

November 12, 2020



Salem Media Group, Inc. Announces Third Quarter 2020 Total Revenue of \$60.6 Million

CAMARILLO, Calif.--(BUSINESS WIRE)-- Salem Media Group, Inc. (Nasdaq: SALM) released its results for the three and nine months ended September 30, 2020.

Third Quarter 2020 Highlights

- Net broadcast revenue increased 15.0% compared to the second quarter of 2020 and declined 4.8% compared to the third quarter of 2019
- Total broadcast advertising/spot revenue increased 26.4% compared to the second quarter of 2020 and declined 21.7% compared to the third quarter of 2019
- Station Operating Income ("SOI") (1) increased 74.2% compared to the second quarter of 2020 and increased 7.1% compared to the third quarter of 2019
- Digital media revenue increased 3.9% compared to the second quarter of 2020 and 7.2% compared to the third quarter of 2019
- Adjusted EBITDA increased 243.4% compared to the second quarter of 2020 and 6.9% compared to the third quarter of 2019
- \$19.3 million in cash at September 30, 2020

Third Quarter 2020 Results

For the quarter ended September 30, 2020 compared to the quarter ended September 30, 2019:

Consolidated

- Total revenue decreased 5.4% to \$60.6 million from \$64.1 million;
- Total operating expenses decreased 28.9% to \$55.9 million from \$78.6 million;
- Operating expenses, excluding gains or losses on the disposition of assets, stock-based compensation expense, changes in the estimated fair value of contingent earn-out consideration, impairments, depreciation expense and amortization expense (1) decreased 7.4% to \$51.0 million from \$55.1 million;
- The company had operating income of \$4.8 million compared to an operating loss of \$14.5 million;
- The company's net income increased \$20.3 million to \$0.3 million, or \$0.01 net income per diluted share compared to a net loss of \$20.0 million, or \$0.75 net loss per share;
- EBITDA (1) was \$8.2 million compared to negative EBITDA of \$10.6 million;
- Adjusted EBITDA (1) increased 6.9% to \$9.6 million from \$9.0 million; and
- Net cash provided by operating activities decreased 37.7% to \$4.2 million from \$6.7 million.

Broadcast

- Net broadcast revenue decreased 4.8% to \$45.4 million from \$47.7 million;
- SOI(1) increased 7.1% to \$11.1 million from \$10.4 million;
- Same Station (1) net broadcast revenue decreased 2.4% to \$44.6 million from \$45.7 million; and
- Same Station SOI (1) increased 2.7% to \$11.1 million from \$10.8 million.

Digital Media

- Digital media revenue increased 7.2% to \$9.8 million from \$9.1 million; and
- Digital Media Operating Income (1) increased 42.7% to \$2.7 million from \$1.9 million.

Publishing

- Publishing revenue decreased 25.3% to \$5.4 million from \$7.3 million; and
- Publishing Operating Income (Loss) (1) decreased to an operating loss of \$0.4 million from operating income of \$0.8 million.

Included in the results for the quarter ended September 30, 2020 are:

- A \$1.4 million (\$1.0 million, net of tax, or \$0.04 per share) net loss on the disposition of assets which includes a \$1.4 million estimated pre-tax loss for the write-off of Miami assets as a result of the company's plan to exit the market and reflects various fixed asset disposals; and
- A \$0.1 million non-cash compensation charge related to the expensing of stock options.

Included in the results for the quarter ended September 30, 2019 are:

- A \$17.5 million (\$13.0 million, net of tax, or \$0.49 per share) net loss on the disposition of assets which includes a \$9.9 million estimated pre-tax loss for the pending sale of radio stations WAFS-AM in Atlanta, Georgia, WWDJ-AM in Boston, Massachusetts, WHKZ-AM in Cleveland, Ohio, KEXB-AM (formerly KTNO-AM) in Dallas, Texas, KDMT-AM in Denver, Colorado, KTEK-AM in Houston, Texas, KRDY-AM in San Antonio, Texas and KXFN-AM and WSDZ-AM in St. Louis, Missouri, a \$4.7 million pre-tax loss from the sale of radio stations WWMI-AM and WLCC-AM in Tampa, Florida and WZAB-AM and WOCN-AM (formerly WKAT-AM) in Miami, Florida, a \$1.6 million pre-tax loss from the sale of radio station WDYZ-AM (formerly WORL-AM) in Orlando, Florida and a \$1.3 million pre-tax loss on the exchange of radio station KKOL-AM in Seattle, Washington for KPAM-AM in Portland, Oregon;
- A \$1.9 million impairment charge (\$1.4 million, net of tax, and \$0.05 per share) associated with the company's broadcast licenses. Broadcast licenses were deemed to be impaired in four of the seven markets tested. Impairments were recorded in its Louisville, Philadelphia, Portland and San Francisco markets; and
- A \$0.2 million non-cash compensation charge (\$0.1 million, net of tax) related to the expensing of stock options primarily consisting of:
 - \$0.1 million non-cash compensation charge included in corporate expenses; and
 - \$0.1 million non-cash compensation charge included in broadcast, digital media and publishing operating expenses.

Per share numbers are calculated based on 26,791,353 diluted weighted average shares for the quarter ended September 30, 2020, and 26,616,696 diluted weighted average shares for

the quarter ended September 30, 2019.

Year to Date 2020 Results

For the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019:

Consolidated

- Total revenue decreased 9.2% to \$171.8 million from \$189.3 million;
- Total operating expenses decreased 6.6% to \$185.9 million from \$199.1 million;
- Operating expenses, excluding gains or losses on the disposition of assets, stock-based compensation expense, changes in the estimated fair value of contingent earn-out consideration, impairments, depreciation expense decreased 4.2% to \$155.9 million from \$162.7 million;
- The company's net operating loss increased 43.3% to \$14.1 million from \$9.9 million;
- The company's net loss increased to \$57.4 million, or \$2.15 net loss per share from \$23.3 million, or \$0.88 net loss per share;
- EBITDA (1) was a negative \$3.5 million as compared to \$2.7 million;
- Adjusted EBITDA (1) decreased 40.8% to \$15.9 million from \$26.8 million; and
- Net cash provided by operating activities increased 59.9% to \$23.1 million from \$14.5 million.

Broadcast

- Net broadcast revenue decreased 9.0% to \$130.0 million from \$142.9 million;
- SOI (1) decreased 19.3% to \$25.3 million from \$31.4 million;
- Same station (1) net broadcast revenue decreased 6.6% to \$127.6 million from \$136.6 million; and
- Same station SOI (1) decreased 20.6% to \$25.7 million from \$32.3 million.

Digital media

- Digital media revenue decreased 3.4% to \$28.4 million from \$29.3 million; and
- Digital media operating income (1) decreased 17.7% to \$5.2 million from \$6.4 million.

Publishing

- Publishing revenue decreased 21.7% to \$13.4 million from \$17.1 million; and
- Publishing Operating Loss (1) increased to \$3.1 million from \$0.1 million.

Included in the results for the nine months ended September 30, 2020 are:

- A \$1.5 million (\$1.1 million, net of tax, or \$0.04 per share) net loss on the disposition of assets which includes a \$1.4 million estimated pre-tax loss for the write-off of Miami assets as a result of the company's plan to exit the market and reflects various fixed asset disposals;
- A \$17.3 million impairment charge (\$12.8 million, net of tax, or \$0.48 per share), of which \$0.3 million related to impairment of mastheads, and the remainder to broadcast licenses due to the financial impact of the COVID-19 pandemic;
- A \$0.3 million impairment charge (\$0.2 million, net of tax, or \$0.01 per share) related to the company's goodwill; and

- A \$0.3 million non-cash compensation charge (\$0.2 million, net of tax, or \$0.01 per share) related to the expensing of stock options primarily consisting of:
 - \$0.1 million non-cash compensation charge included in corporate expenses; and
 - \$0.1 million non-cash compensation charge included in broadcast operating expenses; and
 - the remaining \$0.1 million non-cash compensation charge included in digital media and publishing operating expenses.

Included in the results for the nine months ended September 30, 2019 are:

- A \$21.2 million (\$15.7 million, net of tax, or \$0.59 per share) net loss on the disposition of assets which includes a \$9.9 million estimated pre-tax loss for the pending sale of radio stations WAFS-AM in Atlanta, Georgia, WWDJ-AM in Boston, Massachusetts, WHKZ-AM in Cleveland, Ohio, KEXB-AM (formerly KTNO-AM) in Dallas, Texas, KDMT-AM in Denver, Colorado, KTEK-AM in Houston, Texas, KRDY-AM in San Antonio, Texas and KXFN-AM and WSDZ-AM in St. Louis, Missouri, the \$4.7 million pre-tax loss from the sale of radio stations WWMI-AM and WLCC-AM in Tampa, Florida and WZAB-AM and WOCN-AM (formerly WKAT-AM) in Miami, Florida, a \$3.8 million pre-tax loss on the sale of radio station WSPZ-AM in Washington, D.C., a \$1.6 million pre-tax loss from the sale of radio station WDYZ-AM (formerly WORL-AM) in Orlando, Florida, a \$1.3 million pre-tax loss on the exchange of radio station KKOL-AM in Seattle, Washington for KPAM-AM in Portland, Oregon, a \$0.2 million pre-tax loss on the sale Mike Turner's line of investment products and a \$0.2 million pre-tax loss on the sale of HumanEvents.com offset by a \$0.4 million pre-tax gain on the sale of a portion of land on the company's transmitter site in Miami, Florida and a \$0.1 million pre-tax gain on the sale of Newport Natural Health;
- A \$1.9 million impairment charge (\$1.4 million, net of tax, and \$0.05 per share) associated with the company's broadcast licenses. Broadcast licenses were deemed to be impaired in four of the seven markets tested. Impairments were recorded in its Louisville, Philadelphia, Portland and San Francisco markets;
- A \$0.4 million gain (\$0.3 million, net of tax, or \$0.01 per diluted share) on early redemption of long-term debt due to the repurchase of the company's 6.75% senior secured notes due 2024;
- A \$0.2 million one-time expense associated with the adoption of ASC 842 (\$0.1 million, net of tax) and
- A \$1.3 million non-cash compensation charge (\$1.0 million, net of tax, or \$0.04 per share) related to the expensing of stock options and restricted stock primarily consisting of:
 - \$0.7 million non-cash compensation charge included in corporate expenses; and
 - \$0.5 million non-cash compensation charge included in broadcast operating expenses; and
 - the remaining \$0.1 million non-cash compensation charge included in digital media and publishing operating expenses.

Per share numbers are calculated based on 26,683,363 diluted weighted average shares for the nine months ended September 30, 2020, and 26,442,791 diluted weighted average shares for the nine months ended September 30, 2019.

Balance Sheet

As of September 30, 2020, the company had \$216.3 million outstanding on the 6.75% senior secured notes due 2024 (the "Notes") and \$16.6 million outstanding on the Asset Based

Revolving Credit Facility (“ABL Facility”).

Acquisitions and Divestitures

The following transactions were completed since July 1, 2020:

- On September 15, 2020, the company acquired the Hyper Pixels Media website and related assets for \$1.1 million in cash. The company paid \$0.4 million in cash upon closing with deferred payments of \$0.4 million due January 31, 2021 and \$0.3 million due September 15, 2021. The company recorded goodwill of approximately \$0.1 million associated with the expected synergies to be realized upon combining the operations of Journeyboxmedia.com into the company’s digital media platform within Salem Web Network and from brand loyalty from its existing subscriber base that is not a separately identifiable intangible asset.

Pending transactions:

- On September 10, 2020, the company entered an Asset Purchase Agreement (“APA”) to sell radio station WKAT-AM and an FM translator in Miami, Florida, for \$3.5 million in cash. The company will exit the Miami market upon the close of this transaction. The company entered a Local Marketing Agreement under which the buyer will be programming the station in November 2020. The company recognized an estimated pre-tax loss of approximately \$1.4 million during the quarter ending September 30, 2020, which reflects the sale price as compared to the carrying value of the assets sold, the estimated closing costs, and the write-off of the remaining Miami assets as a result of exiting this market. This transaction is subject to the approval of the FCC and is expected to close in the fourth quarter of 2021.
- On February 5, 2020, we entered an APA with Word Broadcasting to sell radio stations WFIA-AM, WFIA-FM and WGTK-AM in Louisville, Kentucky for \$4.0 million with a \$250,000 credit applied to the sale price if closing occurs before March 31, 2020. Additionally, Word Broadcasting would receive a credit toward the purchase price of a sum equal to the monthly fees paid under the Time Brokerage Agreement (“TBA”) that began in January 2017 for months 4-29 of the TBA and a sum equal to \$2,000 per month for each monthly fee payment for months 30 and thereafter of the TBA; and a credit of the \$450,000 option payment. We estimated the loss on sale to be approximately \$0.5 million net of tax if the sale closed by March 31, 2020 and \$0.3 million net of tax if the sale closes later. Due to changes in debt markets, the transaction was not funded and it is uncertain when or if the transaction will close.

Conference Call Information

Salem will host a teleconference to discuss its results on November 12, 2020 at 2:00 p.m. Pacific Time. To access the teleconference, please dial (877) 524-8416, and then ask to be joined into the Salem Media Group Third Quarter 2020 call or listen via the investor relations portion of the company’s website, located at investor.salemmedia.com. A replay of the teleconference will be available through November 26, 2020 and can be heard by dialing (877) 660-6853, passcode 13708311 or on the investor relations portion of the company’s website, located at investor.salemmedia.com.

Follow us on Twitter @SalemMediaGrp.

A reconciliation of non-GAAP operating expenses, excluding gains or losses on the disposition of assets, stock-based compensation expense, changes in the estimated fair

value of contingent earn-out consideration, impairments, depreciation expense and amortization expense to the most directly comparable GAAP measure is not available without unreasonable efforts on a forward-looking basis due to the potential high variability, complexity and low visibility with respect to the charges excluded from this non-GAAP financial measure, in particular, the change in the estimated fair value of earn-out consideration, impairments and gains or losses from the disposition of fixed assets. The company expects the variability of the above charges may have a significant, and potentially unpredictable, impact on its future GAAP financial results.

About Salem Media Group, Inc.

Salem Media Group is America's leading multimedia company specializing in Christian and conservative content, with media properties comprising radio, digital media and book and newsletter publishing. Each day Salem serves a loyal and dedicated audience of listeners and readers numbering in the millions nationally. With its unique programming focus, Salem provides compelling content, fresh commentary and relevant information from some of the most respected figures across the Christian and conservative media landscape. Learn more about Salem Media Group, Inc., at www.salemmedia.com, Facebook and Twitter (@SalemMediaGrp).

Forward-Looking Statements

Statements used in this press release that relate to future plans, events, financial results, prospects or performance are forward-looking statements as defined under the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those anticipated as a result of certain risks and uncertainties, including but not limited to the ability of Salem to close and integrate announced transactions, market acceptance of Salem's radio station formats, competition from new technologies, adverse economic conditions, and other risks and uncertainties detailed from time to time in Salem's reports on Forms 10-K, 10-Q, 8-K and other filings filed with or furnished to the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Salem undertakes no obligation to update or revise any forward-looking statements to reflect new information, changed circumstances or unanticipated events.

(1) Regulation G

Management uses certain non-GAAP financial measures defined below in communications with investors, analysts, rating agencies, banks and others to assist such parties in understanding the impact of various items on its financial statements. The company uses these non-GAAP financial measures to evaluate financial results, develop budgets, manage expenditures and as a measure of performance under compensation programs.

The company's presentation of these non-GAAP financial measures should not be considered as a substitute for or superior to the most directly comparable financial measures as reported in accordance with GAAP.

Regulation G defines and prescribes the conditions under which certain non-GAAP financial information may be presented in this earnings release. The company closely monitors EBITDA, Adjusted EBITDA, Station Operating Income ("SOI"), Same Station net broadcast revenue, Same Station broadcast operating expenses, Same Station Operating Income, Digital Media Operating Income, Publishing Operating Income (Loss), and operating expenses excluding gains or losses on the disposition of assets, stock-based compensation, changes in the estimated fair value of contingent earn-out consideration, impairments, depreciation and amortization, all of which are non-GAAP financial measures. The company believes that these non-GAAP financial measures provide useful information about its core operating results, and thus, are appropriate to enhance the overall understanding of its financial performance. These non-GAAP financial measures are intended to provide management and investors a more complete understanding of its underlying operational results, trends and performance.

The company defines Station Operating Income ("SOI") as net broadcast revenue minus broadcast operating expenses. The company defines Digital Media Operating Income as net Digital Media Revenue minus Digital Media Operating Expenses. The company defines Publishing Operating Income (Loss) as net Publishing Revenue minus Publishing Operating Expenses. The company defines EBITDA as net income before interest, taxes, depreciation, and amortization. The company defines Adjusted

EBITDA as EBITDA before gains or losses on the disposition of assets, before changes in the estimated fair value of contingent earn-out consideration, before impairments, before net miscellaneous income and expenses, before gain on bargain purchase, before (gain) loss on early retirement of long-term debt and before non-cash compensation expense. SOI, Digital Media Operating Income, Publishing Operating Income (Loss), EBITDA and Adjusted EBITDA are commonly used by the broadcast and media industry as important measures of performance and are used by investors and analysts who report on the industry to provide meaningful comparisons between broadcasters. SOI, Digital Media Operating Income, Publishing Operating Income (Loss), EBITDA and Adjusted EBITDA are not measures of liquidity or of performance in accordance with GAAP and should be viewed as a supplement to and not a substitute for or superior to its results of operations and financial condition presented in accordance with GAAP. The company's definitions of SOI, Digital Media Operating Income, Publishing Operating Income (Loss), EBITDA and Adjusted EBITDA are not necessarily comparable to similarly titled measures reported by other companies.

The company defines Adjusted Free Cash Flow as Adjusted EBITDA less cash paid for capital expenditures, less cash paid for income taxes, and less cash paid for interest. The company considers Adjusted Free Cash Flow to be a liquidity measure that provides useful information to management and investors about the amount of cash generated by its operations after cash paid for capital expenditures, cash paid for income taxes and cash paid for interest. A limitation of Adjusted Free Cash Flow as a measure of liquidity is that it does not represent the total increase or decrease in its cash balance for the period. The company uses Adjusted Free Cash Flow, a non-GAAP liquidity measure, both in presenting its results to stockholders and the investment community, and in its internal evaluation and management of the business. The company's presentation of Adjusted Free Cash Flow is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with GAAP. The company's definition of Adjusted Free Cash Flow is not necessarily comparable to similarly titled measures reported by other companies.

The company defines Same Station net broadcast revenue as broadcast revenue from its radio stations and networks that the company owns or operates in the same format on the first and last day of each quarter, as well as the corresponding quarter of the prior year. The company defines Same Station broadcast operating expenses as broadcast operating expenses from its radio stations and networks that the company owns or operates in the same format on the first and last day of each quarter, as well as the corresponding quarter of the prior year. The company defines Same Station SOI as Same Station net broadcast revenue less Same Station broadcast operating expenses. Same Station operating results include those stations that the company owns or operates in the same format on the first and last day of each quarter, as well as the corresponding quarter of the prior year. Same Station operating results for a full calendar year are calculated as the sum of the Same Station-results for each of the four quarters of that year. The company uses Same Station operating results, a non-GAAP financial measure, both in presenting its results to stockholders and the investment community, and in its internal evaluations and management of the business. The company believes that Same Station operating results provide a meaningful comparison of period over period performance of its core broadcast operations as this measure excludes the impact of new stations, the impact of stations the company no longer owns or operates, and the impact of stations operating under a new programming format. The company's presentation of Same Station operating results is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with GAAP. The company's definition of Same Station operating results is not necessarily comparable to similarly titled measures reported by other companies.

For all non-GAAP financial measures, investors should consider the limitations associated with these metrics, including the potential lack of comparability of these measures from one company to another.

The Supplemental Information tables that follow the condensed consolidated financial statements provide reconciliations of the non-GAAP financial measures that the company uses in this earnings release to the most directly comparable measures calculated in accordance with GAAP. The company uses non-GAAP financial measures to evaluate financial performance, develop budgets, manage expenditures, and determine employee compensation. The company's presentation of this additional information is not to be considered as a substitute for or superior to the directly comparable measures as reported in accordance with GAAP.

Salem Media Group, Inc.
Condensed Consolidated Statements of Operations
(in thousands, except share and per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2020	2019	2020
	(Unaudited)			
Net broadcast revenue	\$ 47,679	\$ 45,391	\$ 142,854	\$ 130,041
Net digital media revenue	9,149	9,808	29,349	28,355
Net publishing revenue	7,288	5,442	17,062	13,366
Total revenue	64,116	60,641	189,265	171,762
Operating expenses:				
Broadcast operating expenses	37,310	34,283	111,466	104,704
Digital media operating expenses	7,282	7,144	22,988	23,123
Publishing operating expenses	6,517	5,814	17,112	16,443
Unallocated corporate expenses	4,183	3,849	12,386	11,909
Change in the estimated fair value of contingent earn-out consideration	(40)	(10)	(40)	(12)
Impairment of indefinite-lived long-term assets other than goodwill	1,915	—	1,915	17,254
Impairment of goodwill	—	—	—	307
Depreciation and amortization	3,891	3,428	12,096	10,686
Net (gain) loss on the disposition of assets	17,545	1,381	21,212	1,494
Total operating expenses	78,603	55,889	199,135	185,908

Operating income (loss)	(14,487)	4,752	(9,870)	(14,146)
Other income (expense):				
Interest income	—	1	1	1
Interest expense	(4,410)	(4,024)	(13,206)	(12,069)
Gain on early retirement of long-term debt	—	—	426	49
Net miscellaneous income and (expenses)	—	1	19	(45)
Net income (loss) before income taxes	(18,897)	730	(22,630)	(26,210)
Provision for income taxes	1,108	401	697	31,180
Net income (loss)	<u>\$ (20,005)</u>	<u>\$ 329</u>	<u>\$ (23,327)</u>	<u>\$ (57,390)</u>
Basic income (loss) per share Class A and Class B common stock	\$ (0.75)	\$ 0.01	\$ (0.88)	\$ (2.15)
Diluted income (loss) per share Class A and Class B common stock	\$ (0.75)	\$ 0.01	\$ (0.88)	\$ (2.15)
Basic weighted average Class A and Class B common stock shares outstanding	<u>26,616,696</u>	<u>26,683,363</u>	<u>26,442,791</u>	<u>26,683,363</u>
Diluted weighted average Class A and Class B common stock shares outstanding	<u>26,616,696</u>	<u>26,791,353</u>	<u>26,442,791</u>	<u>26,683,363</u>

Salem Media Group, Inc.
Condensed Consolidated Balance Sheets
(in thousands)

	<u>December 31, 2019</u>	<u>September 30, 2020</u> <i>(Unaudited)</i>
Assets		
Cash	\$ 6	\$ 19,298
Trade accounts receivable, net	30,824	24,223
Other current assets	10,893	15,188
Property and equipment, net	87,673	80,723
Operating and financing lease right-of-use assets	54,730	49,128
Intangible assets, net	369,216	348,249
Deferred financing costs	224	226
Other assets	4,864	3,582
Total assets	<u>\$ 558,430</u>	<u>\$ 540,617</u>
Liabilities and Stockholders' Equity		
Current liabilities	\$ 53,134	\$ 67,816
Long-term debt	216,468	213,580
Operating and financing lease liabilities, less current portion	54,174	49,138
Deferred income taxes	38,778	69,732
Other liabilities	6,213	8,472
Stockholders' Equity	189,663	131,879
Total liabilities and stockholders' equity	<u>\$ 558,430</u>	<u>\$ 540,617</u>

SALEM MEDIA GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Dollars in thousands, except share and per share data)

	<u>Class A</u> <u>Common Stock</u>		<u>Class B</u> <u>Common Stock</u>		<u>Additional</u> <u>Paid-In</u>	<u>Accumulated</u> <u>Earnings</u> <u>(Deficit)</u>	<u>Treasury</u> <u>Stock</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Capital</u>			
Stockholders' equity, December 31, 2019	23,447,317	\$ 227	5,553,696	\$ 56	\$ 246,680	\$ (23,294)	\$ (34,006)	\$ 189,663
Stock-based compensation	—	—	—	—	103	—	—	103
Cash distributions	—	—	—	—	—	(667)	—	(667)
Net loss	—	—	—	—	—	(55,204)	—	(55,204)
Stockholders' equity, March 31, 2020	23,447,317	\$ 227	5,553,696	\$ 56	\$ 246,783	\$ (79,165)	\$ (34,006)	\$ 133,895
Distributions per share	\$ 0.025		\$ 0.025					
Stock-based compensation	—	—	—	—	96	—	—	96
Net loss	—	—	—	—	—	(2,515)	—	(2,515)
Stockholders' equity, June 30, 2020	23,447,317	\$ 227	5,553,696	\$ 56	\$ 246,879	\$ (81,680)	\$ (34,006)	\$ 131,476
Stock-based compensation	—	—	—	—	74	—	—	74
Net income	—	—	—	—	—	329	—	329

Stockholders' equity, September 30, 2020	23,447,317	\$ 227	5,553,696	\$ 56	\$ 246,953	\$ (81,351)	\$ (34,006)	\$ 131,879
---	-------------------	---------------	------------------	--------------	-------------------	--------------------	--------------------	-------------------

	Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Accumulated Earnings	Treasury Stock	Total
	Shares	Amount	Shares	Amount				
Stockholders' equity, December 31, 2018	22,950,066	\$ 227	5,553,696	\$ 56	\$ 245,220	\$ 10,372	\$ (34,006)	\$ 221,869
Stock-based compensation	—	—	—	—	176	—	—	176
Cash distributions	—	—	—	—	—	(1,702)	—	(1,702)
Net income	—	—	—	—	—	322	—	322
Stockholders' equity, March 31, 2019	22,950,066	\$ 227	5,553,696	\$ 56	\$ 245,396	\$ 8,992	\$ (34,006)	\$ 220,665
Distributions per share	\$ 0.065		\$ 0.065					

Stock-based compensation	—	—	—	—	936	—	—	936
Options exercised	200	—	—	—	—	—	—	—
Lapse of restricted shares	389,061	—	—	—	—	—	—	—
Cash distributions	—	—	—	—	—	(1,728)	—	(1,728)
Net loss	—	—	—	—	—	(3,644)	—	(3,644)
Stockholders' equity, June 30, 2019	23,339,327	\$ 227	5,553,696	\$ 56	\$ 246,332	\$ 3,620	\$ (34,006)	\$ 216,229
Distributions per share	\$ 0.065		\$ 0.065					
Stock-based compensation	—	—	—	—	177	—	—	177
Options exercised	—	—	—	—	—	—	—	—
Lapse of restricted shares	41,323	—	—	—	—	—	—	—
Cash distributions	—	—	—	—	—	(1,730)	—	(1,730)
Net loss	—	—	—	—	—	(20,005)	—	(20,005)
Stockholders' equity, September 30, 2019	23,380,650	\$ 227	5,553,696	\$ 56	\$ 246,509	\$ (18,115)	\$ (34,006)	\$ 194,671
Distributions per share	\$ 0.065		\$ 0.065					

SALEM MEDIA GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2020	2019	2020
OPERATING ACTIVITIES				
Net income (loss)	\$ (20,005)	\$ 329	\$ (23,327)	\$ (57,390)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Non-cash stock-based compensation	177	74	1,289	273
Depreciation and amortization	3,891	3,428	12,096	10,686
Amortization of deferred financing costs	253	214	766	675
Non-cash lease expense	2,287	2,281	6,735	6,745
Accretion of acquisition-related deferred payments and contingent consideration	—	—	2	—
Provision for bad debts	670	501	1,407	4,122
Deferred income taxes	1,033	325	487	30,954
Impairment of indefinite-lived long-term assets other than goodwill	1,915	—	1,915	17,254
Impairment of goodwill	—	—	—	307
Change in the estimated fair value of contingent earn-out consideration	(40)	(10)	(40)	(12)
Net (gain) loss on the disposition of assets	17,545	1,381	21,212	1,494
Gain on early retirement of long-term debt	—	—	(426)	(49)
Changes in operating assets and liabilities:				
Accounts receivable and unbilled revenue	(2,366)	(2,965)	(2,363)	2,565
Inventories	(19)	89	(372)	99
Prepaid expenses and other current assets	(740)	(1,440)	338	(1,343)
Accounts payable and accrued expenses	4,963	4,151	4,504	5,871
Operating lease liabilities	(2,218)	(2,993)	(7,983)	(6,396)
Contract liabilities	(629)	(1,993)	(1,710)	5,274
Deferred rent income	(46)	(117)	(130)	(268)
Other liabilities	(16)	1,050	(16)	2,254
Income taxes payable	55	(125)	87	30
Net cash provided by operating activities	\$ 6,710	\$ 4,180	\$ 14,471	\$ 23,145

INVESTING ACTIVITIES

Cash paid for capital expenditures net of tenant improvement allowances	(1,367)	(1,040)	(6,064)	(3,565)
Capital expenditures reimbursable under tenant improvement allowances and trade agreements	(3)	(46)	(3)	(140)
Purchases of broadcast assets and radio stations	(35)	—	(35)	—
Purchases of digital media businesses and assets	(600)	(400)	(1,250)	(400)
Proceeds from sale of assets	1,330	—	4,202	188
Other	3	31	(725)	2,010
Net cash used in investing activities	<u>\$ (672)</u>	<u>\$ (1,455)</u>	<u>\$ (3,875)</u>	<u>\$ (1,907)</u>

FINANCING ACTIVITIES

Payments to repurchase 6.75% Senior Secured Notes	—	—	(6,123)	(3,392)
Proceeds from borrowings under ABL Facility	32,072	277	86,367	38,626
Payments on ABL Facility	(36,423)	(2,677)	(87,962)	(34,452)
Refund (payments) of debt issuance costs	(13)	(58)	(43)	(124)
Payments on financing lease liabilities	(22)	(17)	(65)	(52)
Payment of cash distribution on common stock	(1,730)	—	(5,160)	(667)
Book overdraft	76	—	2,280	(1,885)
Net cash used in financing activities	<u>\$ (6,040)</u>	<u>\$ (2,475)</u>	<u>\$ (10,706)</u>	<u>\$ (1,946)</u>
Net increase (decrease) in cash and cash equivalents	<u>\$ (2)</u>	<u>\$ 250</u>	<u>\$ (110)</u>	<u>\$ 19,292</u>
Cash and cash equivalents at beginning of year	9	19,048	117	6
Cash and cash equivalents at end of period	<u>\$ 7</u>	<u>\$ 19,298</u>	<u>\$ 7</u>	<u>\$ 19,298</u>

Salem Media Group, Inc.
Supplemental Information
(in thousands)

Three Months Ended		Nine Months Ended	
September 30,		September 30,	
2019	2020	2019	2020

(Unaudited)

Reconciliation of Total Operating Expenses to Operating Expenses excluding Gains or Losses on the Disposition of Assets, Stock-based Compensation Expense, Changes in the Estimated Fair Value of Contingent Earn-out Consideration, Impairments and Depreciation and Amortization Expense (Recurring Operating Expenses)

Operating Expenses	\$ 78,603	\$ 55,889	\$ 199,135	\$ 185,908
Less depreciation and amortization expense	(3,891)	(3,428)	(12,096)	(10,686)
Less change in estimated fair value of contingent earn-out consideration	40	10	40	12
Less impairment of indefinite-lived long-term assets other than goodwill	(1,915)	—	(1,915)	(17,254)
Less impairment of goodwill	—	—	—	(307)
Less net gain (loss) on the disposition of assets	(17,545)	(1,381)	(21,212)	(1,494)
Less stock-based compensation expense	(177)	(74)	(1,289)	(273)
Total Recurring Operating Expenses	<u>\$ 55,115</u>	<u>\$ 51,016</u>	<u>\$ 162,663</u>	<u>\$ 155,906</u>

Reconciliation of Net Broadcast Revenue to Same Station Net Broadcast Revenue

Net broadcast revenue	\$ 47,679	\$ 45,391	\$ 142,854	\$ 130,041
Net broadcast revenue – acquisitions	—	—	—	—
Net broadcast revenue – dispositions	(1,328)	(24)	(4,342)	(72)
Net broadcast revenue – format change	(661)	(766)	(1,874)	(2,328)
Same Station net broadcast revenue	<u>\$ 45,690</u>	<u>\$ 44,601</u>	<u>\$ 136,638</u>	<u>\$ 127,641</u>

Reconciliation of Broadcast Operating Expenses to Same Station Broadcast Operating Expenses

Broadcast operating expenses	\$ 37,310	\$ 34,283	\$ 111,466	\$ 104,704
Broadcast operating expenses – acquisitions	—	—	—	(2)
Broadcast operating expenses – dispositions	(1,748)	—	(5,161)	(110)
Broadcast operating expenses – format change	(698)	(796)	(2,014)	(2,620)
Same Station broadcast operating expenses	<u>\$ 34,864</u>	<u>\$ 33,487</u>	<u>\$ 104,291</u>	<u>\$ 101,972</u>

Reconciliation of SOI to Same Station SOI

Station Operating Income	\$ 10,369	\$ 11,108	\$ 31,388	\$ 25,337
Station operating loss – acquisitions	—	—	—	2
Station operating (income) loss – dispositions	420	(24)	819	38
Station operating loss – format change	37	30	140	292
Same Station - Station Operating Income	<u>\$ 10,826</u>	<u>\$ 11,114</u>	<u>\$ 32,347</u>	<u>\$ 25,669</u>

Salem Media Group, Inc.
Supplemental Information
(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2020	2019	2020
<i>(Unaudited)</i>				
Calculation of Station Operating Income, Digital Media Operating Income and Publishing Operating Income (Loss)				
Net broadcast revenue	\$ 47,679	\$ 45,391	\$ 142,854	\$ 130,041
Less broadcast operating expenses	(37,310)	(34,283)	(111,466)	(104,704)
Station Operating Income	\$ 10,369	\$ 11,108	\$ 31,388	\$ 25,337
Net digital media revenue	\$ 9,149	\$ 9,808	\$ 29,349	\$ 28,355
Less digital media operating expenses	(7,282)	(7,144)	(22,988)	(23,123)
Digital Media Operating Income	\$ 1,867	\$ 2,664	\$ 6,361	\$ 5,232
Net publishing revenue	\$ 7,288	\$ 5,442	\$ 17,062	\$ 13,366
Less publishing operating expenses	(6,517)	(5,814)	(17,112)	(16,443)
Publishing Operating Income (Loss)	\$ 771	\$ (372)	\$ (50)	\$ (3,077)

The company defines EBITDA (1) as net income (loss) before interest, taxes, depreciation, and amortization. The table below presents a reconciliation of EBITDA (1) to Net Income (Loss), the most directly comparable GAAP measure. EBITDA (1) is a non-GAAP financial performance measure that is not to be considered a substitute for or superior to the directly comparable measures reported in accordance with GAAP.

**Salem Media Group, Inc.
Supplemental Information
(in thousands)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2020	2019	2020
<i>(Unaudited)</i>				
Net income (loss)	\$ (20,005)	\$ 329	\$ (23,327)	\$ (57,390)
Plus interest expense, net of capitalized interest	4,410	4,024	13,206	12,069
Plus provision for income taxes	1,108	401	697	31,180
Plus depreciation and amortization	3,891	3,428	12,096	10,686
Less interest income	—	(1)	(1)	(1)
EBITDA	\$ (10,596)	\$ 8,181	\$ 2,671	\$ (3,456)

The company defines Adjusted EBITDA (1) as EBITDA (1) before gains or losses on the disposition of assets, before changes in the estimated fair value of contingent earn-out consideration, before impairments, before net miscellaneous income and expenses, before (gain) loss on early retirement of long-term debt and before non-cash compensation expense. The table below presents a reconciliation of Adjusted EBITDA (1) to Net Income (Loss), the most directly comparable GAAP measure. Adjusted EBITDA (1) is a non-GAAP financial performance measure that is not to be considered a substitute for or superior to the directly comparable measures reported in accordance with GAAP.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2020	2019	2020
<i>(Unaudited)</i>				
Net income (loss)	\$ (20,005)	\$ 329	\$ (23,327)	\$ (57,390)
Plus interest expense, net of capitalized interest	4,410	4,024	13,206	12,069
Plus provision for income taxes	1,108	401	697	31,180
Plus depreciation and amortization	3,891	3,428	12,096	10,686
Less interest income	—	(1)	(1)	(1)
EBITDA	\$ (10,596)	\$ 8,181	\$ 2,671	\$ (3,456)
Less net (gain) loss on the disposition of assets	17,545	1,381	21,212	1,494
Less change in the estimated fair value of contingent earn-out consideration	(40)	(10)	(40)	(12)
Plus impairment of indefinite-lived long-term assets other than goodwill	1,915	—	1,915	17,254

Plus impairment of goodwill	—	—	—	307
Plus gain on early retirement of long-term debt	—	—	(426)	(49)
Plus net miscellaneous (income) and expenses	—	(1)	(19)	45
Plus non-cash stock-based compensation	177	74	1,289	273
Plus ASC 842 lease adoption	—	—	171	—
Adjusted EBITDA	<u>\$ 9,001</u>	<u>\$ 9,625</u>	<u>\$ 26,773</u>	<u>\$ 15,856</u>

The company defines Adjusted Free Cash Flow (1) as Adjusted EBITDA (1) less cash paid for capital expenditures, less cash paid for income taxes, and less cash paid for interest. The company considers Adjusted Free Cash Flow to be a liquidity measure that provides useful information to management and investors about the amount of cash generated by its operations after cash paid for capital expenditures, cash paid for income taxes and cash paid for interest. A limitation of Adjusted Free Cash Flow as a measure of liquidity is that it does not represent the total increase or decrease in its cash balance for the period. The company uses Adjusted Free Cash Flow, a non-GAAP liquidity measure, both in presenting its results to stockholders and the investment community, and in its internal evaluation and management of the business. The company's presentation of Adjusted Free Cash Flow is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with GAAP. The company's definition of Adjusted Free Cash Flow is not necessarily comparable to similarly titled measures reported by other companies.

The table below presents a reconciliation of Adjusted Free Cash Flow to net cash provided by operating activities, the most directly comparable GAAP measure. Adjusted Free Cash Flow is a non-GAAP liquidity measure that is not to be considered a substitute for or superior to the directly comparable measures reported in accordance with GAAP.

Salem Media Group, Inc.
Supplemental Information
(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2020	2019	2020
	(Unaudited)			
Net cash provided by operating activities	\$ 6,710	\$ 4,180	\$ 14,471	\$ 23,145
Non-cash stock-based compensation	(177)	(74)	(1,289)	(273)
Depreciation and amortization	(3,891)	(3,428)	(12,096)	(10,686)
Amortization of deferred financing costs	(253)	(214)	(766)	(675)
Non-cash lease expense	(2,287)	(2,281)	(6,735)	(6,745)
Accretion of acquisition-related deferred payments and contingent earn-out consideration	—	—	(2)	—
Provision for bad debts	(670)	(501)	(1,407)	(4,122)
Deferred income taxes	(1,033)	(325)	(487)	(30,954)
Change in the estimated fair value of contingent earn-out consideration	40	10	40	12
Impairment of indefinite-lived long-term assets other than goodwill	(1,915)	—	(1,915)	(17,254)
Impairment of goodwill	—	—	—	(307)
Net gain (loss) on the disposition of assets	(17,545)	(1,381)	(21,212)	(1,494)
Gain on early retirement of long-term debt	—	—	426	49
Changes in operating assets and liabilities:				
Accounts receivable and unbilled revenue	2,366	2,965	2,363	(2,565)
Inventories	19	(89)	372	(99)
Prepaid expenses and other current assets	740	1,440	(338)	1,343
Accounts payable and accrued expenses	(4,963)	(4,151)	(4,504)	(5,871)
Contract liabilities	629	1,993	1,710	(5,274)
Operating lease liabilities (deferred rent)	2,218	2,993	7,983	6,396
Deferred rent revenue	46	117	130	268
Other liabilities	16	(1,050)	16	(2,254)
Income taxes payable	(55)	125	(87)	(30)
Net income (loss)	<u>\$ (20,005)</u>	<u>\$ 329</u>	<u>\$ (23,327)</u>	<u>\$ (57,390)</u>

Plus interest expense, net of capitalized interest	4,410	4,024	13,206	12,069
Plus provision for income taxes	1,108	401	697	31,180
Plus depreciation and amortization	3,891	3,428	12,096	10,686
Less interest income	—	(1)	(1)	(1)
EBITDA	\$ (10,596)	\$ 8,181	\$ 2,671	\$ (3,456)
Plus net (gain) loss on the disposition of assets	17,545	1,381	21,212	1,494
Plus change in the estimated fair value of contingent earn-out consideration	(40)	(10)	(40)	(12)
Plus impairment of indefinite-lived long-term assets other than goodwill	1,915	—	1,915	17,254
Plus impairment of goodwill	—	—	—	307
Plus (gain) on the early retirement of long-term debt	—	—	(426)	(49)
Plus net miscellaneous (income) and expenses	—	(1)	(19)	45
Plus non-cash stock-based compensation	177	74	1,289	273
Plus ASC 842 lease adoption	—	—	171	—
Adjusted EBITDA	\$ 9,001	\$ 9,625	\$ 26,773	\$ 15,856
Less net cash paid for capital expenditures (1)	(1,367)	(1,040)	(6,064)	(3,565)
Less cash paid for taxes	(19)	(201)	(122)	(196)
Less cash paid for interest, net of capitalized interest	(258)	(133)	(8,575)	(7,737)
Adjusted Free Cash Flow	\$ 7,357	\$ 8,251	\$ 12,012	\$ 4,358

(1) Net cash paid for capital expenditures reflects actual cash payments net of cash reimbursements under tenant improvement allowances and net of property and equipment acquired in trade transactions.

Selected Debt Data	Outstanding at September 30, 2020	Applicable Interest Rate
Senior Secured Notes due 2024 (1)	\$ 216,341,000	6.75%
Asset-based revolving credit facility (2)	16,600,000	2.50%

(1) \$216.3 million notes with semi-annual interest payments at an annual rate of 6.75%.

(2) Outstanding borrowings under the ABL Facility, with interest payments due at LIBOR plus 1.5% to 2.0% per annum with a LIBOR floor of \$0.5% or prime rate plus 0.5% to 1.0% per annum.

View source version on businesswire.com:

<https://www.businesswire.com/news/home/20201112006076/en/>

Evan D. Masyr
Executive Vice President and Chief
Financial Officer
(805) 384-4512
evan@salemmedia.com

Source: Salem Media Group, Inc.