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Saga Communications, Inc. *(SGA)*

Q2 2012 Earnings Call

CORPORATE PARTICIPANTS

Edward K. Christian

Chairman, President & Chief Executive Officer, Saga Communications, Inc.

Samuel D. Bush

CFO, Treasurer, SVP & Head-Investor Relations, Saga Communications, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. Thank you, ladies and gentlemen, for holding. Welcome to the Second Quarter 2012 Results Conference Call. At this time, all participants are in a listen-only-mode. [Operator Instructions] As a reminder, this conference call is being recorded.

I would now like to turn this conference call over to our Mr. Ed Christian. Please go ahead.

Edward K. Christian

Chairman, President & Chief Executive Officer, Saga Communications, Inc.

Thank you very much. Sam Bush will be coming up shortly. We apologize for the late start. I was lost in the cheesy music of Ether while they were trying to find me. With that said, we will now start with Sam and I will join you all in just a few moments.

Samuel D. Bush

CFO, Treasurer, SVP & Head-Investor Relations, Saga Communications, Inc.

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. Actual results may differ materially from those expressed in this conference call.

This call will also contain a discussion of certain non-GAAP financial measures within the meaning of Item 10 of Reg S-K. Reconciliation for all the non-GAAP financial measures to the most directly comparable GAAP measure is attached in the selected financial data table.

The second quarter continued to show growth in free cash flow as we grew free cash flow 7.3% to \$6.8 million. For the quarter, we had \$717,000 in gross political revenue, compared to \$237,000 for the same period last year. Radio, including the networks had \$492,000 this quarter of gross political revenue, compared to \$237,000 for the same period last year. TV's gross political was \$225,000 during the quarter. TV did not have any political revenue during the second quarter of last year.

National accounted for approximately 12.5% of gross revenue for the quarter, compared to 14.8% for the same period last year.

Our network's net revenue of \$900,000 for the quarter compares to \$1.3 million for the same period last year. Gross political revenue for the quarter this year for the networks were \$61,000, compared to \$60,000 last year.

Station operating expense decreased 4.6% for the quarter. This does include a \$1.2 million reduction in music license fees as a result of lower royalty rates of \$400,000 and \$800,000 in credits received for 2010 and 2011 fees previously paid. That being said, without the music licensing fee credit and monthly expense reduction, our expenses would have only increased 0.003% for the quarter. Going forward, we expect station operating expense to be flat to up 1% for the remainder of the year.

In the other income or expense area, you will continue to see that we saw a nice reduction in our interest expense for the quarter. This year we paid \$458,000, while last year it was over \$1 million. This is primarily due to the continued reduction in the level of our outstanding debt, a meaningful reduction in the interest rate we are paying and a reduction in the amortization of bank fees.

We have paid down \$10.250 million bank debt so far this year and as of today \$13.2 million in cash on hand. As long as our leverage stays below two times EBITDA, we have no more required debt repayments. Our outstanding bank debt is currently \$57.750 million. As reported in the press release, capital expenditures in the quarter were \$1.3 million, compared to \$1.4 million last year.

Two other quick items, for 2012, we expect interest expense for the year to be between \$2.3 million and \$2.6 million. Our anticipated total tax rate going forward, will be 39% to 40%. We anticipate deferred taxes for 2012 to be between \$2.8 million and \$3.2 million. Current taxes will vary based on the income in each quarter.

During the quarter, we entered into an agreement to sell our Greenville, Mississippi TV station, WXVT. We also entered into an agreement for the Sale of Commercial Time and a Shared Services Agreement for the station. Because we entered into these agreements, we are now classifying the financial results of WXVT as discontinued operations on our financial statements for both the current quarter, as well as previous quarters. The sale was subject to SEC approval and is expected to close this year. This sale will not have a material impact on our financial statements.

Once again, this quarter we ask for your questions to be submitted via e-mail prior to the call. Ed and I will respond to those questions that we feel we can appropriately respond to later in the call. Ed, I will turn it over back to you.

Edward K. Christian

Chairman, President & Chief Executive Officer, Saga Communications, Inc.

Thanks, Sam. Again, as Sam mentioned there, our local was up, our international was down. National continues to be a smaller percentage, and that trend might continue for a number of different reasons. The issue here is, we always like to be in control of our own destiny. We are that way with our local, and it's been working out well for us where we can keep pushing that and pushing that. Expense, as Sam said, we controlled them, we didn't dampen them down too hard, but we are certainly in that situation there.

I think you got a lot of the preliminary information out, and I was trying to think about what we could say that would be a little bit different today or try to shed some light on a few other things. In one of the articles I was reading just recently on Ad Age, brought back an old product category that we in broadcasting used to talk about all the time, and for some reason, it just slipped out of fashion, and it's never really brought up again. And that is that back to school advertising, back to college advertising, remember the time you always said, well, back to school coming up, and it's good. Interesting – it's rebounding in a big way.

Desperation by retailers is gone as double-digit gains are expected. However, here's what gets tricky. The spending boost comes even as 85% of the consumers say the state of the economy will affect their spending this season. So,

here we have back to school up double-digits, everybody happy, spending for advertising and everything from promotion to marketing is going through the roof in this category, of which I'm sure radio and television will benefit. But at the same time, 85% of the consumers say, the state of the economy will affect their spending this season. That's the problem, and even though we're buoyed by increased spending and advertising, there is that old cloud again.

Let me tell you about something I just learned a couple of weeks ago. I ended up doing a trip to visit a number of our stations from Illinois to Iowa to South Dakota to Minnesota and Wisconsin. And I really got back out into the farmland and the hinterland and spent a lot of time talking to people and kind of just seeing what the tenor and the mood was. And one of the things that kept coming up, as I was going around was people were saying, well, you know what, we could have \$20 beans, or we could have \$10 or \$9 a bushel corn.

And for somebody who is not attuned to this type of conversation, you suddenly wonder, what is going out here. This is the language that the Midwest speaks, it's certainly not the language that a lot of us speak in Michigan, and certainly, not the language that people in New York would speak. But this is the reality that they are faced with, with the drought conditions out there that the prices were rising.

And as I said, an event occurs before the crisis. The prices rise before the event itself occurs. So, this is what was going on and people were watching this, and we were getting a little concerned. And I found this when talking to one car store and the sales manager said, you know we've sold seven trucks, we were all set to go with him. And then suddenly they came and said, yeah, we might make these trucks go for another year. We could do that. You know, they are not that old.

The average car right now on the roads is 11 years old. So, when you look at automotive manufacturing and automotive spending, it's going to be that way because we've gone for so long without satiating demand, and now there is demand, because there has to be replacement costs. But at the same time, there is this pause, this momentary pause when people look and say, what are we going to do, what's going to happen.

Out in South Dakota, I was talking with somebody in one of the – it was actually John Deere store and – who had sold a \$300,000 combine. That's a pretty pricy piece of equipment. And he was all really buoyed about this and then at the same time, he said – the guy came in and said, I'm just great, I'm still pretty sure I'm going to take delivery, but the word, pretty sure came up because there was this momentary pause.

Now, what does this have to do with broadcasting? I'm sure you are wondering what this whole thing is. And it's all about feelings. It's all about feelings in the country. If you are in Manhattan, not much is how you would answer the question that whether you cared about the price of corn or soy. But sooner or later when your grocery goes out of control, you would. But if you looked in Iowa or South Dakota, you would be ever mindful and ever watchful of what happened.

So, in certain areas of the country we are seeing reactions before the event, and we can begin to feel the mood shift and everything else if we begin to watch what happens on pricing and see the prices rise and look at their own consumer's spendable income. These are trends, and this is – these are just attitudes that will affect advertising. So, I'd just ask you all to, when you start thinking about this, and when we in broadcasting who are concrete sequentials talk about radio advertising or television advertising, we only talk about the event of buying and selling it. We don't talk about what goes into it beforehand that shapes the events that create the demand for advertising or the use of advertising.

And that's something that we try and watch at Saga to get the trends so we can see in advance. And we know right now that, in the Midwest, there is a minor feeling of apprehension as the drought continues. If you take a look at

USA Today or any other map and look at the red, you can see what's happened. Now, sure farmers have crop insurance, but nevertheless, there is still this reality that we have to deal with. So, we are watching that because it does affect us and it also makes it even a little trickier for us to predict exactly where we're going in Q3 and Q4.

That's enough on the little microeconomic lesson for today, but that's kind of what we have to deal with here with all of our managers looking at the trends and looking at the events. As Sam mentioned, our focus on cost continue. We are ever mindful of what we are doing, we are not hammering cost, but we are certainly holding them and then pushing them down as best we can. That's just the way we operate is through creating an ambiance on our stations is not guilty of conspicuous consumption, but operates well and still has cost containment and cost controls.

Revenue growth will come as the economy grows and settles. I can't tell you that I'm disappointed in the last quarter. It's about what we expected, maybe a tad shy, because the national was not as robust as we would like, but I don't apologize for what it is, because we march kind of in the lockstep with the other group broadcasters. We did hold its own, and we did hold our own. We are poised to continue to do things, but we are blessed with a business model that continues to hold its own with an audience.

TV is proving this right now and radio still reaches an incredible 93% of the U.S. population each week. We are buoyed by what we do. We know that we have an interesting year coming up for what we call, as Sam said, is there, it's starting. Today we will end the first tranche of advertising with the primaries being over. We then expect to start seeing more of the national issue ads. And in those states that are battleground states Virginia, Ohio, Iowa, even Wisconsin to a degree, we do expect some very robust revenue coming in in the next quarter in terms of political.

It's hard to quantify, it's hard to tell how much because it comes in so fast. I was speaking with one of our managers today who said he just thought it was over and then yesterday he and his assistant got slammed for the entire day as a national advisor coming in from Karl Rove and a few other PACs that were beginning to place business, as they transitionalize from the primary to the general election.

So, we think it's going to be good coming up for us. As Sam mentioned, our networks were soft, part of it is in our ag networks. Again, there's an apprehension, and we're certainly seeing it reflected in the revenue on the ag site in our networks, watching it and carefully see where it goes, but it is something that certainly is on our radar scope. Other than that, have I really kind of covered, Sam?

Samuel D. Bush

CFO, Treasurer, SVP & Head-Investor Relations, Saga Communications, Inc.

Yeah, I think that was a pretty good broad stroke for everything.

Edward K. Christian

Chairman, President & Chief Executive Officer, Saga Communications, Inc.

Gotcha. All right, we've got some questions.

QUESTION AND ANSWER SECTION

Samuel D. Bush

CFO, Treasurer, SVP & Head-Investor Relations, Saga Communications, Inc.

A

Yeah. Marci Ryvicker has sent in an e-mail with a number of questions on, some of which we've already touched on. She talks about, can you discuss the radio results, and also, about the pacing results on a month-by-month basis for the quarter.

And as we've said in the past, overall conditions are still very choppy. We seem to be up a month, down a month, flat a month, and that could be said whether you're talking about the historical revenues or whether you are talking about the forward pacings.

She also asked about how radio is doing, compared to television. And again, in our actual published data, we report that networks in with the radio, so for this particular question, I'm going to separate the two. And for the quarter, our TV station's net revenue was certainly up significantly better than radio. We were up a little over 8%. Radio stations were up a little over 1% for the quarter.

Ed, she asked a question about, are you paying reverse compensation for any of your television stations, and I think she is also asking about retrans as well.

Edward K. Christian

Chairman, President & Chief Executive Officer, Saga Communications, Inc.

A

We have in one of the smaller markets reverse comp on two of our low-power and retrans is primarily now with – agreement with the Fox Network, and we will deal with CBS when our contract comes up for renewal on that. But certainly retrans is something that is not going away in terms of sharing the revenue in retrans, and we just finished a negotiation a few months ago with all of the cable and satellite providers and a lot of time went into that. We're good for another three years on that, but we certainly know that the network is watching the fees that we receive in retrans, and is certainly wishing to be a strong partner in receipt of those fees and sharing of those fees.

Samuel D. Bush

CFO, Treasurer, SVP & Head-Investor Relations, Saga Communications, Inc.

A

A further question she asks is, what are your thoughts on joining the iHeartRadio platform?

Edward K. Christian

Chairman, President & Chief Executive Officer, Saga Communications, Inc.

A

That was funny, because we just talked about that a few minutes ago. And Warren Lada was in here and he said, we're talking about iHeartRadio and he said, what do you think about it. And I said, well, first off, they really haven't asked me if I want to get involved in this. So, I can't really – not going to make a comment at this point in time.

I guess I have to look at the economics of it, since nobody has called me here invited us into the party. I mean, we're small in terms of what they're looking at, but it's a good aggregator. It's one of the two aggregators, there's no question about it. And we certainly have our thoughts about it. I still find it hard for a testosterone guy of 28 saying I have iHeartRadio, but that's the name that they've chosen. It's working well for them.

The issue is, if you go to any category and you really start scrolling down there, which I just happen to be doing this right now in country, there's 300 or 400 choices probably in country. A lot of them are known as the Bull, those are cable, and we have, if you start going into them. All sorts of animals, the Twister, that's not an animal, right? The Weasel, another Bull, Cats, Hawks, and I'm just kind of overwhelmed, another Weasel, a Tiger, and I don't know where to go to really, look, if you're coming in, you don't get that many choices.

It's sometimes hard to make a decision, but we'll address this when the time comes, when the economics are such that we can benefit from doing so; we will certainly look at one of the two. I think that InterCom went with TuneIn and Cumulus has gone with iHeartRadio. They certainly are the two aggregators that are there. And I doubt that there's really room for another real high demand aggregator at this point in time. As I said, sometimes it overwhelms you on the number of choices, but rest assured, we're not going to stand on ceremony and won't discount it if it makes sense for us.

Samuel D. Bush

CFO, Treasurer, SVP & Head-Investor Relations, Saga Communications, Inc.

A

One final question, Ed, and it's a question we've talked about in the past is, with our leverage as low as it is, 1.6 times, what are the plans for our future cash flow?

Edward K. Christian

Chairman, President & Chief Executive Officer, Saga Communications, Inc.

A

They really haven't changed from where we were before. I think that the – in fact, I know that the deal market is – which had been under a deep ice siege for some time is beginning to show signs of cracking and breaking up. And each week we see, and we hear about more opportunities presenting themselves. And with any company that likes to grow as we have over the 20-plus years that we've been a company, we look for acquisition opportunities, and we evaluate them carefully based on the environment and our criteria. We would certainly consider doing acquisitions; that's part of it.

The other thing is stock buyback, we've done that in the past. It's probably not high on our list right now. Dividend is something that we are visiting all the time with our board of directors. We believe that having a certain amount of cash on hand is good, and we believe that with our debt down at 1.6 times, and not having a need to amortize our debt that we're probably at a safe harbor point right now.

Might pay a little more down, it depends on how much we have, depends on how we use it, but it's not that prudent for us to sit on huge amounts of cash, because the amount of money that we can get on it is negligible. At the same time, we also have to look at the tax implications, and what might happen to certain tax rates at the end of this year going into next year, and that will probably also factor very heavily in our decision on which way we go. That's about where I'm on that, Sam.

Samuel D. Bush

CFO, Treasurer, SVP & Head-Investor Relations, Saga Communications, Inc.

Very good. And I think that wraps it up, Lynn. I'm going to turn it back over to you to wrap up the call.

Edward K. Christian

Chairman, President & Chief Executive Officer, Saga Communications, Inc.

To me or -

Samuel D. Bush

CFO, Treasurer, SVP & Head-Investor Relations, Saga Communications, Inc.

To Lynn.

Edward K. Christian

Chairman, President & Chief Executive Officer, Saga Communications, Inc.

Oh, Lynn. Lynn?

Operator: Okay. I'm sorry. I'm here. Okay.

Samuel D. Bush

CFO, Treasurer, SVP & Head-Investor Relations, Saga Communications, Inc.

Didn't mean to wake you up, that's all right. Go ahead.

Operator: No, I'm fine. You didn't want to do a question-and-answer session?

Samuel D. Bush

CFO, Treasurer, SVP & Head-Investor Relations, Saga Communications, Inc.

No, we didn't want to.

Operator: Okay, so that's the end of it.

Samuel D. Bush

CFO, Treasurer, SVP & Head-Investor Relations, Saga Communications, Inc.

Yes, that's it.

Operator: Okay. I'm going to do my ending speech. Ladies and gentlemen, that does conclude our conference call for today. Thank you for your participation and for using AT&T Executive Teleconference. You may now disconnect.

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