

Saga Communications, Inc. NasdaqGM:SGA

FQ2 2024 Earnings Call Transcripts

Thursday, August 8, 2024 3:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2024-			-FQ2 2024-	-FY 2024-	-FY 2025-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	0.00	NA	NA	0.29	1.09	NA
Revenue (mm)	24.30	NA	NA	28.75	115.36	NA

Currency: USD
Consensus as of May-10-2024 12:29 PM GMT



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Call Participants

EXECUTIVES

Christopher S. Forgy
CEO, President & Director

Samuel D. Bush
Senior VP, Treasurer & CFO

Presentation

Operator

Good morning, everyone, and welcome to the Saga Communications Second Quarter 2024 Earnings Release and Conference Call. [Operator Instructions].

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

Christopher S. Forgy
CEO, President & Director

Thank you, Matt, And thank you to everyone who's taking time to join the Saga Q2 earnings call. We appreciate your continued interest, your questions, your support and your participation in what we believe is the best media company on the planet.

It's been an interesting week this week. Monday marked the largest single day decline in stocks in Japan since 1987. There's been talks of a recession -- the U.S. recession, they continue. Tech stocks are overpriced. There's political uncertainty and there's a rising risk of a wider conflict in the Middle East.

The speed and depth of this recent global sell-off is compounded by both the aforementioned and thinner than usual volumes in the month of August, which traditionally is a quiet trading funds. And the Fed's delay in lower interest rates is probably indicated and impacted the media sector more than any of the other previous countervailing forces I mentioned.

Interest rates influence two of the main economic indicators in the media sector, housing starts and automotive purchases. Media tends to feel the impact of this going into and coming out of the economic downturn earlier than other businesses. In other words, we saw this coming. But guess what? We don't control any of it. So we don't spend a lot of time with it.

We focus on the things we can control, which we will share with you shortly. But make no mistake, what we are experiencing is not a Wall Street thing. It's a Main Street thing. To illustrate, the categories that experienced the largest decline in Saga during Q2 were restaurants, recruitment, automotive and grocery. Consumers eating out less and business is cutting back on hiring and, in many cases, laying off employees, buying fewer cars and going to the grocery less often.

Recently, one of Saga's top-performing leaders shared with me that after 20 months of pristine performance, his market was now starting to experience some economic downdraft, particularly in one of Saga's core revenue verticals being local direct. He said it's not the big spending local clients who are holding back, it's the clients who spend that \$2,000 to \$4,000 per month or in that \$36,000 per year range who have taken a pause. He said they've assured us they'll be back and will return. So it's not a question of if, but when they will return. That being said, this level of spend makes up the largest percentage of business in our Saga markets, those customers who invest that \$2,000 to \$4,000 per month in advertising.

So in an effort to mitigate some of these types of circumstances over the past 20 months, Saga has been preparing to exit these economic headwinds better trained, better resourced and better equipped to come out on the other side and super serve our customers and our communities. This is that transformational change and growth you've heard about and heard us talk about for some time.

As you know, Q1 for Saga was a bit of a rough quarter. Q2, as you will hear, is much better. So before Sam gets into the details of Saga's Q performance, I just wanted to highlight some of the progress we've made in those areas in which we have created and we control. Our digital or interactive space is up for the second quarter year-over-year, \$822,000 or 33.4%. E-commerce, which feeds into our local direct silo, is up for the second quarter year-over-year, \$348,000 or 98.5%. Even National, thanks in part to our new national sales strategy and the [CAT's] Alliance Network, which it was up \$440,000 is flat in nationals as a result of flat -- slightly up year-over-year for the quarter.

Streaming is up for the second quarter, \$382,000 or 34%, and our Best Of program, which is a community online voting process that is used to determine the best dentists, the best burger, the best pizza, et cetera, in a select market. This vertical is up 50% for Q2 and in just the first 6 months of '24 has surpassed its entire 2023 output. In 2023, we did \$1.2 million all of 2023, and in 2024 in the first 6 months, we've already done \$1.3 million in that space.

And then on a new service, which we will discuss in greater detail following Sam's remarks, was up \$344,000 and or 159% for the quarter ending June 30, 2024. As an aside, currently, users of the online new service total 1.15 million. There are currently 3.7 million

page views, 50,000 e-mail subscribers, 19,000 app subscribers and [19,000] follow us -- follow the sites on Facebook. And we're just getting started.

So that gives you a little bit of highlight. Sam is going to get into more of the details. So Sam, the floor is yours.

Samuel D. Bush
Senior VP, Treasurer & CFO

Thank you, Chris. This call will contain forward-looking statements about our future performance and results of operations that involve risks and uncertainties and 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, 2024, net revenue decreased 1.5% to \$28.7 million compared to \$29.2 million last year. Political did not have a major impact. As for the quarter, we had \$288,000 in gross political revenue this year compared to \$108,000 for the same period last year. Station operating expense increased 5.1% to \$23.5 million for the 3-month period.

Station operating income, a non-GAAP financial measure, for the quarter was \$6.4 million and net income was \$2.5 million or \$0.40 per fully diluted share. Also, you should note that we recorded \$1.1 million in the second quarter and other income, which was cash received for the redemption of stock that we owned in BMI when the music licensing organization was acquired.

With the purchase of the 5 stations in Lafayette, Indiana on May 31, 2024, we are now back to reporting on a same-station basis. I'd be remiss if I didn't add boiler up to my friends in Lafayette there.

Christopher S. Forgy
CEO, President & Director

Hammer down.

Samuel D. Bush
Senior VP, Treasurer & CFO

There we go, Chris. You're on it. Keep in mind that same station is a minor adjustment for this quarter and year-to-date as we only owned Lafayette for 1 month during the second quarter. That said, for the second quarter this year on a same-station basis, net revenue decreased 2.4% to \$28.5 million, and station operating expense increased 4% to \$23.3 million.

For the 6-month period ended June 30, 2024, net revenue decreased 2% to \$53.4 million compared to \$54.5 million last year. Gross political revenue was \$598,000 for the period compared to \$301,000 for the same period last year. Station operating expense increased 5.5% to \$46.5 million for the 6-month period. Station operating income, a non-GAAP financial measure again, for the 6 months was \$9.2 million, and net income was \$900,000 or \$0.15 per fully diluted share.

Keep in mind that as you look at the net income for the 6-month period, that we reported a net loss of \$1.6 million in the first quarter, which included a \$971,000 other operating expense, which was a noncash write-off on the sale and abandonment of nonproductive broadcast assets and licenses in 2 markets. Additionally, the net income for the 6-month period reflects the \$1.1 million in other income that I talked about in my second quarter performance comments just a minute ago.

For the 6-month period this year on a same-station basis, net revenue decreased 2.5% to \$53.1 million, and station operating expense increased 4.9% to \$46.3 million. On a historical basis, pay increases and related payroll taxes amounted to an estimated \$599,000 or approximately 53% of the increase in the second quarter's station operating expense, and \$1 million or approximately 43% of the increase for the 6-month period.

Both these periods include approximately \$200,000 in severance payments for management changes we made in a couple of our markets as we continue to adapt to changing economic conditions as well as a need to generate revenue from an increasingly diverse range of projects. June did begin to show more of a normalization relative to expense growth.

We also had other smaller but still meaningful increases in our station operating expenses, including increases in health insurance, sales surveys, bad debt and interactive. For a bit more color overall, interactive expenses were up \$285,000 for the quarter and \$485,000 for the 6-month period, which was in conjunction with the overall increase in gross interactive revenue for the quarter of \$822,000 which Chris already mentioned, and \$1.4 million year-to-date. This continues to include some of the start-up expense for our online news product.

Capital expenditures for the quarter ended June 30, 2024 were \$1.5 million compared to \$1.3 million for the same period last year. For the 6-month period ended June 30, 2024, capital expenditures were \$2.6 million, which was approximate equal to the same period last year. \$285,000 of the capital expenditures reported for both the quarter and 6-month period were related to our acquisition of the Lafayette Radio properties. We currently expect to spend between \$5 million and \$5.5 million for capital expenditures in 2024. We continue to plan on utilizing our financial strength to strategically invest in our operations, both at a market and corporate level as we work to grow specific revenue types, including local, national, interactive, e-commerce, online news products and NTR.

The company's balance sheet reflects \$24.1 million in cash and short-term investments as of June 30, 2024 and \$26.2 million as of August 5, 2024. For the first time in a while, we have debt outstanding as we drew down \$5 million on our \$50 million revolving credit facility as part of closing the acquisition of Lafayette, Indiana. This was done as part of our overall capital allocation plans.

We paid a quarterly dividend of \$0.25 per share for approximately \$1.6 million on June 28, 2024. We also paid our first variable dividend of \$0.60 per share for an approximate total of \$3.8 million, and I'm talking about this because it was paid on April 5, 2024, the first week of the quarter. To date, we have paid over \$132 million in dividends to our shareholders since 2012.

Pacing for the third quarter remained soft and we are currently pacing down mid-single digits. We do expect this to improve as we reported approximately the same pacing results for this quarter when we reported our first quarter earnings. And based on the final results reported today, our revenue results were better than the initial projection. Political continues to be very slow compared to the last presidential election in 2020. During the last presidential election in 2020, we recorded approximately \$1 million in the first quarter, \$289,000 in the second quarter, \$1.8 million in the third quarter and \$3.8 million for the fourth quarter in gross political revenue.

In 2023, we recorded \$193,000 in the first quarter; \$106,000 in the second quarter; \$234,000 for the third quarter and \$409,000 for the fourth quarter; again, in gross political revenue. As I previously indicated, we have recorded \$598,000 in political through the end of the second quarter and currently have approximately \$394,000 pending in the third and fourth quarters. We are expecting political to pick up this year, but we haven't seen any significant increases yet.

Based on our current projections, we currently expect that our station operating expense on a same-station basis will increase by approximately 4% to 5% for the year as compared to 2023. In addition to the inflationary environment, this is significantly driven by our investments in our staff, sales training, ongoing interactive development, including our online news product. We anticipate that annual corporate general and administrative expense will be between \$12 million and \$12.5 million for 2024. Our tax rate is to be 26% to 29% with a deferred tax of 3% to 6% going forward.

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

Christopher S. Forgy
CEO, President & Director

Thank you, Sam. As I mentioned earlier, I wanted to spend some time on one of Saga's radio and then some transformational growth strategies. As many of you have heard on previous earnings calls and perhaps more recently have read in some of the publications like Radio Ink or [Jacobs Blog], Editor and Publisher and Barrett Media. Saga is moving full steam ahead with an online news and local news and community sites and 18 soon to be 19 total markets once our newest acquisition, Lafayette, Indiana, is onboarded. This product, as I mentioned before was the brainchild of Saga's former Clarksville, Tennessee General Manager, [Katie Willes], who is now our Director of Innovative Online News Services.

Katie will tell you the reason for the development of this original site 12-plus years ago was based on the fact that the 101st airborne out of Fort Campbell, Kentucky was being deployed to Iraq and the service men and women needed a way to stay close and connected to the local community while they were away on deployment. The solution was what came to be known as Clarksville Now. No OpEds, no deep dive investigated reporting. We focus on practical community news, city hall, local sports teams and news from the police and fire departments.

At the same time, the unfortunate decline of the newspaper industry created a void for local unbiased news source. One of Saga's company-wide unrelenting non negotiables is to be hyperlocal in the communities in which we serve. In fact, some of the members of our market leadership team have served on City Council, the local school Board or even ran for Mayor of the city where the radio stations were located. I was asked recently and interviewed by Barrett Media, what is the #1 thing people want from local media? My answer was simple. It was connectivity. That is why the local aspect of what we do is so critical.

People want to feel connected to something special. And this is consistent with all the data we are seeing in the tech surveys. Saga operates in markets we can impact, make a difference in -- connect in and markets that -- and those markets make it more feasible

to create these hyper local and hyper impact on news verticals. We also create meaningful relationships with civic, business and community leaders. These are all conduits that foster local ties. Not to mention the advertising opportunities created with an online new service and community site.

Recently, Jacobs Media conducted another survey that found 7 out of 10 radio core fans read newsletters of this type each week. We are tapping into a market and a medium that is consumed more than podcasts are. And it is wanted and needed by local community leadership. We engaged these local community leaders to talk about our sites. We meet with the Mayor, the City Council, the Chief of Police and others to inform them of our local market mission and to forge a connected community relationship with them. In fact, we frequently hear from local leadership that this is how they connect. They use their online news and community sites to communicate with the community. They tell us, "It's how we get our local news out because there is no other trusted news source available out there."

Why do I share all this with you? Because this is one, just one important part of the transformational change and growth Saga Communications has been experiencing over the past 20 months. And as I've said before, transformational change takes time, unrelenting commitment and resources. Our expense increases, albeit planned, are not for a forever thing. We forecasted them long ago. The expenses are now beginning to level off and stabilize and now, we grow.

By the way, if you've ever had a doubt that feeling and being connected is the #1 attribute consumers crave for media, and that radio and then some delivers on that need better than any other media out there, allow me to read an e-mail exchange between one of our on-air personalities and a loyal connected listener. This letter and this correspondence really speaks for itself and really needed no further introduction. So thank you for indulging me on this.

"Hi. You might recognize my name as I'm a frequent caller and I just love all of you guys. I'm going through some stuff, and I got to thinking that I bet there are others out there who might be in my boat. I'm 41, a mom and an alcoholic. But you may not notice from the outside right away. I could be charming, funny, put together, a soccer mom, a regular woman. My struggles have intensified lately to the point I was thinking the worst. I knew I was at my rock bottom.

Tuesday morning, I got dressed for work and went on my way on a whim. I tried calling an alcohol detox facility I had before they were full. This time, I simply said, "I need help, and I need it now." And the woman said, "Be here at 10 with a week's worth of clothes." I was so scared.

And a little after 10, I started detox. It was awful. Imagine feeling so sick and confused and scared that you would rather die, but there were people there to help you. These people were angels. So now I'm home and coping. I'm either sleeping or running around the house making epic snacks and cleaning something random, like the handle on the microwave. It's driving my family crazy, but they are just happy I'm not drinking.

The reason for telling you my story is my first goal is to start restrengthening my body. I'm wondering if you would take me to my first workout at the workout facility you endorse on the radio. I'm completely out of shape, sore most of the time, get winded easily, low muscle tone due to years of poisoning my body, but I need to get healthy.

You have said that the exercises can be adjusted for any fitness level. So I'm hoping you can get on the road -- I can get on the road to feeling better about myself. I understand if your schedule is too packed and it was just a shot in the dark. Because at this point, all I have at this moment -- it's all I have at this moment.

With much admiration.

And here was the reply from the on-air personality. "I'm glad you reached out. Smiley face. So first off, it's the one thing I don't talk about on the air, and that is I am very familiar with alcoholism addiction and it runs in my family. So I have a soft spot instantly for you and your kids in my heart for you. I do have a question, though. How amazing is it that you were strong enough to admit that you had a problem and asked for help. You are a queen. So detox, as awful as it is, done, checked the box. Are you going to any sort of rehab or AA program? The support in that way is super important. Do you have a plan for after?

And now for your crazy idea, not so crazy because, of course, I'll take you to the first class with you. We got to get you signed up for it. So let me know what day works for you. I'll be there this week Monday through Friday at 11:00 a.m. Now I just had surgery so I will be barely doing anything, but I'm going and doing what I can. So I'll be in the same boat as you.

Looking forward to hearing back and meeting you. Don't give up, stay strong, and keep asking for help because it only makes you stronger.

With much admiration.

Thank you for indulging me in that letter. I wanted to emphasize the fact that people still use radio to connect because it's important and it's meaningful. And what we do every day is important and it's meaningful, and it's impactful and it does make a difference.

Thank you again. Hang in there with us. We're doing some transformational and special things at Saga Communications, the best media company on the planet.

Samuel D. Bush

Senior VP, Treasurer & CFO

Thank you, Chris. And we did get a few questions that we'll address now, most of which we've already talked about a little bit.

Question and Answer

Samuel D. Bush

Senior VP, Treasurer & CFO

The first question is, "Broadcasters have reported that advertising trends have deteriorated into the third quarter, given the macroeconomic trends. What are you hearing from your local advertisers? Are they holding back given the economy? Do they anticipate stepping up advertising as the Fed lowers rates?" You've already talked about this a bit, but would you like to give a little more color?

Christopher S. Forgy

CEO, President & Director

Yes, Sam. Thanks for the question. As I said, interest rates and inflation impact media sector greatly more so than most businesses. And as I said earlier, it's a Main Street thing, not a Wall Street thing. And it's a category of business, being that \$2,000 to \$4,000 per month of advertisers that have said they will return. It's just a matter of when. So we do anticipate them coming back, but they have taken a pause in that space, which is clearly a small business.

Samuel D. Bush

Senior VP, Treasurer & CFO

Very much so. The second question -- thank you for that. The second question is, "What are the struggles that you have experienced with your rollout of your digital offerings? One of the leading radio broadcasters that has effectively transitioned to digital recently expanded services to offer CRM products. Do you believe that you have runway on your current service offerings? Do you believe that you will still need to invest to offer an expanded product suite?"

Christopher S. Forgy

CEO, President & Director

So I'll answer the first question first, and that is speed. Speed is what we need. And so from a sales perspective, our CRM is tied tightly to our entire operation. The investments have been made in the people, the products and the processes. Now it's a matter of execution. And our teams getting more and more comfortable with the new processes, kind of making the processes second nature and not having to think before they act. So they can play fast. And once they're able to play fast and make it second nature, we'll be able to better serve our customers because it won't be clunky and the like.

So being able to play fast by getting comfortable. And yes, we have significant runway ahead of us. We're -- as I've said, we've had a number of transformational changes and growth taking place at Saga. And the one piece that we haven't talked a lot about is the one that's coming last. And there's a reason we don't talk a lot about it because we don't want other people to know about it. And it is the one that is -- will have the largest impact and the one is the slowest, unfortunately.

Samuel D. Bush

Senior VP, Treasurer & CFO

Very good. Thank you, Chris. The last question, I'll answer as I go. But the question was, "Can you talk about allocation of capital with the recent sell-off of the shares? Do stock repurchases represent the best allocation of capital at this point?"

We've said continuously, our Board discusses capital allocation, share buybacks, dividends, acquisitions, et cetera, on a continuous basis. We do have a 10b5 program in place but it's not currently active. Over the past 12 years, we have paid out over \$132 million in dividends to our shareholders as a return of capital. Additionally, over the past 20-plus years, we have repurchased approximately 2.2 million shares of stock at a purchase price of approximately \$58 million. The Board will continue to evaluate capital allocations. And while buybacks have not been a part of the plans recently, they may be in the future.

With that, I think Chris, if you've got anything to add other than that, we can wrap it up.

Christopher S. Forgy

CEO, President & Director

No, thank you, Sam. I think you can turn it back over to Matt, and we'll adjourn. Thank you all very much.

Samuel D. Bush

Senior VP, Treasurer & CFO

Thank you, Matt. We'll let you wrap it up.

Operator

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

Samuel D. Bush

Senior VP, Treasurer & CFO

Thank you, Matt.

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