

Saga Communications, Inc. NasdaqGM:SGA FQ1 2022 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 afternoon, ladies and gentlemen, and welcome to the Saga Communications First Quarter Earnings Conference Call. [Operator Instructions]

It is now my pleasure to turn the floor over to your host, Ed Christian. Sir, the floor is yours.

Edward K. Christian

President, CEO & Chairman

Thank you, Matthew. I appreciate it. And good afternoon, everybody, and I thank you all for joining us here. For a little merriment we hope, coming up. And I was trying to say just a few minutes ago before we start talking, and I said, we really have to spice this up, and then it occurred to me that [it didn't work] a year ago or so.

We talked to the agent for -- Sam help me with Johnny Gilbert, who is the announcer, and jeopardy, and I wanted to see if we could get him to do some work for us and always work for us. And I thought maybe if I hired Johnny Gilbert to do the intro here, we sound a lot better than me trying to do it for Sam. And with his [indiscernible] tones at Page 92, still doing this show there.

Anyway, to get going, again, thank you. I'll be back in a few minutes after Sam runs through some of numbers and information. So with all that said, here is Sam.

Samuel D. Bush

Senior VP, Treasurer & CFO

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 nonfinancial majors. Reconciliation for all the non-GAAP financial measures to the most directly comparable GAAP measure are attached in the selected financial data tables.

For the quarter ended March 31, 2022, net revenue increased 12% to \$25 million compared to \$22.3 million last year. Political didn't factor much in the comparison of revenue as gross political revenue for the first quarter of 2022 was \$121,000 compared to \$209,000 in the first quarter of last year.

We are expecting political to pick up significantly as we continue through the year, particularly in the third and fourth quarters. Station operating expense increased 8.7% to \$20.6 million for the 3-month period. Station operating income increased 17.8% to \$5.6 million, while operating income was \$1.7 million compared to \$883,000 for the same period last year.

Free cash flow was \$1.9 million for the quarter compared to \$1.8 million for the same period in 2021. Net income for the first quarter 2022 was \$1.2 million or \$0.20 per fully diluted share. Second quarter of 2022 is currently pacing ahead of the same period last year by approximately 6%. Although with the ongoing global turmoil, everything is week by week and month by month.

Local direct continues to be strong at \$12.4 million in the first quarter of 2022, again, representing approximately 50% of our total net revenue for the quarter. We also saw nice increases in digital revenue and our nontraditional revenue during the quarter. It's nice to see nontraditional revenue normally referred to as NTR, grow as our markets are beginning to move forward again with a lot of local events that we have traditionally been involved with.

Our balance sheet shows \$55.2 million in cash on hand as of March 31, 2022. Currently, we have \$52.1 million of cash on hand. With the combined quarterly dividend of \$0.16 per share and the \$0.50 per share special dividend that was paid on January 14, 2022, and that \$0.16 per share quarterly dividend paid on April 8, Saga has paid over \$78 million in dividends since the initial dividend was paid in 2012.

We'll have another question in a little bit, but while I'm talking about cash, we did get a question about April's cash usage related to the \$55 million we had at the end of March and the \$52 million as of this week. Approximately \$1.6 million was a quarterly tax payment, nothing exciting about that, but it has to be done. The exciting part is approximately \$1 million went

to buying a building in Norfolk, Virginia, which will allow us to move out of our current studio site which we've leased for the past 25-plus years.

This was a tremendous opportunity as the seller was already operating the site as radio studios. We will have some work to do to update the facilities once we take possession. But once we are able to move, we will significantly reduce our operating costs in the market. This will actually allow us to be done with the largest lease we have ever had for a piece of property as a company.

Capital expenditures in the first quarter of 2022 were \$923,000 compared to \$534,000 for the quarter ended March 31, 2021. 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 million to \$6 million for capital expenditures during 2022.

This does include a couple of building projects, one of which I just talked about. Others we'll talk about as we -- as they come to fruition. We currently expect that our station operating expense will increase by approximately 5% to 7%, which includes additional sales commissions based on our revenue growth as well as our increases in our cost of sales surveys in health care. Our ongoing tax rate is expected to be 29% to 30% with a deferred tax of 5% to 10%.

And with that, Ed, I will turn it back over to you.

Edward K. Christian
President, CEO & Chairman

Thank you, Sam. I should mention 1 thing here. And when you talk about the building that we have acquired and we'll be moving into within the next 6 months, 2 years, somewhere in there by the time we have to do the remodeling that -- at Saga, we have a kind of a policy where we own all of our own structures with the exception it had been of 2. So this would be now the 1 that we -- only 1 other that we do lease, and that is scheduled to be put into a new building, and that's in the Hilton Head -- actually in Boston.

So by this time next year, we'll have just 1 very small -- one of our very smallest markets as a lease building. But other than that, we believe in owning all of our own locations so that it's a nice depreciation and a good thing for us to have to be able to create and challenge and configure the building the way that we want it to be.

Sam and I were sitting on and talking about gosh, what can we say it was new and exciting without continuing doing the same old presentation every time that we speak. And I think it's something when I look back right now where we've been in the first quarter, a lot of you would say it was difficult. We like to think of it as challenging, because our whole idea and everything that we try to do here with Saga is find different ways to stay within the pattern of what good broadcasting is all about. At the same time, come up with something that's new and interesting and innovative while we continue on with them. The old basic mold of commercial broadcasting.

It is a challenge right now. But it's a good challenge because it really is good for us to stimulate in our own brain cells, what we can do to enhance the properties we have, what can we do to, again, have this tactical impression with our audience where we can reach out and touch them. I think I mentioned the last time when we talked that the whole plan of Saga since its beginning was to really reach into middle markets where we felt we can make a difference, where we can go in and take a commanding lead position in the marketplace. And also have it so that the market was too big to be indifferent to radio and too small that we couldn't make a good return on our investment in the marketplace.

And we've really come a long way in terms of developing that. And if you go back to the beginning of Saga when we started the company with just a couple of larger stations and larger markets. Actually, we had 3 to begin with. And if you put in the licenses for our metro signals are small, that translates into what, 165, 170 radio licenses in the company right now.

Samuel D. Bush
Senior VP, Treasurer & CFO

We have 113 AM and FMs and 80 translators, metro signals, so almost 200.

Edward K. Christian
President, CEO & Chairman

I keep forgetting on how many there are because I'm trying to add it on buying translators and Sam will always tell me that when they come back in. But they've been proven very, very effective for us because they allow us to handle what we call them the stackables where we use the metro signals as an add-on in addition to it.

And I remember early on in my career, one of the managers, sales manager, was talking about successful shoe salesman. And they would always say afterwards you want some socks to go with your shoes and the add-on, and that's kind of how we treat the secondary stations we have is packaging a man to add additional money and additional revenue.

I think I mentioned the last time that also we've increased our rates which in the last month or so, we had a big discussion with all of our managers and buy in and set down and redesigned exactly where they were in terms of what their selling rate was and how it was configured. And we added about a 10% increase in our rates, which we believe is about time because when we looked around and we saw the increases that we're having to deal with in terms of music costs, insurance costs, related costs like that, we needed to do so.

So in an industry where the rates seem to be going down, our rates are increasing, which we find is an interesting approach on the things. The additional thing that I think brings us into kind of a little of a different world is that we really do spend a lot of time with the various communities. We're in the process. I think I mentioned the last time of hiring news people, which is an interesting thing. And the fact that, that sector of the business of having dedicated news reporters for radio has been decreasing. And yet we find it a necessity to find and bring into the business.

And then it's a trouble recruiting right now. For instance, in this last go around, pardon me, I have some allergies right now, so I sound a little worse on that. But in last go around, we had about 24 resumes come in for -- when we started recruiting for news people. And it was interesting to find out that in the remote world today that of those 24, about 2/3 of them were people who said, "Yes, yes, I can be a news reporter for you. I can do this, but I want to do it from my home. I am in San Bernadino and you're in Des Moines, Iowa. But I can still do a newscast".

Well, you can't because we're not looking for that. We're working for the type of person who gets involved in the community, who becomes active in the community. Who gets to know everybody in -- from the Mayor to the Fire Chief, any of that who can provide information for us.

And that's what we need in those communities. And we're doing that. And I think that's an important thing for us to gain a certain level of professionalism and recognition in the community. In a tired world, which is what I think we're in right now, we have to do things that are really important to what happens in communities.

We have to have fun radio stations. We have to have radio stations that have full coverage of what's going on in the community, and that's what we will continue on doing. It's been a challenging world in sales. We're having a lot of fun developing new products, we talked about that. I was just sitting with 1 yesterday about working at an order that came in on a company that we're going to at least have a 26-week schedule from, selling the invisible fencing for dogs in your yard. Now who went up to several years ago, saw that as a product category.

But nevertheless, if you go out and you find somebody like this and you say, look, there's a lot of dogs in town, we might as well try and do this. And it's a different way for them to reach out and touch. That's just 1 example, and I don't want to keep going through and what you think all we do is chase silly ideas, but we don't.

We're looking for the different ways to find and seek out money and add it to us instead of looking at the major national agencies, which are cutting back in terms of their -- the rates that they're willing to pay for radio and also the product money that goes into it. We want to be inventive. We want to be challenging. We want to always be forward momentum on what we do.

And we try not to burden you with a lot of numbers and a lot of information because we're talking then about the whole of the company rather than the individual marketplace. And we don't want to get into that either. That's why we offer you the opportunity to call Sam or to call me and ask any questions you might have about what we're doing in the business to make this more effective.

Yes, it is a challenging time. But as I said for us, we kind of welcome that because it keeps your brain cells going and keeps your thinking. And we're working on some, some really kind of great inventive ideas. I think I told you one of the ones we're doing that we have planned to launch in about a week from now, you'd probably just really kind of wonder about my sanity on it. Well, can I -- sorry, tell them?

Samuel D. Bush

Senior VP, Treasurer & CFO

Go ahead.

Edward K. Christian

President, CEO & Chairman

Okay. And it occurred to me several weeks ago that one of the big problems -- I was reading an article, and one of the big problems that it talked about is that more and more Americans are having problems going to sleep and falling asleep. And it goes through talking about this and what it's doing to the person's health well-being and everything else like that by being restless at night.

One of the things that has happened to radio today is that we have lost a lot of listening, any overnight areas. Overnight radio used to be a relatively big thing. Right now, couple of major shows that are syndicated for overnight talk shows that are good. But in terms of the music area and music formats for overnight, a lot of it has now been automated and produced right off the machines and with nobody in a facility to speak of or nobody at all in the facility.

So I came up with an idea of, okay, so why don't we do something that's totally different and totally unique to radio itself, commercial over-the-air radio. And so we've been working on perfecting the idea that we're doing. And we're taking it as a prototype extra air station in Boston Hilton Head. And one of the stations there, we have 4 radio stations in the market. One of them was easy favorites.

We've been on the air for several years now, and it's doing quite well for us. But we decided that there really isn't an overnight listening audience to it. And so we're going to be running, I guess, we call it deep sleep music overnight, but it's not music, it's sounds. And so from -- you're going to think I'm probably a little nutty here, but that's okay. 11 O' clock at midnight until 5 in the morning will be just the sounds of rain and thunder in the background to provide a sleep audience. And you're going, why do you make any sense out of that?

We'll be selling very short spots going to be brought to you by spots like mattress doors, that type of product category with only 2 mentions an hour during -- from 11 till 5 or mid-night till 5. We have an extra hour so we're going to do it.

But again, let's try and take from lemons, which is kind of the overnight hours and turn them into a lemonade and at least monetize that and sell them in 26- or 52-week schedules on the station and break it into 2 break an hour, which is what we're doing. So it won't be commercialized as it will be basically -- that would be defeating the idea of trying to put people to sleep, but there will be mentions all the time like that.

And that's a product that we can do, and it's something that we can do for revenue producing and have money coming in on the overnight thing. And at the same time, providing a service to a lot of listeners. So we'll see what happens on that. Trying not to ramble on today on this. But I think that's what radio needs is some different thinking, a different way of looking at the problems.

And if we strike out, we strike out on something and we invent something else and have to have the forward momentum.

We have a question coming up, and I'll get back to that what we do. But the question is, where do we envision radio in 10 years? We'll talk about that in a couple of minutes. And in the meantime, let me just toss this back to Sam to see if he has any other comments or anything or any other questions that we've had.

Samuel D. Bush

Senior VP, Treasurer & CFO

No, we had a couple of questions that I already took care of. Another one asked us about uploading audio recordings of the conference calls. We did start doing that with the fourth quarter call. So in addition to this transcript, which gets posted to our website, you can also find audio recordings of the calls now on the website as soon as we get them processed and back to us.

And then as Ed said, there was a question about 10 years from now, do you expect more or less radio listeners in your markets? And what's the grand plan for radio?

Edward K. Christian

President, CEO & Chairman

And that really depends upon the passion of the broadcasters, the passion and the commercial owners that are in there today. If they want to keep the meeting live, we can certainly do that. And if they want to continue, they -- I'm speaking -- that's probably not. That's out of line. But if a broadcaster today wants to continue survival for the commercial radio, then they have to begin to think exactly rather than cutting and reducing staff and reducing everything that they do. And try to commercialize it and have it centralized.

I think we will have a shorter life than the normal 10 years or whatnot. The normal 10 years, but the 10 years that the question came in. But if you sat there and you decided that you were going to have a radio station that really was what radio has been in the past and can continue to be in the future with inventive ideas. Then we do have a strong position as long as we don't forget that we have listeners out there who want local information.

And let's face it, a good radio signal, a good radio signal gets out 40 miles. And that's the area that you have to look at. That's the area that you have to protect. And those are the people that you have to protect. And if we do that, then we have a life. We will still be important. We'll still be meaningful to the communities that we serve, and we get away from that and trying to make it and that radio is 1 big program for the entire U.S. It's syndicated or it's put together in modular form or whatever, it's going to be shortened.

But if the passion is still there, if the desire is still there, there will be good broadcasters. And the heat is still there to warm the homes of people who are listening to radio because of the value that it has. We're fine. I can't go out more than 10 years on it. But I'm surely blending at side, it will be around. And that is because we have embedded ideas, and we have the people behind us. We've got a great, great group of radio stations and a great group of people who work there to help us keep on thinking about new ideas for the project.

But again it's an idea, it's a commitment of passion. It's a commitment of dedication. It's not a commitment of looking at this as a commercial adventure that we don't -- our product is invisible. And we have to remember that. And we're not having something coming off of the assembly line. It's an entirely different thing. And it's no different than anything in the arts. And I consider radio as an art just as you would a Broadway play or a Symphony or anything else like that.

We have that ability, and we have to remember that. And that has to be our primary focus. And if we don't do that, then we're going to lose the momentum that we have. We're going to miss the passion that is there, and it's going to be a shorter life. But in the meantime, we look for a long life with Saga because we'll never lose the values that we've had and established for so many years. I think that kind of wraps up.

Samuel D. Bush
Senior VP, Treasurer & CFO

That's very good. I mean it's all about -- our radio is all about local, and that's what Saga does best.

Edward K. Christian
President, CEO & Chairman

Well, it's -- yes, let's hope so. We continue -- that's the mantra that we have on that is doing a radio that reaches out and touches the people. And just this morning, I was listening to one of our stations, the River WRSI in Northampton, and Monte, his morning -- person on this space in the morning so does a really unique voice show, and is great and reaches out and has a lot of phones and a lot of listeners calling and interacting about variously.

And with Monte, you never know when he's going to go or what he's going to come up with in terms of it. And that's unusual, and it's unique and it's great for the communities when they feel this cohesiveness, it comes from the morning shows that we try to bring out. And that's just 1 example of the show. And I could go through and start talking about our morning shows and our personalities and how they relate to the communities that they're in.

And that's the thing that really has to be just so, so important in what we do in this business. And caring for -- and caring -- really caring for the community is where I think we'll come out ahead.

I've been kind of just paddling along here. Is there other things am I missing, Sam?

Samuel D. Bush
Senior VP, Treasurer & CFO

I think that's good. And I think Matthew, we can turn it back over to you to wrap up the call.

Operator

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

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