

Saga Communications, Inc. NasdaqGM:SGA FQ4 2022 Earnings Call Transcripts

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Call Participants

EXECUTIVES

Christopher S. Forgy
CEO, President & Director

Samuel D. Bush
Senior VP, Treasurer & CFO

Presentation

Operator

Good day, ladies and gentlemen, and welcome to the Saga Communications' Fourth Quarter and Year-End Earnings Release Conference Call. [Operator Instructions]

It is now my pleasure to turn the floor over to your host, Chris Forgy, President and CEO at Saga Communications. Chris, the floor is yours.

Christopher S. Forgy
CEO, President & Director

Thank you, Tom, and welcome to all of you, and thank you to all of you who have taken the time and interests in learning more about Saga today and Saga tomorrow.

In a moment, I'm going to turn it over to Sam Bush. You'll notice that Sam will be unusually chatty this morning, and for very good reason.

So with that, Sam, I'd like to turn it over to you.

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 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.

As all of you have heard and know from past calls, Ed never liked reporting adjusted numbers, actually, none of us do. However, it is important that we do so again for the year-end due to Ed's passing last August and the impact of his passing on our third quarter results. The purely reported year-end numbers do not reflect Saga's strong operational performance as well as our extremely strong financial strength.

With that in mind, for the quarter ended December 31, 2022, net revenue increased 3.3% to \$30.1 million compared to \$29.2 million last year. Gross political revenue during the quarter was \$1.9 million compared to \$886,000 for the same period last year. Without political, gross revenue increased a little less than 1%. Station operating expense increased 5.9% to \$22.9 million for the 3-month period. Station operating income decreased 4% to \$8.5 million.

Operating income and free cash flow were approximately flat with the same period last year at \$4.9 million and \$3.8 million, respectively. Net income for the quarter was \$4.3 million, which compares to \$3.7 million for the fourth quarter last year. For the 12-month period ended December 31, 2022, net revenue increased 6% to \$114.9 million compared to \$108.3 million for the same period last year. Gross political revenue during the full year was \$3.6 million compared to \$1.8 million for the same period last year. Without political, gross revenue increased 4.7%.

Station operating expense increased 5.2% to \$87.5 million for the 12-month period. Station operating income increased 5.7% to \$32.3 million, while operating income was \$13.1 million compared to \$15.1 million for the same period last year.

Free cash flow was \$10.5 million for the period. Net income for the year was \$9.2 million compared to \$11.2 million for the year-end December 31, 2021, and diluted earnings per share were \$1.52 for the year.

As a result of Ed Christian's passing, the company was required to make several payments to his estate as outlined in his employment agreement and as previously discussed in the third quarter release. Without these expenses, operating income would have increased 12.3% to \$16.9 million, free cash flow would have been approximately flat with last year at \$13.6 million and net income would have increased 16.8% to \$13 million. Diluted earnings per share would have been \$2.15 per share as compared to a \$1.85 per share for the same period last year.

Capital expenditures for the fourth quarter were \$1.3 million, which is basically flat with the same period last year and \$6 million for the 12-month period compared to \$4 million for the full year in 2021. First quarter 2023 is currently pacing approximately flat with

the same period last year. With the current interest rate environment, the potential recession on the horizon and the ongoing global turmoil, everything is still week by week, month by month and sometimes even day by day.

The company declared a \$0.25 per share quarterly cash dividend on March 1, 2023, to be paid on April 7, 2023, to shareholders of record on March 20, 2023. The aggregate amount of the quarterly dividend will be approximately \$1.5 million. The company paid a quarterly dividend of \$0.25 per share and a special dividend of \$2 per share on January 13, 2023, that was declared in December 2022.

As we reported last December, 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. Under the new policy, in addition to any quarterly and special dividends paid, the company will declare an additional dividend in the second quarter of each year of 70% of the preceding year's annual free cash flow, net of acquisitions closed, special and quarterly dividends declared, debt paydowns and stock buybacks.

For Q2 of 2023, this calculation would result in no dividend being paid based on a free cash flow for the fiscal year 2022 of \$10.5 million and a total of \$29.5 million in dividends declared during the year, including \$5.2 million of quarterly dividends and \$24.3 million of special dividends. With a quarterly dividend per share of \$0.25 and with a mid-20 stock price, which we believe is significantly undervalued, by the way, the yield is approximately 4%.

On a pro forma basis, if you look at what the variable dividend would have been based on the free cash flow for 2022 adjusted for Ed's passing as well as the 2 special dividends declared in 2022, we would start with a free cash flow of \$13.6 million. Our pro forma quarterly dividend at \$0.25 per share would reduce the net free cash flow available for a variable dividend by \$6.1 million, basically \$1 per share, multiplied to roughly 6.1 million shares outstanding.

In a year with no acquisitions, no debt paydown and no stock buybacks, the net free cash flow available for the variable dividend would have been \$7.5 million, and a 70% of net free cash flow payout would have resulted in approximately \$5.25 million being paid in variable dividend. This would be approximately \$0.86 per share. Along with the \$0.25 per share pro forma quarterly dividend or a \$1 per share on an annual basis, the total dividend paid would have been approximately \$1.86 per share, or, with a mid-20 stock price, a very, very nice yield of around 7.5%.

Of course, all future dividends are subject to the risk factors we describe in our 10-K, along with our potential acquisition opportunities.

All said, we believe Saga is in a strong financial position. I say we believe -- we know 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 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. Including the dividend declared on March 1, 2023, the company will have paid \$108.3 million in dividends to shareholders since the first special dividend was paid 10 years ago in 2012.

The company's balance sheet currently reflects \$46.9 million in cash and short-term investments as of December 31, 2022 and \$38.4 million as of March 6, 2023. The reduction in cash is primarily due to the \$13.8 million dividend paid on January 13. The company expects to spend approximately \$5 million to \$5.5 million for capital expenditures during 2023. We currently expect our station operating expense will increase by approximately 3.5% to 4.5% for the year as compared to 2022.

This includes additional sales commissions, music license fees that are based on revenue growth, increases in our cost of sales surveys, increases as a result of inflation as well as we continue to invest in the resources necessary to grow the company. Our tax rate is expected to be 28% to 30%, with a deferred tax rate of 3.6% going forward.

And that may be the longest I've ever talked, Chris, at the start of the call, but I will turn it back over to you for now.

Christopher S. Forgy
CEO, President & Director

Thank you, Sam. I was going to have you go for another 30 minutes. But I think you'll find that I'm going to be equally as chatty if there seems to be a cord of electricity running through Saga Communications, and it's been expressed to me that our leadership team and our members of -- or our teams across the country have expressed that to me as well and to others. And so they're feeling it at the market level.

I was asked recently what my thoughts are on the future of the radio business. It's a loaded question, not something you want to be asked at a cocktail party. My response was really quite simple. My reply was, "Unfortunately, I really can't speak for our broadcast brethren. I don't have any control over or influence over their behavior. But I can't speak to the future of Saga." And that's what I'd like to do with you today. Again, thank you for your time and attention.

Saga has been referred to recently as the new look Saga. And I just want to be clear that Saga always has been and always will stand on the culture we've worked so diligently to build and protect. We call it consistent, sustainable growth. Sage is live and local, serving all of our customers, our community, our advertisers, our listeners, our shareholders and our employees. Those are all of our customers.

We've often said the degree to which you serve your customers is directly attributable to your financial success. Our employees are the key to keeping our customers as well as to our financial success. And I think you heard some of that in Sam's explanation just moments ago. As a result, we've really set forth on a mission to arm our employees with the resources necessary so when these economic headwind subside, we'll come out on the other side better equipped, better trained, more creative and stronger than ever before.

Let me share with you some of what we have done since we last spoke. We appointed Wayne Leland, the former President and General Manager of Saga's Norfolk, Virginia clusters to replace me as the Senior Vice President of Operations. Wayne brings fresh ideas and provides coaching to our employees that's really second to none. That will be critical to our consistent sustainable growth.

We also promoted Eric Christian to Chief Marketing Officer. Eric's expanded role will include oversight of Saga's digital platform as well as market and station branding, e-commerce and contesting. Eric is working closely with Wayne and Saga's Group Head of Programming, Scott Chase, on ensuring consistent messaging across our sales, on-air, online and e-commerce platforms.

Also in, this is a unique piece. We are into 3-year agreement with Nielsen and Scarborough that expands our relationship and allows all of our Saga markets, not some, not just markets that are surveyed, but all of our Saga markets to have some form of qualitative and quantitative data. And then we also deployed sales training in our markets, individualized sales training by the utilization of one of our partners, Matt Burgoyne, who was the founder of Rumble, a CRM system that we use in the company as well. And he's gone into several of our markets to work with and train our leadership team and our sellers on how to conduct and how to behave when participating in one-on-one meetings, all designed to have more purpose and to develop effective solutions for our customers. And then to better serve and support and trade our markets, we've also hired former Nielsen and sales director.

You may have seen that recently in the trades, Mario Christino, as Saga's Director of Research. Mario will work with both our national and local sales teams to provide better, stronger, more customer-focused proposals and ultimately help our sellers to become better storytellers, our tongue-in-cheek title for Mario in the corporate offices Director of storytelling. So that's going to be an important piece going forward. We always need to tell better stories.

Next, we hired Andrew Schultz. He's the Director of E-Commerce. Andrew was the founder of e-commerce platform in Incentrev, who we sold to one of our fellow broadcasters. Prior to COVID, one of our smaller markets was generating over \$900,000 annually in the e-commerce space. And Andrew is currently deployed in our markets, reintroducing and refocusing and retraining all of our markets on best practices using e-commerce to benefit our clients and the enterprise. So I say all of that, and that's a long breath and he said with a side.

And so at this time, when other broadcasters and other companies like even including SiriusXM, I read recently, are all swimming in debt and offloading valuable employees. Saga is reinvesting in our people and our enterprise. From a capital allocation standpoint, because our shareholders are also our customers, as Sam stated we gave, as he stated earlier, we continue to declare quarterly cash dividends as well as special dividends and the consideration of variable dividends in the future. And as I mentioned earlier, the degree to which you serve your customer is directly attributable to your financial success.

Our employees are our internal customers and the key to serving our external customers, which ultimately determines our financial success, which will continue to allow us to provide a nice return to our shareholders. So to test this theory, you've heard some of the financial success we've experienced. We wanted to test this. So we went in without risk in our mind really. We decided to go into all of our Saga markets to test this very theory. And based on a recent employee survey and our year-end financials, Seeing is believing. Saga employee survey consisted of 10 simple but probing questions.

First of all, an astonishing 88%. I'll say it again, 88% of our full and part-time employees completed the survey. 56% have been in the broadcast business for over 10 years, 40% they've said they've been with Saga between 1 and 5 years, and another 40% said that you've been with Saga for over 10 years. So what this indicates to us is that we're attracting new employees to broadcasting and to

Saga, new employees who are the future of our industry. And while at the same time, we're attracting those veteran sellers and veteran talent who have perhaps become disenfranchised with other broadcast companies and found their way to us.

We're attracting the right people at both ends of the age and experience spectrum. That's an exciting piece for our company. Furthermore, the overwhelming majority of Saga employees said that the reasons that they work for Saga include Saga's commitment to the local community. They love to work, they love to come to work each day and love to work with their fellow teammates towards a common goal and purpose. They appreciate and take pride in the fact that Saga is not like the big one-size-fits-all companies.

Saga is dedicated to their professional development, and they appreciate the job-related training that Saga offers. Not a lot of companies can say that. Saga employees take the initiative to help other employees when the need arises and that they clearly understand how their work impacts the organizational's business. So that really speaks to leadership. Because when you talk about vision, the first goal is to -- from a leadership perspective, is be able to have a vision and then communicate that vision to your team, have them buy into the vision and then manage to it every day, so they understand it and can quote it.

Rhyme in verse as they wake up in a dead -- from a dead sleep, so that speaks to our leadership. This is -- I think Sam would agree this is the strongest leadership team that Saga has had in my recollection, right, Sam?

Samuel D. Bush
Senior VP, Treasurer & CFO

Absolutely.

Christopher S. Forgy
CEO, President & Director

So it's no surprise everyone that 4 out of 5 of those surveyed said that they are satisfied with the culture that lives in our workplace.

The key to Saga's success from a culture perspective is summed up by saying a saying from the third century Confucian Philosopher Xun Kuang, he said. And we use this a lot in our company. Tell me and I forget; show me and I remember; involve me and I understand. The understanding that Saga employees poses enables them to carry out their function with passion, commitment, purpose, love and say it again, understanding. You see we hire talent first, provide them with an environment that is conducive to success and more times than not the outcome is a positive one. You can look at it this way, talent, times environment, equals outcome.

Along those lines, I wanted to share one quote with you before I turn it back to Sam for any questions we may have and to address those. This came to me from our -- one of our leaders in Des Moines, Iowa. And one of their employees that one of the program directors was at an event, and he returned from the event and sent this e-mail to Stephanie Heidi, our General Manager in Des Moines Iowa. And he said, I recently took a few days and for the first time, attended the Rock radio convention known as #happens in Las Vegas. The experience was great for a variety of reasons. But perhaps the biggest a common thread throughout the large gathering of radio and record professionals was what I call a "professional jealousy".

From those who work with other companies, the vast majority of those with whom I spoke, Saga is the catâ€™s meow. Since it was my first time experiencing all that the convention had to offer. There were lot of introductions to peers from cities, big and small, and anyone who knew me by name and the reputation. The first thing out of their mouth was to ask me how incredible is it to work for a company like Saga.

Needless to say, it was impressive to receive that amount of positive feedback for people who operate outside of our universe, most of whom who have no actual experience from which to draw those conclusions. This was a result of the solid foundation this company was built on without question. We should be proud. I wanted to share this with you. Hope you have a wonderful week, Andy Hall. So with that, enough said, I'm going to turn that back over to Mr. Chatty Sam Bush.

Question and Answer

Samuel D. Bush

Senior VP, Treasurer & CFO

Thank you Chris. We did have a few questions come in this morning. And so I'm going to go through those now. And between Chris and I, we will try to answer them as best we can.

First, Chris, the question was how our digital revenues in Q or how are our digital revenues in Q4 and I would expand that to say, power digital revenues in Q4 and how are they for the year more importantly.

Christopher S. Forgy

CEO, President & Director

I would say, Sam, we're running very quickly to get up to speed and grow. We've grown, as you will see in a moment, substantially over the last several years and are continuing to grow. In 2022, our total interactive revenue was \$7.9 million around numbers. That represents a 25% lift over 2021 and a 209%, and over 200% lift over 219% and make it a little helpful -- more helpful to break out some of these categories of digital revenue.

Our streaming revenue was at a little over \$3 million for the period, up 56% over 2021 and up 700% over 2019. Content sponsor was basically flat over '21. It was at \$2.69 million, up 41% over 2019. And targeted display represented \$1.9-plus million, was up 27% over 2021 and again, 70% over 2019. So that gives you a sense, Sam, and whoever asked the question of the health and growth of the digital space from a year-over-year standpoint and a quarter-over-quarter standpoint.

Samuel D. Bush

Senior VP, Treasurer & CFO

Very good. Another question that I'll let you answer. Have there been further solicitations of interest in the business after the \$33 buyout offer that we previously responded to.

Christopher S. Forgy

CEO, President & Director

The very simple and direct answer to that question is no.

Samuel D. Bush

Senior VP, Treasurer & CFO

I'll leave it at that. Are you seeing other acquisition opportunities at multiples below where your stock currently trades without talking about the multiples at this point, I would say right now, the acquisition market is really quiet due to the current economic and industry environment, and we're just not seeing a lot going on there right now.

Christopher S. Forgy

CEO, President & Director

And Sam, I would add that when those times become available to us, we will certainly be a strategic buyer and be strategically active when those acquisition opportunities occur, we will be buyers.

Samuel D. Bush

Senior VP, Treasurer & CFO

Absolutely, for the right strategic acquisition, as Saga has always done. The last question we got is, can a stock repurchase plan be put in place for opportunistic future purchases. And I'll answer that.

We do have a plan in place. We have had for quite a while. It's just not active at present. Our Board is engaged in many conversations over the past year as we considered our capital structure, which led to the 2 recent \$2 per share special dividends. But I would also tell you that stock buybacks will certainly be a consideration along with the special dividends, variable dividends, quarterly dividends as we continue to look at our capital structure and adapt it to the future of Saga.

And with that, I think we'll turn it back over to Tom and let you wrap it up, Tom, but thank you all for joining the call.

Operator

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, Tom.

Christopher S. Forgy

CEO, President & Director

Thank you, Tom.

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