Poor Richard Capital Management

Contact Information:

Email: poorrichardcm@gmail.com

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Dear Poor Richard Partners,

Over this previous quarter, the fund underperformed the market, returning -0.88% compared to the 10.16% that the Standard and Poors 500 Index returned.

As of 3/29/2024 at market close, the fund's holdings were:

Security Held	**Portfolio Weight**
Nexstar Media Common (NXST)	62.36%
Gray Television Common (GTN)	35.79%
Cash and Cash Equivalents	1.85%

This Past Quarter:

During the past quarter, the fund liquidated its entire position in Cavco Industries after the company's shares appreciated to what I originally concluded to be much closer to fair market value. Within the quarter, from the period of our acquisition to disposition, Cavco's after-tax earnings multiple expanded from ~12x to ~16x, better representing the fast growing free cash flow generation and conservative capital structure that the company showcases, and allowing the fund to realize a return of approximately 33% on the position.

Following Cavco's liquidation, the proceeds from the sale as well as some of the fund's existing cash position were rolled into boosting exposure in Gray Television, which experienced significant price dislocation during the quarter. I continue to hold the perspective that both Gray's and Nexstar's shares remain heavily discounted to their intrinsic value. Over the past year, broadcast sub-sector valuations have suffered from market-wide negative sentiment, much of which has to do with the absence of political advertising spend in company earnings. On this quarter's earnings call, Nexstar CEO Perry Sook, encouraged the market and analysts to measure and value broadcast business performance on a bi-annual basis, citing the wide deviation in earnings between election and non-election years. It is evident by looking at valuations that the market is valuing the broadcast business on a year-year performance basis, and with the industry finishing up a non-election year in the cycle, it gives the impression that the industry's margins and profitability are quickly eroding.

It's also worth noting that the market seems to value broadcast businesses' earnings power based on reported GAAP net income rather than reported operating cash flow. Because local broadcast companies amortize out their affiliation agreements with the major networks and their broadcast rights, they tend to reflect a significant difference between their GAAP reported net earnings and their operating cash flow. While these rights and affiliation agreements do expire and need to be renegotiated, their cost to acquire rights and affiliations are reflected as a cost of business throughout their useful life rather than capital expenditures, meaning that these specific amortized non-cash impairments essentially never realize into a meaningful upfront capital outlay. This is because, rather than paying an upfront lump sum to affiliate and carry content like a one-time renewal license is structured, content owners and networks prefer to negotiate reverse compensation such as reverse retransmission consent and percentage cuts of advertising revenue generated from the local television stations in exchange for carrying their valuable content. Unlike valuing a capital intensive business where depreciation and amortization is guaranteed to show up in the future as a cash item, broadcast licenses are different because these non-cash charges never meaningfully materialize unless the local station in question loses its affiliation and in turn much of its content, and with local broadcast having arguably the broadest reach out of any television medium, those instances are few and far in between.

Gray's earnings in particular have become more cyclical over the last couple of years due to higher levels of variable rate leverage the company took for its Meredith and Raycom acquisitions. Since then, as corporate borrowing costs have risen, Gray's annual interest burden has ballooned along with it from $205 million in 2021 to $440 million in 2023. A common metric used by investors to measure a maturing business's ability to deleverage is free cash flow. Instead of aggressively reducing principal over the past two years, Gray has used a significant level of its operating cash flow to finish the first phase of Assembly Atlanta, a debt-free commercial studio real estate venture that will help counter much of Gray's broadcast biannual cyclicality in the coming years. This capital expenditure has diluted Gray's free cash flow levels by over $500 million in the past two years, giving the impression that Gray's core business model is weakening, putting the company at an increased risk of future debt defaults. It is evident by looking at Gray's valuation that the market is completely discounting the existence of the Assembly project, with every analyst covering the company stating that they're not including any future cash flow predictions from the development in current projections. Looking forward into the rest of the year, the absence of capital expenditures required for Assembly's development will cause Gray's free cash flow levels to return to normal growth and speed up deleveraging, acting as a value realization lever alongside increased revenues from political ad spending. Over the longer-term time horizon, it can be conservatively estimated that Gray will produce in excess of $2.5 billion dollars of free cash flow over the next 5 years that the company can then deploy to deleverage back to more prudent levels.

Both Nexstar and Gray had solid first quarters. Gray's core advertising revenue grew 3%, fully recovering from the previous local advertising pullback related to Covid in 2020, while Nexstar reported record first quarter revenue primarily driven by record retransmission consent. Nexstar continued its aggressive push of returning significant levels of its free cash flow to shareholders, returning $168 million dollars through share repurchases and dividend distributions. Over the previous year of the fund's ownership of Nexstar, the company has bought back over 8% of its shares outstanding, which are yet to be reflected in the stock price.

Moving forward into the rest of 2024, I am eager to witness how the market reevaluates these businesses.

Sincerely,

Sage Hood

A chart showing the growth of an assumed $100,000 investment in Poor Richard Capital Fund 1 from inception.

Period	**Poor Richard Net Asset Value**	**Poor Richard Return Net of Fees**	**SP 500 Net Asset Value**	**SP 500 Index Return**
3/09/2023	$100,000	0%	$100,000	0%
3/31/2023	$103,254.12	3.25%	$104,874.28	4.87%
6/30/2023	$100,557.08	-2.61%	$113,578.78	8.3%
9/29/2023	$ 89,910.15	-10.58%	$109,433.16	-3.65%
12/29/2023	$104,976.81	13.18%	$121,733.45	11.24%
3/29/2024	$104,053.92	-0.88%	$134,101.57	10.16%
Cumulative Return	**$104,053.92**	**4.05%**	**$134,101.57**	**34.10%**

Note to Investors:

On all future reports, this chart will be placed at the bottom of the report comparing what the fund produced in the past quarters compared to the Standard & Poors 500 Index. While I feel it's important to post this for transparency purposes, I would caution investors on concentrating on quarter to quarter results. One or two years is too short of a time to make any opinions regarding investment performance. This is because there is simply not enough data to judge performance through both strong and weak markets, which do have a significant impact on the long-term compounded rate of return.