

Saga Communications, Inc.
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1:00pm ET

Operator: Good day, ladies and gentlemen, and welcome to the Saga Communications fourth quarter and year end earnings conference call. At this time all participants are on a listen only mode. It is now my pleasure to turn the floor over to your host, Ed Christian. Sir, the floor is yours.

Ed Christian: Catherine, thank you very much. Welcome everybody to another one of our Sterling Entertaining Shows. I will tell you that Sam Bush will be out momentarily with us. He's here right now. But I also want you to know that Sam's elaborate numbers, which will occupy several minutes, are the only scripted thing that we have today. The rest will be I hope interesting shall we say. And with that – no, Sam will be interesting too. I don't want to say that what he has is not interesting. Let's get past that because he's giving me this evil look right now. So I'm just going to turn it right over to him and be quiet for a while.

Sam Bush: Thank you, Ed. 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 factor section of our most recent form 10K. This call will also contain a discussion of certain non-GAAP financial measures. Reconciliation for all the non-GAAP financial measure to the most directly comparable GAAP measure are attached in the selected financial data tables.

For the year ended December 31st, 2021 net revenue increased 13.1 percent to 108.3 million. Gross political revenue for the full year in 2021 was 1.8 million compared to 6.9 million for the same period in 2020. When political is excluded gross revenue increased 18.4 percent year over year. Station operating expense only increased 2 percent to 83.2 million for the 12 month period, while operating income was 15.1 million compared to 3.9 million when impairment charges are excluded for the year ended December 31st, 2020. We had no impairment charges in 2021. Free cash flow was 13.8 million for the year compared to 7.6 million for the same period in 2020. Net income for the 12 months ended December 31, 2021 was 11.2 million, or a \$1.85 per fully diluted share. Net revenue for the fourth quarter of 2021 increased 1.4 percent over the fourth quarter of 2020 to 29.2 million. Gross political revenue for the quarter was 886,000 in 2021 compared to 3.8 million for the same period in 2020. Without political gross revenue increased 10.6 percent for the fourth quarter, while station operating expenses were up only 2.3 percent for the quarter to 21.6 million.

Operating income was 4.9 million. Free cash flow was 3.9 million for the quarter. Net income was 3.7 million or 60 cents per fully diluted share for the fourth quarter. First quarter of 2022 is currently pacing ahead of the same period last year by a little over 11 percent. Although with the recent global turmoil we have seen a bit of a softer market develop in March and going forward. Our strength continues to be local direct revenue. Local direct in the fourth quarter of 2021 was approximately

flat with 2019, and 14.3 percent ahead of the same period in 2020. For the year local direct was below 2019 by only 3.8 percent, and ahead of the full year 2020 by 19.8 percent. Local direct represents approximately 50 percent of our total net revenue for 2021, and I think Ed and Chris are going to talk a little bit more about this in a little bit. This is up from 46 percent and 47 percent in 2019 and 2020 respectively.

Our balance sheet shows 54.8 million in cash on hand as of December 31st, 2021. Currently we have 56.2 million of cash on hand. I also want to remind everyone that Saga reinstated it's quarterly dividend in 2021 with a 16 cent per share quarterly dividend paid on July 16th, followed with another 16 per share quarterly dividend paid on October 22nd. And a combined 16 cent per share quarterly and 50 cent per share special dividend that was paid on January 14th. Saga's board of directors declared a further dividend of 16 cents per share on March 1st to be paid on April 8th of this year. With the recently declared dividends Saga will have paid over 78 million in dividends since the initial dividend was paid in 2012.

Capital expenditures in the fourth quarter of 2021 were 1.3 million compared to 434,000 for the quarter ended December 31st, 2020, and 4 million for the 12 month period ended December 31st 2021 versus 2.3 million for the same period last year.

The company expects to spend a bit more on capital items in 2022 as we reduced our capital spending in 2020 and 2021 due to the uncertainty associated with the COVID-19 pandemic and resulting supply chain disruption. Currently we expect to spend approximately 5.5 to 6 million for capital expenditures during 2022. This does include a couple building projects, which we will discuss further as the year develops and as they come to fruition. Ed, with that I'll turn it back over to you.

Ed Christian:

Actually I think we finally finished one of our building projects with a brand new studio building in Ocala, Florida, which we should have the opening party in I think several weeks on it. It's getting wrapped up as it is now, and the engineers are working on rewiring it. So that's one of the capital projects that is done for a while. When I started this and I said everything was kind of scripted I didn't really mean that in a derogatory manner towards anybody else. But I do have an – I do note kind of a similarity in the other presentations where a lot of the conversation really goes towards a discussion overall kind of like what Sam did. But there is more to it than that. And I'd kind of like to share with you a little bit behind what goes on. And we'll call this for instance today a peek inside the kitchen of the restaurant. And see where we go on that.

And I think a lot of things happen when we're talking about the business. And to everybody outside is that they're really talking about the front room, which is usually in a nice restaurant very well decorated and everything else like that and practically put together. And you look at it, and you say, "Gee, this is a nice place to go." But you never really say, "Can I go visit the kitchen to find out exactly how they serve the meals?" So let's take a second and go behind the scenes, actually maybe a minute or so or whatever. And I want to talk about what happens in a kitchen and really talk about in bulk the revenue that radio stations generate, let's call that part

of the kitchen. And how it's put together and what it is, so that you have a better understanding when you hear the numbers of the millions of dollars or whatever we have in there, how – where it comes from, how it's prepared, and what it is.

And really and we're going to get into a little bit with Chris on this. When you're hearing the numbers that Sam just raised on where we are and what we're doing. They're broken into a number of different parts. National and regional dollars, and we'll talk about that, local agency and the local direct, and then digital, and events, and a few other things. And national, things have changed tremendously because I remember decades ago when I first started in sales I had a wonderful list in Detroit at WCAR Radio on the agencies I called on. And well that's a learning experience, that actually happened to be my first job in sales was way back when. And the owner of the station was a guy by the name of – guy, a gentleman by the name of Hai Levinson.

And it was somewhat unusual because it was a 50,000 watt radio station in Detroit that was owned by a single proprietor. And one day I went up to him and I said, "Mr. Levinson, I'm trying to learn as a young salesman here and do things. Can you tell me how radio stations price their advertising?" And he paused and he said, "Well Ed, I'm going to tell you a secret. Nobody knows how pricing exists. Nobody can sit down and tell you how a rate is established." He said, "What you should know is that you keep raising the rates until people stop paying, and then you know you're charging too much." And that was really something that stuck with me for all these years, that when we sit down and look at rates around the country there is no essentially logical reason as to what is priced in one market versus a similar size in another market.

So we can't use any parallels there. And then I remember something that was told to me by a guy by the name of Tony Hirsch. Tony was actually somebody who lived across the hall from me in college at Michigan State, later became president of Radio Advertising Representatives, which was a firm back then. And Tony was pitching me at a station in Detroit. And I said, "Tony, how do you plan on pricing the rates for WNIC in Detroit that I was running at that time?" And he said to me, he said, "Ed," he said, "look the way we do it at RAR is the stop laughing rate." And I won't go into anything here other than saying that Tony said, "You start at \$100 let's say." And the buyer will say to you, "Wo-ho-ho-ho-ho, I'm not paying that." And then you go, "OK, how about 90?" "Ha, ha, ha, no I'm not paying that." "OK, all right, \$80." "Nah, bah, nah." "OK fine, how about 75?" And the buyer says, "Well." That's your stop-laughing rate, and he was very serious about that at that time.

He showed me that there really isn't anything, and this is part of national, which is different than where we concentrate. And we'll get into that in a second with other things. But that really is the important thing that you look at on this and pricing on national. It changes because there is no – nothing that really happens. And in national, unlike other parts of our business, local direct where Sam mentioned, you don't find necessarily the negotiations that go on in other areas. And in the kitchen for instance, let's say that you go in a restaurant and the hamburger is \$15. And you know that you just came from another restaurant where it was 13, and you don't

say to the waiter, "Yes, I want the hamburger but I'm only going to pay \$13 for that hamburger because that's what it sells for the down the street."

And he goes, "Well that's not the same type of restaurant." And the same is also true. You don't say while you're ordering a hamburger, "Well I want free fries with that hamburger." No, they're going to kind of look at you strangely on that. And that's part of the things that happens in national advertising. That's why I want to take a moment here and really kind of get Chris involved and show you or at least tell you how we view things entirely differently in terms of trying to run our company and concentrate on where we believe the future of radio, future of radio sales really involves our local communities, which is why they're so important to us. And Chris, if you can just kind of bring us up to speed a little bit on some things that you have observed.

By the way Chris Forgy has been with us for many years. He was our former general manager in Columbus. He is here now as a senior vice president in charge of operations, and deals very heavily in sales. Chris, if you just got a minute you can tell us.

Chris Forgy:

Thank you, Ed. As you remember Ed, the conversation we just had with someone we know and trust quite well, who will remain nameless, who is very knowledgeable in all things national. He said to us, as you recall just the other day that, "Over the last few weeks national business has gone crickets." Silence, and as you remember our response to one another was OK, well we can't control that. So let's move on. We can't forecast it. We can't control it. So to your point the things that we focus on and kind of look at it this way, we control the things we can and then we don't worry about the rest. And I should say because of the way Ed has built the company over time, strategically brick by brick, Saga Communications is set up beautifully to do things like have 50 percent of our net revenue made up of local direct business.

Because in the markets that we're involved in we are connected in the community, and we can impact the community, and we can impact the market, or mark to market. And so the things that we focus on are the things we control, like MTR, Ed mentioned events. We have created a number of events in all of our markets, COVID-19 put a little bit of a hold on some of those things. Those things are coming back and coming back strong, so we anticipate a nice lift in 2022 with events. The other one is digital, and we have seen an exponential growth, as much as 65 percent per month, all in when you're looking at streaming and targeted display. And the stuff that we love to sell when it comes to targeted display are – or excuse me on digital are the things that – the products, our native products, our expandable banners, and streaming for example.

But even with our targeted display those are 60 cent dollars, and like I said, "We're growing at a pretty significant rate every single month in that category." And the big one, as Sam mentioned at the onset, was our local direct. As Ed said, "We want to let you a little bit behind the curtain, or the door in the kitchen because you don't ever really get to go in there and see how the food is made and why it's made that way." But in Q4 of 2021 we did \$5.7 million more in local direct revenue than we did

in local agency revenue. That's 5.7 million more than we did in local agency. We averaged almost \$2 million more a month in local direct business than we did in local agency. And for the year that number rose to 21 million more in local direct revenue than we did in local agency. And again average in that 1.8 to \$2 million a month more in local direct business than local agency.

So the question might be, "OK, so how do you do that?" Well we have a thing called the entree to the meals. And this keeping with the theme with being in the kitchen, it's called ideas, and new emerging revenue categories. Typically you'd say, "What are your biggest revenue categories?" "Oh, they're automotive for sure, number one." Well automotive is not and has not been our number one category for quite some time. In fact our number one category is home improvement. And you've heard Ed talking about the emerging categories that we've introduced over time if you've been on these calls. Things like windows, garage doors, siding, electrical, plumbing, HVAC, I don't think any of us have ever had a plumber ask us for added value, or free spots, or give me a promotion with that. Those are categories that we can impact and we can control. That's our number one category right now is home improvement.

Number two is followed by professional services, and another emerging category that we've gotten involved in and had wonderful success in, in many of our markets, things like attorneys, tax preparation, financial planners. And believe it or not our friends in the automotive category came in a distant third in terms of our top three categories. And when I said we've introduced this with ideas, those are called spec spots in our business. And what they are, are commercials that have the client's name in them. And we come up with an idea. We do some research, make some assumptions, do a CNA, talk to the client, find out where their pain is, and deliver a commercial. Who doesn't like to hear their name in the commercial? Very seldom do roofers and contractors get to hear that.

That's part of the show biz – the show in show business, and so how do we do that? We do that with ideas, and I've shared this with you on a previous call, those who have been on, in 2021 we did 23,000 – over 23,000 spec spots in the year of 2021. Q4 alone we did 5,600 of them, so that averages about 16 to 17 spec spots per market per week. So this isn't an event that happens, hey let's do some spec spots this week or this month. This is a behavior, a continual behavior that goes on all the time every day. It's a non-negotiable for us. And the neat thing about that when we sell with ideas and spec spots and audio our closing ratios go to well above 35 percent closing ratio on business that we close that has used spec spot selling. And I hope I wasn't too verbose on that. But I think that gives – helps give everyone a sense of what you were talking about in hey, let's go to the kitchen.

Ed Christian:

Thank you, Chris. I think that was very good. I'm not saying I'm speechless. That would certainly be very unusual for me. But I do want to just wrap that up with one thing more that – on the national business and how that's changed, and why we don't participate in it. Because back in the early days national was venerated because of the agencies and the discipline, and everything that they did to dig into the radio station as to what it was, and who it was, and what the – what it meant for

the agencies. And how many of the time buyers back then knew the names of the morning shows and what they were in the communities. And that's not there anymore. And we still have problems with how radio is sold as a whole. And I'm just – without getting into a lot of other details tell you that this – again where we concentrate on the local business is so very important to us as a company.

The way that we go after it, as of course I explained to you, is kind of the secret sauce that we're showing you what we're doing in these areas. At the same time what we're doing in terms of our communities is important. One of the initiatives that we're doing right now, which we're starting, is a – basically a cattle call for audio journalists. Because we've decided that we are amping up in good numbers hiring for each of our markets. We want more news people to come to work for us to help us gather and continue gathering and expanding in the communities. If you look right now at what's going on with newspapers, where they're closing around the country, the readership is going down, down, down. As they do close, as they do go away or decide to go strictly to just putting the – their newspapers online, we have the opportunity to really do better in the communities by establishing our own online, which we have done in a couple of markets.

And down in Tennessee for instance, in Clarksville, we have a Clarksville Now, which I forget the exact numbers of people that go to the website and look at our paper because the other one is non-existent essentially in the community. These are the things that we're doing that are so important to us as radio broadcasters. And we also feel that that's the future is – of radios, especially in the beginning of where we're trying to go, how we're making this happen, how we can have the passion for the community. How the community has the passion for us as part of what we're doing. And I wanted to take today very much to explain to you a little bit about how pricing, how we view it differently, so that you have an idea on what really is the core upside, where our beliefs are, and where we're continuing to go.

And that's important. There has to be this passion. There has to be this feeling. We're adding sales people as we speak right now. We're adding news people as we speak right now, looking for them, finding them. Whereas other broadcasters are reducing the number of sales people and trying to change us into a bulk sales industry rather than a reliance on local. That's kind of what I had to say. I'm really proud of what we're doing. I'm proud of our people. I'm proud of where we're going, and I'm proud of what we're trying to do without looking at just product categories. About how we're seeking individual new type of businesses. I think I said that on the call last year somewhere, that one of our sellers down in Ocala as a matter of fact found and has on the air on one of her stations on K-Country, our country station in Ocala, an account, which is – that has throw – knife throwing.

Chris Forgy: Oh, axe throwing.

Ed Christian: Oh the axe throwing, yes, exactly. A business that has people come over in competition throwing axes. Well I mean nobody thought about that before until somebody came up with the idea and seeing it, invent it, go on out, create commercials for it, and then present them to the client and go from there. That's

how it is, and this is just part of where it is. And there is so much more. And believe me, we love to talk about it. We have no barriers towards communication with us. We're there. We love to talk about this. We love to try and inform our investors so that they really have an understanding of what Saga is all about rather than just reading some information and numbers to you. We want you to see behind the scenes, behind the kitchen door as to how we prepare, and how we do it, and what makes us as successful as we have become because we care. I think I've done enough speech on that, haven't I Sam?

Sam Bush: I think that's very good.

Ed Christian: OK, I'm not getting carried away or anything like that.

Sam Bush: No.

Chris Forgy: Never.

Ed Christian: And I try not to get into my usual fast speaking and a lot of the other stuff because I think it's important, especially here where we can't plan on national dollars. Where we have to have the bedrock of our business that we control. And that's part of what we do. Sam, is there anything else that I should really bring up?

Sam Bush: No, I think that's good. We did have one question come in, and it's understandable. And it was basically a question about the change in our tax rate between 2020 and 2021.

Ed Christian: Did we do that?

Sam Bush: Well the change in the –

Ed Christian: Nobody told me about that.

Sam Bush: Unfortunately we don't control that, so it is what it is. But 2020 was a very unique year due to the COVID impact on the financials. There were a number of reasons that 2020's tax rate was as different as it was, and I'm not going to try to go into all the technical gory details. But as our business began to reflect a more normal operating environment in 2021 our tax rate returned to a more normalized rate of 28 percent. And going forward we do anticipate our tax rate to be between 27 and 29 percent with a deferred rate of 3 to 5 percent. And I think that as best we can on a simple basis provides the answer to the question.

Ed Christian: Oh, OK. OK, and I forgot to mention something. And this will be my thing for it, our industry has a propensity for kind of trying to reduce rates and go heading towards bottom. But as of last week or actually this week after a number of workups over the last months of trying on this, and in collaboration with three of our managers, one representing a smaller market, one a medium size, and one a large size, working with them on developing a plan. Which I'm not going to spend a lot of time now, but basically we have just raised rates across the company. We find that during a time when there is inflation, as now, I think it's 6.7 percent or somewhere in – or is it 7, 6,

somewhere in there, I think it's 7, 6 for (Inaudible) related that we have upon us is a time for us that can raise rates, something that is somewhat unique in the broadcast industry. But we have done so.

We have set a floor for each of our markets as to what the rates are, and designed a plan. Again it's taken us about six weeks to put together on how this is effective in each one of the markets. And it's mandatory. It is a floor. Chris has created things that have – and with Sam involved in the project also created a way to make this so that we know that we can have a benchmark toward pushing forward to where we want to go over the next several years. And it is upwards in terms of the value we provide, and it's upward in terms of the pricing for it. So I did want to put that in there and mention it's a solid thing. We'll be glad to spend any time talking to any of you about exactly how it's structured. We can get into that at that time. That's where I kind of end up on this, Sam. And if you can think of anything else?

Sam Bush: No, I think we can turn it back over to Catherine to wrap up the call.

Operator: Thank you, ladies and gentleman. This concludes today's conference call. You may disconnect at this time and have a wonderful day.