

# Saga Communications, Inc. NasdaqGM:SGA

## FQ3 2023 Earnings Call Transcripts

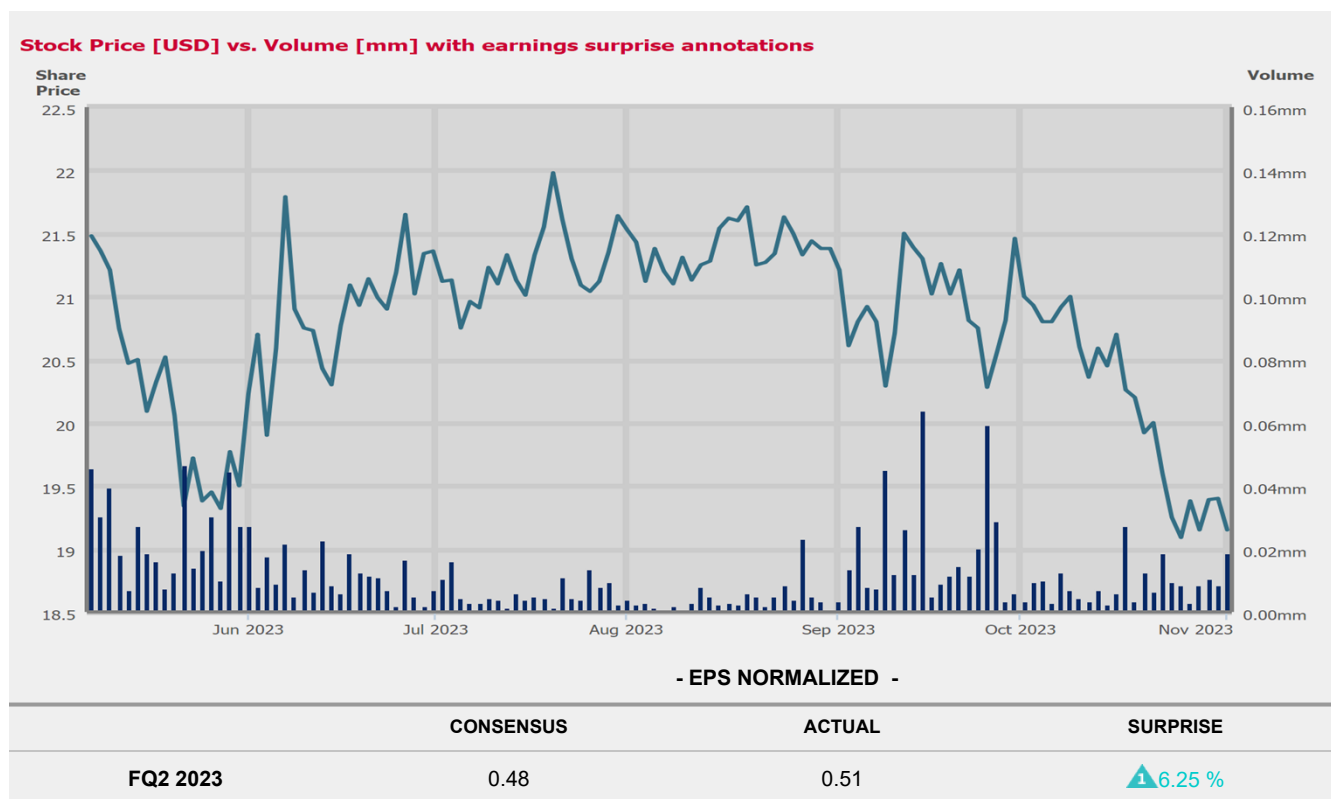
**Thursday, November 2, 2023 3:00 PM GMT**

S&P Global Market Intelligence Estimates

	-FQ2 2023-			-FQ3 2023-	-FY 2023-	-FY 2024-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
<b>EPS Normalized</b>	0.48	NA	NA	0.47	NA	NA
<b>Revenue (mm)</b>	28.70	NA	NA	28.85	112.33	NA

Currency: USD

Consensus as of Aug-09-2023 12:32 PM GMT



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# Call Participants

## EXECUTIVES

**Christopher S. Forgy**  
*CEO, President & Director*

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

# Presentation

## Operator

Good day, and welcome to the Saga Communications Inc. Third Quarter Earnings Release and Conference Call. [Operator Instructions] It is now my pleasure to turn the floor over to your host, Chris Forgy, President and CEO. Sir, the floor is yours.

## **Christopher S. Forgy** *CEO, President & Director*

Thank you, Paul, and thanks to all of you who have taken the time to join Saga's Q3 earnings call. We appreciate your continued interest and participation in Saga Communications. We've got a lot to talk about today. For starters, we're pleased to report the addition of our people, resources and renewed focus and specific opportunistic growth areas is starting to impact our revenue in a real positive way. Pretty certain you won't hear some of these things on other earnings calls you might be participating in over the next few days.

For the quarter, National was up 1% this is in a sector that's down in national business double digits amongst our brethren. Digital was up 34% for the quarter and continues to grow with a great deal of headroom, and we do it differently than most. And finally, NTR, the selling of events is up 7.7 points for the quarter. And year-to-date, National is up ready for this 6.9%. Interactive is up 21%, and NTR or the selling of events is up 11.1%. Our other areas of focus e-commerce, which is the selling of certificates over the past trailing 12 months has totaled \$1.3 million and is still growing.

We are still in the process of deploying our online news and information service in several of our Saga markets and have multiple markets in queue for installation this year and next. You may also refer to this or be familiar with this as metaphorically ClarksvilleNOW. We also continue to perform really well in targeted categories. Number one category continues to be home improvement, which includes HVAC, plumbing, roofing, insulation, and invisible fence companies and things like that. And that, too, is still growing. Automotive has made a surge and moves into our number two category business, and professional services has moved to number three, which is things like aesthetic plastic surgery, cosmetic dentistry and weight loss.

So Sam, I think they called out a tease on the air when our on-air personalities, just give a little look inside. So I'm going to send it back to Sam for some more performance.

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

Thank you, Chris, and that tease was a very nicely done. Now I do have to read the obligatory.

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 to our press release.

So now the fun part. For the quarter ended September 30, 2023, net revenue decreased 2.8% to \$29.2 million compared to \$30 million last year. Political certainly impacted this year's performance. As for the quarter, we had \$234,000 in gross political revenue this year compared to \$858,000 for the same period last year. Without political, our overall revenue for the quarter would have been down less than 1% from last year. Station operating expense increased 2.1% to \$22.8 million for the 3-month period. As discussed in the first quarter conference call, after a number of years of giving our employees a little to no compensation increases, we made a strategic decision to give our remarkable staff pay increases and recognition of the tremendous work they do. These pay increases and related payroll taxes amounted to an estimated \$331,000 or approximately 71% of the increase in the third quarter station operating expense, and \$1.2 million or approximately 55% of the year-to-date increase.

Similar to previous quarters, other smaller but still meaningful increases in our station operating expenses included increased health insurance, utility expenses, music licensing fees, programming rights and sales surveys. I can assure you that Chris and I, and the whole staff here are always watching expenses and making sure that we're making good solid decisions on where expenses increase and where they decrease. For the 9-month period ended September 30, 2023, net revenue decreased 1.3% to \$83.6 million compared to \$84.8 million last year. Adjusting for political, for the 9-month period, gross revenue was flat for the same period last year. Gross political revenue year-to-date was \$538,000 for the 9-months this year compared to \$1.8 million for the same period last year. Keep

in mind that our third quarter and 9-month results for 2022 were impacted by the onetime expense of \$3.8 million related to Ed Christian's passing. These expenses were reported in more detail in our previous calls and filings.

Capital expenditures for the quarter ended September 30, 2023, was \$760,000 compared to \$1.2 million for the same period last year. For the 9-month period, capital expenditures were \$3.4 million this year compared to \$4.7 million last year. We currently expect to spend between \$4.5 million and \$5 million for capital expenditures during 2023. As Chris said, we continue to see growth in gross national, which was up 1.9%, gross interactive, which was up \$695,000 or 34% and gross nontraditional revenue, which was up \$156,000 or 7.7% for the quarter. And as Chris said, 6.9%, 21.1% and 11.1%, respectively, for the 9-month period ended September 30, 2023.

While local revenue was down for the quarter, it's important to note that e-commerce, which gets recorded as local direct revenue increased 77% to \$459,000 for the quarter and 44% to \$952,000 for the 9-month period. Trailing 12-months, as Chris teased earlier, e-commerce gross revenue was approximately \$1.3 million. We believe that there is still significant growth to be achieved in these areas as well as our continued digital effort.

We continue to plan on utilizing our financial strength to strategically invest in our operations, both at a market and corporate level as we work to grow specific revenue types, including local, national, interactive e-commerce, NTR and anything else Chris and the team can think of, put a little pressure on you, Chris.

As discussed in our second quarter earnings call due to the SEC's renewed focus on the reporting of non-GAAP financial measures and their review of our filings, we have adjusted our quarterly press releases starting with our second quarter earnings press release to include a complete statement of cash flows as opposed to the abbreviated statement that we historically have included in 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 an other financial data table, which allows the users of our press release and filings to make direct comparisons to data reported in previous press releases and filings. The company will pay a \$0.25 per share quarterly dividend tomorrow, November 3 to shareholders of record as of October 11, 2023. We have now returned dividends of over \$111 million to our shareholders since the first special dividend was paid in 2012. Every time I speak to this, I find this to be an amazing return to our investors and a great statement of confidence of what we believe the future looks like for Saga having returned \$111 million over the past 11 years.

All said, we believe Saga is in a strong financial position to continue to return value to our shareholders through our quarterly special and variable dividends. The special dividends declared in 2022 were in line with the goal of maintaining our ongoing cash and short-term investment balances at between \$30 million to \$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 \$41.7 million in cash and short-term investments as of September 30, 2023, and \$41.9 million as of October 30, 2023. Pacing for the third quarter continues to be variable. For the quarter, we are currently pacing down mid-single digits overall and are basically flat with fourth quarter last year when factoring in political. We booked \$1.9 million in gross political revenue during the fourth quarter last year. It still continues to be an unsettled advertising market given the uncertain economy, the Fed's interest rate policy, the ongoing inflationary environment in addition to other worldwide issues.

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 developments. We anticipate 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 will turn it back over to Chris.

**Christopher S. Forgy**  
*CEO, President & Director*

Well, Sam, you were very active today. And thank you, Sam. So as you can see, Saga continues to be a well-run, successful company in spite of what some think about the sector being a melting iceberg. And today, we're just going to give you just a little peek behind the curtain to show you a few of the things that make Saga different and special as we see it, their leadership, character, culture and people. We teach and preach that leadership is an action, not a position. In leadership, you create a vision, you gain acceptance of that vision. And it's a matter of empowering and inspiring your people to lead to be a champion for change and to grow themselves and to

grow the organization. If character is what an individual does when no one is looking, then culture is what an organization does when no one is looking. Culture is the character of the organization.

So the different special and -- different and special attributes of Saga, I mentioned earlier, our strong character, unwavering culture, innovative leadership and great people. And by the way, as Sam shared, these elements translate into a strong balance sheet, \$40-plus million in cash and no debt, the best-run companies are the most profitable companies. The day I was talking with one of our investors who said, and I quote, and he's right. He said, "Saga is an undervalued company and is an undervalued stock. These are the messages that you should be getting out to the investment community. He said Saga is a well-run company and is financially solid and the high consistent dividend Saga-based, are safe." We saw, I believe, get punished for the sins of our radio brethren, who are getting delisted and are in parlous financial condition because of their high debt and revenue decline, which causes investors who may not be all that knowledgeable or informed on the sector to make negative generalizations about the entire sector.

Thus, there is an unfairly cloud, unfairly tasted cloud over the whole industry. And that's just not Saga. We behave differently. Our balance sheet shows it.

Okay. Back to looking behind the curtain, as I mentioned to you. I was in the hospital recently. And prior to that, I had planned, organized and curated a Saga leadership conference, which would have been the first one that we had in 5 years. I was to lead our leaders through 1.5 days of innovation and growth. We had all of our new people acquisitions lined up and ready to install the vision with the entire group. Well, unfortunately for me, the day before the conference I became ill wasn't able to be there for this very important event. And by the way, this was without question my greatest disappointment in my career thus far. I was devastated as I was lying in my hospital bed, feeling sorry for myself, I began to receive e-mails and texts from those who were in attendance at the conference and they read things like this, even though you're not here physically, your presence is definitely felt everywhere. Your corporate leadership team is really stepping up in leading the conference. You would be proud.

Managers that have been with Saga for over 20, maybe 25 years, we're saying things like this is the best managers meeting we've ever had. I quickly realized this isn't about me. It was about the character and the culture of our people that we had built and the leaders we had developed in order for them to step up and behave as they did when I wasn't able to be there. The Saga corporate leadership team showed who they are and who we want them to be. And it manifested itself right there in front of the entire Saga group of GMs and sales managers. They practice what we've preached, and I was proud the Saga Leadership Conference was so successful because our Saga leadership decided it was going to be.

I don't believe this could have happened or would have happened in many of the other companies in the broadcast sector and about -- I don't know, a couple or 3 weeks later, I received a call from Phil Zachary, our GM in Portland, Maine. And he called me after the leadership conference. And by the way, he and I often talking sports analogies. And I think it's timely because the world series just happened. Congratulations to the Texas Rangers. And Phil said to me, you know, if I was in the world series, and I was in the picture, and I was in Game 7, and I had to stand at the mound and look down the base path and see the Murderers' Row of people that you all have established or we've established in the company. He said, I wouldn't want to go to the mountain pitch, People like Sam Bush, Cathy Bobinski, Wayne Leland, Eric Christian, Angela Parks, Katie Gambill, Matt Burgoyne, Andrew Schulze, Mario Christino and Pat Paxton and of course, Tom Howe and Bruce Werner, who head up our national sales. And there are others who were at the leadership conference and are really the gas that makes the Saga edge and go. And enable us to do all of the new things that our team is embarking on now. Our teams of engineers and engineering, IT, administration, digital, accounting and human resources.

So Phil is correct. I've said it frequently. Some of the many things that makes Saga different and special. It's our culture, our leadership and our people. We love what we do, and we love with each other. So I'll leave you with this. My daughter several months ago sent me a text, that I still carry on my phone. Amador Sarah Beth lives in Columbus. It really sums up our discussion. And it said, when I talk to managers, I get the feeling they're important. When I talk to leaders, I get the impression that I'm important.

Thank you all again for your interest in Saga Communications. We appreciate your time and attention during this call. And Sam and I are always here for questions, comments and even sarcastic comments, if you'd like to make them. So we'll look forward to talking with you all next month, and thank you again for your time.

#### **Operator**

Thank you. This does conclude today's conference, and you may disconnect your lines at this time. Have a wonderful day, and thank you for your participation.

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