

Saga Communications

May 8, 2025

11:00am ET

Operator

Good day, everyone and welcome to the Saga Communications First Quarter Earnings Release. At this time, all participants have been placed on a listen-only mode.

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

Chris Forgy

Thank you, Matt, and good morning to everyone who's taken the time to join Saga's 2025 Q1 earnings call. We appreciate your continued interest, support, and participation in what we believe is the best media company on the planet. It's been an interesting few months at the Sagaverse, headlined by several spirited conversations and strong opinions expressed on multiple topics surrounding Saga Communications Incorporated.

Times like these could create a cause to check one strategy, one's resolve, and ultimately yourself. But before during and after the recent conflict occurred, I was constantly reminded of the Stockdale Paradox. You may have heard it. Say it goes like this. In order to navigate difficult times, you must first confront the brutal facts, accepting the current reality, even if it's difficult.

You must maintain faith by having an unwavering belief that you will prevail no matter how long it takes. You must be consistent, continuing to work through pain and uncertainty. You must acknowledge your mistakes and accept that failure and bad decisions are inevitable, and then acknowledge it to yourself and to the rest of your team.

You must overcome temporary difficulties by embracing challenges as temporary constraints and develop to plan to live in the disruption. Finally, you must stay focused and maintain a personal sense of resolve, spirituality, morality, values, and meaning. And we have to review some of those push points that included Saga's potential sale of non-core assets and what to do with the proceeds from those potential sales.

For example, we've had multiple interactions with companies that have been interested in one or more of the towers we own. We are currently evaluating a non-binding letter of intent to purchase some of our tower sites. The board is committed to using a significant portion of the proceeds from such a sale for stock buybacks.

This may include open markets, block trades, or other forms of buyback as a part of our overall capital allocation plans during the course of the year. Another one was our board composition and refreshment. We're delighted to welcome Mike Scafidi to the Board of Directors as Marcia Lobaito retires from the Saga Board.

Thank you, Marcia. I wanted to express my gratitude to you personally and professionally for your 40-year contribution to Saga Communications. You will be missed. We will continue to refresh the board through 2025 and beyond. And what seems to be the main push point, Saga's digital strategy. I believe this is primarily because of faulty assumptions that reflect the general misunderstanding of Saga's business and the landscape in which we operate.

I also believe it's important to further enlighten our shareholders on what our digital strategy is and what it is not. And we'll be doing so in the spirit of an old Chinese proverb that says, Tell me and I forget, Show me and I remember, Involve me and I understand. I think it's important that all of those involved in support and participation of Saga Communications understand what our digital strategy is and is not.

Internally, the word we use to describe our digital process is blended, which refers to the blending of radio, search, and display. More on that later. But first, I'm going to turn it over, first, excuse me. I'm going to take a look at Saga's first quarter performance. In Q1, Saga's top three largest advertising verticals were home improvement, professional services, and automotive, which recently crept back into the top three.

The top three fastest growing advertising verticals were home improvement, health care, and real estate. Saga's rapidly growing digital platform is also gaining momentum. In all of 2024, Saga produced \$5 million in digital ad revenue, which is defined as search, display, and social. As of today for 2025, we've already generated \$5.3 million in search, display, and social, and it's only May 8. Saga has also experienced four straight months of significant growth in digital ad revenue, February through May. And in the month of May 2025, it will be the largest single month ever in digital ad revenue in Saga's history.

Total interactive revenue, which includes streaming, e-commerce, online news, and digital ad revenue combined. Gross revenue in all of 2024 was \$14.2 million. As of today, Saga has already written \$12.5 million in total interactive revenue. And again, it's only May 8.

With that, Sam I'm going to turn it over to you for more detail and some color on Q1 as well as a look ahead to our forward pacing. Sam?

Sam Bush

Thank you, Chris. 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 factor 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, 2025, net revenue decreased 4.3% to \$24.2 million compared to \$25.3 million last year. Station operating expense decreased 2.2% to \$22 million for the three months period. For the quarter, we had an operating loss of \$2.3 million compared to \$2.4 million last year.

Station operating income, a non-GAAP measure was \$2.2 million for the quarter. Capital expenditures were \$700,000 for the quarter compared to \$1.1 million for the first quarter last year. We had a net loss of \$1.6 million for the quarter, which was approximately the same as last year. On a same-station basis for the quarter ended March 31, 2025 net revenue decreased 6.6% to \$23.6 million and station operating expense decreased 5% to \$21.3 million.

Reflecting on operating expenses, it was good to see a 2.2% decrease in station operating expenses for the first quarter. This was the result of an increase in operating expenses of approximately \$619,000 for the Lafayette acquisition and a decrease in same station operating expenses of approximately \$1.1 million.

The decrease in same station expenses was primarily due to a reduction in compensation and compensation related expenses, bad debt, and digital services as we are now doing some of our digital ad placement in house. Corporate expenses increased \$84,000. This included a \$110,000 expense relating to a threatened proxy contest initiated by OneSaga shareholder.

There will be additional legal proxy consulting and annual meeting expenses reflected in the second quarter results relating to the resolution of this issue. In addition to what Chris has already said and will talk more about shortly, I want to point out that for the quarter, total interactive revenue was up 14% with a 51% profit margin. The profit margin does exclude sales commissions, at this time.

While still in its infancy from a total dollar standpoint, our online news initiative revenue almost doubled from \$285,000 in the first quarter of 2024 to \$562,000 for the first quarter this year. Pacing for the second quarter is still uncertain, but is improving over Q1's results. For the second quarter, we are currently pacing down mid-single digits.

That said, April was not a great month pacing down high-single-digits, but May showed improvement to down low-single-digits, and June is currently flat with last year. We expect to continue to see improvement as the year progresses. Interactive pacing is strong for the second quarter being up 18.4%. It was also encouraging to see that with our ongoing blended initiative, local direct is also improving from being down high-single-digits in April to being down mid-single-digits in May and down very low single-digits in June.

Local radio, as you have heard Chris repeatedly say and will continue to hear him say, is what starts the whole blended advertising process. The company paid a quarterly dividend of \$0.25 per share on March 7, 2025. The total dividend paid was approximately \$1.6 million.

To date, Saga has paid over \$137 million in dividends to shareholders since the first special dividend was paid in 2012, as well has bought back over \$58 million in Saga stock. The company intends to pay regular quarterly cash dividends in the future.

Further, as a part of our overall capital allocation plan for 2025, Saga intends to use a portion of the proceeds from the potential sale of non-core assets to fund stock buybacks, which may include open market purchases, block trades, or other forms of buybacks.

All said, we believe Saga is in a strong financial position to improve profitability as our digital initiative improves both local radio and interactive revenue. As an update to our year end conference call and as Chris and I both talked about, we have entered into a non-binding letter of intent to sell some of our tower sites, which we are currently evaluating.

We will release more information when it is appropriate as both Saga and the prospective buyer continue the due diligence process. The company's balance sheet reflects \$27 million in cash and short term investments as of March 31, 2025 and \$27.2 million as of May 5, 2025. We currently expect to spend between \$4 million and \$4.5 million for capital expenditures in 2025. We also currently expect that our station operating expense will be approximately flat or decreasing 1% for the year as compared to 2024.

This takes into consideration the expense reductions we have and are making in addition to any costs incurred as the expenses are reduced as well as our continued investment in the ongoing revenue initiatives. We anticipate that the annual corporate general and administrative expense will be approximately \$12 million for 2025 compared to \$12.6 million in 2024. Our tax rate is expected to be 27% to 30% with a deferred tax of 2% to 6% going forward.

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

Chris Forgy

Thank you, Sam. As [indiscernible] [0:11:13] continues to pursue a digital strategy that has been carefully curated to focus on the needs of the consumer based on a deep understanding of consumer behavior and when they interact with an advertising message and a digital advertising marketplace that is simply broken and ripe for disruption.

Saga's click, visit, call, and search approach provides the advertiser with an easy to understand, easy to use, and easy to buy solution to get the advertiser wanted, found, and chosen. Ultimately resulting in more sales and higher customer retention.

Saga's digital strategy helps us differentiate ourselves from other digital solutions by providing higher margin, lower attrition, and customer focused solutions versus the product oriented offerings that currently exist in much of our current digital marketplace. And it all starts with radio, the best most efficient medium to persuade the consumer to take action.

How and why is this digital marketplace right for disruption? Several reasons. #1, there's a significant increase in digital ad spend. There are frustrated buyers with unmet needs. Advertisers are simply fed up with efficient inefficient campaigns and empty promises. They don't like what they're buying and who they're buying it from.

And there's a fragmented and confused advertising marketplace as well. There are just too many providers, too many conflicting solutions. Businesses don't know who they can trust. And in this case, simplicity and clarity win. There's a shift in consumer behavior.

Digital advertising strategies have not caught up with the journey people take when they buy a product or service. In other words, there there's a gap where tech meets human behavior. The problem that Saga is solving with its rapidly growing digital strategy is to provide our customers with a digital advertising solutions that are, as I said earlier, easy to understand, easy to buy, easy to use, and most importantly, all hyper targeted on a highly qualified real consumer. This along with easy to understand attribution metrics focused on the actions consumers take that lead to a sale. And again radio is a star.

Radio is the magic top of funnel medium that provides persuasive messaging, leads the consumer to a search, and starts the consumer buying journey. We call it click, visit, call, and search. Saga's radio stations get the advertiser wanted, and Saga's digital platform gets the advertiser found and chosen. And by the way, this isn't new money. The available digital money that it's being spent as we speak by customers of ours who like and trust us, but only with their radio spend.

The teaching and training we've been doing over the past year plus is to give our leadership team and our media advisors the intellectual currency. They need to show our customers that we are competent enough in the digital space using the consumer journey to be trusted with enormous amounts of money they are already investing in digital advertising.

And like the digital dollars being spent, the consumer journey is not a new phenomenon either. Since the early days of advertising, there has been a consumer journey. The delivery system just changed. For example, today, the consumer hears an ad with a compelling persuasive message then goes on a search for that message on Google. Then the consumer is served with display ads consistent with the ad they heard on the radio to remind and persuade them to choose the advertiser being promoted instead of their competitor.

Conversely, in the early years of advertising, the consumer hears an ad with a compelling persuasive message then goes on a search, this time in the yellow pages. And those yellow pages, the consumers serve with display ads in the form of a half page or full page ad in red and black ink versus just black ink with a message that makes the ad stand out and is consistent with the ad they heard on the radio to remind them and persuade them to choose the advertiser being promoted instead of their competitor.

You see it? It's very similar. This isn't a new revolutionary process, and this isn't new money. We are simply more competent, and we are gaining the trust of the customers who already trusted us with the radio advertising to allow us to guide them through the consumer journey and to trust us with their digital advertising money.

One example is our cluster in Columbus, Ohio. Had previously won a \$750,000 plus click visit and call search order from a brand new advertiser. Then just this week, they received a call from the very same client saying they had given a second piece of their digital business to one of our competitors, primarily because the client had an advertising relationship with our competitor and wanted to give them a shot with a separate portion of their digital ad spend. The client then expressed that our competitor could not deliver on the promises they made when given the business in the first place and that they were pulling the business and giving it all back to us, another \$298,000.

This single client with one campaign in one single market now represents over \$1 million in radio search and display. This is the largest single order from one client in one market that I personally have ever seen in my 45-year advertising career.

So why are we doing this? Willie Sutton wants to ask, why robbed banks? And you know what he said. He said, because that's where the money is. According to eMarketer, in 2024, there were \$421 billion spent on advertising in the United States. 74% or \$309 billion were spent in digital and \$91 billion on search alone.

In 2025, the total number is expected to rise to \$456 billion and 75% of total ad spend or \$342 billion being spent on digital advertising. And by 2029, in only four short years, digital percentage of total ad spend is projected to be at 83%. So the cabin is widening.

Currently, radio's percentage of the total ad spend is a mere 5.6%, and radio's percentage of total ad spend is a pedestrian. A rate radio's percentage of total digital ad spend is a pedestrian 0.067% or \$2 billion. We simply cannot grow with 5.6% of total ad spend and a little more than one half 1% in the total digital ad spend. We have to do it differently.

And transformational change is hard. I've said this before. It takes time, it takes money, and it takes great resolve. And if we can capture just 5% of the available digital dollars in our Saga 28 markets over the next 18 to 24 months, we believe we can double our gross total annual revenue, most of it digital, and at the same time, while we are preserving and protecting and growing radio.

Sam, do we have any questions?

Sam Bush

We did. We got a few questions that came in this morning, Chris. Most of them, I think, we've already addressed, but I'll just walk through it. The first one is it seems that there has been some impact on advertising spend related to the concerns around the tariffs. Are you seeing improvement in ad trends following assuaged concerns around tariffs?

Chris Forgy

I think there will be a ripple effect. We're going to see it on Main Street. We're going to see it in all products and services that are sold and consumed. We have not seen that as of yet. As I mentioned in the early parts of the call, Sam, one of our categories that had not been in the top three has now inched its way back in, and that's automotive, which seems to be the biggest discussion about where the tariffs are going to be coming from. And so we'll see, but there certainly will be a ripple effect in cost of goods sold.

Sam Bush

Yes. And I think, Chris, the other aspect of that is, is that there's volatility still. Nobody knows from day-to-day where the tariffs are. I mean, supposedly this morning, there's going to be an announcement about reaching a tariff agreement with the U.K. Supposedly, we're having conversations with China, but I don't know that any of us know from day-to-day where that stands. So still to be determined as we go forward.

The two questions had to do with digital performance in the quarter and what the trends are in the second quarter and breaking down digital and legacy broadcast, revenue guidance. We don't break it down specifically. I do think we addressed the performance in the quarter and the trends in the second quarter, so I believe that will help with the questions.

And then the last was any color on the advertising categories that are weakened from the first quarter versus the second quarter. And I think you addressed what had strengthened in the first quarter and where we were going. So I'm not sure that talking about the weakened categories, because we are seeing some of our main categories do very well right now and showing some positive growth for the second quarter.

So, with that, I'm going to turn it back over to you again, Chris.

Chris Forgy

Thank you for your questions. Thank you, Sam. Thank you again to all of you who have joined us for the Saga Q1 earnings call. And thank you for your interest in Saga Communications Incorporated. What we believe is the best media company on the planet. Thank you, and have a great rest of the week.

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.