Saga Communications, Inc. NasdaqGM:SGA

FQ1 2024 Earnings Call Transcripts

Thursday, May 9, 2024 3:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2023-			-FQ1 2024-	-FY 2023-			-FY 2024-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
Revenue (mm)	28.50	NA	NA	24.30	112.10	NA	NA	117.10

Currency: USD
Consensus as of Mar-08-2024 12:46 PM GMT

	- EPS NORMALIZED -		
	CONSENSUS	ACTUAL	SURPRISE
FQ2 2023	0.48	0.51	6.25 %
FQ3 2023	0.47	0.40	(14.89 %)
FQ4 2023	NA	NA	NA

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Call Participants

EXECUTIVES

Christopher S. Forgy
CEO, President & Director

Samuel D. Bush
Senior VP, Treasurer & CFO

Presentation

Operator

Good morning, everyone, and welcome to the Saga Communications First Quarter 2024 Earnings Release and Conference Call. [Operator Instructions]

It is now my pleasure to turn the floor over to your host, Chris Forgy. Sir, the floor is yours.

Christopher S. Forgy
CEO, President & Director

Thank you, Matt. And as I said last time, we're going to find a place for you and our company with that docile tones that you have. So we'll work on that. But again, thank you, Matt, and thanks to everyone who is taking the time to join us on the Saga's Q1 earnings call. We appreciate your continued interest, support participation in Saga Communications, a company that we believe is the best broadcast company on the planet.

Lately, I've been hearing from other broadcasters, more and more things like man bad debt expense are increasing and 90-day old plus receivables are on the rise. Clients are booking later and paying even later. Saga is a buyer, not a seller. So talk to us about buying our company. Well, we too have experienced some of the -- some of the aforementioned and it makes you kind of wonder, is there a [wows me] a bit of a cast over the sector. Perhaps there is.

But look, the industry is not broken, it's just slowing down, just a bit. And we could choose to sit still and do nothing and stay in the status quo and let gravity take its course or we can behave differently, and we've chosen the latter.

Remember the story math problems we used to have in school, here's one for you. At best radio gets 7% of the media spend pie. So for example, if you're in a market in the radio group does a 35% share of revenue in that market, that station group is really only getting just shy of 3% of the total ad spend in that market.

Forget the 7%, yet customers we deal with every single day, the ones that have "great relationships" with us. Spend over 60% of their money or they're ad budget with digital products and providers. And I'm not talking about web development, but digital advertising, and they use on an average 3 to 4 different digital vendors to do so. So for the most part, we as an industry have not yet earned their trust enough to have the 60% discussion with them yet. The majority of our advertisers trust us with just 7% of that discussion.

The fact is, this is a bit shocking, but the fact is, in my opinion, all of our 7% is at risk. I stated many times before Saga's objective is not to become a digital company. But to save and protect the 7% we have to provide the skills to our sellers necessary to qualify us to have a 60% discussion with our customers, plus the 7% and do it all the time. And that is the primary and final part of the transformational change Saga has been going through for the past 16 months. And those of you who have been on our quarterly calls, you've heard us talk about this.

We have provided the vision, the products, and now finally, we're providing the skills to our leaders and our sellers to help them earn their place into the 60% discussion. So as a forward-facing statement of intention, we are renaming all of our radio station groups as media groups and have altered the title of all of our sellers, account managers and account executives to media advisers, much like a financial or travel adviser where the approach to the customer would be so Mr. and Mrs. Customer, where do you aspire or wish to go on your financial travel journey? Allow me to help take you there. Let me be your guide.

And the conduit to this, we know the people who listen to our radio stations and our streams and how they behave, and we know this better than anyone else. As an industry, we know this. So why initiate this change now? Because only now can we bring more to bear for our advertisers and our advertising partners by virtue of the prep work we have been doing for the last 16 months. It's radio and then some and -- and then some doesn't work without top of funnel, traditional media or in Layman's terms, radio and our Saga online new sites and services.

Sam will cover many of the details of our -- what I would call and we would call as I think you would agree, is a subpar Q1 performance. Some of the headlines are a bit shocking and misleading, especially when you see the full story, which Sam will provide. Although we don't manage to a quarter and manage long-term, it's not Saga like by any means. Are we satisfied relative to the performance of our other broadcasters? Absolutely not. If someone recently told me, you can't spend relative performance.

Are expenses up as a part of this transformational change and other necessary operational costs? Yes, they are. Are we encouraged by the direction of the progress of this transformational change and the growth we're going through and we continue to go through voluntarily? You bet we are. You need a spark to start a fire. You probably all heard that, and the match has been lit.

And with that, I will turn it over to our CFO, Sam Bush. Sam, the floor is now yours.

Samuel D. Bush
Senior VP, Treasurer & CFO

Thank you, Chris. Now for my favorite 2 paragraphs in the whole conference call. 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 tables.

Now on to the numbers. For the quarter ended March 31, 2024, net revenue decreased 2.5% to $24.7 million compared to $25.3 million last year. Political did not have a major impact this quarter. As for the quarter, we had $312,000 in gross political revenue this year compared to $194,000 for the same period last year. Political has been slower than expected so far this year. We do expect it to pick up as the year progresses, but it's still difficult to determine, where the hot races will be and how they will impact the states and markets we are in.

Station operating expense, as Chris talked about, was up 5.9% to $23 million for the 3-month period. As discussed in previous conference calls, we made a strategic decision to reward our staff, pay increases in recognition of the work they do and for economic and competitive purposes, we continue to do so. These pay increases and related payroll taxes amounted to an estimated $471,000 or approximately 37% of the increase in the first quarter's station operating expense.

We also had other smaller but still meaningful increases in our station operating expenses, including increases in health insurance sales surveys, interactive streaming and content and bad debt expense. This, in total, amounted to approximately 50% of our total station operating expense increases in the first quarter.

For a bit more color on the expenses, interactive streaming and content expense was up $109,000 for the quarter, which was in conjunction with the overall increase in gross interactive revenue of $572,000. This does include some of the start-up expense for our online news product.

Also, the bad debt expense was very unusual for Saga and was mainly the result of an issue incurred with 1 agency as well as the overall economic conditions impacting our clients. We will be working through this as the year progresses.

We had an operating loss of $2.4 million for the quarter compared to an operating income of $905,000 for the same quarter last year. As indicated in the press release, the operating loss for the quarter included $971,000 other operating expense, which was a noncash write-off on the sale and abandonment of nonproductive broadcast assets/licenses in 2 of our markets during the quarter.

Station operating income, a non-GAAP measure, was $2.8 million for the quarter. Capital expenditures for the quarter ended March 31, 2024 were $1.1 million compared to $1.4 million for the same period last year. We currently expect to spend between $5 million and $5.5 million for capital expenditures in 2024.

For the quarter, we continued to see good growth in our interactive revenue, which was up as previously stated, $572,000 for the quarter. While local revenue is down for the quarter, it's important to note that e-commerce, which mostly gets recorded as local direct revenue increased $348,000 for the quarter. As Chris stated, we believe that there is still significant growth to be achieved in both of these areas.

We continue to plan on utilizing our financial strength to strategically invest in our operations, both in the market and corporate level as we work to grow specific revenue types, including local, national, interactive e-commerce, online news products and NTR.

Also, we are planning on closing on our previously announced acquisition of 5 radio stations in Lafayette, Indiana from the Neuhoff family as of June 1, 2024. The current staff's commitment to serving their local community is a great foundation to build off of as we bring them into the Saga family. The purchase price, subject to adjustments is $5.3 million.

The company's balance sheet reflects $28.8 million in cash and short-term investments as of March 31, 2024, and $23.7 million as of March 6, 2024. We paid a quarterly dividend of $0.25 per share for an approximate total of $1.6 million on March 8. We also paid our first variable dividend of $0.60 per share for an approximate total of $3.8 million on April 5. To date, we have paid over $130 million in dividends to our shareholders since 2012. That's something I'm very proud of.

Pacing for the second quarter remained soft and somewhat volatile as we ended April up low single digits, but both May and June are currently pacing down mid to high single digits. At this point, we would expect second quarter overall to be down low single digits.

Based on the first quarter and our current projections, we currently expect that our station operating expense will increase by approximately 4% to 5%, which is a change from what we've suggested in the past for the year as compared to 2023.

In addition to the inflationary environment that is significantly driven by our investments in our staff, sales training and ongoing interactive development, including our online news product. We anticipate the annual corporate general and administrative expense to be approximately $12 million for 2024. Our tax rate is expected to be 26% to 29% with a deferred tax of 3% to 6% going forward.

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

Christopher S. Forgy
CEO, President & Director

Thank you, Sam. Sam, remember I said earlier during the call that radio isn't broken, it's just slowing down. We just have an image or I think perception challenge if you will.

So Sam what would you do if I told you, I have an app, not an appetizer because I know you jump all over that, but if I had an app. And that app during any given week reaches 91% of all adults 18 plus in the U.S. reaches a diverse audience and provides targetability, both digitally and over the air, is both hyperlocal and national simultaneously delivers the most efficient CPMs anywhere, out delivers all other streaming services like Amazon, Apple Music, YouTube, Spotify satellite radio combined, provides the greatest ROI ad spend ever and does all of these things right now.

You like that app?

Samuel D. Bush
Senior VP, Treasurer & CFO

I'd ask you where to get it.

Christopher S. Forgy
CEO, President & Director

It's called radio. Radio isn't broken. It's just slowing down, maybe a little misunderstood. And Saga is not big enough in order to have the scale to speed radio back up for the entire sector, but we can speed it up for Saga. And the toughest time to change is not when something is broken, but when something starts to slow down and radio is slowing down.

Think of a professional athlete who's just passed his or her prime, it's tough to move on from them and cut them loose. But if a career-ending injury occurs, then you have to. You have no choice but to change, and change is hard. We are choosing not to wait for a career-ending injury, but to create transformational change and growth.

We've chosen. You've heard me say this many times during the call, we have chosen, we've done it voluntarily. We're bringing this on ourselves, if you will, to bring about and initiate our own transformational change. And it takes time, discipline, investment spending and our very strong stomach to start the fire and keep it stoked.

As I said, transformational change is not immediate and certainly isn't easy. If it were easy, everybody would be doing it. Anything worth a dam isn't easy. In fact, many stop when it gets hard, they lack courage. We're doing it anyway. Courage is nothing more than fear holding on just one moment longer.

You see part of leadership is developing a vision and diligently staying with it even in the face of difficulty, doubt and those who don't want you to or don't believe you will succeed. We've been sharing quarter-by-quarter for 16 months, our growth in critical silos of business like e-comm. During the trailing 12 months, we produced nearly $2 million in revenue. Q1 2024 was up 249% year-over-year in this space and April '24 was our best month ever. In our streaming revenue, our TTM was at $4.8 million, a $1.6 million lift year-over-year and April, again, was our biggest month ever.

Now on to our online new services. Year-to-date, our online new services have over 1 million users, over 3.5 million page views and have amassed over $1.5 million in revenue and all 18 sites will be deployed and operating by the end of June 2024. That's speed.

What we're doing now is the next step of this transformational process. Again, it started with a vision for growth then we provided tools and resources to begin the growth process. Now we're providing the skills, training and teaching necessary in order for our leaders and media advisers to execute, and we must now execute. We are retraining the minds of our media advisers on how they look and think about our product and our customers' business.

Saga's Senior Vice President of Operations, Wayne Leland and Saga's Architect for Innovation and Growth, I think that's a really cool title, by the way, Matt Burgoyne are heading up this critical effort along with our entire corporate leadership team, and it's tough and we're all resolved to success.

This paradigm shift is not about our products, our transmitters, our towers, our morning shows, our ratings or even our music. It's about the audiences we reach and serve and the knowledge we have acquired over time about those listeners along with the expertise as broadcasters we possess to persuade them, then to capitalize on all that we have learned about the process consumers go through and how they behave as they engage with an advertiser, ultimately resulting in more customers, more patients, more clients and more sales for our advertising partners. So there really is no better time than right now to go through this transformational change. Things are not broken. They've just slowed down.

As I have said all along, by doing it now during a time when there are definite headwinds and times are tough and people are sweating. In those headwinds subside, Saga will come out on the other side stronger ahead of the pack, better serving our customers and realizing exponential growth versus the flat being the new up when it comes to broadcast revenue. So if I may, and I appreciate your attendance and your consideration today. I'll leave you with this.

At the signing of the declaration of independence, George Washington was in a dubious position of attempting to ratify the constitution. It's not going to be easy. Many of the delegates to the convention did not share his faith in the constitution. In fact, you may remember Ben Franklin's quote. During the debate, gentlemen, we must now hang together or we shall most assuredly, hang separately -- we must now hang together or we most assuredly will hang separately.

During the convention, Washington was seated on an old widen chair, with not a full sun, but a half sun carved into the chair. After strong debate and resistance, the men agreed to sign the declaration of independence. And as the men signed a constitution, Ben Franklin said that he had the great happiness to know that the sun carved into Washington's old wooden chair was a rising sun and not a setting sun.

Thank you all for your time, your interest and your support of Saga Communications, the best media company with the best people on the planet.

Sam, do we have any questions?

Question and Answer

Samuel D. Bush
Senior VP, Treasurer & CFO

Well, first, I'm going to say, Chris, after listening to all that, all I can think of with seeing your Tennessee stuff here in your office, I want to put a helmet on - honestly, put me in coach. We can get this done.

But -- yes, so we did get some questions, and it's always nice when we get questions, but it's even nicer when along the questions that were asked are questions we've already answered in the call. So I'm going to go to the ones that -- one of them was about how was the digital progress in Q1, which we've talked about. But it goes on with are you on track for 11% this year, basically with digital, interactive being a percentage of our overall revenue.

And I would say that we were approximately 10% -- digital was approximately 10% of our overall revenue for the first quarter and that between 10 -- and again, I'm a financial guy, so I tend to be conservative in my answers, and 10% to 11% is certainly in the ballpark for the year. So I appreciate that question.

Going to some of the other questions. The question was -- and I'm going to put 2 of them together, there was a question about please discuss when and amount of next dividend, dividends for the rest of the year as well as discussing current thinking on stock buybacks?

Christopher S. Forgy
CEO, President & Director

So if you don't mind, Sam, I'll take the first half of that. We've not yet declared dividend distribution. However, it is management's intention to recommend to continue to return value to shareholders, whether it's quarterly operational dividends variable or the special dividend.

Samuel D. Bush
Senior VP, Treasurer & CFO

I would add to that, Chris, that the Board considers stock buybacks quarterly, special, and our new variable dividend, which we paid for the first time earlier this year st every Board meeting. The Board will consider and declare future dividends at their discretion based on current economic conditions as well as acquisition opportunities we have like Lafayette, which we've already talked about in this call. It's certainly management intent, as you said, to continue to recommend the current level of quarterly dividends to the Board in the foreseeable future. Next question is -- and again it was...

Christopher S. Forgy
CEO, President & Director

We got lots of questions today.

Samuel D. Bush
Senior VP, Treasurer & CFO

Well, we did, but more of them we've already answered. So...

Christopher S. Forgy
CEO, President & Director

Okay. All right.

Samuel D. Bush
Senior VP, Treasurer & CFO

so we really have one more that -- and it really is a blending of 2 questions.

We had a question that was which clusters were stronger in the quarter and where was the weakness, and then there was a tie in to our asset base, so to speak, relative to the size of our markets and what our intentions going forward were?

Christopher S. Forgy
CEO, President & Director

So the -- yes, the biggest cities took the brunt of the BCF decline during the quarter, but it certainly impacted markets of all sizes. Just for the FYI, following the Lafayette closing, we will then have 22 of our 27 markets will be markets that are -- that operate in markets that are smaller than 100 -- market 100. So our focus will always be on the smaller to midsize markets as we move forward and consider acquisition.

Samuel D. Bush
Senior VP, Treasurer & CFO

Very good. And with that, I think that is all we've got. As always, if anybody has further questions, please reach out to Chris and I directly, and we can arrange to set up calls with you directly. We appreciate everybody attending the call.

And Matt will turn it back over to you to wrap up.

Operator

Thank you. Everyone, this concludes today's event. You may disconnect at this time, and have a wonderful day. Thank you for your participation.

Samuel D. Bush
Senior VP, Treasurer & CFO

Thank you, Matt.

Christopher S. Forgy
CEO, President & Director
Thank you, Matt.