

Saga Communications, Inc. NasdaqGM:SGA

FQ2 2022 Earnings Call Transcripts

Friday, August 05, 2022 3:00 PM GMT

S&P Global Market Intelligence Estimates

Estimates data is not available for this transcript hence the table is not generated. Currency: USD
Consensus as of Mar-11-2014 11:22 AM GMT

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Call Participants

EXECUTIVES

Edward K. Christian
President, CEO & Chairman

Samuel D. Bush
Senior VP, Treasurer & CFO

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the Saga Communications, Inc. Q2 Earnings Conference Call. [Operator Instructions] It is now my pleasure to turn the floor over to your host, President and CEO of Saga Communications, Ed Christian. Sir, the floor is yours.

Edward K. Christian

President, CEO & Chairman

What a delightful introduction. And hello, everybody, and welcome to another in our long chain of conference calls. And we'll kind of get right to it. And with that, let me introduce Sam Bush, our CFO, for many, many, many decades. Sam, it's yours.

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 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 June 30, 2022, net revenue increased 6.3% to \$29.8 million compared to \$28 million last year. Political didn't factor much into the comparison of revenue as gross political revenue for the second quarter of 2022 was \$787,000 compared to \$430,000 in the quarter last year. We still are expecting fairly robust political to pick up significantly as we continue through the year.

Station operating expenses increased 3.7% to \$21.8 million for the 3-month period. Station operating income increased 10.6% to \$9.3 million, while operating income was \$5.4 million compared to \$4.6 million for the same period last year. Free cash flow was \$3.2 million for the quarter compared to \$4.2 million for the same period in 2021, and I'll talk about that more in just a minute.

Net income for the second quarter was \$3.8 million or \$0.63 per fully diluted share. Overall, a very good performance in the second quarter. For the 6-month period ended June 30, 2022, net revenue increased 8.8% to \$54.8 million compared to \$50.3 million for the same period last year. Again, political didn't factor much in the comparison as gross political revenue for the first 6 months was \$907,000 compared to \$640,000 last year.

Station operating expense increased 6% to \$42.4 million for the 6-month period. Station operating income increased 13.2% to \$14.8 million, while operating income was \$7.1 million compared to \$5.5 million for the same period last year. Free cash flow was \$5.1 million for the period compared to \$6 million for the same period in 2021. Net income for the first 6 months was \$5 million or \$0.83 per fully diluted share.

As I indicated, the free cash flow number is really impacted by an increased level of capital expenditures and in particular, to specific projects. So capital expenditures for the quarter and 6-month period included \$1.1 million for the purchase of a building in Norfolk, Virginia that we will be converting to office and studio facilities, allowing us to exit the space we currently lease.

We've leased a space in Norfolk for many years, and it is the most expensive lease we have in all of Saga, and this just was a perfect opportunity for us to control our own destiny going forward and own space for a much less -- a fairly sizable cost savings. We also completed work on our new studio building in the Gainesville-Ocala market. This was reflected in our higher 2022 capital expenditures with approximately \$500,000 being spent in the second quarter and approximately \$800,000 for the 6-month period.

We will recoup a bit of this cost as we sell our existing studio building now that we've been able to move into the new facility. We still expect to spend approximately \$5.5 million to \$6 million for capital expenditures in 2022. Net revenue in April and May was up roughly 7% in comparison to the same months last year. June was a bit weaker, but still showed an increase of 4% over our June performance in 2021.

Third quarter of 2022 is currently pacing ahead of the same period last year by approximately 4% to 5%. I think Ed will talk a little bit more about this in a minute. Although with the current interest rate environment, the potential recession on the horizon and ongoing global turmoil, everything is still week by week, month by month and sometimes even day to day as you talk to our managers.

We saw very nice increases in our interactive revenue and our nontraditional revenue during the quarter and the first half of the year compared to the same periods last year. And our active increased 36% for the quarter and 51% for the 6-month period, while our NTR increased 51% for the quarter and 43% for the 6 months. Our balance sheet shows \$52.3 million in cash and short-term investments as of June 30, 2022.

Currently, we have \$54.4 million of cash and short-term investments on hand as of today. We paid a quarterly dividend of \$0.20 per share to our shareholders on July 1, 2022. This represented a 25% increase in the dividend being paid in comparison to the \$0.16 per share quarterly dividend paid on April 8, 2022.

Saga has now paid over \$79 million in dividends since the initial dividend was paid in 2012. We currently expect that our station operating expense will increase by approximately 5% to 7% for the year as compared to 2021. This includes additional sales commissions based on our revenue growth as well as increases in our cost of sales surveys and health care. Our ongoing tax rate is expected to be 29% to 30% with a deferred tax rate of 5% to 7%.

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

Edward K. Christian
President, CEO & Chairman

Thank you, Sam. Well, lots of numbers. But I should mention it since we're talking about the building that out of the 27 markets we're in, 25 have owned buildings by Saga. #26 will be in the Hilton Head, and we'll be breaking ground there in Boston within several months, depending on [grinding up] permits and everything, which will leave one market where we have a very favorable long-term lease. So 26 out of 27 owned facilities. I just want to put that little addendum in there. So that's where we are.

Thank you for joining us. Now we're into the unscripted part of the presentation. Sam has always so buttoned up, and I have just some notes that I made this morning here. And talking about our markets, we did a review on this the other day. We always do a review all the time. But this one showed 24 out of our 27 markets are running up. Of the last 3, 1 is flat and the other 2 are slightly down, and those markets are under, what we call, administrative oversight. So it's something that we do in terms of figuring out where the weak spots are and where we have to concentrate.

The highlight, and Sam brought it up, is really our local direct and local merchant sales in the marketplace the clients are. On a whole basis for the company, and we've taken this tag for a number of years as localism, pardon me but I've had a lot of pollen around me. So if sounded a little stuffy, bear with me. Localism is the basic part in the heart of what we do here. And I can give you some examples, and I'm just picking them at random and there's no priority or anything like that.

But let me just kind of review for a second what we're doing in a typical market. And I picked Charleston, which has been one of our newer facilities for several years we've had the market. And we changed the kind of the culture and the mindset and everything else from being just another radio group in the marketplace to really deciding to own the market and how do we do that but by attaching ourselves to the communities and injecting into the communities our ability to kind of let us identify with them so that they know that we're a trusted friend that we're a voice, we're there, we're neighbors.

And to give you an example, in Charleston, here's just a few of the activities that they're doing in the last few months. The Charleston Radio Group partnered with American Red Cross for blood drive. So that's we do that in every market. Charleston Radio Group promoted and hosted the 10th Annual Lowcountry 9/11 Heroes Run, which raised more than \$25,000 for the Summerville Police Department. Charles Radio Group, another thing with American Cancer Society, which again it is we do that in pretty much every market.

Turkey giveaway. We handed out more than 200 free for Thanksgiving, okay? You're going to go, what is it? That's all bonding in the community. Our MUSC Shawn Jenkins Children's Hospital radiothon raised more than \$130,000 in the community. Charleston Animal Society's biggest fundraising event of the year Paws in the Park, Summerville YMCA fundraising event of the year. Carolina Youth Development Center, we raised \$45,000 for them. It continues on and on.

Here's one here that we did the Dorchester Paws Community Pet Support Day, giving away more than 35,000 pounds of pet food. And it's cool to be in school day, where Edwin "The Chef" Wright rallied to the community to provide school supplies to students who could not afford them.

That's just kind of an example of how we look at bonding on it. And we try to work with all of our on-air people to embrace this. And it's part of localism. In Charlottesville, Jay James has done a marvelous podcast with one of the police chiefs, talking about the problems we have there. Right now, we're doing and [police chief] is getting ready on a campaign with all the radio stations on fentanyl. And the problems that we have in the communities, and how it's the #1 killer for men 18 to 45 right now.

It's an epidemic it's going around of fentanyl because heroin is not commonly available and fentanyl is the drug that is being sought out. And it's a killer, and we need to get that message out to everybody in the communities. But again, what I'm trying to do is show you the spirit that's behind it, the passion that really goes through it. We can't -- we have a thing that we sent out, a picture, frame picture, sent out to all the managers. And it shows a sailing ship in a storm and it's called unsteady as she goes.

And we know that we can't control the winds around this, but we can control our sails. And how we do this is by community royalism and also training the people in our environment as to what goes on here. And it's kind of like something, and I've got to tell you speaking of Charleston and it trip my mind that when I was going between Charleston and Hilton Head several years ago.

I got -- took a wrong turn and I ended up at Parris Island and went to the gate and was able to talk our way into the [indiscernible] of the Parris Island. And I was amazed to see the precision and the way that they do their program down there. No, we didn't stay a long time, and it was enough to give us an observation on it. And I go to a gym 3 days a week, and I've been fortunate in the last couple of years to have 3 different marine trainers. And they are trained and you talked a little about when he went through camp on Parris Island and how their training affected their lives and changed it.

And our whole thing is to do a lot of training, whether salespeople or account executives and how to relate to local merchants because that's the core of our business. We train, train, train just like in the Marine Corps. And after 90 days, we know that they've got the message on how to do it, and we monitor to it. And I've found, if you've never sat down to talk to marine, the basic training is life changing in terms of how they work and perceive things.

And I'm not saying that we're using the Marine Corps training method, but what we're doing is instilling a passion into our people so that we can control the sails in difficult times. Now, let's get back to business here, and I'm sorry if I kind of went off point there for a second. Let's talk about what's going on for Q4 -- Q3 and 4.

The political should kick in for Q3 and 4 very shortly. August is already up 8% overall in terms of revenue. And that's -- we're looking down the road and we don't know exactly where we're going in terms of the future because we're dealing with somewhat unsettled times. And that's a difficult thing. But if you have the fundamental building blocks in place, if you have in place the community respect for the radio group then we become #1.

If we look at where we are in terms of revenue and how it breaks down for us. Our interactive is up 36%. I always hate to use percentage, but our NTR events are up 51% for the quarter. That's nontraditional revenue and that's basically the events that we do, the way that we get with the community, how we raise funds and everything else.

Let me give you just kind of a strange example on this. WNAX is our radio station we have in the Yankton South Dakota, you've probably not heard of Yankton South Dakota. But WNAX is a regional radio station. It has one of the largest land mass coverage signals in the United States, and it's basically ag, ag, ag for agriculture. And we make hundreds of thousands of dollars a year on trips that we sponsor.

We work with travel agencies, and we're always doing trips because we know that the farmers in their off time want to go on vacation. They want to do trips with other farmers to get to meet other farmers. And especially in tight times of what the agricultural community is going through, raising prices and how to try and do that because they can't keep increasing the price of their crops to try and offset the increases there.

But we do this because this is a bonding experience for people. And they know and trust WNAX, which will be 100 years old in November. So that kind of gives you an idea of what we're trying to structure here in the company is a solid foundation based on the fact that we know that we can be the last person standing as the other companies look and try to figure out what they're doing. It's a difficult thing for them to compete with us because we have planted it on our heels

to really just to love, bond the communities that we live in. So basically I want to kind of ramp up on this and hope that they're some interesting questions on this is that we come to a point in time where we are right now, we have to work ahead and communities provide some direction on that.

I was talking about that this morning, how are we going to approach the idea of where we are. And unfortunately, it's kind of cloudy visibility going forward. And I remember the song that I just heard this morning, and it came into my mind when I was doing it. I don't know how it popped up. But that was a song that was written, and I did a little research on it, by composer Jay Livingston and he first performed in 1956 by Doris Day.

The only thing I can really remember about Doris Day is the Chevrolet commercials, where did that come. But the song is Que Sera, Sera, and that is whatever will be, will be. The future is not ours to see, Que Sera, Sera. And they define that in a very interesting way and it is described as cheerful fatalism. And I think it's what we have had to adapt into our company is cheerful fatalism that if there are difficult times, we have to approach it with the fact that we are the survivors. We are a company with no debt. We are a company with trained, aggressive sales talent. We are a company that has supported the communities for years.

And those are the things that bond us so tight. Those are the things that will get us through any downtimes coming up. We can't predict the future. We don't know where the storm is going to come from. We can certainly feel it and see it. But the fact is that we have the resources, we have the people, most importantly, we have the people who are committed to doing this, and we have the identification in the communities.

We know that our national sales are down. We cannot compete with the big operators who are now selling it in bulk. Chris Forgy, our #2 guy in the company for us, has a great way of saying this and he says it's rock candy in burlap bag that they're doing in their package. And we can't compete on their rates because the rates are continually being lower for national advertising. And so that our concentration, as I said before, is really in the heartland of the people and the merchants and the businesses and our communities.

And we're doing everything we can to encourage growth in the communities. We're in a point right now developing a program, welcoming new business, working with our chambers of commerce. When a new company comes in, when a new business starts out, we meet with them and provide advertising for free. We said, look, you're new to the community. We want to embrace it. We want to see that you succeed. So we're going to provide advertising packages for you to get you started. And there's no cost because you've got a lot of other economic concerns and you've got investments in trying to get your business off the ground, and we want to welcome you to the community. We want to make sure that's you're bonded to the community.

And the best way is through our ability to provide to help you kick start and jump start your business. That's the feeling that we have and that's where we get the memories. That's where we get the acknowledgment from the community that we are the voice of reason, we are the voice that will talk to them. And we're there for them 24 hours a day, 7 days a week. That was unscripted, Sam.

Samuel D. Bush
Senior VP, Treasurer & CFO

Well, it takes a lot of description to talk through the localism that we are so proud of and that you insist that everybody follow day to day, every day.

Edward K. Christian
President, CEO & Chairman

It's 36 years Saga has been a company now. And it's unusual in the business and we're little different because of the way we approach things. Nevertheless, it's been successful and we'll continue to be that way as long as I'm a watch commander for this thing, this thing, this company. But I do get carried away a little bit, even in days when I have to worry about the pilot outside. So that's really where we are in terms of discussions about the company. And we welcome your comments and your thoughts because we know that without you and support in our radio stations that we wouldn't be anywhere.

I mean we're -- yes, we have money on hand. Yes, that is reserved for opportunities that we believe will come along if there is any offset in the economy, opportunities for acquisitions, to continue to grow the company in an environment where we can take advantage of them. We're disciplined buyers. But at the same time, we have our reserve, which is our

seed corn, and we're not going to eat away at our seed corn while we are trying to maintain all of this in case of we need it in downtime. And in case we have opportunities to do so to expand the business. We're very select as we have talked to you about over the years.

And that's our mantra. That's our feeling of doing it. Find the communities we want, identify the radio stations that fit our bill and make sure that we are the last man standing in the industry if there is continued problems as we see them in the future.

Sam, I think I've rambled on a little bit too much. Isn't I?

Samuel D. Bush
Senior VP, Treasurer & CFO

No, I think that's very good. And I think it gives the full impression of what we're trying to do with the localism as you've stated so well. So I think that's very good.

Edward K. Christian
President, CEO & Chairman

Do we have any questions today?

Samuel D. Bush
Senior VP, Treasurer & CFO

We did not today. And I think either the press release did a good job, it was a fairly general quarter and it was a good quarter. So I think we're happy with where we are.

Edward K. Christian
President, CEO & Chairman

Well, I'm happy with where we are, too. So...

Samuel D. Bush
Senior VP, Treasurer & CFO

That's good.

Edward K. Christian
President, CEO & Chairman

With that, we turn it over for the final announcement too.

Samuel D. Bush
Senior VP, Treasurer & CFO

Yes. Kelly, will you take it and wrap us up?

Operator

Absolutely. 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.

Samuel D. Bush
Senior VP, Treasurer & CFO
Thanks, Kelly.

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