

Saga Communications, Inc. NasdaqGM:SGA FQ3 2021 Earnings Call Transcripts

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S&P Global Market Intelligence Estimates

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Call Participants

EXECUTIVES

Edward K. Christian
President, CEO & Chairman

Samuel D. Bush
Senior VP, Treasurer & CFO

Presentation

Operator

Good day, ladies and gentlemen, and welcome to the Saga Communications Inc. Q3 Earnings Conference Call. [Operator Instructions] It is now my pleasure to turn the floor over to your host, Ed Christian, President and CEO. Sir, the floor is yours.

Edward K. Christian
President, CEO & Chairman

Thank you, Kay, and I was going to kind of freak you up, by the way. Thank you for holding. Your parties will be with you soon. Something like that, what should make wonder if we really were live or not. Hello, everybody, and thank you for joining us on this call. Sam Bush, as always, is here with me to discuss what we have done, and I will be here to discuss what we plan or to do, you like that, putting away the historical -- your historical, not a -- I'm the futuristic person on this.

With that said, I'll be back in a few minutes after Sam does finish his presentation.

Samuel D. Bush
Senior VP, Treasurer & CFO

Very good. 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 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.

Saga's third quarter results continue to show significant improvement as the economy continues to recover from the market uncertainties that are attributable to the COVID pandemic and related economic issues. It's important to note that there are still numerous uncertainties that are ongoing, including the much talked about supply chain and employment issues. That said, net revenue for the third quarter increased 19.5% to \$28.8 million. Free cash flow was \$4 million for the quarter.

Station operating expenses were up \$2.1 million with \$1.7 million of that being due to increases in sales-related expenses, including commissions, sales surveys and advertising and promotion expenses. Operating income was \$4.6 million. Net income was \$3.5 million or \$0.58 per fully diluted share. Gross political revenue for the quarter was \$256,000 in 2021 compared to \$1.8 million for the same period in 2020. Year-to-date through the end of the third quarter, gross political was \$894,000 compared to \$3.1 million for the same period last year. Without political, gross revenue increased 26% for the third quarter and 21.5% year-to-date.

While we don't expect to return to 2019 revenue levels for the full year in 2021, we are pushing to get close to the 2019 monthly revenue levels as we approach the latter part of the year. Net revenue for July and August were both approximately 10% below 2019, while September was only down approximately 3%, resulting in the third quarter being down a little less than 8% when compared to the third quarter of 2019.

Fourth quarter of 2021 is currently pacing ahead of the same period last year by a little over 8%, excluding political. Keep in mind that we had \$3.8 million in gross political revenue during the fourth quarter of 2020. We are seeing some political in the fourth quarter this year as in October, we had a little less than \$700,000, but we don't expect much additional political in November and December.

Our strength continues to be local direct revenue as when just that category for the third quarter as compared to 2019, we are down a little less than 1%. We are currently pacing approximately flat in local direct for the fourth quarter of this year compared to the fourth quarter of 2019. As a further comparison on the improvement in quarterly performance in 2021 compared to 2019, net revenue in the first quarter of 2021 was behind the same period in 2019 by 20%, while the second quarter of 2021 was behind 2019 by 13%. Of course, the current fourth quarter pacing numbers exclude the potential impact of ongoing events as previously mentioned.

For the 9 months ended September 30, 2021, net revenue increased 18.1% to \$79.2 million. Operating income was \$10.1 million, and station operating expense was \$61.6 million for the 9 months period ending September 30, 2021. Free cash flow was \$9.9 million for the period compared to \$2.5 million for the same period in 2020.

Net income for the 9 months was \$7.5 million or \$1.25 per fully diluted share. Our balance sheet showed \$62.2 million in cash on hand as of September 30, 2021. Currently, we have \$53.5 million of cash on hand, reflecting the \$10 million paydown in bank debt on October 27, 2021. I also want to reiterate that Saga reinstated its quarterly dividend with the declaration of a \$0.16 per share dividend, which was paid on July 16, 2021, followed up with another \$0.16 per share dividend paid on October 22, 2021. This brings the total of all dividends paid since the first special dividend was paid in 2012 to over \$73 million.

Ed, with that, I'll turn it back over to you.

Edward K. Christian
President, CEO & Chairman

Thank you, Sam. I'm going to talk about a few things today. And I got to tell you, there was a great deal of capital expense that we've had in the last couple of years. We're not going to sit here and go back and go through everything that you know about historical area of the company, where we've come from, what we've done. But we do have a couple of things that I want to talk about today.

And let's talk about the general marketplace. And I'm not going to tell you too many things that you already know. But boy, it's been a whirlwind thing in terms of what's happening because every time we turn around, something new occurs in terms of global events or local events or whatever it might be. That makes us have to pivot and quickly pivot to find new ways of inventing ourselves in sales and marketing. And we've had that. And we're never one to really talk about a lot of complaints or anything like that. In fact, I was just thinking about something and looked it up to make sure I was correct on it. But 1975, Henry Ford always at that time, President of Ford Motor Company, was supposed to be in a meeting in London and instead was at a meeting in California and was found himself arrested by the small police department right at Santa Barbara and spent -- actually spent a night and was released in the morning.

Well, the word leaked out in Santa Barbara that Henry Ford was being released from a small jail in, as I said, below Santa Barbara. And so when he came out, there was a lot of police -- not police, but a lot of reporters, radio TV news, whatever it might be there. And they were going Mr. Ford, Mr. Ford, Mr. Ford, what can you tell us about, and went out to explain the situation. And Henry Ford just looked at all the reporters and said, never complain and never explain, and got in a car and was driven away.

Well, we're kind of in the same way here, we don't complain and we don't really explain a lot. Because we know sometimes, when we let our ideas out of the bag prematurely or even discuss it, it does create some problems for us with our competitors getting the idea and trying to get the jump on us. So we're a little guarded in how we explain the ideas and where we go to improve ourselves in times when it difficult. And there's no question that the supply chain is creating just a havoc for us with a lot of our marketplaces. It's tough.

Let me give you an example. If you're right now trying to go to an appliance store and call them and talk to them that it's time to advertise and do all this. And they'll say, "Look, we don't have any high-end appliances, especially washers and dryers. We just don't have them. But what we do have is we can sell you really cheap ones," and they are cheap for a reason. But those are what I'd say, that they are not the most efficient ones. But we just can't get the high-end appliances. You're going to somebody else and you go on in and talk to a car dealer, and we all know the story there about the inventory that they don't have, on and on and on and it goes into construction, you name it. But you couple that with the fact of the lack of staff.

Now there is a good sign of that because we've done just a tremendous amount of advertising for employees. And that's been a big money there for us. But that kind of tells you it's a sad story when we have to have merchants take their money that they would normally spend in trying to promote their own stores and to trying to find staff to populate the store to try and create business for them. And we go in and talk to them. And one of the things that they say is, look, we've had to cut back here. We've had to reduce ourselves, especially because of staff and we can't do that. So we're not going to advertise. Maybe we will, but certainly not to the level that we used to be able to do anything. And maybe we'll take some of the money that we had and use it for recruiting staff or doing it makes difficult for us, but we're finding difficult ways -- we're finding ways around this difficulty to make things easy for us during this period.

Let me give you an example, and we don't normally discuss our marketing ideas, especially new ideas. We're primarily talking with our market managers, our creative directors and our sales staffs once we get an idea that comes to us from within the company. And I'll give you an example of one that just shows you how we've had to pivot to find new product categories and new areas. And there's lots of them. But as I said before, we normally don't discuss a lot of the things that we're doing before. We do more of what have been success in the past for us.

We are a very closed market when it comes to that within ourselves. I got [to submit] Erik Schmidt and Columbus for coming up with a great idea and forwarding it on to Lucy Lange, who is our Market Manager in Manchester, New Hampshire. And basically, Erik found a company that's -- actually it's a dentist that produces a product that stops and inhibits snoring. And you go, oh, great, where is this going at? Well, it's going right now, it's about \$4,000 a month just in Columbus with 1 dentist with the idea. So Lucy took it and came up with a complete marketing plan for this -- for our sellers to go on out on this.

And then forward the complete pitch, the idea, the whole background about it to our sellers and our managers and our other markets throughout the country. So from what started from Erik finding out about one product or one thing about to inhibit snoring, which is essentially a mouthpiece, it was designed by this dentist, and proves to be effective. And now we have a number of sellers going out talking to local dentists. Might not sound big to you, but any -- as an example, and we could continue and sit here and I could give you a whole list of things during the day that would show you where we are and try to be inventive in their production.

But -- and that's part of the whole plan here is to say, okay, we understand that there are problems in the supply chain. We're not going to complain or explain because that's something that you already know, and it's nothing that we need to call attention to. As I said, the information that we have just on snoring right now is great. And we have consumer profiles, testimonies, you name it, and it really is what helps us with. That makes us different than others. And now you're going to go ahead and say, yes, you're right, everybody is going to claim they're different. But our idea is kind of the idea factory of finding out things and finding out ways to market them.

And I'm not going to go into my personal background, but I spent a number of young years while I was going through college working on disc jockeying, and I actually ended my career in Flint, Michigan when I realized that I had reached my level of excellence on here in Flint, Michigan, and wouldn't do that -- I ended up writing copy, and I love words, and we imbue our own people with words and ideas. And it comes from kind of my thinking about this is what sells, the imagination, using imagination to be creative in finding ways and then to do it. That was -- and then I went into radio sales, where I had a number of years in sales and whatever.

But one of the things that I do want to mention here is just something that occurred to me as I was kind of thinking about this today when -- and that is when I was in my early 20s and I was selling for WCAR radio in Detroit, and I was talking about the owner of the station, [I Robinson], that during a difficult time -- by the way, it was a little offbeat time in Detroit, which is kind of a recession, not depressionary, but it was a recession because of the car business at that time. And [I Robinson] said, "Ed, let me tell you the story about the man who sold hotdogs."

And I go, "Huh, what's the story about the man who sold hotdogs?" He said, "Well, the man who sold hot dogs, he had a hotdog stand, but he made just the best hotdogs. He used quality meats, he used everything that's top of the line, and he had a special recipe that had for coming up with that and how to prepare and how to sell the hotdogs." And they come in lunchtime or after work, there were lines of people that are waiting to buy his hotdogs, and he did very well until one day his son came home and said, "Dad, look at how much money you're spending on your product here? And don't you know there's a recession right now?" And the father said, "Really? There is a recession?" [indiscernible] what's the matter, college graduate, I know that there is a recession now. And the father went out -- the first thing he did was cut back on the type of mustard that he had.

And then what about [indiscernible] business is down a little bit -- I'm sorry, cut back on the type of bun that he had and reduced the quality of the bun, and the sales went down again. And so then he kept -- stopped advertising and start promoting and doing everything else like that. And the line start getting smaller and smaller. And then you took down the quality of the hot dog itself and the lines reduced even less than that.

And then his son came home from college and said, "Dad, I see your business is down." And he said, "You're right, son. There is a depression or a recession going on right now." Long story short is that you can't look at that, and we try not to. The reason for the fact that we are able to announce the numbers that we have and the profits that we have, the dividends that we have is that basically, we focus very much entirely on what we're doing in the business itself.

And part of it is, and we've said it time and time again, local, local, local. Now it seems that a lot of people -- a lot of other products right now, they've kind of gotten into it, and they're trying to hide from the fact that they're not local, but they'd say, we're local, local, local. And to kind of give you just 1 example of what we're talking about, and I invite you to listen to many of our stations or to go to any of our stations and spend hours, or a day even, with our management people with the other ones and see how we operate and see what goes on there that gives us that little secret sauce that we have in our business here.

And I was listening to a station in Detroit here, I was driving around on a way to a meeting during the day. It was actually afternoon, it was like 3:00 or 4:00 in the afternoon, something like that. And I would turn on a local radio station, Full Power Radio Station, well-named company. And all of a sudden, I heard this -- the jock come out of a record -- and I'm sorry, I say use the term record. But the jock came out of a capsule, and he's on the air and he goes, "Hey, is Willy Wonka on Wakan Tanka show, and we'd like to say hi to Bill the Buffalo in Cheyenne, [indiscernible] in Baton Rouge. [Stan] the sundog in San Diego. And of course, right here in our local town of Tucson, I want to say hello to [hotdog Oscar Myer]." I mean, I made up the names, obviously. But there was no mention of Detroit. And there was nothing there to say that.

And I thought this is like 4:00 in the afternoon and a big local radio station is piping it in. And if you ask any of the people, they would say, sure, we're local. Yes, we do that. We have a little local drops every now and then to tell about events that might be going on. But the fact is that with Saga, we have this great embracement of the communities. And we try not to be -- specifically, we don't look at radio stations in large markets. We look at radio stations that are very defined and fit the parameters of everything we talked about and what we're doing. This is the energy that builds Saga. This is the fact that we know, in a compact area, we can serve the community and serve them locally.

Our sellers are local, where other companies are reducing the number of local sellers and concentrating on national sales where they can sell in bulk, rather work with -- like we do in schedules for a month or 2 months, or even much longer than that. And in some cases, 52 weeks. But to us, it's building the relationship with the client that makes it so important for what we do and build out and help them. And for the ones that are having trouble right now, for us to try and work with them to create ways that they can see areas of their business that can still be monetized and still be advertised. And that's kind of where we are.

I will tell you right now that I don't think it's going to get any easier for a while. Now I'm not going to be anybody who's going to say like others have, which is going to be somewhere in '22, year '22, that we get the supply chain fixed. I don't think anybody really knows that. All we know is we have to prepare for it, continue being creative, continue being local, continue being relevant in what we do and continue to be thinkers and where we are and constantly saying to ourself, what's the next step? Where do we go? What's the next way that we enhance the existing core competency of our product? And that's what makes Saga what it is.

Sam read the numbers, I could have read them to you also. That's not the focus that we have here. The focus has to be creative -- I'm sorry to say, of course, it's numbers. But the focus is still has to be where are we going? What's going to happen? How do we zig or zag? How do we prevent us without getting to the point where we're believing what you might find in print or the news cast on this? How can we circumvent that to keep you as our shareholders, and thank you for being there, thank you for being our investors? And we appreciate it. How do we keep this business moving forward during unfashionable times? And that's a question that we think we've answered, and you have our assurance that we will continue on and do that because that's the only thing we know how to do.

Sam, I know I'm close to timing out here. So if you do have any questions and no surprises, let me know what they are.

Question and Answer

Samuel D. Bush

Senior VP, Treasurer & CFO

Yes. We did get a couple of questions. By the way, I agree with you that the numbers are historical and statistical. But what you're talking about is where the future comes from, and that's the important part of the business from -- on an ongoing basis.

Anyway, the questions we got, we got a couple of them in. They're fairly similar to what we've had in the past, and that is about capital allocation relative to what we're going to be doing with the dividend relative to increasing it potentially back to the \$0.32 a share that we, at one point, got to early last year? And then two, about potential use of capital for stock buybacks? And then three, which we've already answered in our press release was why not pay down the long-term debt with the excess cash?

And goes on to make a point that we believe in that companies with very low debt or no debt should be worth more than companies that are over leveraged.

But long and short of it is we have reported in the press release that we paid down the final \$10 million in our outstanding debt on our revolver, October 27. So we are now officially debt-free. And Ed, I'll let you talk about the dividend potential increases and stock buyback.

Edward K. Christian

President, CEO & Chairman

Well, we do also have our credit line, we should say that just in case. And that basically -- and we have a lot of cash. Thank you. We're very happy about it. It puts us on a great feeling. And we talked about this for several months, but actually longer than. Why are we still carrying this a little bit? Why don't we just right the check, so we don't have to worry about Mr. Banker showing up at an improper time if something went wrong? I mean that's a very short statement to it, not necessarily true because we do have good -- great banking relations with the ones that we did. We still consider them our partners and friends for looking at future investments.

And by the way, we're not done with acquiring. We're looking at that. That's an ongoing task for us is to find those opportunities that make sense for us, even in somewhat difficult times, but we intend to continue to grow the business and proper defined ways that make sense for us as radio broadcasters who will say as radio broadcasters. And those are areas that are important for us.

We will -- we talked about dividends. We did declare one which we felt was appropriate for where we were in terms of revenue and still somewhat of an uncertainty going on. Believe me with my commitment to Saga Communications and the dividends that I get, I certainly like to see them coming and continue to increase, and so do our managers who have had stock in the company, and other people here. We are -- the goal is to certainly build back to levels of revenue, levels of earnings, which will support it and never compromise on the business, which is why we finally said, well, come on, what is \$10 million? Just pay it off and be done with it.

And actually, one of our investors even said to us, okay, fine. Just pay off and pay off this \$10 million, and we appreciated that to get rid of it and then go on and build the business and then remember us in dividends as you go forward. And we are constantly looking at this and trying to arrive at appropriate price points at appropriate times within the company because we will not compromise the company itself. I'm overpromising and under-delivering. And that's one of the big things we are always aware of in that. Did I miss something, Sam?

Samuel D. Bush

Senior VP, Treasurer & CFO

No, I think that covers it all. I think we're good.

Edward K. Christian

President, CEO & Chairman

Thank you for -- and we try and keep it to 30 minutes, and this is exactly where I see the clock right now that, that's where we're headed. So anybody has any questions for Sam, or if they have any questions to me, we are very friendly and very open, and you can just call us here, and we'll be glad to answer individually those areas that we might have missed in our discussion today. So with that said, Kay, we turn it back to you for a thank you. There is no -- anything else missing, Sam?

Samuel D. Bush

Senior VP, Treasurer & CFO

No. Kay, we'll wrap it up as we go.

Operator

Thank you, ladies and gentlemen. This does conclude today's event. You may disconnect at this time, and have a wonderful day. We thank you for your participation.

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