



Gray Television
B&R Beurs Stock Pitch Competition
Presentation

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Recommendation



Recommendation

Company Overview

Market Overview

Valuation

Catalysts

Risks

Strategy

Investment Thesis - Summary

- Action - Long
- Ticker - GTN
- Undervaluation 76%
- Dividend yield - 4.22%

Potential

- 2024 US Elections (political revenue)
- Digitalization
- Return to profitability
- Improved capital structure

Risks

- High debt levels (unsustainable interest payments)
- Unsustainable dividends
- Failure to adapt to new technologies

Risk Reward Chart & Implied Probabilities



Major Price Changes

1. Announcement of Raycom Media acquisition in 2018 for \$3.65 billion and deal closed in Jan 2019 with regulatory approval
2. The impact of the COVID-19 pandemic, which disrupted the company's operations and advertising demand in 2020 and 2021
3. The company benefited from strong political advertising revenue in 2020, driven by the presidential election
4. High debt levels in a high interest rate environment, poor guidance forecast for 2023



Company Background



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Business

- Gray Television is an American **television broadcasting** powerhouse
 - second largest in the U.S.
- Founded in 1946, the company operates **180 stations** across the United States in 113 markets
 - 79 of those stations are ranked **Nr. 1** in their markets
- Broadcast reaches **36% of American households**
 - also broadcasts **secondary digital channels** affiliated to ABC, CBS, NBC, and FOX, as well as various **local news/weather** channels
- **Revenue Generation**
- GTN generates revenue through **advertising sales** and other sources, such as **video program production services**
 - local sales teams are already **implementing AI video platform** - help local businesses generate high-quality TV commercials with voiceovers in five minutes or less

Management



Hilton H. Howell Jr.



Pat LaPlatney



Kevin Latek



James Ryan

Overview

- **Hilton H. Howell Jr. (Chairman, CEO)**
 - Joined GTN in 1993 / CEO since 2009 / Company's direction
- **Pat LaPlatney (President & Co-CEO)**
 - Joined GTN through Raycom acquisition in 2019 (at Raycom since 2007)
 - Company's digital strategy and execution
- **Kevin Latek (Chief Legal & Development Officer)**
 - Joined GTN in 2012 / Compliance / Misconduct Monitoring / Legal
- **James Ryan (Chief Financial Officer)**
 - Joined GTN in 1998 / Finance management / Acquisition financing



Financial Overview



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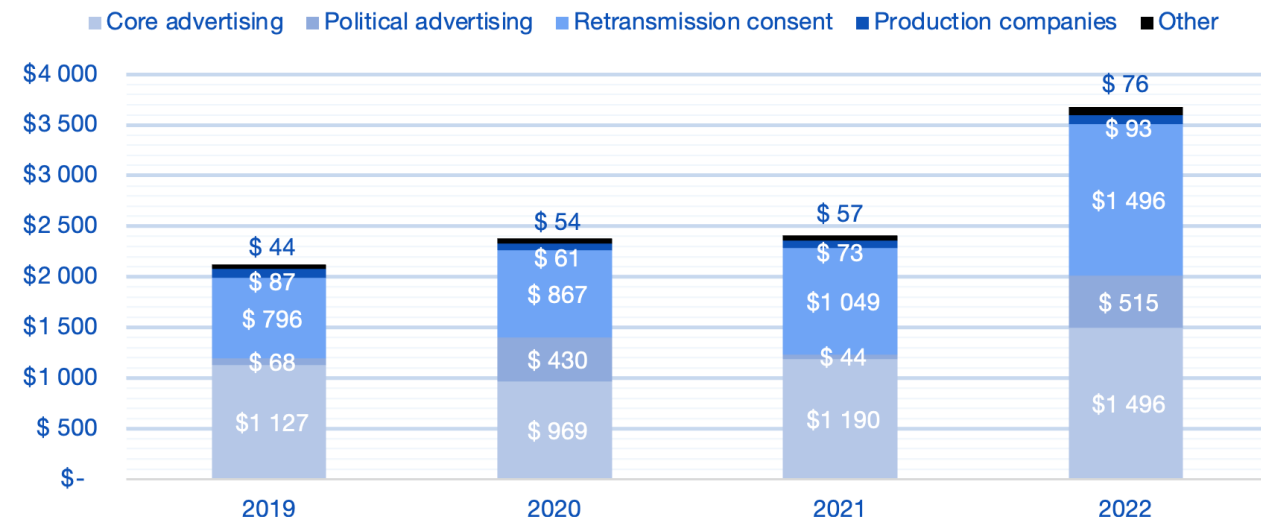
Financial Results

\$ in millions	2020	2021	2022	1Q2023
Revenue	\$ 2 381	\$ 2 413	\$ 3 676	\$ 801
COGS	\$ 1 392	\$ 1 610	\$ 2 248	\$ 614
EBITDA	\$ 1 018	\$ 665	\$ 1 411	\$ 167
OpEx	\$ 237	\$ 422	\$ 438	\$ 120
EBIT	\$ 752	\$ 381	\$ 990	\$ 67
Taxes	\$ (134)	\$ (78)	\$ (159)	\$ 11
Net Income	\$ 358	\$ 38	\$ 403	\$ (44)
Diluted EPS	\$ 3,15	\$ (0,15)	\$ 3,77	\$ (0,62)

Valuation Multiples

\$ in millions	2019	2020	2021	2022
Market Cap	\$ 1 443	\$ 2 068	\$ 1 700	\$ 1 999
P/E	11,36x	5,78x	44,73x	4,96x
P/Sales	0,68x	0,87x	0,70x	0,54x
EV/EBITDA	6,71x	5,49x	11,82x	6,17x
uFCF	\$ 570	\$ 651	\$ 605	\$ 713

Net Revenues (\$ in millions)



Financial Highlights

- Gray Television has achieved average EBITDA margins greater than 30%, and EBIT margins greater than 20%
 - net income is dependant on the political cycle and therefore oscillates every 2 years (see Net Revenue Distribution)
- Gray Television's market cap recently decreased to under \$700 million
- Firm regularly benefitted FCF greater than \$600 million



Leveraged Acquisitions



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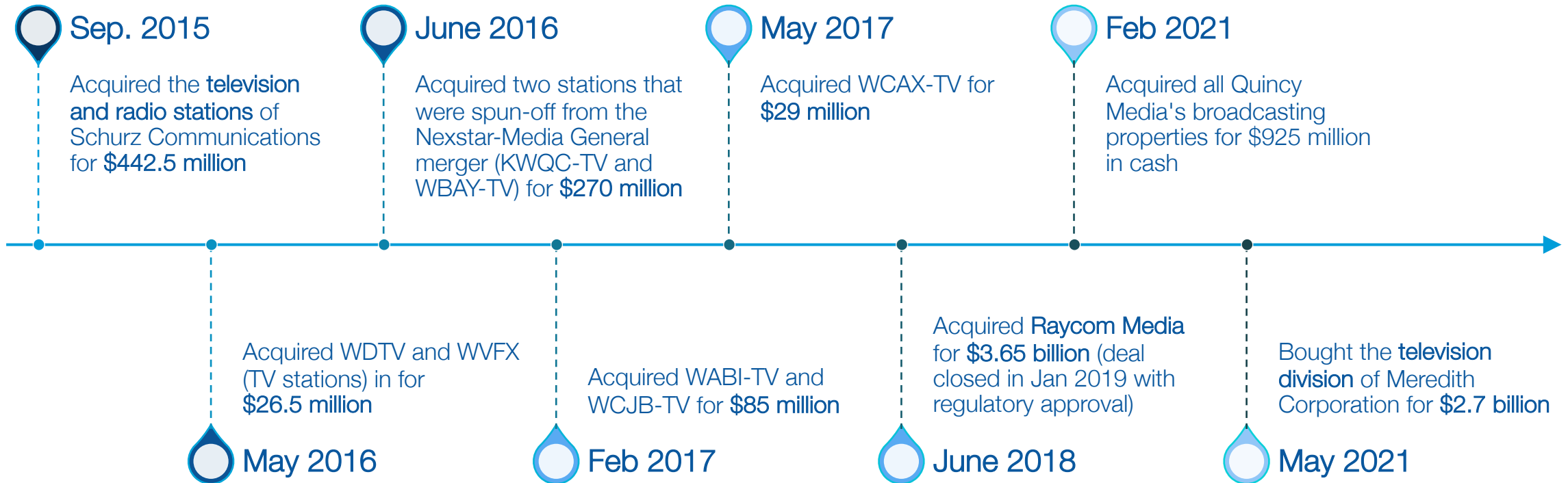
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Total amount: \$8.1 billion



Acquisition Financing: Acquisitions were financed predominantly with debt which increased by over \$6 billion since June 2018. This debt has weighted average interest of 4.86%



Broadcasting & Advertising



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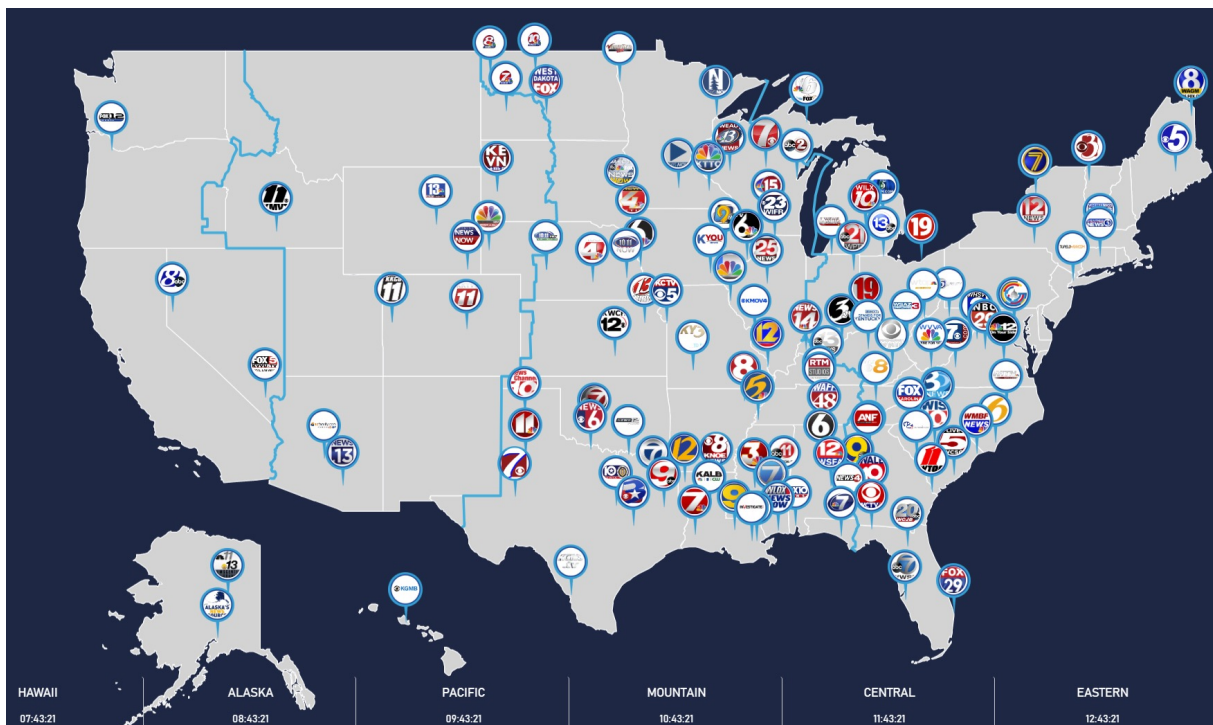
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Market focus

- Focused on US East Coast
- Highly cyclical industry
- Further consolidation, diversification and innovation
- More mergers and acquisitions (*economies of scale, expand geographic reach, diversify revenue streams*)

\$ in millions	2023	2022	2021	2020	2019
Revenue CAGR	18,86%	8,39%	7,06%	14,26%	15,91%
EBIT Margins	12,60%	14,47%	14,64%	17,03%	16,02%
Beta	1,48x	1,35x	1,11x	1,33x	1,12x
EV/EBITDA	10,43x	12,06x	9,51x	11,46x	10,71x
P/E	659,36x	31,25x	18,03x	16,98x	21,52x
D/E	95,91%	84,15%	99,61%	91,77%	107,81%
CEO Holding	9,69%	6,35%	6,23%	6,29%	7,22%
Insider Holding	19,98%	16,61%	18,86%	20,13%	17,58%
Institutional Holding	42,26%	40,74%	40,38%	48,16%	46,66%

Market & Industry Figures

- High revenue growth
- EBIT margins less than 20%
- Beta greater than total market
- EV/EBITDA greater than 10x
- D/E around 100%
- High CEO Holdings
 - Skewed by Murdoch family (unrelated to this industry)





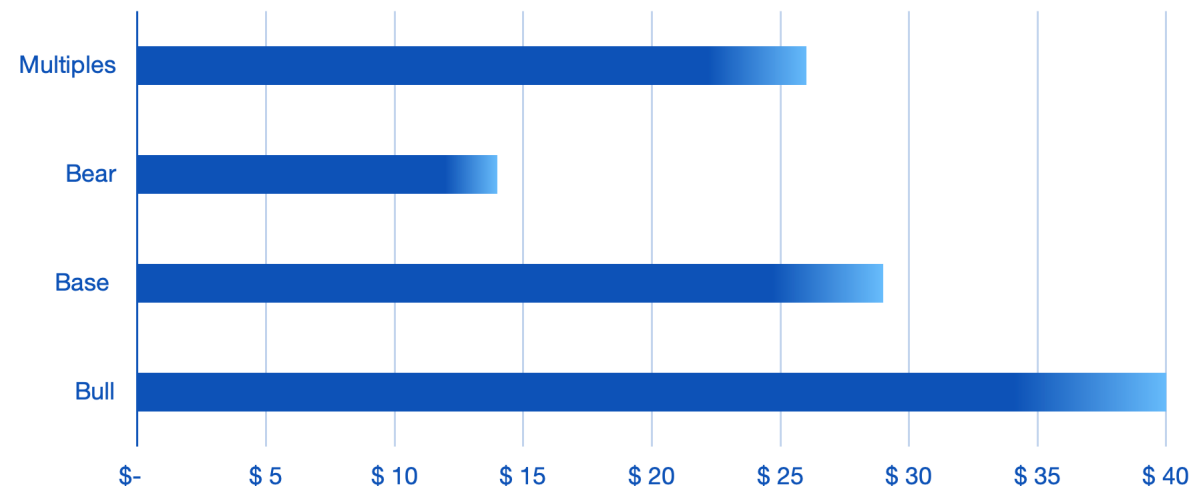
Valuation

- **Base Case (\$29.00)**
 - GTN continues to perform in line with expectations and **returns to profitability by 2026**
 - Value driven by **high uFCFs** from 2028 onwards (\$600-\$1000)
 - Firm **reduces reinvestment** (currently 36% out of 39% capacity)
 - Focus on **repaying debt**, maintaining **dividends**, and innovation
- **CCA Multiples (\$26.00)**
 - Based on **comparable broadcasting companies** (NSXT, TGNA, SSP)

Extreme Cases

- **Bear Case (\$14.00)**
 - GTN struggles to become profitable and does so by 2028
 - uFCFs remain low from 2028 (\$300-\$700)
- **Bull Case (\$40.00)**
 - GTN becomes profitable in 2024 due to elections and ends 2023 with strong earnings
 - uFCFs stay high and reach \$1100 by 2033
 - GTN **sells off** old PP&E and reinvests into future profitability

Valuations



Value & Price Forecast



CCA & Analysis



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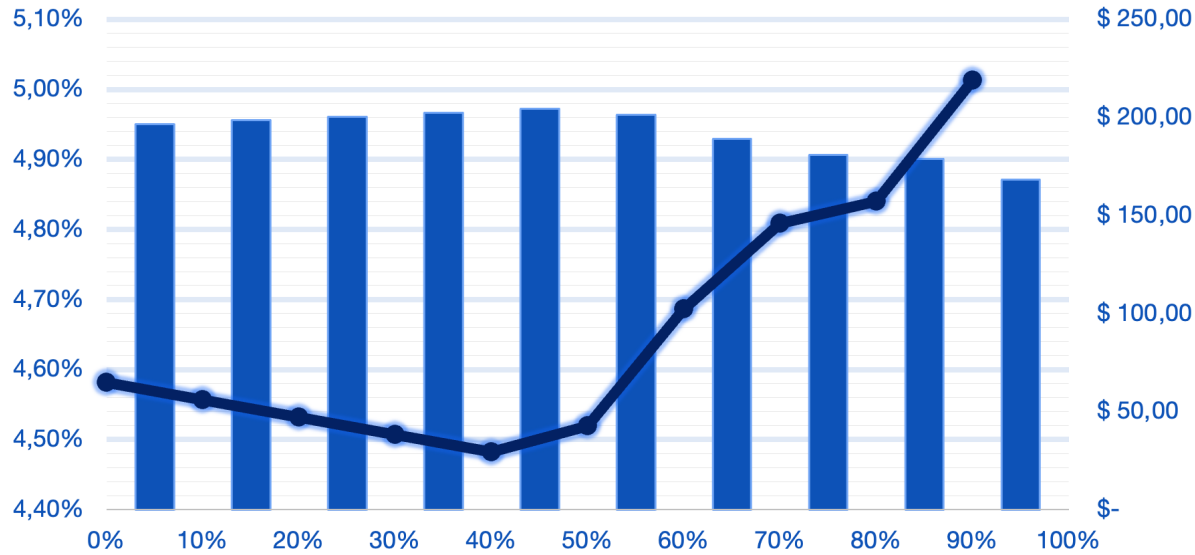
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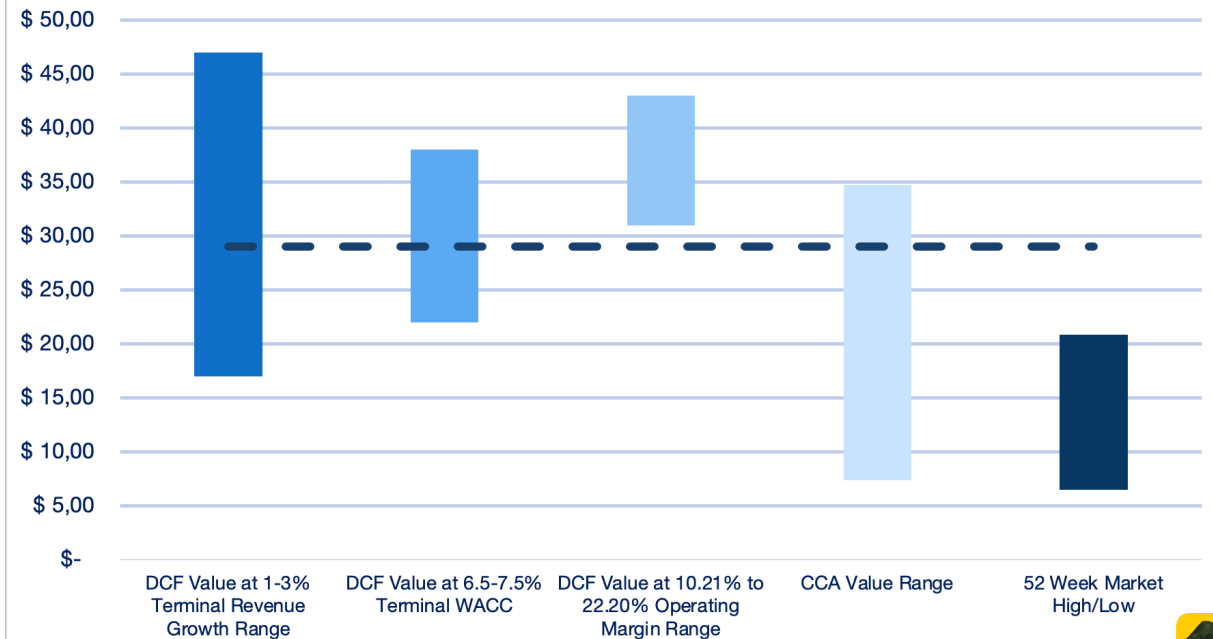
Strategy

Optimal Capital Structure



Operating Margin	Revenue growth rate							
	5,00%	10,00%	25,00%	50,00%	75,00%	90,00%	95,00%	
	-8,89%	-4,15%	3,77%	12,57%	21,37%	29,29%	34,02%	
5,00%	2,10%	\$ (6,54)	\$ 1,43	\$ 21,99	\$ 60,52	\$ 124,36	\$ 213,96	\$ 287,44
10,00%	5,25%	\$ (4,55)	\$ 3,87	\$ 25,39	\$ 65,39	\$ 131,26	\$ 223,31	\$ 298,62
25,00%	10,51%	\$ (1,21)	\$ 7,95	\$ 31,08	\$ 73,54	\$ 142,79	\$ 238,93	\$ 317,29
50,00%	16,35%	\$ 2,49	\$ 12,49	\$ 37,40	\$ 82,58	\$ 155,60	\$ 256,29	\$ 338,04
75,00%	22,20%	\$ 6,19	\$ 17,02	\$ 43,72	\$ 91,63	\$ 168,40	\$ 273,65	\$ 358,79
90,00%	27,46%	\$ 9,52	\$ 21,10	\$ 49,41	\$ 99,77	\$ 179,93	\$ 289,28	\$ 377,46
95,00%	30,61%	\$ 11,51	\$ 23,55	\$ 52,82	\$ 104,64	\$ 186,83	\$ 298,63	\$ 388,63

Football Field



Company (Ticker)	Employees	Valuation (\$m)	Revenue (\$m)	Net Income (\$m)	Net Profit Margin	EV/S	P/E	P/B	P/S	PEG
NEXSTAR MEDIA GROUP, INC. (XNAS:NXST)	11 666	\$ 5,906.26	\$ 5,211.00	\$ 971.10	18.64%	2,56x	6,48x	2,38x	1,37x	1,74x
TEGNA INC. (XNYS:TGNA)	6 300	\$ 3,664.03	\$ 3,280.00	\$ 630.50	19.22%	1,94x	5,66x	1,23x	1,15x	0,98x
GRAY TELEVISION, INC. (XNYS:GTN)	8 942	\$ 655.50	\$ 3,676.00	\$ 455.00	12.38%	2,16x	1,55x	0,38x	0,22x	1,15x
THE E.W. SCRIPPS COMPANY (XNAS:SSP)	5 700	\$ 673.09	\$ 2,453.00	\$ 195.90	7.99%	1,71x	4,48x	0,46x	0,34x	12,81x



DCF Model



Recommendation	Company Overview					Market Overview					Valuation					Catalysts					Risks					Strategy				
Historical Period						Forecasted Period																								
<i>in millions of USD</i>	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034														
CAGR	-	12,21%	1,34%	52,34%	-21,90%	12,68%	-26,15%	39,72%	5,30%	42,48%	-19,79%	33,73%	-17,27%	43,38%	-19,16%	2,00%														
Revenues	\$ 2 122	\$ 2 381	\$ 2 413	\$ 3 676	\$ 2 871	\$ 3 235	\$ 2 389	\$ 3 338	\$ 3 515	\$ 5 008	\$ 4 017	\$ 5 372	\$ 4 444	\$ 6 372	\$ 5 151	\$ 5 254														
EBIT Margin	22,53%	31,58%	15,79%	26,93%	4,10%	8,53%	-8,50%	14,38%	19,40%	34,74%	22,85%	34,23%	19,55%	37,19%	23,04%	23,04%														
EBIT Margin	\$ 478	\$ 752	\$ 381	\$ 990	\$ 118	\$ 276	\$ (203)	\$ 480	\$ 682	\$ 1 740	\$ 918	\$ 1 839	\$ 869	\$ 2 370	\$ 1 187	\$ 1 211														
% of increase	-	57,32%	-49,34%	159,84%	-88,10%	134,24%	-173,55%	336,45%	42,08%	155,13%	-47,24%	100,33%	-52,75%	172,73%	-49,92%	2,00%														
Tax rate	29,80%	24,63%	46,43%	25,90%	26,23%	27,67%	23,39%	24,00%	24,75%	24,75%	23,83%	23,09%	22,69%	22,15%	21,59%	21,59%														
NOPAT	\$ 336	\$ 567	\$ 204	\$ 734	\$ 87	\$ 200	\$ (203)	\$ 414	\$ 513	\$ 1 309	\$ 699	\$ 1 414	\$ 672	\$ 1 845	\$ 931	\$ 949														
% of increase	-	68,91%	-63,99%	259,43%	-88,15%	129,69%	-201,68%	303,70%	24,11%	155,14%	-46,60%	102,25%	-52,50%	174,63%	-49,56%	2,00%														
Invested Capital	\$ 5 822	\$ 6 387	\$ 9 206	\$ 9 261	\$ 9 130	\$ 9 044	\$ 8 775	\$ 8 954	\$ 9 268	\$ 9 991	\$ 10 142	\$ 10 782	\$ 10 895	\$ 11 817	\$ 12 092	\$ 12 195														
D&A	\$ 261	\$ 266	\$ 284	\$ 421	\$ 348	\$ 386	\$ 284	\$ 433	\$ 438	\$ 631	\$ 514	\$ 685	\$ 561	\$ 803	\$ 646	\$ 646														
CAPEX	\$ 187	\$ (120)	\$ 231	\$ (445)	\$ (365)	\$ (300)	\$ (309)	\$ (318)	\$ (713)	\$ (1 015)	\$ (814)	\$ (1 089)	\$ (901)	\$ (1 292)	\$ (1 044)	\$ (772)														
Change in NWC	\$ 214	\$ 62	\$ 114	\$ (3)	\$ (218)	\$ 127	\$ (130)	\$ 159	\$ 37	\$ 249	\$ (177)	\$ 222	\$ (185)	\$ 335	\$ (234)	\$ 42														
ROIC	5,76%	8,87%	2,22%	7,92%	0,95%	2,21%	-2,31%	4,62%	5,54%	13,11%	6,89%	13,12%	6,17%	15,61%	7,70%	7,78%														
NOL	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 203	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -														
FCFF	\$ 570	\$ 651	\$ 605	\$ 713	\$ 288	\$ 159	\$ (98)	\$ 369	\$ 202	\$ 676	\$ 576	\$ 788	\$ 516	\$ 1 021	\$ 767	\$ 782														
% of increase	-	14,26%	-7,02%	17,77%	-59,54%	-44,79%	-161,48%	477,37%	-45,40%	235,34%	-14,88%	36,92%	-34,48%	97,80%	-24,95%	2,00%														
WACC	7,41%	5,65%	5,90%	6,32%	8,45%	8,45%	8,45%	8,45%	8,45%	8,45%	8,26%	8,07%	7,88%	7,69%	7,50%	7,50%														
EVA	\$ (96)	\$ 206	\$ (339)	\$ 148	\$ (685)	\$ (565)	\$ (945)	\$ (343)	\$ (270)	\$ 465	\$ (139)	\$ 544	\$ (187)	\$ 936	\$ 24	\$ 35														
Cumulated discount factor	93,10%	94,66%	94,43%	94,06%	92,21%	85,02%	78,39%	72,28%	66,65%	61,45%	56,66%	52,34%	48,43%	44,89%	41,69%	41,69%														
PV(FCFF)	\$ 530	\$ 616	\$ 571	\$ 670	\$ 266	\$ 135	\$ (77)	\$ 267	\$ 134	\$ 416	\$ 326	\$ 413	\$ 250	\$ 459	\$ 320	\$ 326														
% of increase	-	16,17%	-7,24%	17,30%	-60,34%	-49,09%	-156,69%	447,96%	-49,65%	209,21%	-21,51%	26,47%	-39,38%	83,35%	-30,31%	2,00%														

Terminal Value of \$15,64 billion / TEV of \$9,56 billion / Probability of default of 10% and failure proceeds of \$1,27 billion / Value of operating assets equals \$8,73 billion / After subtracting debt (\$6,3 billion), minority interests, cash, non-operating assets, and value of options (SBC), value of equity in common stock is equal to \$2,54 billion



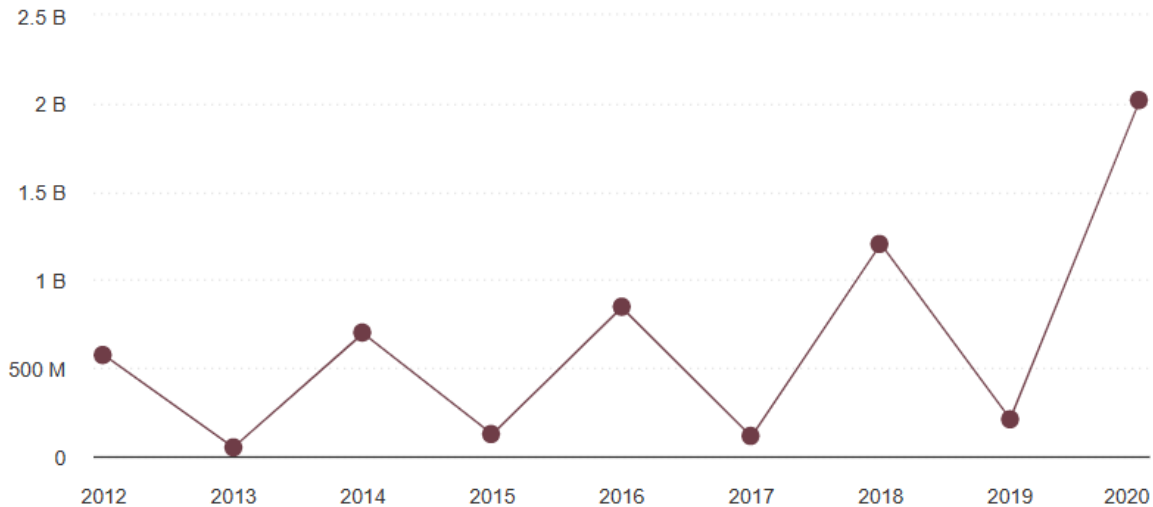


US Elections 2024

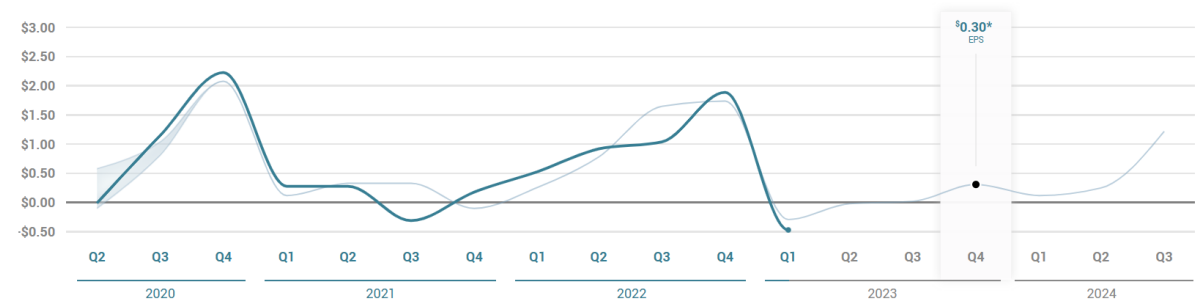
- Cyclical business
- **2024 Elections** are expected to be even more contentious than 2020 (Biden vs. Trump)
- Campaign **advertising** starts 1 year before election date (Nov 5, 2024)

Political advertising revenue at local TV companies

Total political advertising revenue for five publicly held local TV station companies (in U.S. dollars)



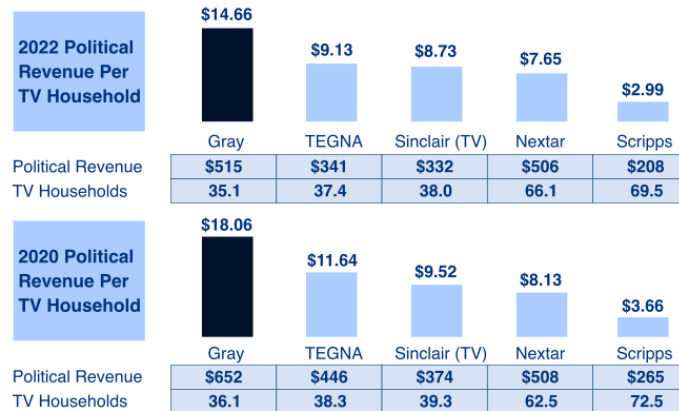
GTN Earnings Estimates and Actuals by Quarter



Return to Profitability (Q4 2023)

- Currently valued as a money losing company
- **Strong Q4 2023**
- Full year of **significant profitability** in 2024 (*indication of right direction*)

Gray excels at Political Revenue

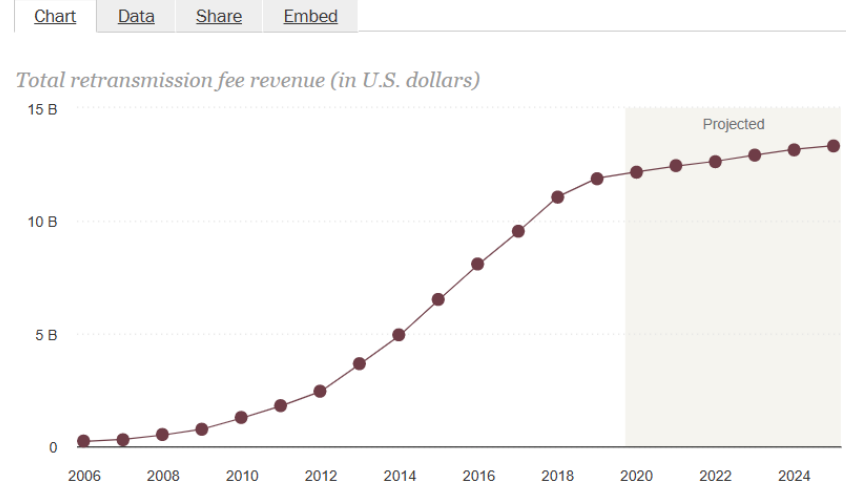


- GTN is best able to **capitalize on political revenue** (election years and mid-terms)
- Allow for the facilitation of the announced **share repurchase program**

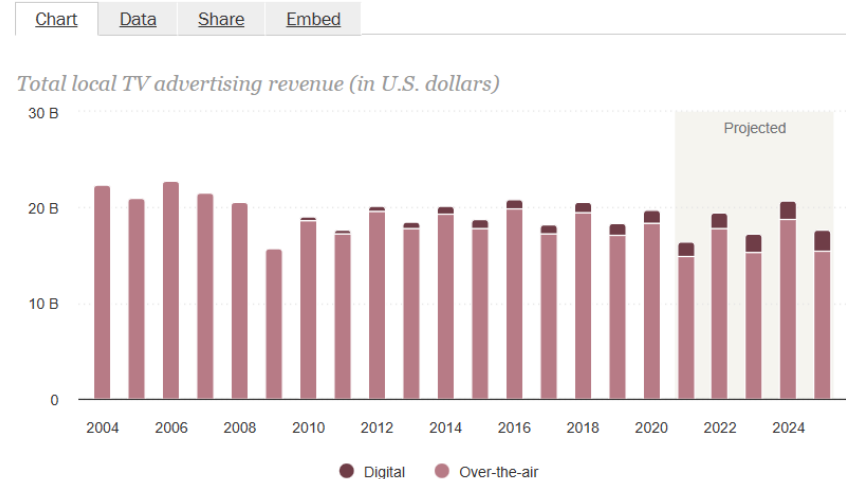




Retransmission fee revenue for U.S. local TV stations



Advertising revenue for local TV



Growth of Retransmission Revenue

- Fees paid by cable and satellite systems to carry local channels
- Increasing rapidly in the past decade
- In 2019, retransmission revenue reached **\$11.9 billion**
 - up from \$11.1 billion in 2018 and \$9.5 billion in 2017
- This figure is expected to reach **\$13.3 billion by 2025**

Digitalization

- Total **digital advertising revenue** for local TV stations increased 6% in 2020
 - reaching a total of about **\$1.4 billion**
- **Digital advertising revenue** still accounted for just 7% of total ad revenue
- GTN has been investing in **digital platforms** to reach new audiences and advertisers
 - **Local Now** (streaming service that provides free local news, movies and TV shows)
 - **Circle Network** (country music-themed multicast television network that broadcasts music videos, concerts, and other country music-related content)





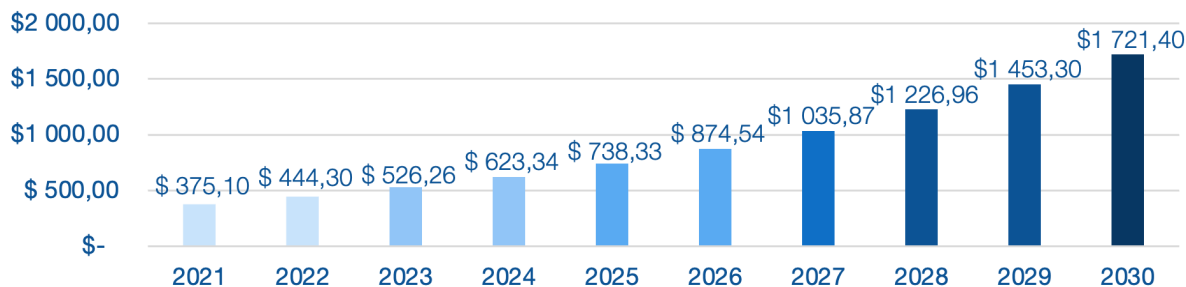
High debt levels

- Unsustainably higher interest payments which reduce profitability and cash flow
- Limit the company's ability to borrow more money in the future
 - Affect acquisition ability
- Potential credit rating downgrades increase borrowing costs and reduce investor confidence
 - Can lead to bankruptcy if the company is unable to meet its debt obligations

Growth of Streaming (Cord-cutting)

- television has been buffeted by disruptive streaming that led to market

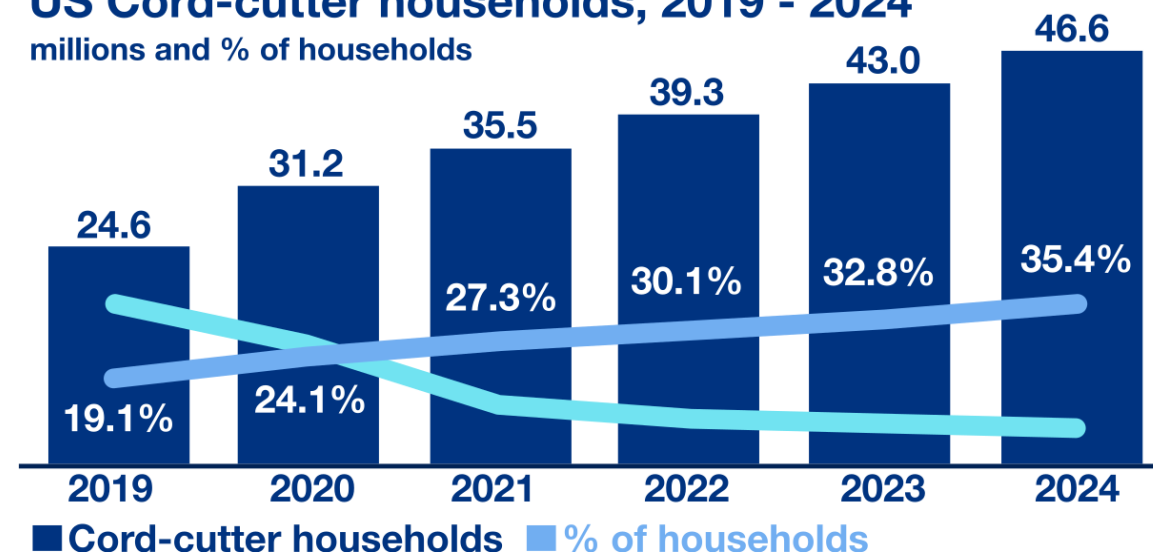
Video streaming market size, 2021 to 2030 (USD Billion)



D/(D+E)	Debt	ICR	Rating	BETA	Tax rate	WACC	EV Value
0,00%	\$ -	∞	Aaa/AAA	0,17	21,00%	4,58%	\$ 196,59
10,00%	\$ 678,24	34,40	Aaa/AAA	0,19	21,00%	4,56%	\$ 198,52
20,00%	\$ 1 356,48	17,20	Aaa/AAA	0,21	21,00%	4,53%	\$ 200,48
30,00%	\$ 2 034,72	11,47	Aaa/AAA	0,24	21,00%	4,51%	\$ 202,48
40,00%	\$ 2 712,96	8,60	Aaa/AAA	0,28	21,00%	4,48%	\$ 204,51
50,00%	\$ 3 391,19	6,88	Aa2/AA	0,33	21,00%	4,52%	\$ 201,42
60,00%	\$ 4 069,43	5,73	A1/A+	0,41	21,00%	4,69%	\$ 188,93
70,00%	\$ 4 747,67	4,91	A2/A	0,55	21,00%	4,81%	\$ 180,74
80,00%	\$ 5 425,91	4,30	A2/A	0,82	21,00%	4,84%	\$ 178,70
90,00%	\$ 6 104,15	3,82	A3/A-	1,63	21,00%	5,01%	\$ 168,44

US Cord-cutter households, 2019 - 2024

millions and % of households

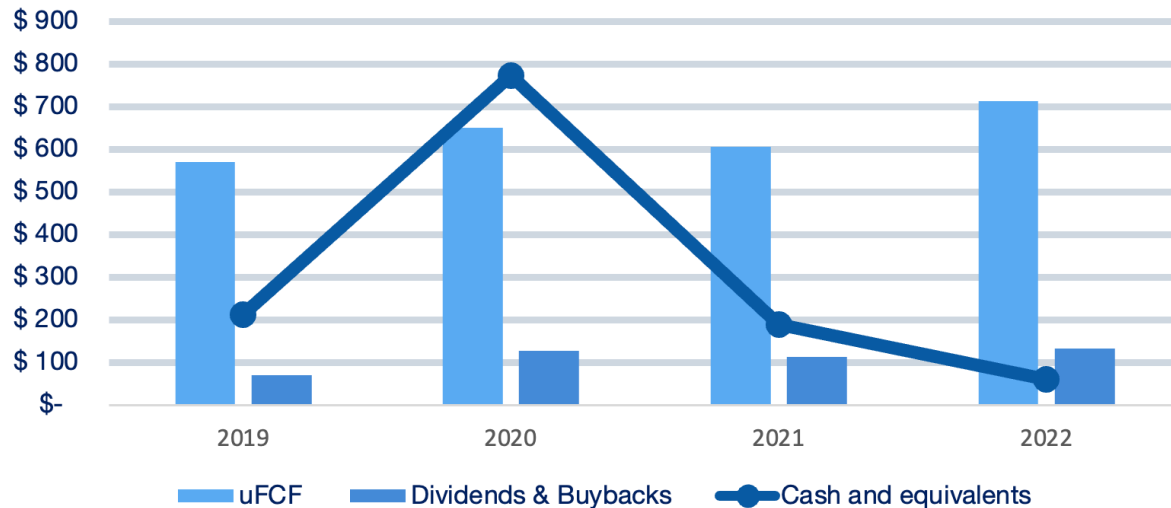




Cash

- GTN may experience **solvency issues** due to continuous **dividend payments** and **insufficient FCF**
- This may lead to additional **debt** or **share issuances**

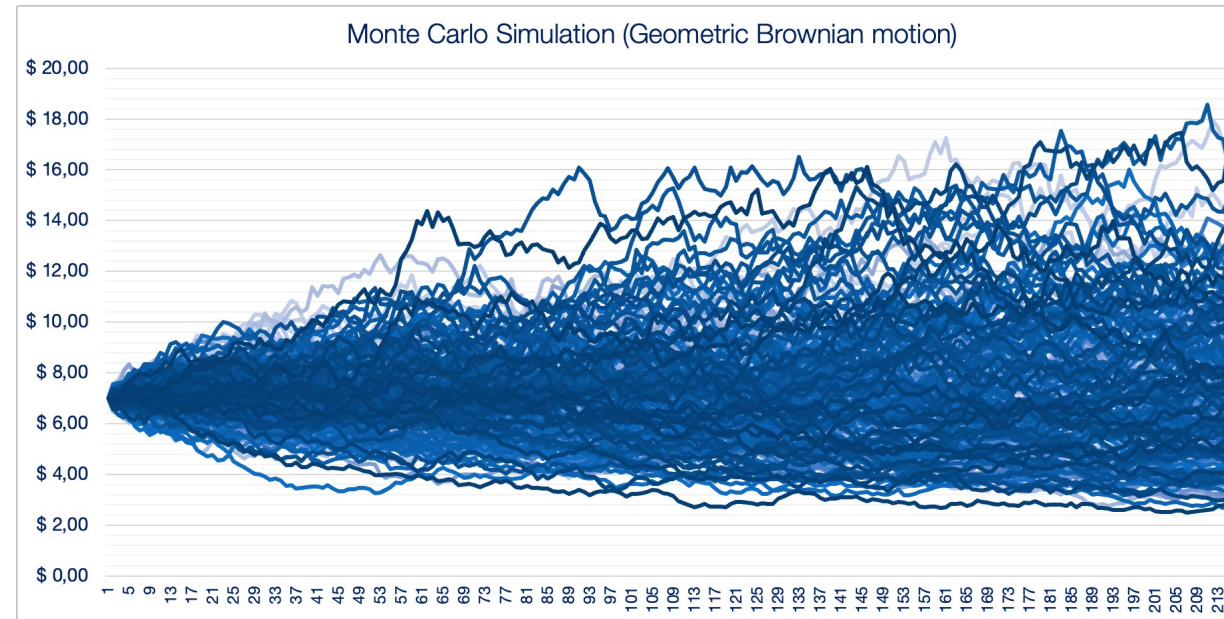
Decreasing Cash Balance



- in its **fourth-quarter earnings release**, the company said:
 - “Looking ahead, we anticipate that our television stations and production companies will **maintain revenues** at a level generally flat with recent years should macroeconomic conditions, particularly in local markets, slow during 2023”
 - “we believe that our businesses performed well throughout last year and have started 2023 in a **strong position**”

Geometric Brownian Motion

- Monte Carlo Simulation** of Geometric Brownian Motion revealed different **potential price levels** for the stock in the next 1 year
- GBM reaches a **MAX value** of **\$18.31** and **MIN value** of **\$2.43**



Risk Mitigation



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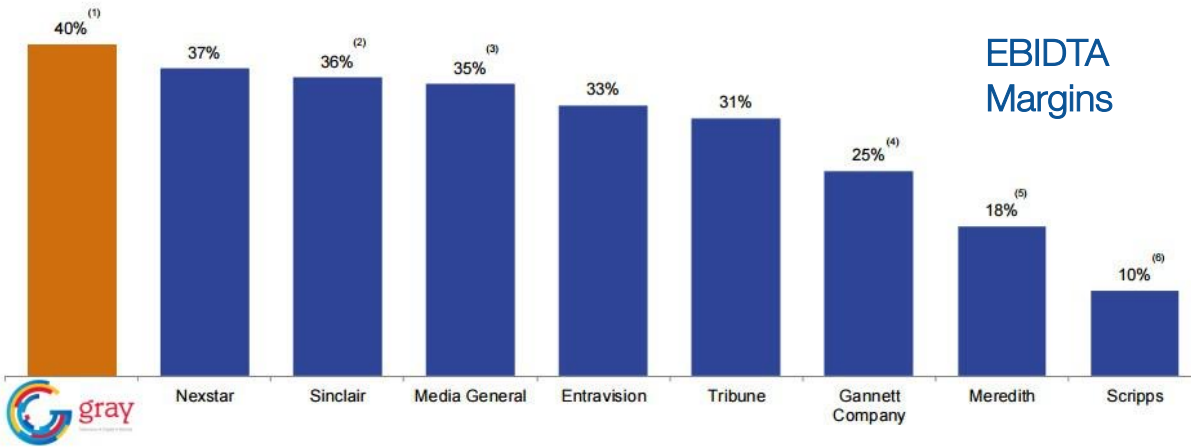
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Full Year 2021 Owned Stations	Gray	Nexstar	Tegna	Sinclair (TV)	Scripps
Markets with #1/#2 Ranked Owned Stations	88%	59%	50%	47%	18%
Markets with Owned Stations	113	115	51	86	76
Nielsen TVHH (mm)	44	83	48	47	88
Reach of Owned Stations (Total Nielsen TVHH)	36%	68%	39%	38%	72%

Sources: Company filings, Nielsen TVHH estimates, Comscore average all-day live HH ratings for calendar year 2021.

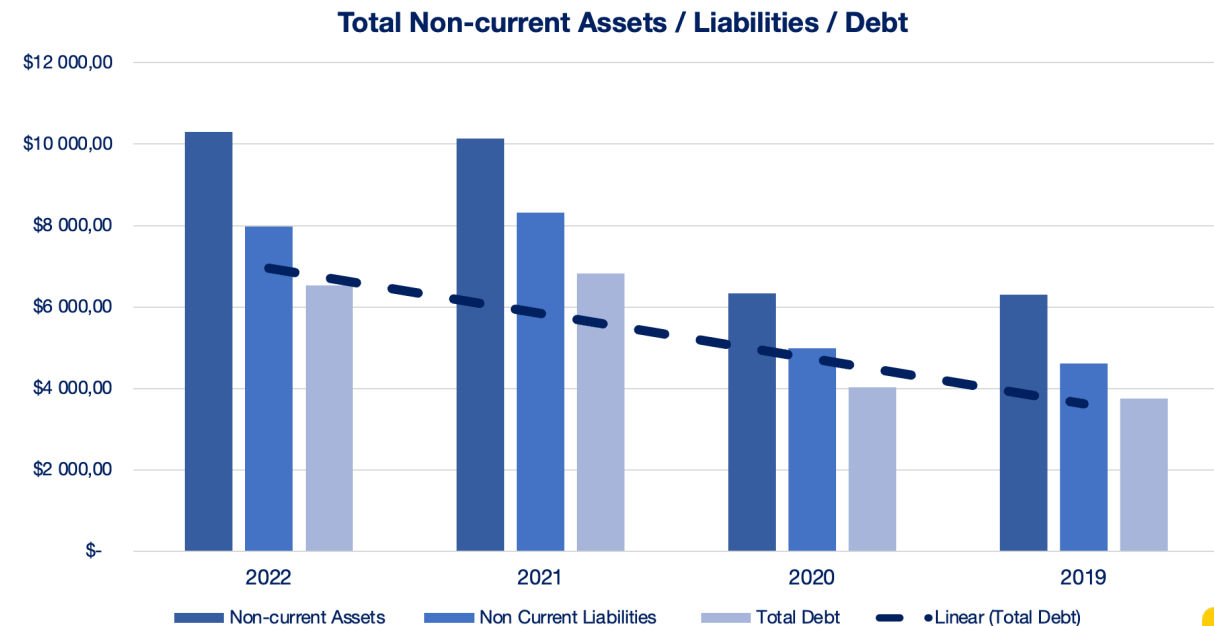


Strong Ratings and Loyal Viewer-base

- Largest owner of **top-rated** local television stations and digital assets in the United States
- Portfolio includes **79 markets** with the **top-rated television** station and 101 markets with the first and/or second highest rated television station
- GTN stations remain **relevant** and **powerful** thanks to a strategy of emphasizing **local news**
- **Good margins**

Cease acquisitions / CapEx Reduction / Debt Repayment

- Reduce spending
- Sell off underperforming assets
- Debt repayment (improve capital structure)
- Increase profitability
- Reinstate investor confidence





Exit Strategy

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Exit

- **Value increases over 10% annually**
 - Based on comprehensive 3-statement financial analysis, every year going forward, the **value** of GTN will **increase** on average by more than **11%**
 - This increase can be exploited by **holding** GTN for more than **2 years**
 - Possible option to **sell** if stock increases during **2024 US elections**

- **Trading (<1 year)**
 - **Maximizing M2** over 1 year Horizon using Monte Carlo GBM Simulation
 - **M2 is calculated** based on the **GBM**
 - Using **statistical inferences** from the simulation, draw conclusions into a ratio
 - Ratio **target is M2** of 20% with SP500 as benchmark
 - Optimal **entry point**
 - Enter the position **now** at 0% change
 - Optimal **exit**
 - Exit after stock **increases by 30%** (\$9.1)
 - Exit if stock **plummets by 17%** (\$5.8)

Exit strategy based on Entry of 0%									
	3,45%	8,71%	14,43%	21,21%	29,51%	36,91%	46,56%	63,01%	87,41%
-3,26%	-284,16	-1171,17	-947,76	-770,37	-599,34	-503,31	-415,01	-366,10	-373,86
-7,76%	-297,58	-1189,15	-864,21	-247,26	-121,04	-713,83	-524,71	-536,96	-540,47
-12,08%	-13,91	-1134,95	-777,23	2,18	145,75	19,28	88,68	-237,68	-300,74
-16,43%	-9,34	-1225,74	-819,51	199,79	371,59	178,16	345,27	244,88	96,86
-21,56%	-6,74	-1847,36	-1343,44	-43,62	194,50	-4,63	213,24	436,79	37,41
-26,51%	-5,28	-1,67	-10,56	-16,43	-28,13	-11,94	-12,20	11,43	4,14
-33,15%	-14,26	-1,13	-9,24	-17,26	-35,31	-20,16	-22,56	1,42	-5,99
-38,48%	-13,79	-0,60	-6,61	-11,64	-28,78	-29,21	-34,03	15,35	1,47
-47,70%	-13,38	-0,14	-4,82	-9,48	-16,65	-6,32	-24,87	16,60	7,92

