, we were again trading higher until the closing bell when there was a bid at approximately $40, yet the closing trade was $38.70.

I've spoken several times to the gentleman responsible for all equity trading at the NYSE, NYSE American, and NYSE Arca exchanges, and he acknowledged that the Pillar platform had some initial implementation issues. While we have not seen the same end of day spread since the first couple of days, we have seen similar activates with smaller spreads. We hope that the worst is behind us relative to our stock trading, but we will continue to monitor and talk to the NYSE and our designated market maker at Virtu.

Ed, I had a little bit different ending to my usual commentary, but I'll turn the call back over to you.

E. Christian — Yes, okay. I winked out there for a second. Do you think there's anybody left on the call?

S. Bush — Always they're left.

E. Christian — Yes. I'm sure that they're hanging out waiting for my edification of where we're going and where we're coming from. Thanks, Sam.

Let me start by saying that even though we did telegraph in advance that Q2 would be choppy, it's still very painful for me personally to see a down quarter—it's just not in my DNA—even though it was not as severe as other companies are reporting. I said this to Sam before, that's probably just a small amount of schadenfreude on my part. But nevertheless, the good news is there is good news, and that we continue to add many businesses to our advertiser list. This, to me, is really encouraging, because when I talk to the managers they'll say we ended up with 40 new businesses this month, we ended up with 20 new businesses this month that we've added going out through prospecting.

I haven't tallied it up, but I know it's hundreds—which is really very good—of new companies to advertise on our station. The ticket is less, so when we experience interruptions in like, car store advertising, it takes a lot of smaller advertisers to equal one good car store. With that said, we're also not seeing attrition with new accounts, and as the old bromide goes, "Mighty oaks from little acorns grow." I know that sounds a little corny, but just as a curious factor for those who don't know, the line initially comes from Chaucer back in 1374, in *Troilus and Crisyde*, and Sam this is for you. My Medieval English is a little sloppy, but "As an ook cometh of a litel spyr."

S. Bush Very nicely done.

E. Christian Yes, okay. Spear is a sapling. That's our history lesson for today. Now, we do seek to build new foundations to shore up the existing foundations in commercial radio. This is a so you don't constantly have to try and reinvent yourself. You really have to look for all the other little angles to build your market position and your business.

Sam has told you the numbers. We were soft in automotive. If you look at the last seven months in car sales, they have been going down. There was a little bit of a panic and a little bit of a crisis in there. Companies are doing well to try to stimulate this. The Southern California Broadcasters Association, led by Tom Callahan, did a wonderful research piece on this to show the effectiveness of radio advertising for car stores even during tough times like this. We're using that, and we thank the SCBA for letting us have a copy of their research—it's just really excellent things—showing the power of radio.

National was down 1%. That's okay because—well, it's not okay. I shouldn't say that—but National either is or is not. As I've said before many times on the call, there's precious little that we can do to influence it. If it's there we will gladly accept it. If it's not, then that's something that we have to build our other foundations to compensate for the diminution of a national revenue. We can stabilize our business cycle with an enhanced focus on new business.

Sam told you, and we've announced that we elected to exit the television sector. A little color on that, our stations have been very good to us, and they're really wonderful stations, and well run, and very well respected in their communities. We'll miss them. Unfortunately, in an age of consolidation we didn't have scale, and there was really no way to achieve scale or growth that side of the business from our perspective. Thus, we went out and found a really good company, excellent company with great standards and reputation, family owned. They will continue to do good things for the communities that they serve.

We're using the sales, as Sam said, the proceeds to accomplish several things. First is to acquire additional radio properties in secure markets, and utilize the like kind exchange to tax-defer our gains. As we've told you, we are in the process of purchasing four FMs, two FM metro stations, and an AM station in Charleston. The market is a gross machine and really is in a boom cycle. It's just amazing what's going on in Charleston, and it will be for the foreseeable future.

Also included will be three FMs and two additional metro signals in close by Hilton Head, Bluffton, Beaufort, South Carolina. This is another growing coastal market. *Southern Living* refers to that area—Beaufort especially—as the market of choice, the number one market for small southern towns in terms of quality of life. Charleston was named the number one town in *Southern Living* for quality of life. We are just really thrilled to get into the market, and that's coming along fine. That's been approved by the FCC, and we're just waiting for the September closing.

We are working on several other opportunities we hope to announce shortly. Also, from the sales proceeds we will be probably paying down some debt to retain our existing debt ratios. That's just a function of keeping the balance the same as it was before we went into this. We're allocating monies for a stock buyback plan, as well as continuing and possibly increasing our quarterly dividend, and also considering special dividends from time to time as we have done in the past.

Since the company became a public company we have repurchased $52 million worth of Saga stock. It indeed is clearly time for us to study and reopen our buyback plan and use these funds when appropriate. We're disappointed with the current behavior of our stock. We believe that the stock is just—well, Sam told you what happened there, and I'm not going to go back and do that, except that there are elements that are aberrational, and perhaps enhanced by artificial intelligence and algorithms that were not favorable to us, very disappointing.

Our business depends upon promotion, or advertising, and we're subject to unease that sometimes permeates into business decisions. Facts like overall retail sales were down or flat in May and June don't help, especially as operating costs increase. We're working very hard on holding the line in cutting. We have goals that we hope to achieve this year in terms of very minor tweaking of our operating structure to bring it down in balance with everything else we're doing.

We are also getting some headwinds from various angles. For instance, we have several stations that are very ag-dependent for revenue, and strange things like egg prices, which are a huge—I didn't really realize this until I got into this. Overproduction of eggs, okay? The cost to the store of eggs have dropped by 42% this year, and we have a glut of eggs. To the average person that doesn't mean much, but to an agribusiness man it does.

Soy and corm farm incomes are in the tank, and they're also very much worried about barge traffic on the Mississippi River, because most of the corn and soys are transported that way, and the lock system is in danger of failure in several places. If it does, the farm economy, which is already depressed, could suffer further. So, things like that come into play a little bit. This is just one slice of our revenue pie. Nevertheless, consumers remain upbeat, and that's the key thing, and this keeps us on our revenue on solid ground.

Sam talked our pacing going into August. Actually, that number of being down is lower than it normally is. I think I've said this before on the call that normally, in the old times—I'm talking like some wizened old guy here—we would go into a month and try to make the month by the 10th or 12th of the month, and then we would say okay, we're done with the month, let's move on to next month. But everything now is breaking so much rapidly that I watched us, because we get our daily reports on production at each station, and I watched it each week begin to narrow down as more business was coming in later and later, and a gap was coming down. I think if we'd had another two days we would've ended up the month basically essentially flat.

Anyway, that's what's happening to the industry. We're not alone in this. We're seeing this affecting many other industries with last-minute rushes to get things done. We know what we're doing, and we do it well. Other companies sometimes follow will-o-the-wisp, looking for solutions; we don't. We hone our craft to a sharp edge and continue to run a solid and highly profitable soon-to-be radio-centered company.

That's really, I think, where we are. The industry is still good, friends. It's wavy and soft, and nobody is happy, but the fact is we're not seeing tremendous decreases in our volumes like we were in 2009, if we want to go back to that level. We've rebuilt, we're there, it's still a healthy business in terms of the fact that there is lots of free cash coming out of broadcasting, and there's nothing wrong with having a—even though we are mature industry. We'll say that. We are. One of our stations, I just got word is celebrating its 95th anniversary of being on air—95 years.

S. Bush That's pretty incredible.

E. Christian — Yes, I know that is. That kind of gives you an idea, and I think that's where I am. I don't believe we have any questions that came in.

S. Bush — No, the only questions we really got, but we've addressed as best we can at this point, and it really has to do with what we're going to do with acquisitions from the TV proceeds, and so on and so forth. But at this point, given it's a 1031 Like Kind Exchange, there's really a period of time even after the September 1st closing before it will all be clear as we work through additional acquisitions. As I said, we have six months after the closing to still defer taxes, so there'll be more information on that as we go forward.

E. Christian — I do think I want to mention one other thing, and that is that the corporate expenses were up because of legal and other things associated to the disposition of the TV stations, and the acquisition of Charleston and Hilton Head. I have been spending a great deal of time on the acquisition front to try to find things that are proper.

Remember, we are a company that doesn't buy huge quantities or baskets full of radio stations. We are an art form where we select individually, markets, and add one by one to the m ix because they have to fit it so that we're not left with things in the basket that we didn't order or want. That's like having little children in the supermarket who are constantly slipping things in to your basket, and you find out when you're at the checkout line. We don't want that experience with us.

I think that's it. Do you have anything else you want to add?

S. Bush: No. I think that's good. Allen, I think you can wrap it up for us.

E. Christian: If you would, Allen, be so kind and go for it.

Moderator: All right, thank you, ladies and gentlemen. That will conclude your conference call for today. Thank you for your participation and for using AT&T's Executive Teleconference Service. You may now disconnect.