

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 Q2 Earnings Conference Call. [Operator Instructions] It is now my pleasure to turn this over to your host, Ed Christian, President and CEO of Saga Communications. Sir, the floor is yours.

Edward K. Christian
President, CEO & Chairman

Thank you, Catherine. And Sam Bush is with me, he will speak momentarily, but at least Sam, Catherine was good enough to say welcome to, rather than unwelcome to Saga for the conference call.

We have some good things to talk about and some harsh reality to deal with. So, with that, Sam?

Samuel D. Bush
Senior VP, Treasurer & CFO

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 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.

The second quarter was materially impacted by business and service provider closures, restrictions and other government-mandated actions. From the gross revenue low point in April when Saga's gross revenue was down 55% compared to the prior period in 2019, our revenue has significantly recovered in each of the following months, with July's gross revenue being down approximately 29%.

And I think it's important to point out that from a broadcast cash flow perspective, only April was negative, while May and June both showed positive broadcast cash flow. We do expect to show positive broadcast cash flow for the year if the current market conditions continue due to our efforts to reduce expenses and with the expectation that we will see ongoing month-to-month revenue improvements. We had more cash on hand at the end of the second quarter, \$48.9 million compared to the end of first quarter of \$46.3 million. We expect there to be some fluctuation in this amount as the year continues but we do not believe, it will not be reduced by any material amount by year end.

Again, this is if the current market conditions continue, and we don't face another prolonged government-mandated shutdown in our markets.

At the end of the quarter, our outstanding debt remained \$10 million, which given the cash on hand, presents no covenant or liquidity issues. I'm sure a lot of other broadcasters and businesses as a whole will be envious of this statement.

I want to point out that Saga's reported net loss for the first 6 months was \$3.2 million but only \$564,000 after adjusting for the noncash impairment charge, net of the tax benefit associated with the impairment charge.

Ed, with that short commentary on an unprecedented quarter, I will turn it back over to you.

Edward K. Christian
President, CEO & Chairman

Thank you, Sam. For the last few days, I've been listening to other conference calls. And I am kind of numbed out because as when listening to the calls, it's -- we're down this, we're down that. The numbers are there and here is what it is. And after a while, this kind of plays over because we know what they're going to be. And it's interesting because for all the years that I've been in this business, we kind of run in -- even though we're all independent operators in -- or public companies or whatever it might be. But the trend is amazing in terms of how it really fits together and holds true across the entire country. I was talking with another broadcaster the other day who has as many markets as we have, but they're not in a single one of our markets. And we said, okay, come on, let's share some stuff here. How did you do during the quarter? And what are you seeing going forward? And we went through the numbers we were within 1 percentage point, we were the same. This company, totally different markets, similar sizes, mid-market, but it was a very interesting.

I really need to ask everybody's permission here to just kind of digress from the numbers for a minute and really begin to look behind the numbers. What do they mean? And the issue that we really have to get down to is when we look at the numbers, they don't really tell us much. It shows a percentage of business, and we can start breaking it into categories and try and say, okay, and this category. And medical, we were down 42% or 55% or whatever the number is. What does it really mean? Where does it come from?

Now admittedly, there were parameters set where the governor has closed business. And those are the things that we can't change. There's nothing we can really do to entice somebody in to advertising during those points in time. But what about the other ones? And what did we learn about our experience here and doing an analysis on it?

Well, I think about the things that came out of it for us. One of the things that we really began to see early on was that a lot of good businesses who didn't need to close were closing because of fear. And I think that's really what happened in a lot of areas once the fear factor came into play or a businessperson would say oh, my god, if I don't stop spending right now, I could lose my business. I could lose everything I have. I could be upside down." And I always remember a lot of quotes from one of my favorites, I guess, it would be an intellectual in Edmund Burke. He said back in the 1700s, mid-1700s, no passion effectively robs the mind of all of its powers of acting and reasoning as fear. And I think that's really true. I mean, really no passion effectively, robs the mind of all of its powers of acting and reasoning as fear.

So, what we're saying here is that what we learned was that we had to really change the paradigm. We had to change the way we were selling. We had to be more enabling with a client, more encompassing of the client and their problems. So we began to understand that they were not advertising because -- not because they couldn't because they were afraid to advertise.

That's a very interesting distinction, but it's true. And we found that out. So, we really had to change the method, the way that we were working with them. We didn't let them validate their fear because we came in and really worked with them in different ways to show them why they had to be advertising during the pandemic. Why they had to be doing this and what they can do? And we targeted certain ones. We knew they had a potential to do so but were afraid that if they spent the money and they didn't get a return that they could be going out of business.

And there's a one of the things that I've learned over the years, sometimes the hard way. But I remember one of my first career jobs in sales. And the owner of the radio station in Detroit, Michigan, said to me, did I ever tell you the story about the man who sold hotdogs? And then I go, no. And he said, okay, let me tell you the story. There was a man who lived by the side of the road and he sold hotdogs. He was hard of hearing, so he had no radio, had trouble with his eyes, so he read no newspapers. But he sold good hotdogs. He put up signs on a highway telling how good they were. He stood on the side of the road and cried out, buy a hotdog mister and people bought. He increased his meat order. He bought a bigger stove to take care of his trade. He finally got his son home from college to help him out. But then something happened.

Son said, father, haven't you been listening to the radio? Haven't you been reading the newspaper?
There's a big depression. The European situation is terrible. The domestic situation is worse.

His father thought, well, my son has been in college and he reads the papers. And he listens to the radio, so he ought to know. So, the father cut down on his meat and bun orders, took down his advertising signs. And no longer bothered to stand on a highway to sell his hotdogs. Hotdogs sales fell almost overnight. You're right, son, the father said to the boy. We certainly are in the middle of a great depression.

Again, once again, the idea of being influenced into having the wrong thoughts. So, we decided that we would go after and do a lot of great things to try and change the relationship with our people. And let me just tell you a few of the things we did because I'm really proud of what we came up from the stations. And Chris Forgy did an outstanding job of communicating all of the ideas out. And that is from March through June, during the pandemic, our markets, Saga markets, donated over \$10 million in ads to local advertisers. Yes, we would go into them and say that, look, you shouldn't stop. Well, the business is really done, but I don't know if I'm going to make payroll or everything else. All right. But you can't stop because you need to continue your marketing. So we're going to carry it for 2 months. We're going to do it. Don't worry about it. Don't ask any questions. Your commercials will stay on the air because we know that you need to keep your top of mind awareness. We need to know you have your presence there. And the clients would look at us unbelievably. What you're going to give us free advertising? No, it's not free advertising. It's letting you know that you're a valued relationship to us. Since you've been with us for 10 years. And now it's our turn to help you as you have

believed in us, now we believe in you, and we're not going to let you down during this time. By the way, the \$10 million does not include the value of free promotional time we supplied to local businesses to promote curbside pickup and shopping local, et cetera. That was totally other different campaigns we did for them.

We also identified and sold new creative ideas to emerging categories that are not typically radio advertisers. This, again, it gets down to the fact that traditionally, radio has sold certain categories, the sellers going on the call to see the same people, get the same results, nothing else changes. And we said, there's a lot of people out there that could benefit using radio and the reach on radio. And so we went out and we started looking at them, finding unusual categories.

Recruitment. We all know about that one. Sleep apnea clinics, yes. Ear, nose and throat doctors.

Yes, pawn shops, metal roofing,

personal injury and bankruptcy attorneys, residential real estate, contractors, HVAC, doors and windows, aftermarket auto parts, optometry, pet daycare, pet grooming facilities. One idea that we sold was too hot for spot. Okay. That's a good one. And it was a combination, public service and advertising campaign, providing helpful ideas on how to keep your pet safe from extreme heat during the summer. Hair salons, obviously, they couldn't be open. But what we did was we had an on-air campaign during the pandemic called Show Us Your Roots. Since many hair salons were closed during the start of the pandemic and consumers weren't able to get their highlights. The promotion was a fun way to support the local hair salons and keep them top of mind, while at the same time, it provided hair salons with leads of those who entered the contest. We created all these new initiatives for our sellers and advertisers. We also gave away just on the air, when we talk about this, we're going to be giving away \$15,000, \$10,000 and \$5,000 in advertising to clients. All you have to do is go to our website and register your name. And we'll do a drawing. And we'll have 3 winners. One will get \$15,000 in free advertising across the platform of stations we have in the market. Other one will get \$10,000, one will get \$5,000. And it would average about 400 people registering for this.

Now you're wondering all, okay so you're giving away free advertising. Well, the ones that did win the drawing, we're just ecstatic about it, oh my God, I can't believe that. We get free advertising. We can continue doing what we're doing. And by the way, we also then got 400 leads of businesses that we knew that were interested in advertising. And we sent our salespeople out with \$500 gift certificates and hand them go in and talk to the owner and say, listen, we're sorry, you didn't win. But here, just from us, is \$500 that you can use at any time to advertise on our stations.

So, what do we do by doing this, we created 400 lead opportunities to divide up amongst the sellers the other thing that we did is we produced over 4,000 spec spots for our local advertisers in 3 months. 4,000 new commercials in 3 months to present to them as idea starters.

So we look at this, and these are the things that actually kept us from being down further. And it allowed us to get to a lower level where we are now in the high 20s and going down from there to try to restore a level of normalcy. But if we can cure the fear factor and we can make this a fun factor, then we're so much further ahead in the business. And the other thing, we've been doing is train, train, train. I can't tell you the amount of training and retraining that goes into this. And the new people that we've hired in sales are a clean slate. They're coming in and say, well, look, we've been doing it this way for 20 years. They don't know the difference. And when we tell them to go out and call on this product category, a lot of the senior sellers would say, oh, they're not going to buy. But the new ones will go out and just power right through and do that. Change is here. Change is occurring. Changes is what's happening in our business, and we have to stand behind it. And that's exactly what's going on this year. And we're also selling long-term and again, it's great with the young sellers coming in that they're suddenly -- if you tell them, look, we only sell 10 weeks or 12 weeks. Another seller would go out who's been there for a long time, and so I can get a \$500 order for next week. Now we don't want that. We're in for the long term. We're building and rebuilding our business. So, this has been a terribly challenging and terribly painful time for us in broadcasting. It has also given us a chance to feel reinvigorated with a new commitment that we have towards doing what we do to service our communities. We chose to be in mid-markets, where we actually can make a difference. Where we can know that people listen and respond to us because they depend upon us for what goes on in the community. And we're using that power and the power of being able now to change the way we've been doing business and bringing ourselves into a new relationship and a new era is going to pay off very much so in the long term. We are concentrating and building on local direct and local direct services. And that's where the bread and butter is going to be in for the future of local radio is. And that's where it is. I'm not worried about cheap spots from a national -- That's gone from the game. That's changed. Let's control what we can control and let's do it the right way, and we'll be in great shape on this. I just want to be the best that we can be in our particular area, that's where it is. And no, it was not a good quarter. As I said, painful for all of us.

And I just want to thank you all for listening to my rambles, I guess, this morning. But I hope I gave you an idea of what we're trying to accomplish at Saga. It's been our goal. We've been in business 34 years. I thought it was bad in 2008. That was a walk in a park compared to what we've experienced. And if everything is right and our projections hold, even though we have no real visibility in terms of going forward on this. But if we do, we'll get through this. We'll be fine. And a sense of normalcy will return to what has become a very hurried industry in the last several months.

But bear with us. We'll do what's right. We'll get through this.

And Sam, I don't think we have any questions today, do we?

Samuel D. Bush
Senior VP, Treasurer & CFO

No, we did not have any questions today, Ed.

Edward K. Christian
President, CEO & Chairman

All right. Do you have any questions?

Samuel D. Bush
Senior VP, Treasurer & CFO

No. But I can say I always like my comments, but yours are always much more fascinating to listen to. So, thank you for that.

Edward K. Christian
President, CEO & Chairman

Well, go buy yourself a hotdog, keep the old man happy.

Samuel D. Bush
Senior VP, Treasurer & CFO

I will do so.

Edward K. Christian
President, CEO & Chairman

Catherine, you can wrap this thing up, and we're out of here.

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.

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