

Saga Communications, Inc. NasdaqGM:SGA

FQ3 2024 Earnings Call Transcripts

Thursday, November 7, 2024 4:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2024-			-FQ4 2024-	-FY 2024-	-FY 2025-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	0.13	0.20	▲ 53.85	0.21	0.49	NA
Revenue (mm)	28.70	28.12	▼ (2.02 %)	30.05	112.16	NA

Currency: USD

Consensus as of Aug-09-2024 1:04 PM GMT

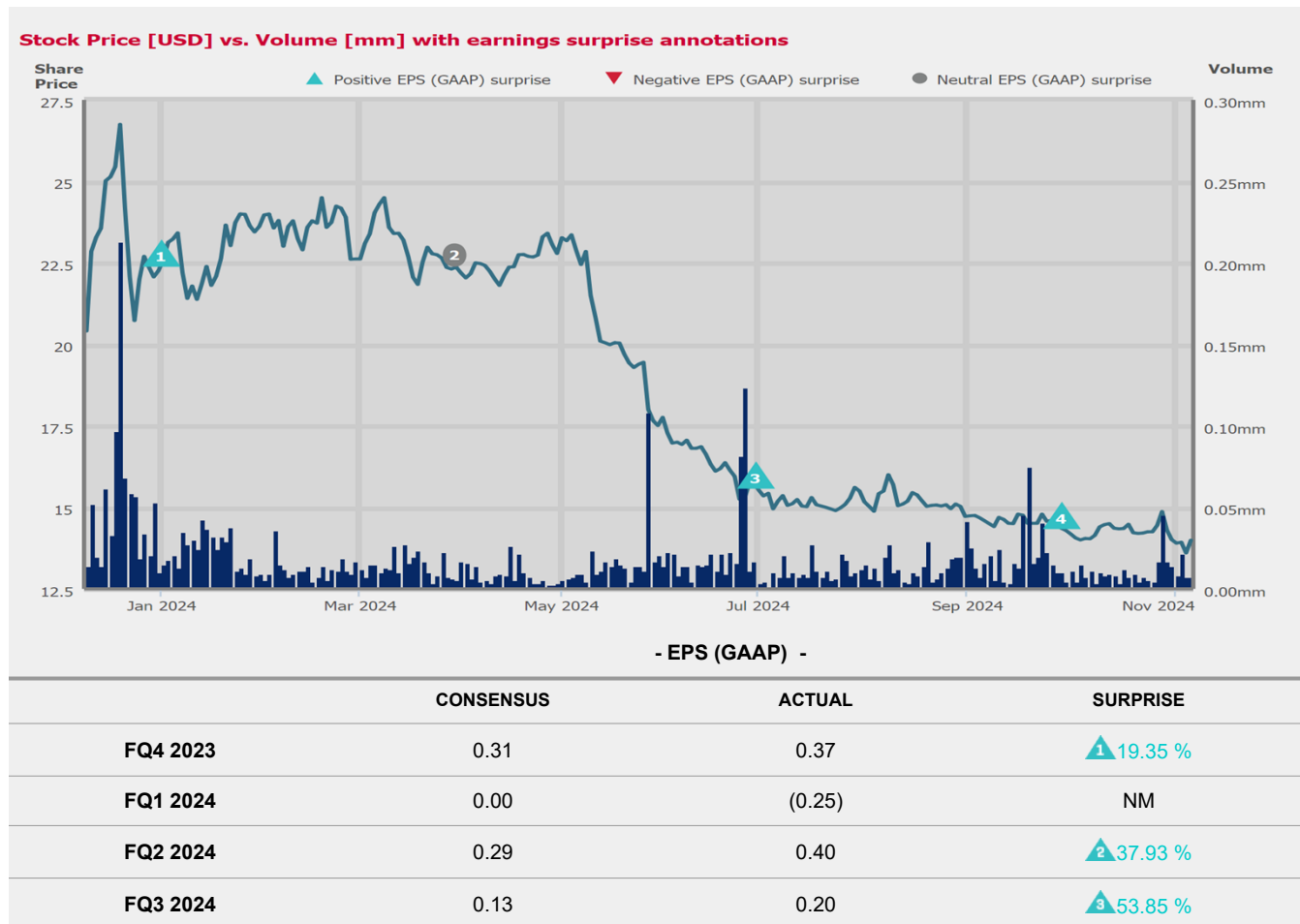


Table of Contents

Call Participants	3
Presentation	4
Question and Answer	8

Call Participants

EXECUTIVES

Christopher S. Forgy
CEO, President & Director

Samuel D. Bush
Executive VP, CFO & Treasurer

Presentation

Operator

Good day, everyone, and welcome to the Saga Communications Third 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. Good morning, and welcome to our corporate team, our shareholders, the writers from our industry's trade publications, and our Saga employees, all who have joined us today for the third quarter earnings call. So thank you for being here. It's been another interesting few weeks, hasn't it? Today, half of the citizens in the U.S. are elated. The other half woke up yesterday unhappy and frankly concerned for the future. Regardless of which side of the aisle you're on, these are turbulent times, no question about it. We recently saw more layoffs in the automotive and broadcast sectors and many of our advertising partners are forced to choose between meeting their payroll or putting a hold on their advertising. It's truly a Main Street thing, and it's been going on for some time. So the question is, what do we do about it?

Saga's approaches to turbulent times come from a passage called the Stockdale Paradox that we've shared with our leadership team and characterizes how we are behaving going through it. 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, 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 acknowledge it to yourself, your team and you must overcome temporary difficulties by embracing challenges as temporary constraints and develop a plan to live in the crisis.

Finally, you must stay focused, maintain a personal sense of spirituality, morality, values and meaning. This type of discipline during the transformational change we chose to put ourselves through would be painful without political unrest, massive layoffs, economic downdrafts and small business uncertainty on Main Street. And we consciously made that decision to chart a different path and expand our digital footprint in the midst of all this turbulence.

Now any reasonable person knows and understands, during a transformational change of this nature, of course, there will be additional expenses. R&D costs money and reinvestment, by definition, creates additional expense, but only for a time. And as expenses level off and plateau, we grow. Admittedly, Saga was a very late entry into the digital landscape, which had its advantages and its disadvantages. One advantage is we're able to carefully observe the mistakes that others made and then look back at both the intended and unintended consequences that occurred during the innovation.

There were disadvantages, too. During our tardiness, we sacrificed the relative skill levels of our sellers in the digital space. So a great deal of education and training time was necessary to get our media advisers up to speed on digital and the new philosophy we're implementing.

We then aligned our intentions for growth with those who understood how to protect and grow radio's percentage of the total ad spend, while at the same time, growing our digital verticals. This process is headed by Saga's Director of Innovation and Growth, Matt Burgoyne. Matt and his team have helped us to understand the role that radio and digital play in the consumer journey. To be clear, this is not a product or an inwardly focused product-oriented sales process. It's a philosophy, a methodology built to achieve better results for our local advertisers based on a journey a consumer embarks on when they are exposed to advertising.

Furthermore, it capitalizes on the power of radio to move the consumer to a series of specific actions to search for the client's name, click on the client's website, call them or visit their business. We call this philosophy blended advertising. This philosophy dovetails nicely with the other top-of-funnel verticals we've been implementing and growing in the past 20 months in dash graphics with Q, our 18 online news sites, e-commerce, streaming and Saga's best of program. Sam will share some specifics on that in just a moment.

So over the past year, we have been equipping our media advisers with the knowledge, the training, and the in-house resources to enable them in turn to share that knowledge with our local direct advertisers, providing those advertisers with the sophistication large national advertisers get from digital in a very easy-to-understand way that levels the playing field using blended advertising tools. This allows them to compete and win market share from even the most behemoth-sized advertisers.

As we begin to track our progress of blended advertising, and keep in mind, we've only just begun, we are astounded by the early returns. We are seeing some incredible outcomes when the media advisers dutifully practice blended advertising. Firstly, it doesn't

decrease the client's radio spend. In fact, blended advertising significantly increases the radio-only spend and increases the total radio and digital spend mid- to high-double digits. Blended advertising has saved businesses that were going to cancel radio with us and led to a blended digital and radio outcome that actually increased the client's overall spend and the client's results.

And then there are outcomes for our local direct advertisers. They include getting more clients, getting more patients, getting more leads, and ultimately getting more sales. Question continues to be, I've asked that a number of times, where would we be had we not taken this new path of innovation and growth. More on that later. Until then, I'm going to turn it over to you, Sam, take it away.

Samuel D. Bush

Executive VP, CFO & Treasurer

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 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 measures are attached in the selected financial data tables. For the quarter ended September 30, 2024, net revenue decreased 3.5% to \$28.1 million compared to \$29.1 million last year.

Political was a bit better as for the quarter, we had \$677,000 in gross political revenue this year compared to \$234,000 for the same period last year. Station operating expense increased 3.1% to \$23.5 million for the 3-month period. Station operating income, a non-GAAP financial measure for the quarter, was \$6 million, and net income was \$1.3 million or \$0.20 per fully diluted share. On a same-station basis for the third quarter, net revenue decreased 5.8% to \$27.5 million, and station operating expense decreased 0.3% to \$22.7 million. As a reminder, we closed on the purchase of the Lafayette stations on May 31, 2024. Everything in Lafayette is coming along nicely as they are getting fully integrated into the Saga operating procedures and culture.

For the 9-month period ended September 30, 2024, net revenue decreased 2.5% to \$81.5 million. Gross political revenue was \$1.3 million for the period compared to \$538,000 for the same period last year. Station operating expense increased 4.7% to \$70 million for the 9-month period. Station operating income, a non-GAAP financial measure for the 9 months, was \$15.2 million, and net income was \$2.2 million or \$0.35 per fully diluted share. Keep in mind that as you look at the net income for the 9-month period, that we reported a \$971,000 other operating expense in the first quarter, which was a noncash write-off on the sale and abandonment of nonproductive broadcast assets, licenses in 2 markets.

Also, you should note that we recorded \$1.1 million in the second quarter in other income, which was cash received for the redemption of stock that we owned in BMI when the music licensing organization was acquired. For the 9-month period this year on a same-station basis, net revenue decreased 3.6% to \$80.6 million and station operating expense increased 3.2% to \$69 million. Digital advertising in its totality, as Chris was talking about earlier, we reported in our 10-Q, shows a slower growth rate in the third quarter than it has in past quarters.

This is by design as midyear, we terminated a relationship with a digital services partner that was providing meaningful dollars in gross revenue, but was not profitable for Saga because of the way the partner did business. This will result in somewhat challenging revenue comparisons for our digital business over the next couple of quarters. Net of that strategic decision to eliminate a revenue positive silo that was providing little profitability, our digital business continues to have significant growth potential. Expenses continue to be impacted by strategic investments in our people and our product offerings, including e-commerce, interactive, online news, market best of productions, new and continued NTR events.

For a little more color on revenue, e-commerce was up 33% or \$153,000 in the third quarter and is up 89% or \$849,000 for the 9-month period. Adding to what was mentioned before about our digital efforts, Interactive was up 4.5% or \$122,000 for the quarter and up 21.4% or \$1.5 million for the 9-month period. NTR events were up 11% or \$246,000 for the quarter and 1.5% or \$87,000 for the 9-month period. The market's best of programs have booked \$1.3 million in gross revenue year-to-date through September 30, 2024. This is a 21% increase over the same period in 2023.

For the quarter, the revenue was \$522,000, which is an 11% increase. You should note that portions of the best of revenue are recorded in NTR and portions are recorded in Interactive as we have both online and printed advertising offerings in this segment. Online news, which is a subset of the Interactive numbers, increased 68% or \$242,000 for the quarter and 66% or \$631,000 for the 9-month period. Total revenue for the quarter was \$597,000 and for the year, \$1.6 million.

Capital expenditures for the quarter ended September 30 were \$625,000 compared to \$760,000 for the same period last year. For the 9-month period, capital expenditures were \$3.2 million compared to \$3.4 million for the same period last year. We currently expect to spend between \$4 million and \$4.6 million for capital expenditures in 2024. The company's balance sheet reflects \$28.7 million in

cash and short-term investments as of September 30 and \$28 million as of November 4. We currently have \$5 million drawn against our \$50 million revolving credit facility, which we used to close the Lafayette acquisition.

We paid a quarterly dividend of \$0.25 per share for approximately \$1.6 million during the quarter on October 18, 2024. To date, we have paid over \$133 million in dividends to our shareholders since 2012. Pacing for the fourth quarter remains soft, and we are currently pacing down low to mid-single digits.

Political did pick up nicely in October. As of November 5, 2024, we had total political for the year of \$3.3 million. During the last presidential election in 2020, we recorded approximately \$6.9 million in gross political revenue for the year. We just didn't have stations in all the right states this year. Political for the fourth quarter looks to be \$2 million of the \$3.3 million total year expectations, and the bulk of that was in October. Based on our current projections, we currently expect that our station operating expense on a same-station basis will increase by approximately 3% to 5% for the year as compared to 2023, in addition to the inflationary environment that is significantly driven by our investments in our staff, sales training and ongoing interactive development, including our online news product.

We anticipate that the annual corporate general and administrative expense will be approximately \$12.2 million for 2024. Our tax rate is expected to be 27% to 31% with a deferred tax rate of 6.9% going forward.

Chris, after a lot of numbers, I will give it back to you.

Christopher S. Forgy
CEO, President & Director

Well, Sam, I think it's safe to say that there's turbulence in the environment, in the economy in our sector and a number of sectors. Turbulence seems to be one of those ongoing phrases and terms that we use and hear a lot about. Nothing more turbulent than what we experienced recently. As most of you know, Hurricane Helene, the first of 2 hurricanes that made landfall last month on the West Coast of Florida, also wreaked havoc all the way to the Carolinas. There was massive flooding.

Saga owns 7 radio stations and an online news site in Asheville, North Carolina called 828newsNOW. The city of Asheville was absolutely decimated. Asheville was literally and figuratively under water. The members of the Asheville Radio Group -- Media Group led by President, GM, Tom Davis; Operations Manager, Steve Richards; and Chief Engineer, Cameron Dempsey, along with many others, ran towards the challenges and not away from them. Because when it's time to shine, that's what we do, even when circumstances are dire.

So for a moment, picture this. No phone, no Internet access. 60% of the city had no power. The water treatment facility was wiped out, thus there was no running water whatsoever for weeks, and there's still a limited amount of potable water today. The hospital was overwhelmed with injured flood victims. Water tanks were brought into the hospital and were protected by FEMA agents, so the hospital staff could treat the injured without interruption. Additional medical personnel came all the way from Texas and even Canada to assist. And sadly, there were over 100 lives lost. It was like a war zone.

During all this chaos, 5 of our 7 Asheville Media Group radio stations remained on the air, thanks to employees like Cameron and Steve, who I mentioned a moment ago, who were literally hauling 5-gallon containers of gasoline up a mountain to keep the backup generators operational and the radio stations on the air. The Asheville Media Group stations were simulcasting critical information to the Asheville community, because radio was the only way for them to get the disaster information and direction they needed. The Asheville Media Group had feet on the streets and their microphones, live transmitters were all in full operational mode.

Broadcasters even reached out to me from all over the country to see how they could help and offer whatever we needed. The Broadcasters Foundation of America responded immediately making grants available to Asheville Media Group employees who were in need of assistance. No one could get in and out of Asheville. It was impossible. So what Saga's corporate office and team did, with the help of our Charleston Media Group stations, we packed a box truck with water and supplies and drove it from South Carolina to North Carolina and unloaded it specifically for our Asheville Media Group employees.

We also ran free on-air messages on behalf of local businesses, who were open and able to operate, letting listeners know that they were open and ready to serve them. And finally, there was an inter-market exchange live and on the air that took place between Asheville's Morning Show on The Mountain, WTMT 105.9 FM featuring Jeff and Rizzo, and the Morning Show in Columbus, Ohio, with Torg and Elliott on QFM96 WLVQ.

The interview was radio at its best without a doubt. It was the first real look at the on-the-ground images of the devastation Helene had caused. The radio exchange was stimulating, horrific, and frankly, riveting. It was must-hear radio. The professionalism and

sense of humanity emanated from the entire interview. And then it kickstarted a Saga-wide relief effort that aired on all Saga stations. No water, no insulin for those who desperately needed it, no proper sanitation, no power. And as one resident said, the citizens of Asheville were trapped in a giant cereal bowl of water and waste.

Here's an excerpt from what a Hendersonville flood victim said after the flood. "I can't say enough. Radio is so critically important to our people everywhere. I think sometimes we forget because you can't flip on a TV or the Internet when a disaster hits, because it's just simply not available. What would we do without radio? I honestly don't know. So I am very, very thankful." And she ended her quote with "God bless radio."

She didn't say what would we do without streaming. She didn't say what would we do without podcasting or audio. She said, what would we do without radio. The passion and commitment for our people to serve our communities and Saga's response to the needs was unprecedented. Asheville's disaster exemplifies how radio can serve as a beacon of hope, providing essential information and connecting communities in the darkest of hours. What other media can say that? Name one. Radio is the original audio, the #1 reach medium that commands attention, deeply connecting with our listeners and driving outcomes for our customers.

And by the way, if any of you are still interested, they are still taking donations. You could go to One Buncombe, which is the county that Asheville is located in. O-N-E B-U-N-C-O-M-B-E. So we bring all this back around, how do you weather both a literal and figurative storm? Robert Frost said it best. "The best way out is through." Saga is walking and punching through these turbulent times, and we will come out on the other side stronger, better trained, better equipped to continue to forge more meaningful and profitable relationships with our customers, all of them.

Thank you again for being part of Saga's Q3 earnings call, and we'll talk to you next time.

Question and Answer

Samuel D. Bush

Executive VP, CFO & Treasurer

Chris, we had a few questions come in. Most of them we've at least touched on, but maybe we can go into a little bit more depth. The first is, in terms of the digital business, what are the headwinds that you face in growing your digital business, competitive environment, talented digital sales staff, economic headwinds?

Christopher S. Forgy

CEO, President & Director

Sam, there are really like 4 words that come to mind when I think about that question. And we've talked about this with our leadership team, with our media advisers, and with our corporate staff, and with our Board. The things that are causing downdraft or can cause some issues for us are simply time, talent, training and speed, focusing on the -- really, it's just the time to catch up. We were 10 or 12 years behind in the start of our digital processes. So we had a lot of catch-up to do. That takes money and time and training.

Talent. Frankly, it's been difficult, before we made this transition, to find, hire and onboard really good sales talent. So even with our really strong processes that we have to find and hire and evaluate the talent. So talent is a challenge. And then the onboarding of the people, as I mentioned, and then the training. The training also takes time. And it not only takes time to do the training, it takes time to practice and get really good at it. So you are not having to play slow, you can play fast, which brings in the final element and that's speed. The better we learn, the more we practice this, the better we get at it, the faster we can run and the faster the results will come.

Samuel D. Bush

Executive VP, CFO & Treasurer

Very good. You also talked a little bit about the tone of the advertising market heading into Q4 without the political. And you talked about Main Street and what the advertisers were saying on Main Street. We obviously all know that looking at the political aspects of what's been going on over the last year with the elections, what's been going on in Palestine, Israel, Ukraine, the economics of the world, the car issues and so forth. But would you like to say anything else about the advertising market in Q4?

Christopher S. Forgy

CEO, President & Director

Well, I think there's both good news and not so good news. I mean, you saw Stellantis and GM make major layoffs in Detroit just a couple of weeks ago. We also saw major broadcast sector layoffs that happened over the last couple of days, and from what I understand, they're not finished. And to me, people are our most important resource, and we can't win without people and without the resources to train them and equip them. So for me, that's really -- that part of it is really off the table.

But that wasn't a metaphor when I said our advertising partners are having to make decisions about whether to meet payroll or pause their advertising campaigns. That has actually been said multiple times. I actually got that and shared it in a Board meeting, I think, from one of our leaders in one of our markets that advertisers were actually saying that. At the same time, the stock market was performing pretty well yesterday. So there is both good news and bad news, and some we control, some we don't. We just focus on the ones we can control and run really fast and keep punching through.

Samuel D. Bush

Executive VP, CFO & Treasurer

Very good. I think we're moving in the right direction. Absolutely. Matt, I think we're good, if you want to wrap up the call. And thanks, everybody, for joining.

Christopher S. Forgy

CEO, President & Director

Thank you.

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.

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