

Saga Communications, Inc. NasdaqGM:SGA

FQ2 2023 Earnings Call Transcripts

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S&P Global Market Intelligence Estimates

	-FQ2 2023-			-FY 2023-	-FY 2024-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS
EPS Normalized	0.48	NA	NA	1.53	NA
Revenue (mm)	28.70	NA	NA	112.00	NA

Currency: USD

Consensus as of Aug-01-2023 12:55 PM GMT

The chart could not be generated due to the unavailability of pricing data

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Call Participants

EXECUTIVES

Christopher S. Forgy
CEO, President & Director

Samuel D. Bush
Senior VP, Treasurer & CFO

Presentation

Operator

Good morning, everybody, and welcome to the Saga Communications Inc. Second Quarter Earnings Release and Conference Call. [Operator Instructions] And it is now my pleasure to turn the floor over to your host, Mr. Chris Forgy of Saga Communications. Chris, the floor is yours.

Christopher S. Forgy *CEO, President & Director*

Thank you, Jenny. And thanks to all of you on the call for your continued interest in Saga Communications. Welcome to the 2023 Second Quarter Conference Call. And I'm immediately going to turn it over to my partner in crime, Mr. Sam Bush.

Samuel D. Bush *Senior VP, Treasurer & CFO*

Thank you, Chris. I'll start with the obligatory. This call will contain certain forward-looking statements. 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 June 30, 2023, net revenue decreased 2.2% to \$29.2 million compared to \$29.8 million last year. It should be noted that political impact to this year's performance. As for the quarter, we had \$108,000 in gross political revenue this year compared to \$787,000 for the same period last year.

Without political, our overall revenue for the quarter would have been flat with last year. Station operating expense increased 2.9% or \$621,000 to \$22.4 million for the 3-month period. As discussed in the first quarter conference call, after a number of years of giving our employees little to no compensation increases, we made the strategic decision to give our [indiscernible] pay increases in recognition of the tremendous work they do. These pay increases and related payroll taxes amounted to an estimated \$446,000 in the first quarter, as previously reported and \$444,000 in the second quarter of this year.

Similar to the first quarter, other smaller but still meaningful increases in our station operating expenses included increased utility expenses, music licensing fees, office maintenance and repairs, sales costs, including commissions and sales surveys.

For the 6-month period ended June 30, 2023, net revenue was down 0.6% to \$54.5 million compared to \$54.8 million last year. Adjusting for political for the 6-month period, gross revenue increased 0.7% for the 6-month period. Gross political revenue year-to-date was \$301,000 for the 6 months this year compared to \$907,000 for the same period last year.

Capital expenditures for the quarter ended June 30, 2023, were \$1.3 million compared to \$2.6 million for the same period last year. For the 6-month period, capital expenditures were \$2.6 million this year compared to \$3.6 million last year. And last year's capital expenditures for the 6-month period we included approximately \$770,000 for the completion of the new studio building we built in Ocala, Florida.

We continue to expect to spend between \$5 million and \$5.5 million for capital expenditures during 2023. We continue to see nice growth in national, interactive and nontraditional revenue with them being up 12.1%, 17.3% and 10.4%, respectively, for the quarter. And 9.7%, 14.1% and 13.5% for the 6-month period ended June 30, 2023. Chris will talk more about that in a little bit as well.

We intend to continue to utilize our financial strength to strategically invest in our operations, both at a market and corporate level as we work to grow revenue types, including local, national, interactive, e-commerce and NTR. And as I said, Chris will talk more about some of these early successes in a few minutes.

Due to the SEC's renewed focus on the reporting of non-GAAP financial measures and the review of our filings, we've adjusted this quarter's press release to include a complete statement of cash flows as opposed to the abbreviated statement we historically have included on our Form 10-Q.

We continue to include the reconciliation of GAAP operating income to station operating income, which is a non-GAAP measure, but now also include another financial data table, which allows the users of our press release and of filings to make direct comparisons

to data reported in previous press releases and filings. The company paid a \$0.25 per share quarterly cash dividend on June 16, 2023. We've now returned dividends of over \$100 million to our shareholders since the first special dividend was paid in 2012.

All said, we believe Saga is in a strong financial position to continue to return value to our shareholders through our quarterly special and [indiscernible] The special dividends declared in 2022 were in line with the goal of maintaining our ongoing cash and short-term investment balances to between \$30 million and \$35 million prior to future cash flows being recognized.

The board continues to have discussions relative to the right level of cash to maintain on our balance sheet, and this may change based on global, national and local economic conditions, changes in the radio industry and potential for strategic acquisitions.

The company's balance sheet reflects \$34.4 million in cash and short-term investments as of June 30, 2023, and \$38.3 million as of August 7, 2023.

Pacing for the third quarter continues to be variable, and I probably could say volatile as well because it seems like we look at it 1 week and it's up doing better, 1 week gets down, doing worse and it just keeps bouncing back and forth. For the quarter, we are currently pacing down low to mid-single digits.

However, you have to keep in mind that we are comparing in the third quarter and fourth quarter to last year's political revenue of \$3.6 million for the entire year and in particular, \$900,000 in third quarter political revenue and \$1.8 million in fourth quarter political revenue last year.

Also, the market continues to be an unsettled advertising market given the uncertain economy, the Fed's interest rate policy and the ongoing inflationary environment. We currently expect that our station operating expense will increase by approximately 3.5% to 4.5% for the year as compared to 2022.

In addition to the inflationary environment, this is significantly driven by our investments in our staff, sales training and ongoing interactive development. Corporate, general and administrative expense will decrease significantly from 2022, primarily because of expenses incurred as the result of Ed Christian's passing. This reduction will be somewhat offset by an increase in directors' fees and by investments we are making in corporate personnel that will be directly involved in growing specific revenue types, as previously mentioned.

We anticipate that the annual corporate general and administrative expense will be approximately \$10.5 million to \$11 million for 2023. Our tax rate is expected to be 27% to 30% with a deferred tax of 5% to 8% going forward.

And with that, I'll turn it back over to Chris.

Christopher S. Forgy
CEO, President & Director

Well, thank you, Sam, and thank you all again for being on the call with us today. Sam, if I seem a bit giddy on the call today, it's only because we have now completed the process of building what I consider to be the very best leadership team I've ever been around.

And Sam, it starts with you and continues with what we call a seal team of elite leaders at the top from a corporate office standpoint, like indulge me for a moment, I'm going to name some names like Cathy Bobinski, our Senior Vice President and Controller. Wayne Leland, our Senior Vice President of Operations; our Vice President of Engineering, Tom Atkins; our CMO, Eric Christian; our CTO, Tracy Cleeton; our Vice President of Facilities, Angela Parks; VP of Financial Analysts -- and Financial Analyst, [indiscernible]; and Annette Calcaterra, our VP of HR, along with a great group of corporate staff, GM and market employees who are all committed to the mission. And frankly, it's very exciting.

Okay. There's a phrase that we've shared with our leadership team over the years. It's been around for a few years at Saga, and it has more context today than ever before. If you've ever had any Latin in high school or college, you may be able to translate this, the phrase goes like this, *finis origine pendet* or the end hangs on the beginning.

In other words, your actions today will impact your future outcomes. That's how we've been behaving at Saga for about the last 8 months or so, focusing on really 3 areas of opportunistic growth that we've talked about before. People, products and perceptions. Not cost cutting, consolidating markets or offloading real estate, leaning into our economic headwinds and making investments, as I said, in people, products and perceptions.

So in the clouds of this current economic climate clear, we'll be able to emerge stronger, better trained with a head start into the future. Again, the end hangs on the beginning, *finis origine pendet*. And we did this not concerning ourselves with what our radio or audio

brethren are doing only on what we can control or at least impact. A Famous Michigander, that's what they call people who live in Michigan, I guess, I've been here 5 years now, and I've learned that, it calls Michigander.

Famous Michigander named Henry Ford once said about competitors. He said the competitor to be feared is the 1 who never bothers you at all, it goes about making his or her own business better all the time, and that's what Saga is doing.

As Sam said, Saga finished the second quarter up significantly in several areas, some that aren't really generally seen as growth areas in today's environment. National up 12.1%; nontraditional revenue up 10.4% and interactive up 17.3%. As you heard earlier, the growth is similar for the 6-month period ending June 30, 2023.

And you know the results of this Q2 and year-to-date earnings call as well as future earnings calls has everything to do with what we have implemented long before the Q2 earnings were released. We'd like to give you an update and a reminder of what we did several months back and how it's positively impacted our performance today.

And again, as you've heard me say before, this is all in the watermark of this statement. Money comes from customers. So the areas of focus and development included national. And previously, in our company, large -- national was largely looked at as transactional, not a lot of support for NSMs, perceived by many managers as a low cost per point business. Many of the market managers aren't really leaning into the effort, partially because they didn't really understand the benefits to them.

And frankly, we, at the corporate level, perpetual way to the idea that national wasn't all that important. The fact is, again, as we've said before, if you use a national business, and treat it as a market, it would be our third largest net revenue billing market in the company.

And by the way, I mentioned earlier, we've been up in some areas that aren't traditionally up at this particular juncture and national revenue was up double digits for the quarter and for the 6-month period, totaling a year-over-year increase of \$450,000. This is a direct result of us taking a local approach to selling and servicing our national business.

Interactive. We haven't even got started in the interactive and our interactive is up double digits for the quarter and for the 6-month period, again, translating to a year-over-year lift of \$535,000. NTR also up double digits for Q2 and year-to-date and has accounted for a \$435,000 lift year-over-year.

E-commerce is another area where I mentioned in the previous call that we've kind of gone back to the future. We're picking up considerable steam each month there under the leadership of former Incentrev founder, Andrew Schultz. We have experienced 100% plus in year-over-year growth in certificate sales. To give you an example in April, how this thing is picking up momentum. In April, we were up 72% year-over-year. In May, we were up 105% year-over-year. In June, we were up 147% year-over-year. And in July, the pacing is up 179% year-over-year.

The addition of Director of Storytelling and Mario Christino as we affectionally refer to him to assist us in creating better, more strategic campaigns and presentations for our customers. Year-to-date, we can directly attribute \$420,000 to the work he has done in money that has come into the door. Not to mention the ancillary benefit of being able to tell better stories and have better research in our markets.

Remnant radio ad sales kind of begun to just dip our toe in this a little bit. This is a long-term process, but we're moving very slowly and deliberately in this area, and we'll report on that at a later time. The addition of Pat Paxton, our new Senior Vice President of Content, working with our program directors and on-air talent to be even more local and polished than we are currently.

The coaching that Pat has provided and been able to provide to our markets is paying dividends already. And the forward-facing position that we have taken in the financial markets through partnership with Noble Capital. Sam and I have been out on the road and will continue to be out on the road, presenting the Saga story to new private and institutional investors.

These areas of focus have combined that I just mentioned to you, to contribute \$2.7 million in revenue for the 6-month period ending 6/30/23, at a time when local revenue was down for the same period, \$1 million. That's not typical for a Saga company. And political was down \$606,000. And these initiatives didn't really get underway until mid-Q1 of 2023. So we've been running very fast and furious and we'll continue to do so.

So in an economic period when some of the radio sector experienced double-digit Q2 declines, Saga was down 2.2% in net revenue for the quarter, and Saga was flat year-to-date, if you minus political.

And certainly would have been worse without the attention paid to people, products and perceptions. Again, we did this at the beginning of the year. What we believe to be necessary to ultimately be where we wanted to be today. Finis origine pendet, the end

hangs on the beginning. So where would we be today? If we hadn't deployed these actions, I don't know and I really don't want to find out.

And again, as I mentioned earlier, we're just not finished yet. We continue to bolster our digital efforts. We're proud to announce and have done so recently, the addition of CRM Rumble Co-founder, Matt Burgoyne to the Saga team as a Director of Innovation and growth. Matt has been working with the Saga Markets as a consultant for well over a year and has joined Saga as a permanent fixture now.

Matt will work directly with our sellers and leadership team to teach and train best practices and tactics in order to extend our customers' reach, frequency and results by using pure play combined with specific and complementary digital solutions to promote consumers to do just a couple of things, click, visit, call or search our customers' businesses.

This, in addition to deploying digital-only sellers into our markets is also underway. Finally, to future galvanize our digital efforts, and now maybe you see why I'm so excited on the call today, Sam, was many of you may have heard of Saga's homegrown online local news community service product, metaphorically known as Clarksville Now. We are delighted to announce Katie Gambill, who is the brainchild and creator of this product, has joined the corporate team as the Director of Online News Brands, from her post in Clarksville, Tennessee, where she served as President and General Manager for Saga for the last 16 years. This too will be and is being deployed in many of the Saga markets going forward.

In fact, 2 of our newest sites have not yet gone live yet the major year-long sponsorships are already sold out. There is clearly a demand for this product in the communities, and we are far past due on getting busy in this space. We're currently looking for case replacement in Clarksville, Tennessee, so stay tuned for more of that.

Sam, as you can see, we're pretty excited. We've got a lot going on, and we will continue, as I said, to run very fast, like our hair is on fire, but very purposely and with purpose and mission in mind, and we're excited to share that with you today both as a reminder and as an update to where we are today. So Sam, I'll turn it back to you.

Question and Answer

Samuel D. Bush

Senior VP, Treasurer & CFO

Thank you, Chris. And as you said, it's all in a fast and furious mode. Everything is there. We did have a few questions come in today. The first 1 is about our HD stations as we call our translators and our metro signals and so forth. But the question comes in that the company has a lot of HD-only stations, HD2, HD3. Most of them, not in the question, but most of them associated with translators that we also have, which basically translators are miniature FM radio stations that cover the local market very well in the markets we use them in.

But the question is, they were wondering what the economics of these stations are compared to our AM, FM stations, the type of information that they're looking for was, are these stations increasing listeners and engagement for us. Does the company promote these stations in a different way? And what is the overall value of these stations to Saga?

Christopher S. Forgy

CEO, President & Director

Sam, we could double team on this question, if you like. The revenue really varies by market. Some of the HDs and translators will do more revenue than others. But we did create 3 in-house formats: Outlaw, EZ Favorites and Pure Oldies and they're used strategically to complement our existing full signal formats in those markets and also used to bolster our AM stations primarily with our news talk format. So those are a couple of things that might be helpful to the person posing the question. Sam, if you have anything else you want to add, please, go ahead.

Samuel D. Bush

Senior VP, Treasurer & CFO

Yes. I was going to say that to some degree, the interest in the translators and the AM, FM HD stations, which go along with them and expand what we're doing signal-wise really started to some extent in Asheville, North Carolina, with The River, which we were not able to have as many signals in the market as we wanted. So we created a signal in there that would reach the market and has done very, very well for us over the years.

And that led to, as you pointed out, the creation of the EZ Favorites, Pure Oldies and Outlaw formats as an extension of our operations in many, many markets around the country where we operate. As Chris said, the economics are varied. In some cases, they simulcast to give us bigger reach. In some cases, they take a signal that is in a particular market and expands it to an adjacent market.

In some cases, as Chris pointed out, there is a very good way to be -- to put an AM news talk. Our successful AM station on an FM brand so that we can alleviate some of the concerns about what's going on with AM radio as we go forward. And I think the biggest thing that Chris mentioned, and I would just emphasize is it allows us to expand our coverage in a market to reach listeners that may not have listened to our stations are to reach complementary or provide complementary stations to a listener who may want to listen to traditional country at some point, Outlaw country at some point or new country at some point. So it allows you to be more to the folks that are listening give them more choice in the market, but at the same time, continue to be live and local.

Christopher S. Forgy

CEO, President & Director

And 1 of the things I thought about Sam is the size of the markets that we're in, 250-watt translator really gives a full market signal in many of our markets. So you really -- the listener can't really tell the difference between a full market signal and a 250-watt translator because of the size of the markets and the area of coverage we're able to achieve.

Samuel D. Bush

Senior VP, Treasurer & CFO

Absolutely. We did get a question from another long-term holder of Saga stock, and it talked about providing a breakdown of digital revenues, which I think we've done with the growth of what we're doing and where we are with those numbers and so forth as well as what the growth was for Q2 in the digital.

And as Chris pointed out, we're seeing a lot of good improvements there. But again, we feel like we're at the -- just out of the starting blocks and there's another 90 yards and the 100 yard days to run, and we're still moving forward, and we still are picking up speed. So I think you'll see a lot more on that, and we'll be reporting more on that as we go forward.

There also was a question about how Q3 is trending relative to Q2. And I talked about the pacing being down right now in Q3 as low to mid-single digits. Pointed out again, the comparison to political that we need to take in mind. And I would also say that we should also look and maybe Chris can -- you can speak to this in a minute, but revenue comes in so much later now and it has for the last few years.

So when we're looking at September now is the last month in the quarter that we'll have this year, it's really hard to tell what September is going to look like yet because as we went into the second quarter, we looked at certain months and they did great. But by the time the quarter was over, they looked okay. And I think that's something we got to keep in mind that, that old traditional broadcasting from 10 years ago where you looked at a quarter and knew where you were going to finish before you went into it you really can't do that anymore. And we do see some really good things as we get closer to the quarter's end.

Christopher S. Forgy
CEO, President & Director

Yes, we would normally say we need to go into a month at about 90% of goal to have a shot and the percentages have backed off from there. And the further -- further you go out, the less reliable the pacing is. So you're absolutely right.

Samuel D. Bush
Senior VP, Treasurer & CFO

Well, I think that wraps it up. As we've always encouraged and Chris and I welcome if you have additional questions, if you have, I would like to get some more information on the questions we've answered or what we presented. We're here, feel free to give us a call. And Jenny, I think we'll turn it back over to you and let you wrap up the session today.

Operator

Thank you so much, and thank you, everybody. This does conclude today's conference. You may disconnect at this time. Thank you for your participation.

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