

Saga Communications

November 3, 2022

11am ET

Operator: Good day ladies and gentlemen. And welcome to the Saga Communications Third Quarter Earnings Conference Call. At this time, all participants have been placed on a listen only mode. It is now my pleasure to turn the floor over to your host, Warren Lada, Interim President and CEO at Saga Communications. Sir, the floor is yours.

Warren Lada: Thank you Holly, and welcome everybody to our third quarter 2022 earnings call. Joining me today is Sam Bush, our Chief Financial Officer extraordinaire who's been with us for a million years, somewhere thereabouts. And also Chris Forgy, Senior VP Operations. And you have not heard my voice for over four years. I used to do these calls when I was the Chief Operating Officer for Saga, and due to the very sad unfortunate circumstances that we are in today relative to our founder, chairman, CEO passing in August, I am back on again on an interim basis, and I'll have a little bit more to say about that a little bit further down the line.

You've heard Ed talk about the word Saga, which is loosely translated in Icelandic as a never ending journey. And one person's journey is now over and that's Ed. And we do deeply miss him. It feels very different not having him around. And the loss is palpable. That said, I will tell you and you'll hear more about this, that our company is extraordinarily solid, stable, in good shape, doing the right things the right way, and all of us continue to do those sorts of things that we did from the day that Ed passed to today.

So the news is good, and the news is positive moving forward. You'll hear more about this, but let me turn it over to Sam and he can tell you more detail about the actual quarter, and then we'll come back to you afterward. Sam?

Samuel Bush: Thank you Warren. This call will contain forward looking statements about our future performance and results of operations that involved risks and uncertainties that are described in the risk factor section of our most recent form 10-K. This call will also contain a discussion of certain non-gap financial measures. Reconciliation for all the non-gap financial measures to the most directly comparable gap measure are attached in the selected financial data tables.

First, I want to take a moment as Warren did to recognize the loss of Ed Christian, Saga's founder, chairman, President, CEO, and inspirational leader since Saga was founded in 1986. It's not only a loss for Saga, but for the entire radio industry. This earnings call is the 100th call that I will have participated in since joining Saga as CFO in 1997. It will only be the second one that I have done without Ed. And that is amazing to me that 98 of 100 calls were the two of us together.

As all of you have heard and know from past calls, Ed never liked reporting adjusted numbers. However it is important that we do so, and we did so in the earnings release for this quarter, as the purely reported numbers do not reflect Saga's strong operational performance, as well as our extremely strong financial strength.

With that in mind for the quarter, end of September 30th, 2022, net revenue increased 3.9 percent to \$30 million compared to \$28.8 million last year. Gross political revenue during the quarter was \$858,000 compared to \$256,000 for the same period last year. Without political, gross revenue increased 2.3 percent. Station operating expense increased 2.8 percent to 22.3 million for the three month period. Station operating income increased 4.1 percent to 8.9 million. Operating income was 1.1 million, and free cash flow was 1.6 million for the quarter. We had a net loss for the third quarter of \$104,000.

As a result of Ed's passing, Saga was required to make several payments to his estate as outlined in his employment agreement. These expenses were accrued during the third quarter, increasing the reported corporate, general, and administrative line item by 3.8 million for both the quarter and the nine month period. Without these expenses, operating income would have increased 5.8 percent, to 4.9 million compared to 4.6 million for the same period last year. Free cash flow would have increased 36.5 percent to 5.4 million compared to 4 million last year. And that income would have increased 7.9 percent, to 3.7 million. This compares to 3.5 million for the third quarter of 2021. With the adjustment diluted earnings per share would have been 62 cents per share this quarter as compared to 58 cents per share for the same quarter last year.

For the nine month period end at September 30th, 2022, net revenue increased 7 percent to 84.8 million, compared to 79.2 million for the same period last year. Gross political revenue during the nine month period was 1.8 million, compared to 894,000 for the same period last year. Without political gross revenue increased 6.1 percent. So we had a very strong quarter and have had a very strong year even without the political revenue, although the political revenue is always a nice stimulus to have. Station operating expense increased 4.9 percent to 64.6 million for the nine month period. Station operating income increased 9.6 percent to 23.7 million, while operating income was 8.1 million. Free cash flow was 6.7 million for the period, net income for the first nine months was 4.9 million.

Adjusted for the 3.8 million in increased corporate, general, and administrative expenses, as previously discussed, operating income would have increased 18.4 percent to \$12 million compared to 10.1 million for the same period last year. Free cash flow would have increased 5.9 percent to 10.5 million compared to 9.9 million last year, and net income would have increased 17.3 percent to 8.8 million. This compares to 7.5 million for the third quarter of 2021. Diluted earnings per share would have been \$1.45 for the nine month period, as compared to \$1.25 for the same period last year.

Capital expenditures for the quarter were 1.2 million, which is basically flat with the same period last year and 4.7 million for the nine month period compared to

2.7 million for the same period last year. The increase in our CAPEX of approximately 2 million for the nine month period is primarily due to two projects. As discussed in our second quarter earnings call, capital expenditure includes 1.1 million for the purchase of a building in Norfolk that we will be converting to office and studio facilities allowing us to exit the current leased space we have. This will be a sizeable cost savings for our Norfolk operation over the upcoming years. We also completed work on our new studio building in the Gainesville Ocala market with approximately 800,000 being spent this year. We still expect to spend approximately five and a half to six million for capital expenditures in 2022.

Fourth quarter 2022 is currently pacing ahead of the same period last year by approximately three and a half to four percent. Although we continue to watch the current interest rate environment, the potential recession on the horizon, and the ongoing global turmoil. As I stated in the second quarter, in reality, everything is still week by week, month by month, and sometimes even day by day as we watch how the economic turbulence factors in.

We paid a quarterly dividend of 25 cents per share, and a special dividend of two dollars per share to our shareholders on October 21st, 2022. The aggregate amount of the quarterly and special dividend was approximately 13.6 million. Saga paid its first special dividend on December 3rd, 2012, and has now paid out over 93 million in dividends over the past 10 years.

The company continues to pay regular quarterly cash dividends in the future, and consistent with our strategic objective of maintaining a strong balance sheet and at the same time returning value to our shareholders, the board of directors will also continue to consider declaring special cash dividends, establishing a variable dividend policy, and as well as stock buy backs in the future.

Our balance sheet shows 58.3 million in cash and short term investments as of September 30th, 2022. As of October 31st, we have 45.3 million of cash and short term investments on hand.

The reduction in cash is primarily due to the \$13.6 million dividend paid on October 21st, and the \$2 million paid to Ed's estate as part of the 3.8 million accrual previously discussed.

We currently expect that our station operating expense will increase by approximately five to seven percent for the year as compared to 2021. This includes additional sales commissions and music license fees based on our revenue growth, as well as increases in our cost of sales surveys and overall expenses as a result of inflation.

Our tax rate is expected to be 28 to 30 percent with a deferral of tax of approximately five to seven percent, resulting in an annualized tax rate of approximately 34 to 36 percent. The tax rate in quarter three was a direct result of the 3.8 million non-deductible expenses we accrued as a result of Ed's passing.

With that I'll turn the call back over to Warren and Chris.

Warren Lada:

Thank you Sam. Let me just go on with a little story which is how I felt when I was asked to come back and fulfill the Interim President and CEO position. And the first thing I would tell you is that it truly, truly has, and is an honor to do this. I've been with Saga for 32 years now. They've been fantastic 32 years. When I retired, I was appointed a board member and have been an active board member for the past four and a half years.

On the day I walked into Ed's office, I sat on the sofa with the lights off, because it was just filled with so many good memories, about conversations I had with him, decisions that we made together, the growth of the company and so on and so forth. But I kind of was honestly a little bit of a basket case that first day. I walked out of the office, I wandered around the halls, talked to everybody in the office.

On day two, I finally turned the lights on, and I sat at my desk, and by about noon, I began to feel like the Maytag repair man. If you remember that ad campaign from some time ago, the Maytag repair man was the guy who because Maytag manufactured according to them at least such a fantastic washer and dryer, he really didn't have too much to do, so he sat around waiting for somebody to call and fix the washer and dryer.

Kind of an exaggeration, but I kind of felt a little bit like the Maytag repair man on the second day that I was here. Which is really testament to the strength of our operation, and to the way it has been managed and run for its entire history. In addition to that, on Ed's door, on the bottom of the door, there is a large tortoise, because we'd frequently talk about the race between the tortoise and the hare. And the tortoise would always end up crossing the finish line first. Because the hare right out of the shoot would run, was overconfident, would zig, would zag, would do a lot of different things, and the tortoise just kind of kept a low profile and kept his nose to the ground and kept on plodding forward at two miles an hour. But when it came time for the finish line, the tortoise always beat the hare.

And I take a look at Saga, and when I walked in here we had a substantial amount of cash in the bank. We really do not have and have not had any significant operational problems, and we are able to return to our shareholders a pretty healthy dividend and as Sam mentioned, we continue to revisit that, and the saga continues. We've always been stable, we are stable now. We've always had extraordinary people, we have not had at all an exodus of people with Ed leaving. In fact, if there's anything, there's a heightened passion for continuing on with this journey, to continue doing what we've done as a company, which is be exemplary broadcasters, good stewards of the licenses, finding ways to touch audiences, whether it's on air, on stream, we touch our audiences now over the past several years through digital interaction with them.

None of this happened by accident. There's been a system to everything that we've done and we do run the company with a fair amount of discipline, a very high expectation level set, and the people that we have working for us expect that. And we have people work for us now that have been working for us for a very, very long period of time. I normally wouldn't do this, because it might be at

the risk of embarrassing some people, but I'm going to do it because of the circumstances here. And I'll start right in Grosse Pointe Farms, where our corporate office is, our senior management is, our vice presidents, accounting department, internal audit, IP, engineer, programming, digital facilities management, HR, operations. Most of the people here have been here for a very long period of time.

Some could say well, that's maybe not good, because you stagnate. Maybe that's not good because you lose the energy. And what I can tell you, and the results of this quarter, and the results of this year, and the results of our history kind of bears it out. None of us have lost any energy. None of us have taken for granted the roles that we play. And we're quite aware of the responsibility we have. And I would say that the numbers that Sam just reported reflect kind of the culture of the company which has contributed towards our ability quarter after quarter to do reasonably well. And in a sector and an industry that you hear stories about not great things happening financially. Really not the case whatsoever with Saga.

And again, that all comes because, that all happens because of our people showing up to work every day and wanting to do a good job and doing it. We have everyone that works here is extraordinary. Everyone that works here is extraordinary. There's one person, Cathy Bobinski who I kind of call the secret sauce of Saga. And I call her the secret sauce, because she sits in her office, and she surrounds herself all day with numbers. And Sam and Chris and I and others sort of go into her office almost every day, and sit down and talk to her. And she is the person who kind of has her eye on things financially in ways that we might not, because we're too close to the forest to see the trees. And Cathy shows us the trees. So special thanks to her and also special thanks to everybody who is in the Grosse Pointe Farms office. And without them, we could not be doing what we're doing.

Same holds true with our stations. We have stations at a number of different markets, we have on air personalities, programming people, sales people, digital people, our business admin, HR, promotion, engineering, as in the corporate office, I started thinking about it, and I would, it's probably not the majority, but an overwhelming number of people have been with us for a long time. Not because we're necessarily the easiest place to work, in fact, we're not the easiest place to work. But what we provide are the tools, the environment, to do extraordinary broadcasting, to look at new and innovative digital pathways to touch our audience as well. And it has been consistent year after year after year. And again, looking at his order, which I am proud of and we are proud of, it all comes because of the people that are behind it.

There's a woman named Lisa Norton in Portland, Maine, who's one of our sales people who I met for the first time I think about 25 years ago. She wrote me a note the other day just saying she wanted me to know that she continues after 25 years as a salesperson to be extraordinarily energized. I checked with her general manager in Portland Phil Zachary and he said yeah, Lisa is doing just great. And she's one of many, and she's emblematic of the one of many that we have not only in Portland, but in many of our markets as well.

There's a gentleman by the name of Gerry Perrett who's a production director. Production director is the person who is in charge of all things that go on air. Whether its advertising, promo spots, you name it, he does it. Jerry was with Saga before I was with Saga, and is retiring this year, and he sits pretty much eight to nine hours a day in a production room and makes magic come out of the speakers or come out of the cell phones or come out of however people are listening to us. And while he is leaving, he will then be supplanted by other people in our company who have been with us also for 20, 30 years.

A manager in Milwaukee, Bob Belinni who is our general manager there, Bob started with us as a program director. A number of years ago he became our general manager. I don't know how many years he's been with us, but it's been a long time. And it's people like Bob and Jerry and Lisa that help propel us to the position that we are in today. And while we're on our first call, as Sam mentioned, without Ed on, I can assure everybody that this company is as solid as it ever has been. We continue to focus on local programming, we continue to find new ways to engage our audience, whether it's on air or through a digital manifestation of that, and we will continue to do that.

I also just want to thank our shareholders, many of them long term holders as well. One in particular has been with us since the inception of Saga, and they've placed their trust in us to run this operation the way that they would want to see it run. And because of the way they invest with us which are really as investors, it's helped us quite a bit in remaining stable and not having to deal with other things that can happen when the investment community is not necessarily happy with you.

I want to also thank Katz Media. Katz is our national rep. They've been with us from day one. Mark Gray, President of Katz Media, Ted Brown, President of Katz Radio, these gentlemen and that organization are partners of ours and they are a significant reason why we continue to do as well as we have. And just anecdotally, Sam always reminds me, never say numbers that you can't back up. But they're doing a pretty good job for us. I really do appreciate their work. They reached out to us right after Ed passed away to assure us that they will continue to focus on our company the way they always have, and they've done that.

We have two gentlemen that work for us, Bruce Warner and Tom Howe, who are liaison with Katz. They also have been with us for an extremely long period of time. And because of that national component to our revenue stream, we continue to be able to report good earnings for you. So the saga is going to continue. We will announce soon my replacement, and we will appoint a permanent President and CEO. I've undergone along with support from the board and a process that we've established a comprehensive search. It's been an interesting one. We've looked at external candidates, a lot of whom are what I would call names in the industry. Both from private and from public companies. And I've had an interesting and positive time in dialoguing a lot of people who work for companies that are larger than Saga in terms of revenue or numbers of stations seem to be quite interested in talking to us about Saga because we are somewhat unique in our industry. So I've had some very good dialogue and very good candidates to consider.

And we also have a very strong bench internally. And I've spent quite a bit of time internally taking a look at what would work best if we were to promote somebody from within to that position, and what would that individual bring to the table as compared to somebody coming in from outside. The results of that will soon be announced. Please stay tuned, I appreciate everyone being patient, but it will not be too long before you hear about that.

So we continue to perform well, we have already started to establish our strategy and direction for next year. I'd be remiss, because it seems like if you don't mention how you're gonna grow and include digital with that, we're not doing the job, and I actually kind of agree with that. I think digital will continue to, is already a growing segment of our company, will be an even bigger segment of our company over the next few years. Chris is gonna talk a little bit more about that in a minute.

We were just brainstorming one idea recently about establishing, because of the dearth of good local newspapers, with Gannett closing up in nine of our markets, you know, they were operations to basically be a one reporter type operation. And where we had the ability, where we have relationships in the community, not necessarily stations that have news departments, but we could establish that, we are looking around at ways to digitally deliver news in markets. We have a couple of beta markets that are already fairly well established, and we have a model for that. We're gonna take a look at that for next year, remainder of this year, as one growth opportunity and there will be more.

So, the news is not good news relative to our founder, chairman, President and CEO passing away. I deeply miss him. But I am also very energized, as is all of Saga, to continue to do the kind of work that we've been doing. With that, I turn it over to Chris Forgy.

Chris Forgy:

Thank you Warren. As Sam has pointed out a couple different times, I'm serving as the color commentary to you as a play by play guy Warren. So I'll give a little color to some of the things we talked about, and I'll keep my remarks brief. However, I would be remiss if I didn't address Ed's passing and the impact that it's had in the context of our operations. When a beloved forever leader like Ed Christian is lost, members of that leadership team sometimes find themselves lost as well. Where do we turn, who do we go to, oh my gosh, what are we gonna do now?

Not in Saga. We have the strongest, most capable leadership, not I think I know I've ever been around in my 24 years in Saga. Without question. Our culture is so established and engrained in the hearts and minds of our people, that they're all moving ahead in a north compass, I would call it with a renewed sense of purpose and resolve to finish what we started, and what Ed was not able to finish with us.

You know, this type of resolve and behavior is a tribute to our ongoing Saga culture. And it's strong, as Warren pointed out. And it's a credit to the leadership of our team in our markets. We have a picture that hangs in all of our general manager's markets that we sent out to all of them. And the picture hanging on the wall simply says we cannot direct wind, but we can adjust the sails. And so

we deal a lot in the things that we can control. We call them the controllables. And they're really three revenue silos that we look at from that perspective.

One is local direct business. Business that is not affected by an advertising agency. Number two, NTR, non-traditional radio. Typically they're event type business. And finally, our digital platform. And I wanted to give you a little bit of color on that. But before I do that, we've also found another emerging revenue silo. And Warren referenced it in his early remarks. And that's in the area of our national. We mentioned Tom Howe and Bruce Warner and I'd also like to mention Christine Travelini who is also a big part of that team.

But from a national perspective, you would say, well, we don't really have a lot of control over that. I tend to disagree, because I think it's not so much what you do, it's how you do it. And when you look at the team that's created with Tom Howe and Bruce Warner and Mark Gray and Chad Brown and Christine, and the way they work together with the customers, with the buyers in the market, it becomes a more of a controllable because of the way that they impact the business, and the way that they build relationships inside of the buildings and the businesses that they're working with.

And that too has become a little bit more of a controllable for us. And we'll get more and more attention as we move forward. And just give you an idea, non-political, Saga's national performance is very strong right now in a climate where most broadcast companies are down significantly in national business. And that's non-political. So getting back to the controllable's themselves for the quarter, local direct, give you a little reference there, we do almost \$5 million more in local direct business during the quarter than we did in local agency business.

In NTR for the quarter, non-traditional revenue, we were up \$350,000 or 21 percent. And in digital revenue, our most emerging category, we're up over \$350,000 and up 14 percent. So those are our controllable categories. And just to give you a little idea of how we impact those. On this call last year, at the end of 2021, or the beginning of 2022, I reported that we had produced in 2021, 21 thousand spec spots that year. Spec spot is a commercial is done on a speculative basis to play for a customer to let them hear what it might sound like if they were to communicate their message on our radio stations and our markets to the local community.

We produced 21,000 of those last year. And we're on track to surpass that number in 2022. In fact, in Q3, we produced and presented nearly 6,400 spec spots, with a closing ratio well north of 30 percent. That's impressive. In fact, one example of that, and then I'll close, is that we had a brand new seller, very talented seller. We spend a lot of time on the front end of the on-boarding process of our sales talent in evaluating talent. And we determine if they're talented enough to be there, then it's on us that we make sure that we provide the environment to make sure they're successful.

And we hired a brand new seller in Charlottesville, Virginia. Her name is Whitney Tedford. Never sold anything. Never earned a dollar selling on a commission basis. She went through our training with our general manager Garret Klingel

there. And she identified a prospect, researched the prospect, produced a spec spot, made a cold call. A cold call is a call that you've never met the individual before in your life, and you walk in cold and do a cold call with that client. She was well prepared, like I said, did research, played the spec spot for the customer, closed a long term schedule on her very first call.

So the day before yesterday, she celebrated her first sale with Saga, and our next question was when are you gonna go get another one? And so, she is excited, and as all of our team members are for the challenges ahead, and what we can do in the spirit of what Ed would want us to do. That's all I had Warren.

Warren Lada: Thank you Chris. Sam, do you have any questions from the people on this call?

Samuel Bush: Yes, we did get some questions sent in ahead of time. Questions about local versus national, political revenue, digital revenue, fourth quarter pacing. All of these I think we've already answered or addressed in Warren's comments, my comments, Chris' comments. We did get a couple of questions which I'll address now. One was about acquisitions and what the market for acquisitions are, and what we're seeing in the market. And I would just tell you, as Ed did in the second quarter as well, something very similar, that the market for acquisitions is not currently very active, mostly due to the turbulent economic conditions that exist throughout the economy. It's very difficult to establish a sale or purchase price given that market turbulence.

That said, we will always look at acquisitions any time that they make sense, and would be accretive to the company. Ed ingrained in all of us and all of us have been here quite a while, but Ed has ingrained in all of us how to look at acquisitions not just as where you're gonna be when you make the acquisition relative to it being accretive but where you're gonna be in six months, 12 months, five years, 10 years relative to that acquisition. And that's the philosophy in that ingrained thought process has not changed and will not change going forward if the market does open up and present appropriate acquisition opportunities.

We also got a question that we had not addressed so far about dividends and stock buy backs and how we consider them. And we got several questions on that as you can imagine. We have done both dividends and stock buy backs in the past, and our board will continue to consider both these methods of returning value to shareholders in the future. Both of these avenues are considered regularly at board meetings, between board meetings, and conversations here, with thought given to what our stock price is, what the stock float is, what the trading patterns have been, what our cash balances are, what acquisition opportunities are there, and a lot of other things that go into that consideration.

And I believe if you stay tuned as shareholders for the near future, you'll continue to see and hear more on these subjects as you have recently with the special dividend we just did of \$2 million that was paid on October 21st along with the, I'm sorry, two dollars per share that was paid on October 21st, along with our regular quarterly dividend of 25 cents a share. And with that I think

we're in good shape to wrap up and Holly we'll turn it back over to you to let you wrap up the call.

Operator: Thank you ladies and gentlemen. This does conclude today's conference call. You may disconnect your phone lines at this time and have a wonderful day. Thank you for your participation.