S&P Global
Market Intelligence

Saga Communications, Inc. NasdaqGM:SGA

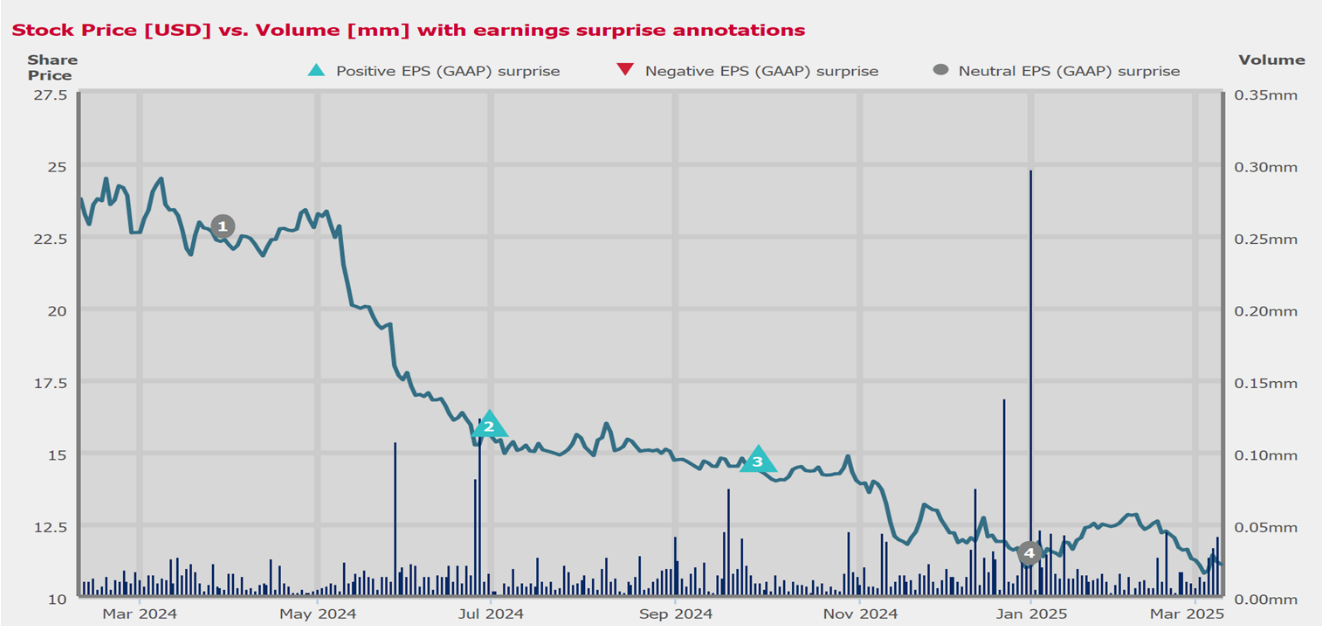
FQ4 2024 Earnings Call Transcripts

Tuesday, March 11, 2025 3:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2024-			-FY 2024-			-FY 2025-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS (GAAP)	(0.12)	0.20	NM	0.23	0.55	▲139.13	0.48
Revenue (mm)	28.00	28.77	▲2.75	109.50	110.29	▲0.72	112.40

Currency: USD
Consensus as of Jan-14-2025 2:37 PM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2024	0.00	(0.25)	NM
FQ2 2024	0.29	0.40	▲1 37.93 %
FQ3 2024	0.13	0.20	▲2 53.85 %
FQ4 2024	(0.12)	0.20	NM

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Call Participants

EXECUTIVES

Christopher S. Forgy
CEO, President & Director

Samuel D. Bush
Executive VP, CFO & Treasurer

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Presentation

Operator

Greetings, and welcome to the Saga Communications Fourth Quarter and Year-end Conference Call. [Operator Instructions] And it is now my pleasure to turn the floor over to your host, Chris Forgy. The floor is yours.

Christopher S. Forgy
CEO, President & Director

Thank you, John. Good morning, and thank you to everyone who's taken time to join the Saga's Q4 and year-end 2024 earnings call. We appreciate your continued interest, your questions, your suggestions and your support of Saga Communications, what we believe is the best media company on the planet.

We have a lot to cover today, but first, I'd really like to thank those who have been so instrumental in the transformational change Saga has been going through and continues to go through over the past 2 years. Our corporate team, our Saga Board of Directors, our carefully chosen third-party partners, our shareholders, our leadership teams in each of Saga's 28 markets. Our Saga Media advisers are nearly 800 Saga employees all over the country who make this engine go and to our customers, those who trust us with their advertising dollars to bring about outcomes. After all, money does come from customers doesn't it?

Transformational change is really not easy. We're in the midst of it. It takes time, resources, people, training, commitment and a very strong belief in what you're building will be successful. And we do, we chose this passive transformational change, both out of necessity and because we believe we have identified a local digital advertising market right for disruption. We determine these 4 things. Number one, there's a significant increase in advertising dollars. Businesses are pouring their money, more money into digital advertising each and every year. But the rapid growth of digital budgets has outpaced the ability of advertisers to use them effectively.

Number two, there were frustrated buyers with unmet needs. Advertisers are just simply fed up with ineffective evergreen, set it and forget it campaigns and empty promises. They don't like what they're buying or who they're buying it from. These are the same local advertisers who say they trust radio salespeople most for market knowledge and advice but aren't buying from us. For example, the RAB recently released a report that in 2024, radio surpassed the $2 billion mark in digital sales. Unfortunately, that is a pedestrian 0.67% of all digital spend in 2024. Radio simply cannot win celebrating less than 1% of the digital ad pie. We cannot simply compare it to where radio came from. We need to lift our eyes and look to the macro digital marketplace for what's available to us. Here's why.

According to an eMarketer 2024, excluding political, there was approximately $421 billion spent on advertising in the U.S. 73% or $309 billion of those dollars was spent in digital. In 2025, estimated advertising expenditures in the U.S. will top $456 billion. And 75% or $342 billion will go into digital advertising. That number is expected to decline to 83% by 2029, Radio's approach to digital in our opinion, is broken.

And number three, there's a fragmented and confusing marketplace. Too many providers, too many conflicting solutions, businesses don't know who to trust. In this disruptive marketplace, simplicity and clarity win. Just ask the broadcasters who I like and respect that have gone through their own fourth, fifth and sixth iterations of digital strategy. It's frustrating and it's costly.

And finally, number four, there is a shift in consumer behavior. Advertising strategies haven't caught up with the journey people take when they buy. In other words, there's a gap where tech meets human behavior. Focusing the influence of ads on real consumer journeys will allow everyone to win versus the product-focused offerings that exist today. As a part of Saga's digital strategy development, we call blended advertising. We've really benefited from talking with and observing the third-party struggles of our brethren. There's an old saying that says this, the second mouse gets the cheese. The second mouse gets the cheese.

Blended advertising focuses on the consumer journey and for now, these simple and effective products, radio, search and display. Radio leads to a search always and gets the advertiser wanted, Search gets the advertiser found and display gets the advertiser chosen. We see it, we cannot unsee it. We believe it. We have studied it and trained our media advisers with all of this data in mind. The question we had to ask ourselves was this. Do we build upon our already existing radio infrastructure or start a new? We chose the former. Infrastructure requires training, training requires time and expense. This is why we forecasted a rise in expenses over a year ago. And by investing in infrastructure versus going brand new, the speed of our growth increases.

Unfortunately, the short term was impacted by the broadcast sector -- broadcast sector experiencing a significant downdraft. So why should you continue to invest in Saga or maybe perhaps become a new investor? Because we see a broken local digital market ripe for disruption, and we are the right media company to take advantage of that opportunity. The customers we work with every day already

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like us and trust us and if we can impact just 5% of the digital dollars available in our 28 Saga markets over the next 18 to 24 months, we could double our total gross annual revenue, most of it digital, while also protecting, preserving and growing radio.

For example, in our 28 markets, there's approximately $2.9 billion available in just search and display. To disrupt just 5% of the available dollars would result in more gross revenue than Saga generates in an entire calendar year. Before I share some of the successes blended advertising has helped us create. Let me take you back to the future for just a moment to address the comment I made earlier regarding building on an existing infrastructure, versus starting a new. On virtually every quarterly earnings call for the past 2 years, I have asked this question.

Where would Saga be if we had not decided to go down this path and had not added the revenue verticals to our arsenal when we did to help us launch into the state of transformational change. Today, I can answer that question. In 2024, we generated nearly $7.5 million of revenue that could not have existed before we began this transformation. They consisted of the following revenue verticals. Our online new sites, e-commerce, streaming, our market-specific best of programs, plus a variety of other digital products and services. These strategy additives have served us well in building the infrastructure of transformational change and will continue to do so as we grow.

Again, at the same time, we forecasted a lift in expenses as we invested in our people, our products and our processes. These efforts are increasingly more important as the broadcast sector faces growing headwinds. Following Sam's remarks, I will share with you in some detail the early success of this disruption and how they show promise for Saga, its customers, its employees, and its financial strength for both the short and the long term.

Sam, after a long discussion, the floor is yours.

Samuel D. Bush
Executive VP, CFO & Treasurer

Thank you, Chris. 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. For the quarter ended December 31, 2024, net revenue decreased 1.3% to $28.8 million compared to $29.1 million last year.

Political impacted this year's performance. As for the quarter, we had $2.0 million in gross political revenue this year compared to $407,000 for the same period last year. Without political, our overall gross revenue for the quarter would have decreased approximately 6.5% from last year. Station operating expense increased 4.1% to $24.3 million for the 3-month period. Operating income was $984,000 and station operating income, a non-GAAP measure, was $5.9 million for the quarter. Capital expenditures were $600,000 for the quarter compared to $1 million for the fourth quarter last year. Net income for the quarter was $1.3 million or $0.20 per fully diluted share. On a same-station basis for the quarter ended December 31, 2024, net revenue decreased 3.9% to $28 million, and station operating expense increased 0.7% to $23.5 million.

Operating income decreased to $1 million. For the 12-month period ended December 31, 2024, net revenue decreased 2.2% to $110.3 million compared to $112.8 million last year. Political impact of this year's performance as for the year, we had $3.3 million in political -- gross political revenue this year compared to $944,000 for the same period last year. Without political, our overall gross revenue for the year would have decreased approximately 4.3% from last year. Station operating expense increased 4.5% for the 12-month period to $94.3 million. Operating income was $2.4 million, and station operating income, again, a non-GAAP measure, was $21.1 million. Capital expenditures for the 12 months were $3.8 million compared to $4.4 million in 2023.

Net income for the year was $3.5 million or $0.55 per fully diluted share. As an additional note regarding political, we did $6.9 million for the year in 2020 compared to $3.3 million in 2024. For the fourth quarter of 2020, we did $3.8 million compared to $2 million in 2024. Unfortunately, we were limited as to the states to be the battleground states for national and to some extent, state and local elections. In the strategic update press release we put out last Friday, March 7, we indicated that we committed during our annual budget review and approval process, going back to the start of the budget process in September of 2024 to work directly with the leadership teams in all of our markets to identify potential efficiencies in operations that can enhance profitability.

This initiative is not a stand-alone initiative as we have been and will continue to analyze specific places where we can improve efficiencies in station operations. We believe that existing expenses can be reduced 1% to 2% on a pro forma basis without impacting investments we are making in regard to the revenue initiatives that Chris will be talking more about in a few minutes. The increase in our expenses in 2024 compared to 2023 included $1.8 million that was attributable to our acquisition of the radio stations in Lafayette.

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The increase in same-station operating expenses were primarily due to compensation-related bad debt, interactive expenses, sales surveys and advertising and promotion expenses.

It should be noted that the increase in same-station expenses in 2024 versus 2023 was primarily in the first and second quarters. The increase in the first and second quarters were $1.3 million and $937,000, respectively, as compared to a $50,000 reduction in the third quarter and $171,000 increase in the fourth quarter. In the first and second quarters, $450,000 and $492,000, respectively, was due to salary increases that we have spoken about before.

Most of our staff had not received any salary increases in the past 3 to 5 years. Salary increases were $257,000 in the third quarter and $205,000 in the fourth quarter. It should also be noted that approximately half of the salary expense increases were due to our interactive initiatives. I also previously spoke about the unusual level of bad debt expenses that we experienced primarily due to one agency we did business with. Again, this was primarily in the first and second quarters. In the fourth quarter, bad debt expense actually decreased $77,000 over the same period last year.

From a revenue perspective, interactive revenue, which includes online news, continued to grow in the quarter and in the year. For the year, gross interactive revenue increased 20.9% to $11.6 million and for the fourth quarter, it increased 19.5% to $3 million. Also, gross national revenue increased 3.3% for the year and 13.1% for the quarter. E-commerce revenue also increased $904,000 to $2.4 million for the year and $55,000 to $569,000 for the fourth quarter. As Chris has said previously and will do so again today, we anticipate continued growth in these areas. We currently expect to spend between $4 million and $4.5 million for capital expenditures in 2025.

The company paid a quarterly dividend of $0.25 per share on December 13, 2024. And subsequent to the end of the year, paid an additional quarterly dividend of $0.25 per share on March 7, 2025. The aggregate amount of each quarterly dividend was approximately $1.6 million. To date, Saga has paid over $137 million in dividends to shareholders since the first special dividend was paid in 2012. The company intends to continue to pay regular quarterly cash dividends as declared by the Board of Directors in the future. The company's balance sheet reflects $27.8 million in cash and short-term investments as of December 31, 2024, and $27.3 million as of March 10, 2025.

Pacing for the first quarter is soft. For the quarter, we are currently pacing down mid- to high single digit. It continues to be an unsettled advertising market, particularly in radio. We expect revenue to turn positive from a growth perspective beginning with the second quarter. Chris will talk more about the transformational change that Saga has undertaken. This change impacted our expenses in 2024 as we invested in the training necessary to allow our media advisers to take on the challenges of altering our standing within our local radio markets with the addition of our online local news service, e-commerce, national network advertising, market-specific best of offerings and digital, including streaming and a variety of other digital projects.

We currently expect our station operating expense will increase by approximately 1.5% to 2.5% for the year as compared to 2024. This takes into consideration the pro forma expense reductions we are making in addition to any costs incurred as the expenses are reduced as well as our continued investment in the ongoing revenue initiatives. We anticipate that the annual corporate general and administrative expense will be approximately $12 million for 2025 compared to $12.6 million in 2024. Our tax rate is expected to be 26% to 29%, with a deferred tax rate of 5% to 9% going forward.

All said, we believe Saga is in a strong financial position to improve profitability as our digital initiative improves, both radio and interactive revenue. This includes as a part of our capital allocation strategy to continue to evaluate noncore asset sales with an intent to maximize value from these assets. As an example, we've had multiple interactions with companies that have been interested in one or more of the towers we own. We expect to receive shortly and offer to purchase some of our tower sites, which we will be evaluating. I expect that we will know more about this potential asset sale when we report our first quarter 2025 earnings in early May. The Board is committed to using a not insignificant portion of the proceeds from such a sale for stock buybacks. This may include open market, block trades or other forms of buybacks as a part of our overall capital allocation plans this year.

And with that, Chris, I'm going to turn it back over to you.

Christopher S. Forgy
CEO, President & Director

Thank you for that Sam. Allow me to share several data points from a -market snapshot inside Saga, which further illustrates how blended advertising has already impacted Saga's local, direct and digital revenues. What we did is using the combination of Saga's markets on traffic system and Saga's CRM called Grumple. We analyzed local direct advertisers who purchased a blended product consisting, as I mentioned earlier, of search, display, OTT or social. We compared January of '23 through October of '23 to January '24 through October '24. Here's what we found. Local direct advertisers who bought a blended product, their radio spend increased by

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9% year-over-year. While their overall radio and digital spend increased by 27% year-over-year. Conversely, over the same period, local direct advertisers who did not buy a blended product, their radio spend dropped by 13% year-over-year.

Furthermore, accounts who were never presented blended advertising at all, experienced a 50% to 55% decrease in the radio spend. And when blended advertising was pitched, but the client didn't buy the radio spend still increased by 1% to 2%. Since the last time we talked in November 7, overall as a company, we have written $5.7 million in local direct blended orders involving 203 different customers. Of that, $209 million were digital dollars and $2.8 million were radio dollars -- $2.9 million were digital dollars and $2.8 million were radio dollars. During the same period, blended advertising orders yielded us -- listen to this, during the same period, blended advertising orders yielded us 4.3x more than non-blended orders. And when examining the radio only dollars and comparing blended and non-blended orders, we found that those who bought blended spent 96% more on radio than those who did not buy blended. Building on these results, and again, please listen to this.

In the last 7 days, in just 3 markets, we have inked an additional $2 million in brand new advertising money. These people have never advertised before ever. And these wins do not even begin to drain our pipeline. As a result, digital forward pacing in April and May is up high -- very high double digits. It used to be said in our business, control the creative control the campaign. Today, it's control the strategy, control the campaign. With blended advertising, radio has the opportunity to include itself in the strategy, and we are still intensive in this execution of blended strategy. We're just getting started. Radio is the star of Saga's digital strategy, radio with its high consumer trust always leads to a search.

Data shows radio is the very best, most persuasive and most efficient top-of-funnel medium available. Radio's role in this strategy is to move consumers to click, visit, call or search and advertisers business. As I said earlier, radio gets the advertiser wanted, digital gets the advertiser found and chosen. In closing, someone once said to me, if you're exposed to a product or service that can't tell you the problem they're solving, you need to be absolutely terrified. So what problem is Saga solving for the customer and for radio through blended advertising? The following: advertising that is easy to buy and understand instead of confusing, frustrating and full of attrition.

Advertising focused on the real consumers that click, visit, call and search, instead of the broken way it is leveraged by other companies. Attribution that is easy to understand and focused on the actions consumers take that lead to a sale. Instead of the confusing overwhelming pages of nonsense data they get now. And selfishly, radio gets to do the magic it's always been known for. We believe our blended advertising strategy, we believe in it. And we believe so much in it, that when executed properly, can lead to 2x growth in gross revenue, most of it digital. We're excited about the prospects blended advertising has to leverage, preserve and protect the magic that is radio.

Look, this was not the result -- the rich results earnings call any of us wanted, but the good news is we have a plan, and the plan is working. You just heard it. You can't cut your way out of this downdraft because the strong wins will just continue to come. What you can do is adjust your sales, execute impeccably and sale, and that we will do.

Thank you again for your time and attention during Saga's Q4 and 2024 earnings and year-end conference call. Sam, do we have any questions -- Wait, I'm sorry, I forgot one thing. This is material. Since Ed Christian's passing over the 2 years ago, the Saga Board of Directors has also been going through a transformation. First, we had 2 board members step away from the Board. Then added a representative from Saga's largest shareholder as a Board member and reduced the board count from 8 to 7.
As a continuation of this Board refresh process, at the Board meeting in early December, the non-gov committee expressed the need to have a digital expert on the board. We are currently in the process of interviewing and vetting candidates who have extreme digital expertise, to join the Saga Board. Over the next 12 to 18 months, we will continue to refresh the board in order to continue to bring value to Saga and its shareholders. Sorry about that, Sam, but I forgot to make that point.

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Question and Answer

Samuel D. Bush
Executive VP, CFO & Treasurer

That's an important point to make. Thank you, Chris. Chris, we did get a few questions in. A lot of them we've already answered, so I won't go through those. We did get one that says, can you give us take a census of the current advertising market in the first quarter since the quarter is nearly over and a sense of the trends by month in the quarter? What is spot advertising done [spacing] what are you hearing from your local advertisers?

I'll start. We obviously did -- I did in my comments talk about the first quarter in general, break it down a little bit more. January and February were about the same. With both being down high single digits. March was a bit better being down mid-single digits. I'll go beyond the first quarter a little bit and say that April and May and June have all improved and we expect to continue to see improvement in the second quarter with April starting down mid-single digits and by June, appearing to be flat to up a little in pacing. And again, June still a ways out. So as we know in radio and digital advertising, everything comes on a much quicker basis these days.

Maybe, Chris, you can talk about here, what you're hearing from local advertisers and spot advertising?

Christopher S. Forgy
CEO, President & Director

Well, I don't think it's any secret that the industry is facing a stronger than a downdraft. The -- my fellow CEOs that I speak to are not happy with it. And again, I just come back to one thing. Many of them don't have a plan. Some of them don't, some of them do, some have some very good plans. We have an excellent plan. And I for one, and I think I speak for our team that we're very optimistic, particularly as we get into the second half of this year and beyond.

Samuel D. Bush
Executive VP, CFO & Treasurer

Another question, many radio stations have turned to central casting to reduce head count and talent cost and/or looking to regional hub and spoke strategies. Is this something that's obvious contemplating?

Christopher S. Forgy
CEO, President & Director

I'll take that one Sam. Massive cuts, no. We're not going to central casting. Our most important assets are people, walk in and out of the doors of our radio stations every day. That being said, we are always and continue advantage of operating efficiencies across all platforms in all of our Saga markets. That's something we do on an ongoing basis, be more efficient. But our people are most important and our sustaining resource, and that is not a plan that we have now or in the future.

Samuel D. Bush
Executive VP, CFO & Treasurer

And to add to that, that gives us the extreme localism that we do have that a lot of our brethren don't have, which allows us to continue to connect as a trusted source for advertising, both local and digital. In all our markets.

There was another question that had to do with changes in terms of your digital strategy. I don't think we need to add any more there. You spent quite a bit of time talking about that. But as we all know, and as you said, radio improves as digital improves and we're on a good transformational strategic plan to move forward.

And with that, I will turn it back over to John for wrapping up.

Christopher S. Forgy
CEO, President & Director

John, are you there?

Operator
Yes. Thank you. This does conclude today's conference call. Thank you for your participation. You may disconnect at this time.

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