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Saga Communications, Inc. NasdaqGM:SGA

FQ1 2023 Earnings Call Transcripts

Wednesday, May 3, 2023 3:00 PM GMT

S&P Global Market Intelligence Estimates

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Consensus as of Mar-11-2014 11:22 AM GMT

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Samuel D. Bush
Senior VP, Treasurer & CFO

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Operator

Good day, everyone, and welcome to the Saga Communications, Inc. 2023 First Quarter Earnings Release and Conference Call. It is now my pleasure to turn the floor over to your host, Sam Bush. Sir, the floor is yours.

Samuel D. Bush
Senior VP, Treasurer & CFO

Thank you, Matthew. First, I wanted to let you know that Chris was pulled away with a family emergency today and won't be joining the call. He did, however, leave me with his notes as to what he wanted to pass along. So while I can't bring them to you with the color and the flare that he would have, I've incorporated them into my comments.

Now, for obviously the most fun, the basic disclaimer. 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.

For the quarter ended March 31, 2023, net revenue increased 1.3% to $25.3 million compared to $25 million last year. Station operating expense increased $1.1 million to $21.7 million for the 3-month period. Station operating income decreased $770,000 to $4.8 million. Operating income was down $805,000 (sic)[$905,000].

Political revenue during the quarter was inconsequential at $193,000 compared to $121,000 for the same period last year. National for the quarter was up approximately 7% year-over-year and represents approximately 9% of our overall gross revenue. I'll talk more about one particular national win Saga had a little later in my comments.

As indicated in the press release, two of the main reasons station operating expenses were up were employee compensation and health care costs at a market level. After a number of years of giving our employees little to no compensation increases, we made the important decision to give our remarkable staff pay increases in recognition of the tremendous work they did for Saga over the past years, including the COVID years of 2020 and 2021, as well as to recognize the issues that many of them were having given the current economic conditions and inflationary environment. For the quarter, these well-deserved pay increases and related payroll taxes accounted for approximately $446,000 of our overall station operating expense increases.

Health care increases accounted for another $272,000. Being self-insured, our quarterly health care costs always vary from quarter-to-quarter based on the actual expenses incurred. Although it is always hard to estimate what future quarterly health care costs are going to be, we have historically seen them average out over the year with some quarters reflecting some meaningful increases, some being flat to last year, and from time to time some quarters even showing reduced costs.

Other smaller but still meaningful increases in our station operating expenses include increased utility expenses, programming rights related to SoundExchange, sales costs including commissions, sales training, sales surveys and credit card fees. And by the way SoundExchange, having an increase in fees there, is a good thing because that means we're obviously having an increase in our interactive revenue, our streaming revenue.

We intend to utilize our financial strength to strategically invest in our operations, both at a market and corporate level as we grow specific revenue types, including local, national and interactive, e-commerce and NTR. We are investing upfront that will lead to important revenue gains from the seed money we spend. With the addition of Andrew Schulze leading our e-commerce efforts, we are already seeing the early returns showing promise, with the certificate sales growing 12%, 20% and 72% in February, March and April, respectively. And that is before we have all our markets up and running with this program.

Another is an old-fashioned radio promotion, where we give away cash to the lucky listener. I remember growing up in Indiana and hearing these types of giveaways on WIBC all the time. The net of it is that we have already passed $250,000 in sponsorship revenue at a cost of less than $40,000. What a great opportunity to connect with our listeners and advertisers to promote our stations and generate a bit of revenue as well as having some fun. On the first day of this contest, we had over 8,000 entries in the contest. Pretty impressive.

While being more a result of moving on from the COVID years, our NTR revenue for the quarter increased more than 17%. We just can do a lot more events now than we were able to do over the last few years. Likewise, one of our markets generated over $200,000 in new digital business in just 2 days and now has the opportunity to handle the client's ad sales nationwide.

Finally, Mario Christino, our new Director of storytelling, as Chris likes to call him, has been working with all our markets rated and unrated to provide greater visibility quantitatively and qualitatively to allow our teams to tailor their sales proposals to better fit their clients' needs. For example, on one national pitch to Dunkin', we won 100% of the buy in an amount of $30,000 due to these efforts. A guy like Mario is able to take the Nielsen data that we now get across the board for all our markets, that being the data that is available, and be able to turn that into stories for our markets, thus the name Director of storytelling.

This is the way radio should be done. And given our national -- given our financial strength, it allows us to invest instead of pulling back, which puts us in a great position to weather the uncertain economic conditions that we are expending. None of these expanding revenue opportunities are game changers on their own, but when combined, they are great additions to our core broadcast business.

Moving on. Free cash flow was $1.1 million compared to $1.9 million for the same period last year. Capital expenditures for the quarter were $1.4 million compared to $923,000 last year. We still expect capital expenditures to be between $5 million and $5.5 million this year.

Net income for the quarter was $920,000, which compares to $1.2 million for the first quarter last year. The company paid a $0.25 per share quarterly cash dividend on April 7, 2023, to shareholders of record on March 20, 2023. We have now returned dividends of over $108 million to our shareholders since the first special dividend was paid in 2012.

All said, we believe Saga is in a strong financial position to continue to return value to our shareholders through our quarterly, special and variable dividends. The special dividends declared in 2022 were in line with the goal of maintaining our ongoing cash and short-term investment balances of -- to between $30 million and $35 million prior to future cash flows being recognized.

The Board continues to have discussions relative to the right level of cash to maintain on our balance sheet, and this may change based on global, national and local economic conditions, changes in the radio industry and the potential for strategic acquisitions. Just a reminder as we reported in December, and I referred to just a minute ago, Saga's Board adopted a new variable dividend policy. This policy is based on the goal of increasing cash returns to shareholders while simultaneously maintaining a strong balance sheet and continuing to grow the company through strategic acquisitions.

The variable dividend, if applicable, will be declared in the second quarter of each year based on Saga's reported year-end results from the preceding year. The amount of this dividend is calculated 70% of the preceding year's annual free cash flow, net of acquisitions closed, especially in quarterly dividends declared, debt pay downs and stock buybacks.

As reported in our fourth quarter and year-end 2022 conference call, there won't be a variable dividend declared this year given the $5.2 million in quarterly dividends and $24.3 million in special dividends declared in 2022. Of course, all future dividends are subject to the risk factors we described in our 10-K, along with the potential acquisition opportunities. Company's balance sheet reflects $37.5 million in cash and short-term investments as of March 31, 2023 and $35 million as of May 1, 2023.

Pacing for the second quarter has been quite variable. For the quarter, we are currently pacing down low single digits. This is made up of April being down low to middle -- low to mid-single digits, May being up low single digits, and June, which is still too early to tell what's really going to happen, being down low single digits. For the full year, we expect revenue to be down low single digits. Keep in mind that we are comparing to last year's political revenue of $3.6 million as you look at the rest of 2023, as well as that it continues to be unsettled advertising market given the uncertain economy, the Fed's interest rate policy and the ongoing inflationary environment.

We currently expect that our station operating expense will increase by approximately 3.5% to 4.5% for the year as compared to 2022. In addition to the inflationary environment, this is significantly driven by our investments in our staff, sales training and ongoing interactive development. Our tax rate is expected to be 27% to 30%, with a deferred tax of 3% to 6% going forward.

From Chris and my preparations for this call, I know he wanted to point out his observation that in listening to ours and our fellow broadcasters' earnings calls in the past, that all of us frequently referenced our various revenue types: Local, national, digital, NTR, et cetera, being up or down a certain percentage as if those revenue silos are the producers of the actual revenue results. He told me that a close friend of his said to him, "Chris, make no mistake: Money comes from customers." He always points out that our teams in the markets work with those customers every day to assist them in moving their business forward. This is what produces our revenue and ultimately profits.

My dad was an American Baptist minister and my mom was an elementary school teacher, so I know a bit about preachers and teachers. I learned a lot from both of them as I grew up. I see aspects of both of those in Chris as he works with everyone at Saga to instill the discipline that if we spend our time on the actual processes that create the opportunities for us to produce the outcomes we are looking for, we will achieve them. And I know Chris would have been a lot more elegant in how he said all of that, but I think that's an important part of what Chris wanted to pass on today.

Under Chris' leadership since he became President and CEO in early December, we are focused on putting resources in the hands of our team members to better equip them to serve our customers as they grow their business with the result that Saga continues to grow as well. I've already talked a bit about the strategic investments that we have been making to allow this to happen. Chris has us all focused on people, products and perception.

Chris was planning on closing with an e-mail Rick Rumble received. Rick is our morning personality, long-term morning personality and well known on FM99 WNOR, a rock station we have in Norfolk, Virginia. I'm going to read that e-mail to you because I think it's an important demonstration of what radio is about.

"Hey Rumble, around 2013 or 2014, I entered my family into the Christmas Wish drawing. One of my daughters was 2 and one was a newborn. They were both diagnosed with cystic fibrosis at birth. My newborn's case was more severe and every time she would get sick, she'd have to stay at Children's Hospital of the King's Daughters for 10 days with my wife, leaving me to take care of our 2-year old by myself while working 6 days a week and going to school to become an EMT.

It was hard on all of us. We were flat broke. We were exhausted. We were depressed, we were broken. We lived in a 2-bedroom, 1-bathroom, 500-square-foot apartment in a not-so-good part of town. We were ready to give up. I entered the drawing in the hopes that I'd be able to give my daughters a better Christmas that year, especially my 2-year old. It was hard on her being away from her mom for 10 days at a time and not knowing why.

You chose our story and gave us $700. You'll never understand how much that meant to us and how much it helped us. It didn't just help with Christmas, it lifted our spirits. It gave us hope. It gave us just enough to keep going and not give up.

Fast forward 10 years later, and I'm a paramedic lieutenant at the same agency I've been with for 9 years now. My wife is a surgical dental assistant, also working on becoming a nurse. We live in a much nicer apartment now and are buying our first house next year.

We now have 3 daughters. The youngest is 3 now. She does not have cystic fibrosis. The older two are 10 and 12 now. They're perfectly healthy. They take medication and do chest physical therapy as a precaution and have pulmonologists checkups once a year. But all in all, they are as healthy as any other child.

They're able to play sports and live life just like any other child. I really don't know how our Christmas would have gone 10 years ago if it wasn't for you and everyone else at FM99. We'll never be able to thank you enough. You're all amazing and are literally our angels. Thank you so much Rick, Shelley, Rod, donors and everyone else who had a part in this."
We have many, many more listener and client stories like this that shows the impact that we have had on so many people and that we are making a difference for our communities, our listeners, our clients and our shareholders. Saga and radio is certainly still very relevant.

Question and Answer

Samuel D. Bush
Senior VP, Treasurer & CFO

We had a few questions come in as we always ask for, so I'm going to take a few minutes to run through those. Again, if Chris was on the call, I think this would all be a little more elegant, but I'm glad to sit in for him as I can.

The questions. We have one call that -- a question that talks about disparities between performance of our stations, whether it be smaller markets versus larger markets or geographical difference as it relates to advertising. And did digital perform differently by market size or geography.

The quick answer to that is it's very hard to compare. I've said to people who asked me that for years, it's all about the specific market. We have small markets. We have one small market -- smaller market that never experienced a downturn, even in COVID. We have others that had tremendous downturns during COVID because of the way their states reacted to it, the way their advertisers were able to react to it or had to react to it because of difficulties with being shut down for so long, and lots of other reasons.

But in general, markets react differently, big or small. We certainly aren't in enough big markets like some of our peers are to have that overall national revenue impact that larger markets sometimes feel both up and down, more than smaller markets do.

We certainly also like the fact that in our medium to small markets, we have more ball control, so to speak, because we deal directly with the owners of the businesses or the influencers of the advertising in the businesses that allow us to have, I think, a more direct impact on it.

So I would tell you that geographically and size-wise, I don't have any comparison that would tell you that a certain type of market is doing better or worse than another at this point.

Second question was about other radio station groups that have indicated that auto as a category is performing better. I would agree with that. We saw in the first quarter, up 10% to 11% in the auto category. It is our third largest category. Whereas historically -- now this goes back a number of years, historically, it would have been our largest category quarter after quarter, year after year.

But at this point in time, it is our third largest category. It did grow by a little less than 11% this year. Our largest category, by the way, continues to be home improvement.

Are all of our stations streaming at this point? Yes, we are. All of those that make a difference, and we have a few small stations that are repetitive, but -- that don't stream, but virtually every one of our stations does stream.

Final question from this particular individual was, what is the performance month by month in the quarter? And it was varied. January was up 2%. February was up a little less than 2%, about 1.7%. March was only up 0.5%. So while each month was up, the variance between being up 2% or up 0.5 of 1% was meaningful to note. I already talked about pacings in the second quarter, so hopefully that answers that part of the question.

And actually, there was one other question from this individual, and it's about what is the tone of the current advertising market based on the fact, as I just said, we're very in tune with our markets and with the advertising community.

Again, people are concerned. They're concerned about inflation. They're concerned about the economic environment. They're concerned about the global environment. There's just a lot of things. What the Fed is going to do, I guess today, maybe they've already done it. I don't know what time it comes out, but what they're doing with interest rates, all of that has an impact on it.

But again, it varies. Some markets, we still get a lot of positive feedback. Some advertisers, we get a lot of positive feedback from. Some markets, we don't get as much positive feedback. But again, that's where, to some degree, it's up to us and our sellers to take that feedback and turn it into good things.

We've had situations where traditional advertising wasn't going to work for an advertiser anymore. They were not seeing the economic environment made sense for that, but yet they get involved in a sponsorship. The -- I know I had one market tell me that this -- the sponsorship for this contest that we did was something that they wanted to do and they hadn't been on air in a while because of their economic conditions. But they signed right up for the sponsorship of the Grand In Your Hand cash giveaway that we were doing.

So again, it's very varied. Variables are all across market-by-market, advertiser by advertiser. I don't think there's any trends that I would feel comfortable saying, "Oh, well, in this type of situation, it's this. In this type of situation, it's that." But the net effect is -- we, as a company, have to be on top of those feelings and those emotions because advertising, to some degree, is an emotional buy.

But we have to be on top of those. And I think our folks, with the resources we're giving them, are able to do that and continue to move forward. And again, as we come through whatever recessionary economy we have, whatever inflationary economy settles down, the overall economic environment, I think we're giving our folks what they need. And we do have the financial strength to invest in products to put ourselves in a position to do well during the current volatile economic times, but also to come out well ahead of where we go in as the times move forward.

We had some other questions. Can you provide a breakdown of digital revenues and growth for Q1? Overall, we were up a little over 9% in digital. We had certain areas -- I referred to streaming earlier, streaming was up over 22%. So the net effect is we're seeing some good growth in digital.

We do have some plans to do some things through training and through -- by investing in specific digital champions in every market that we have to be able to help us augment our ongoing core business with digital, NTR and other activity.

We talked about Q2 already. That was another question that came in. The other two are more general management questions. What's the acquisition market look like? And what are multiples? Truthfully, I don't know if there are multiples out there right now. They're all over the board, number one, because there's very little to anything going on.

So it's hard to set a multiple or to say specifically that multiples of our acquisitions are x times cash flow, x times EBITDA, y times cash flow, y times EBITDA. Whatever it happens to be, when you're doing that all on one trade that occurred or one deal that was done. Hopefully, we see some things, and we have begun to see some opportunities open up in the market.

One of the things Chris would have talked more about on the call is discipline. I think all of you know, any of you who has been listening to our calls for years, we are very disciplined in our operations, we're very disciplined in our acquisitions. We're just, overall, very, very disciplined in everything that we do.

In fact, Chris had them. Looking for it now in, to some degree, in his notes that he was talking about, that as you look at the discipline -- quick enough to share it with you. But he had a very, very good quote about discipline that had to do with -- if you're not disciplined, you'll be disappointed. And we all believe in that philosophy.

And the Founder and Chairman had Christian instill that philosophy in all of us. And whatever we see in the market, we are going to be disciplined in what we do. But again, there just isn't a big enough market for acquisitions yet for me to feel comfortable talking about what multiples are.

Then there's a question about is there a valuation or price level where management will feel it is necessary to begin using a buyback? We talk about stock buybacks in every Board of Directors' meeting. We talk about them in between the meetings. It's always a conversation about cash dividends versus stock buybacks, cash dividends in conjunction with stock buybacks and so forth. And that will continue as we go forward.

I can't sit here and tell you today that you'll see us at a certain price, we'll be doing some form of stock buyback, whether it's just open market, whether it's something more aggressive than that. But I can tell you, it is being discussed and will be a part of our discussion and the Board discussions in conjunction with what we're doing with dividends.

Hopefully, that's given you all quite a bit to think about this morning, and I appreciate everybody that's on the call. And as -- we always wrap up the call, feel free to give us a call, we'll be glad to talk to you. We're proud of Saga. We're proud of what we do. We're proud of where we're going in the future and all of our team, and we appreciate our investors and all of you who took the time to listen to the call.

So with that, Matthew, I'm going to turn it back over to you to wrap up.

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