

Executives

Edward K. Christian - President, CEO & Chairman
Samuel D. Bush - Senior VP, Treasurer & CFO

Analysts

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the Saga Communications Fourth Quarter and Year-end Earnings Release Conference Call. [Operator Instructions]

It is now my pleasure to turn the floor over to your host, Ed Christian, President and CEO. Sir, the floor is yours.

Edward K. Christian

Tom, thank you so much, and we'll see you back at the end of the call. Sam is also on with me as historic -- as this has been. Sam, I wish that I could start the call by playing the -- play Roger's theme song, It's a Wonderful Day in the Neighborhood, plus I'm somewhat aggregated right now, and I have to rewrite my remarks and do a number of changes on the spot here. But I'll turn it over to you, and just quietly sit here and go to my special silent place, so that I'm ready when you are. So go right ahead.

Samuel D. Bush

I think that's a good thing too. 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, I strongly believe that what is going on this morning in our stock is not appropriate. Last I saw, we traded down to a low of \$21 per share today. We are now at \$23.10 on 752 shares trading. This, as I believe, the overall market situation, is an overreaction to the coronavirus, and has no basis in Saga's actual financial performance.

As Ed has already indicated, it's extremely frustrating to all of us. Going on. As I reported in the press release, excluding political revenue, gross revenue for the fourth quarter and the total year were approximately flat with the respective periods in 2018. Political revenue for the quarter this year was \$535,000 compared to \$1.6 million for the quarter last year, and \$887,000 for all of 2019 compared to \$2.9 million for all of 2018. Station operating expense remained a strong point, with a decrease of \$711,000 for the quarter and \$1 million for the year.

On a same-station basis, our expense controls resulted in a \$1.7 million reduction in station operating expenses for the quarter and \$4.7 million for the year. Free cash flow was \$5.4 million for the quarter and \$18.1 million for the year. Free cash flow for both the quarter and the year were down from the

comparable periods in 2018, primarily due to the impact of the reduction in Saga's deferred tax provision, due to a timing difference related to depreciation and amortization between 2018 and 2019.

For the quarter, our deferred tax provision was \$320,000 compared to \$780,000 last year. And for the year, it was \$1.4 million in 2019 compared to \$2.7 million in 2018. Even with the additional CapEx-related expenses associated with our Charleston, Hilton Head and Gainesville Hotel acquisitions, along with the Norfolk Tower build that we've previously talked about, our CapEx was \$1.1 million for the fourth quarter and \$5.7 million for the year. For the year 2018, CapEx was \$5.9 million. We expect CapEx for 2020 to be between \$5 million and \$5.5 million.

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

At the end of the quarter, we had \$10 million in debt outstanding. Cash on hand at the end of the quarter was \$44 million. As of March 9, we had \$47 million in cash. Including the recently announced \$0.32 per share dividend, which will be paid on April 10, 2020, we will have paid over \$71 million in dividends since December 3, 2012. The recently announced dividend is an increase of \$0.02 per share, 6.7%, and is the third increase in the dividend amount being paid since we started paying quarterly -- regular quarterly dividends, July 25, 2014. We intend to continue 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. We expect same-station operating expenses to be down 2% to 3% for 2020. One major reason is that for the foreseeable future, we will no longer be subscribing to a national rating service in some of our markets. We expect interest expense for 2020 to be around \$700,000. We expect our ongoing tax rate to be 29% to 30%, including an 8% to 10% deferred tax rate.

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

Edward K. Christian

Thank you, Sam. I think I've regained some of my composure, and we can move forward on that, at least for a little bit. You did a good job summing it up. And now I'd like to add a little detail and color to last year and Q4. As previously reported by our peers in the radio industry, it was not a progressive year. Here's what occurred at Saga.

If some of you listening remember my Q4 and Q1 call last year, I mentioned that I was concerned about some small trends that we have noticed, and we're ever watchful and indeed some acceleration occurred in certain trends. The causal effect was, for us at Saga, to sit down and begin to exercise a plan that we have put together and wrapped away, if needed. It called for change in the way we did business, and also a rededication of the community commitment for the 2 major parts of our business.

The first part, we noticed that there was a shift in acceleration in how national business that was handled by the major groups. Essentially, and we've spoken about this before, national business changed from a purchase of national advertising based on individual merits to a commodity sale. Again, let me repeat that. The business changed from a purchase of national advertising based on individual station merits to a commodity sale, essentially bulk buying at rates that were shockingly low based on quantity. It was scale and action.

The mantra was we have open spots in our inventory, and we'll fill them at any price. We at Saga feel differently and passed. We believe that if we step off our quality side and nudge to the quantity side, we have made our first step into the River Styx. And from there, there was no return.

So what was our plan then when we looked at this? Now by the way, we're still getting national dollars. We're still getting -- we didn't go to 0 on our national business. It's slightly off, but we did feel the pain, and we were able to notice the bulk buying going on.

So what was our plan? It's not world shaking. You're waiting for some epiphany. It's not going to be -- really be there. But it's an emphasis on personal service with knowledgeable professionals who care about helping the customer.

Pardon me. We know this works, and we can be better. And that's the thing that we're looking at. We can always do a little bit more. We can always be a little bit better. And here's what we are now doing. So please note that it is ongoing.

First off, we upped our recruitment of people for sales positions. We tried something different. We had our morning talents in all stations run a series of announcements, and it is ongoing, where the talent do a live and unscripted commercial on the opportunities in radio sales. We found out that on the recruit advertising, on our stations for other companies, was having tremendous results and we go, "Duh. Why don't we do it on our own stations when we're looking for people in broadcasting?"

And so we upped our recruitment of people for sales positions. And that was a -- and that is an ongoing thing. And I just heard one of the commercials this morning on one of our strings. Over the years, we've tried other methods of recruitment but honestly, this time with the test and analysis that we do with each candidate for recruitment purposes, radio markedly outperformed other media.

Once we hire somebody, we begin sessions on essentially how to sell new clients and how to understand their business. We have great information and also hats off to the Radio Advertising Bureau for complete programs on how to train and educate new sellers. We also implemented new processes and procedures for performance measurements. It's working, and our new business count is increasing on a daily basis.

It's a wonderful thing to watch. We also heard Thom Callahan, former Head of the Southern California Broadcasters Association. I've known Tom for about 30 years. And Tom is heading up teaching, training, mentoring and performance of our people. His title was New Business Development boy, oh, boy, he does more, and he's made a difference in working with all the new hires, and really just showing them the way on how to do the [drug] sales, drug business sales.

When I talk about this, I'm going to talk about service. Let me kind of give you an example on this. First off, we did take our conversion in lumps in Q3 and Q4, and made a lot of changes. It's effective and when fully implemented, it will prove to be not just not -- for not just Saga, but for the industry. If others follow, a rebirth of quality and responsible entertainment will occur, clients will be treated as individuals, and where specific issues and problems addressed in a helpful and supportive position.

Yes, you can call it concierge selling if you want. Let me compare it with what's happened in the physician relationship industry with doctors. The number of private individual physicians with their own office has dropped markedly. Now I'm sure you've all noticed that. And what's happened is the new

model is -- our model was for hospitals to buy group practices. We call them by different names, but nevertheless, they are owned physicians in groups up to -- in subgroups, I know that they're up to 150 people, 150 docs in a group. Some are lower, some are more than that.

So the -- and the private group practices, are either owned by other groups that are owned by the hospitals, get scale, in other words. This is the big thing today, is scale. In today's medical world, if you have an appointment with a group doctor, a group doctor, his allocated time is 7 minutes, starting with the moment he walks in to see you and the time when he leaves. He has 7 minutes. And then he has another 3 -- 2 to 3 minutes to do the notes. And 2 minutes for the notes and 1 minute to grab his breath and walk into the next office. That's true.

You sell a doctor. But the question is where your question is answered. Did you come away with somewhat of an empty feeling? If it's the same feeling you have when you wait on the phone, listening to a banal music and a voice unknown tells you that your call was important to us and operators are working with other customers and we'll be with you shortly. I can't tell you how many times I've heard that with the cable providers in our area.

In the end, you might have your questions answered. But do you feel good about it? Or you still have some nagging feeling that nobody cares about you? Well, that's where we make the difference in terms of how we build our relationships. It's a very long-term process that will pay longer term benefits.

We started Saga 30 -- close to 34 years ago, with the premise of providing compelling local radio with creative advertising and unblemished customer service. Times have changed. Saga, however, has maintained its dignity, but has had to compensate just a little to remain both competitive and profitable. Unfortunately, we may not be as bespoke as we once were. We are working on this, and I would be remiss if I did not mention, that we are doing recruitment for new radio journalists.

The ad started out amazing but true. Saga's hiring radio journalists. When newspapers are slashing journalists, and radio was eliminating and switching to regional news hubs, we want to increase the number of radio newspeople in our company. Granted, I'm not talking about a news reader, but I'm talking about someone who has insight and ability to write and report on the local news events and get supportive audio with it. If we are truly to be local, we must make this commitment.

I'll tell you a short story. Recently, I was listening to a few non-Saga radio stations. My son was with me and we were listening to several different stations on his stream. After about an hour of switching around, he said, "Dad, I don't know if I'm listening to stations in Jacksonville or Omaha?" Forgetting about your local is a sign of disrespect, both for our industry and our listeners. We will indeed relegate ourselves to instant obscurity if we forget to operate our stations with the mandate from the FCC, and before that, the FRCC.

When you get your license, it's given to you to operate in the public interest, convenience and necessity. Those words are drummed into college students who are studying broadcasting, if there still is that art in college. But they operate in the public interest, convenience and necessity that was established in the 30's by the Federal Radio Commission when they were starting licensing stations.

Well, our changes have been made 75%, 80%. We still have a little way to go. In addition, we have taken a hard look at our existing Digital Enhancement Group. We were not satisfied with the progress, and

frankly, shuttered the division, which was housed in Columbus. And we created from bottom-up a new division in our corporate office. To us, radio is a branding agent, and digital is a wrap-around.

I probably shouldn't share this because it's kind of an insight thing. But I refer to this process with the branding from radio into digital as a wraparound as the kiss and tickle method.

So I'll -- okay, we'll move on. We have new systems, new vendors, new procedures and fully understand the necessity to increase our digital share of revenue, with a goal to be 10% of revenue. So you now as a stakeholder have to decide if you want a company with quantity or one with quality and a long lifespan. I know we don't comment about the present but I do feel compelled to mention that we thought everything was up in the running in February until the word got up at something bad was leaking out of -- Wuhan province in China.

This question is going to be asked. We've experienced cancellations. But we've been able to manage and work with the clients to help provide solutions. Where we have been hit is in events: Concerts, performances, sports and venues where people congregate. I have a list here, just in the last day.

Now it's interesting that automotive is saying, "Look, we still have to sell cars." Carpet stores are saying, "Look, we still have to sell carpet." But the events is -- been somewhat troublesome for us, especially in sports, where they're doing what they're doing.

We've been hit there but hopefully, that's only temporary. Additionally, we have another vulnerability, which I want to bring up, and we believe to be somewhat kind of an ouch and we do believe it will be short-lived.

Saga was built around several premises, and that is that we wish -- we wished and did acquire great media properties. And you've heard it before, state capitals, college towns, non-closable military bases, solid agricultural-based communities and the high net worth retirement areas.

Now they don't have to have all 5 of those categories, but they do have to have at least 1 of them to get a retention on this. In the last few days, more and more colleges and universities have been sending their students home to go to class remotely.

And when you have 20, 30, 40, and in the case of the Ohio State University, 60,000 students leave the community, it does somewhat give pause and indigestion to merchants in that community. This is temporary and could expand to other areas, but it does give to us a temporary hold about the total effect to Q1 and the spillover into Q2. The vision right there is cloudy right now.

But now, I do believe it's going to be short-lived and we'll get back to business as usual. And I hope that will be just limited to that.

Nevertheless, a couple of takeaways for you. We are profitable, and we have good cash hoard, I shouldn't say the word hoard. We have good cash available to us, \$47 million as of today. It places a little bit a good dividend, right now, I think, 4.7%. Buy away. Not bad. And by the way, it was recently increased. Sam already told you that, this is just the reinforcement part of it.

Great portfolio of carefully curated stations in solid markets. And I hope that I provided some of the color

that I spoke about earlier. But if you still have unanswered questions, and we'll find out if Sam has got some secret questions there in a moment, please feel free to call us at Saga.

I'm available, Sam is available, any of our people are available. We're very open about it. We'd love to talk about radio. We're frustrated as you are. And all we can do is be better, and continue to be the voice of reason in our communities, to be real journalists and talk about facts in real time, not speculate about the future or anything else like that, but provide information for security and value in people's lives. And if you do that, they will listen, they will depend upon you and then radio advertising works. Commercial at the end there.

Sam, I'll toss it back to you and see if there's any questions. Perhaps you can give it to Tom for our final little speech.

Samuel D. Bush

I believe everybody is dumbstruck by the market. Our -- we did a very good job as we normally do, in our reporting. So I don't have any questions that we haven't already talked about. So I will turn it back over to Tom to wrap up the call.

Edward K. Christian

Is it dumbstruck or struck dumb?

Samuel D. Bush

Well, I think either one of those would work well with what's going on in the market these days.

Edward K. Christian

What would they say in Indiana, Sam?

Samuel D. Bush

I don't know. No comment.

Edward K. Christian

Okay, fine. Tom, if you're there listening, you can wrap it up.

Operator

Thank you very much, and 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.

Edward K. Christian

Thanks, Tom, for your help.

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