Adestella
Investment Management

July 26, 2017

Dear Fellow Investors,

The Fund gained 4.9% for the second quarter of 2017. Our international holdings were the standouts, producing over 100% of our total NAV/share increase, while our domestic stocks declined just over 150 basis points. Our long portfolio returned 5.0%, short positions lost 0.8%, and currency fluctuations contributed 0.7%. At the quarter's end, the Fund had gross exposure of 149% and net exposure of 82%.

Most indices treaded water in the second quarter as the key market storylines remained unchanged and volume lightened up for the summer season. Fears about the pace of Federal Reserve tightening and North Korea tensions continued to receive significant attention. The good news for us is that these developments are more or less immaterial to Adestella – our performance will be determined by the success of our underlying business holdings and not by the frequency of rate hikes or missile launches.

An updated performance summary is as follows:

	2Q 2017	YTD 2017	Since Inception[1]
S&P 500	3.07%	9.17%	31.65%
Vanguard Total World Stock ETF	4.25%	11.89%	16.40%
Russell 2000	2.46%	4.98%	23.80%
HFRI Equity-Hedge (Total) Index	2.27%	6.25%	11.68%
Adestella Investment Management[2]	**4.90%**	**18.50%**	**41.26%**

**all index returns include reinvestment of dividends*

Our Own Worst Enemy: The Perils of Human Nature in Investment Judgement

It's no secret that the active management segment of the investment industry has been under fire lately. Years of underperformance relative to benchmark indices have prompted many investors and capital allocators to shift their money away from active managers and into ultra-low-cost index funds – effectively throwing in the towel on any attempt to beat the market and instead remaining content with merely matching it. Given these headwinds, I believe it's imperative that active managers (myself

[1] Adestella began operations in the third quarter of 2014.
[2] Time weighted returns on a gross basis

included) redouble our focus on the specific investment situations that can differentiate us from passive vehicles.

One such situation is dealing with holdings that have declined in value. The first option is to sell or reduce the position, thus limiting your exposure to further changes in the stock price. The second option is no action – to simply hold on to your existing shares. The third is to purchase additional shares at the new, lower price, which lowers your average cost but also increases your exposure to future moves in the stock's value. There is no right or wrong answer to this question; there are times when each is appropriate and it fully depends on the particulars of the situation at hand.

Passive funds answer this question the same way every time. A real index merely tracks price changes, with constituency and weightings set by predetermined rules; most, including the S&P 500, weigh by market capitalization. Mimicking this, index fund position sizes only vary according to relative changes in the market value of the underlying holdings, meaning no marginal buying or selling is required or permitted (I assume no fund flows here for illustrative purposes). Thus, the default decision for passive vehicles is to hold, no matter what the specifics of the situation. Active investors, of course, are free to do any of the three and need only be correct on just over half of their add/reduce decisions in order to improve upon an index fund's default "hold." This doesn't sound like a particularly high hurdle, yet the historical underperformance of many active managers suggests this is a deceptively difficult task.

The problem is that humans tend to be susceptible to emotions and cognitive biases that impact their judgment, preventing them from making fully rational and objective decisions. While emotions, heuristics, and rules of thumb are quite useful in everyday life, they can be destructive in the investment world. Indeed, while part of the active management industry's underperformance may be related to stock picking, I'm inclined to believe that a good portion of the shortfall is instead due to suboptimal trading decisions on existing positions, thanks to the influence of these biases. A fear of missing out on quick gains may induce one to buy stock that has already appreciated materially, even if it no longer offers a cheap valuation. Similarly, one may refuse to sell a position that's declined, even if the company's situation has deteriorated, because he's anchored to his purchase price and doesn't want to lock in a loss. The full list of psychological predispositions that impact decision making is quite extensive, but in aggregate, they tend to have a negative impact on investment performance.

While the lackluster performance of many actively managed funds is well documented, the equally poor performance of retail investors suggests that behavioral tendencies are not an issue exclusive to professionals. Over the past ten years, Vanguard's S&P 500 index fund has returned an average of 7.1% annually. However, the average dollar invested in the fund – known as the investor return – grew by just 2.9% a year,[3] as fear and greed led investors to buy at relatively high prices and sell at relatively low ones. Compounded over time, this can make in enormous difference in an individual's wealth building efforts, and it underscores the importance – and difficulty – of minimizing the influence of cognitive biases on our decision making.

[3] See http://performance.morningstar.com/fund/performance-return.action?p=investor_returns_page&t=VFINX®ion=usa&culture=en-US

Winning the Mind Game

While the task of managing winners presents its own mental challenges, such as avoiding greed, the risk of rash impulses tends to be particularly acute with losing positions. Research indicates that individuals feel pain from losses 2.5x as strongly as they feel pleasure from gains.[4] This innate loss aversion tendency hinders rationality and makes falling stocks much more fertile ground for emotional decisions. While one cannot fully eliminate instinctive biases, he can be aware of and take control of their impact. Doing so is crucial because it allows for objective decision-making that turns short-term investment problems (like a stock declining in price) into opportunities to improve long-term return. In fact, I believe these decisions are one of the areas in which good active management can add the most value, and they are often an important differentiator between those who outperform the market over time and those who don't. In my view, there are three prerequisites to doing this successfully:

1. **Must be willing to think independently and arrive at your own conclusions.** The pessimism inherent in any stock price decline can be pervasive. It's quite easy to fall victim to the herd mentality and rely on social proof via the actions of fellow investors to determine your decisions. However, it's imperative to analyze the information yourself in an impartial manner: the price change may or may not be warranted, but the only way to determine that is by doing your own work while recalling that others are under the influence of the same biases.

2. **Must have a thorough understanding of the company and its prospects.** Related to Point #1, making an independent judgement is of limited use if you don't have all the relevant facts. In my experience, the first investors to make impulsive decisions are those who do not have a strong understanding of the company at hand and thus lack an objective counterweight to balance their knee-jerk emotional responses.

3. **Must think of your stocks as businesses/general merchandise instead of just pieces of paper to be traded.** While people understand the appeal of buying a shirt or pair of pants after the price drops 50%, many fail to transfer that reasoning to their investment decisions. The drivers of business performance can often be distilled into just a few key factors; all of the rest is noise. Viewing your holdings with an ownership mentality and focusing on only these critical inputs causes you to view price declines differently – if none of the factors have changed, you now have an opportunity buy the same merchandise (that you already liked) at a better price, and you should take advantage of it.

In the second quarter, several of the Fund's largest holdings experienced double-digit percentage declines despite no material change in their business performance or outlook. In each of these cases, I've attempted to capitalize on the situation by purchasing more good "merchandise" at an even more attractive price. One of these holdings is Nexstar Broadcasting Corporation (NXST), which fell about 13% despite consistently strong results and significant free cash flow generation. We added shares at the

[4] See Nathan Novemsky and Daniel Kahneman, "The Boundaries of Loss Aversion," *Journal of Marketing Research, Vol.* 42

lower prices, and I am confident that this will be viewed in hindsight as a temporary problem for the Fund that ultimately proved to be a profitable opportunity. NXST is the subject of this quarter's in-depth investment thesis, which is provided as an appendix at the end of this letter for those interested in more detail.

Outlook

Despite market indices hovering near record highs, I remain optimistic on the prospects for the Fund for the balance of the year. Running a relatively concentrated strategy that focuses on smaller, underfollowed companies means that there are generally opportunities available no matter what the broader stock market is doing. We have a solid mix of holdings across geographies, industries, risk-reward profiles, and catalyst types that should generate a satisfactory return over time in any environment. And given the underperformance of several of our largest holdings in the second quarter, we are in the particularly favorable position of having some of the best upside potential in our favorite ideas.

Conclusion

As I outlined in our inaugural letter at the close of the first quarter, I hope these quarterly missives are useful in facilitating understanding of the Fund's positioning and my thought process behind it. Our interests remain fully aligned, as the great majority of my liquid net worth remains invested alongside your capital. The first half of the year was successful – assets grew at a measured pace, and many of our holdings continued to trend toward their intrinsic values. My goal is to carry that momentum into the final six months of the year for our mutual benefit, and I look forward to providing another update on our progress at the conclusion of the third quarter.

"For a man to conquer himself is the first and noblest of all victories."

- Plato

Best Regards,

Andrew Jakubowski

Appendix A: Nexstar Media Group (NXST) Investment Thesis

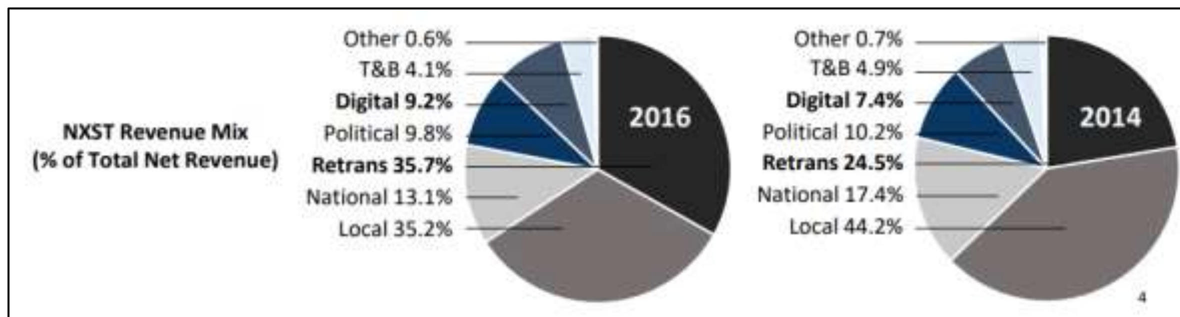
There was a broad-based selloff in media stocks last quarter, and it seemed as if the broadcasters were hit particularly hard. Whether due to news around new OTT offerings or M&A ramifications, stocks in the sector materially underperformed the broader indices. For reasons described below, I viewed the sell-off as unwarranted, so I took the opportunity to add substantially to my position in Nexstar Media Group (NXST), one of the nation's largest television broadcast operators. Though the stock has recovered some ground in recent weeks, I still view it to be significantly undervalued near the current price.

Intro and Company Background

Nexstar's roots trace back to 1996, when current CEO Perry Sook purchased a TV station in Scranton, PA. The company gradually grew from there, focusing its attention on small and medium sized markets where local news was viewed as an important part of the community. In 2003, NXST purchased Quorum Broadcasting, doubling its station portfolio, and went public shortly afterwards on the strength of its newfound scale. After another decade of steady growth, NXST again made a transformational acquisition, purchasing 71 television stations and the digital media properties of Media General (MEG) in 2016. Today, the company boasts one of the largest portfolios of television assets, with 170 local stations across 100 markets in 40 U.S. states.

Since 2005, when broadcasters won a showdown against pay-TV services by demanding payment for retransmitting their signal to subscribers, the broadcast industry has been a good business to be in. Increases in high-margin retrans revenue coupled with relatively low capex requirements have allowed NXST (along with peers) to generate prodigious amounts of free cash flow in an efficient manner (60-70% EBITDA conversion to FCF). This, along the stability of these streams from the enormous amount of television watched by Americans, have allowed broadcasters to lever up to pursue accretive M&A opportunities (generally paying under 6x FCF) while still returning capital to shareholders in the form of dividends and buybacks. The results have been positive for shareholders; since 2005, NXST stock has provided roughly 6x the return of the S&P 500.

Nexstar has taken steps to ensure the strong performance in the last decade or so will be continued in the next ten years as well. The company has increased its presence to faster growing (digital) and less cyclical (retransmission fees) revenue streams while cutting its exposure to advertising – particularly national ads, which are especially sensitive to the macroeconomic environment. The chart below shows the substantial progress made in the last two years alone:

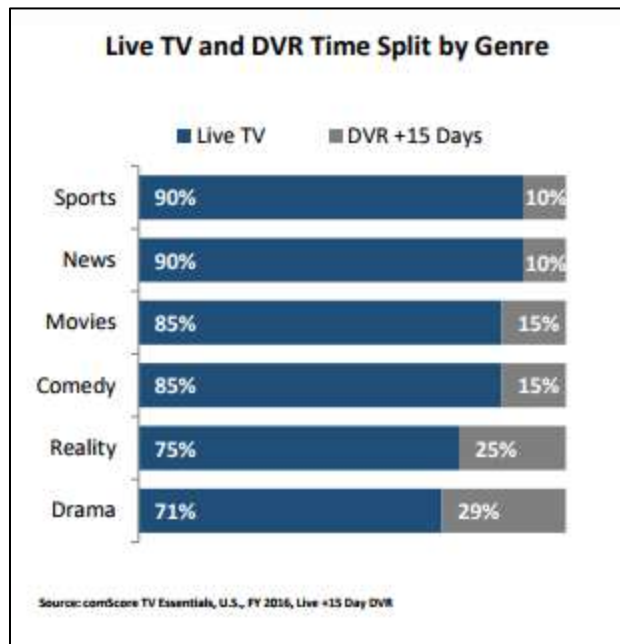


The most recent developments have been very favorable as well. Nexstar continues to execute superbly – pricing for its loan for the MEG merger came in ahead of expectations last year and the company just refinanced its senior notes to save another $15 M a year in interest – while posting record financial results. But despite all this, the stock declined substantially in Q2 and hasn't yet made a full comeback. And even if it did recover to its 52-week high, it would still be trading at a FCF yield of 16%. Given this is a reasonably large and liquid stock, such a fact pattern suggests that other market participants disagree with me on the outlook for the business rather than simply being unaware of the opportunity. Thus, it's imperative to address the key concerns that have kept the valuation at its low level, and why I believe them to be incorrect, or at least fully compensated for at the current price.

Why Does the Opportunity Exist? Key Market Concerns and My Rebuttals

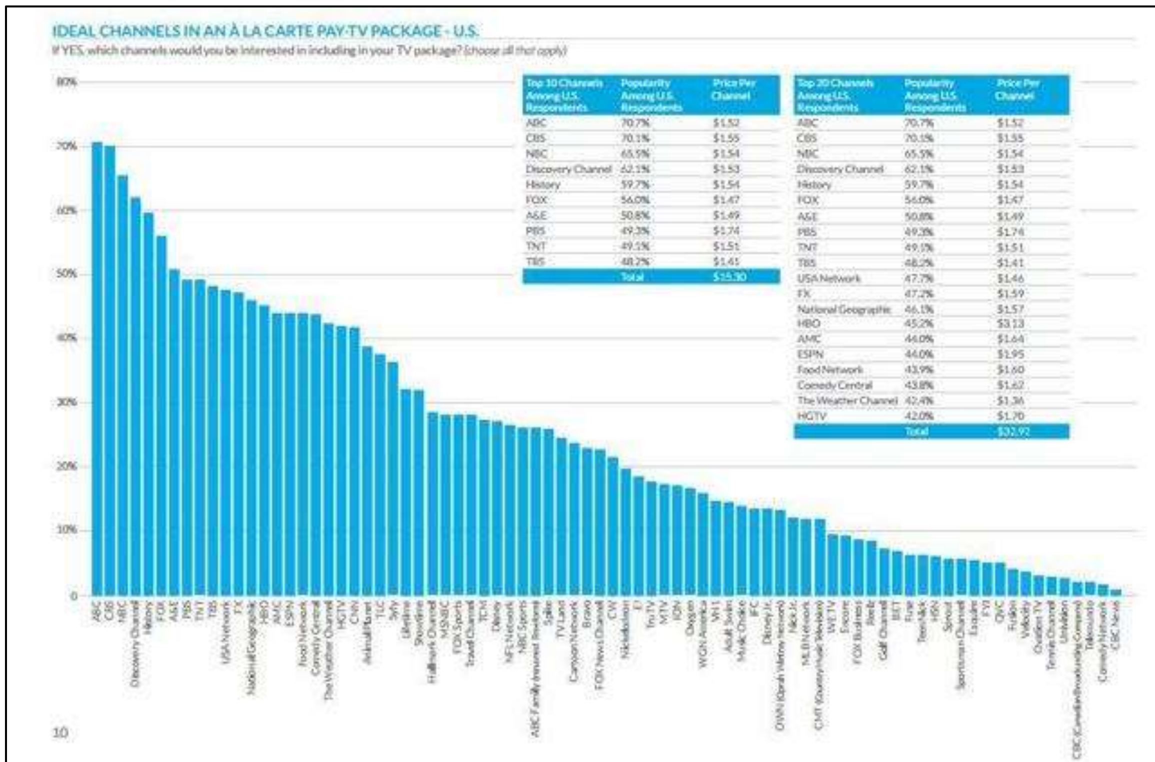
OTT/Cord-Cutting Concerns. I believe this is probably the main issue impacting NXST and the rest of the industry. While the risks from over-the-top services (like Netflix) and cord-cutting are related, I believe it's instructive to consider them one-by-one in this case.

The bear thesis as it relates to OTT argues that services such as Netflix are displacing traditional TV viewing and will hurt demand for the companies operating in the traditional television media business. While OTT services offer the added convenience of watching desired shows and programs on one's own schedule, there are certain segments where this value proposition is not as meaningful. Specifically, for sports and news programs, viewers still value live programming that provides up-to-the-minute information (see chart below). Such formats are not compatible with "binge-watching," making the segments somewhat insulated from the trend. Thus, firms with content portfolios including large amounts of news and sports are much better positioned than those focusing mostly on scripted shows.



With 82% of its portfolio being "Big Four" (ABC, NBC, CBS, & FOX) affiliates – some of the largest owners and producers of sports and news content – along with around 3,400 hours a week in local programming and exclusive rights to primetime content in its markets, I believe NXST is particularly well positioned no matter how television viewing trends shift in the upcoming years.

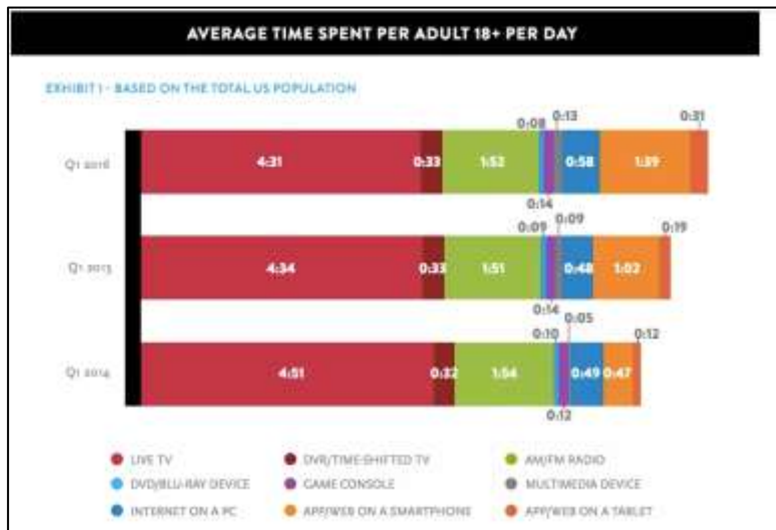
The argument about the trend of "cord-cutting" or "cord-shaving" is similar – thanks to OTT services, consumers no longer need or desire expensive traditional television packages filled with channels they rarely, if ever, watch. However, this argument fails to consider that even in skinny bundles, the major broadcast networks are the most in-demand channels (see chart below), with ABC, CBS and NBC taking the top three positions and FOX not far behind at #6. This strong consumer demand ensures broadcasters will have a seat at the table no matter how viewing patterns evolve, allowing them to maintain their negotiating leverage. Recent demonstrations of this include the favorable deals fellow broadcasters (such as Sinclair Broadcast Group, another name I own and believe to be attractive) cut with several programming distributors (known as MVPDs) to have their stations included in MVPD packages.



Top 10 Channels Among U.S. Respondents	Popularity Among U.S. Respondents	Price Per Channel
ABC	70.7%	$1.52
CBS	70.1%	$1.55
NBC	65.5%	$1.54
Discovery Channel	62.1%	$1.53
History	59.7%	$1.54
FOX	56.0%	$1.47
A&E	50.8%	$1.49
PBS	49.3%	$1.74
TNT	49.1%	$1.51
TBS	48.2%	$1.41
	Total	$15.30

Top 20 Channels Among U.S. Respondents	Popularity Among U.S. Respondents	Price Per Channel
ABC	70.7%	$1.52
CBS	70.1%	$1.55
NBC	65.5%	$1.54
Discovery Channel	62.1%	$1.53
History	59.7%	$1.54
FOX	56.0%	$1.47
A&E	50.8%	$1.49
PBS	49.3%	$1.74
TNT	49.1%	$1.51
TBS	48.2%	$1.41
USA Network	47.7%	$1.46
FX	47.2%	$1.59
National Geographic	46.1%	$1.57
HBO	45.2%	$3.13
AMC	44.0%	$1.64
ESPN	44.0%	$1.95
Food Network	43.9%	$1.60
Comedy Central	43.8%	$1.62
The Weather Channel	42.4%	$1.36
HGTV	42.0%	$1.70
	Total	$32.92

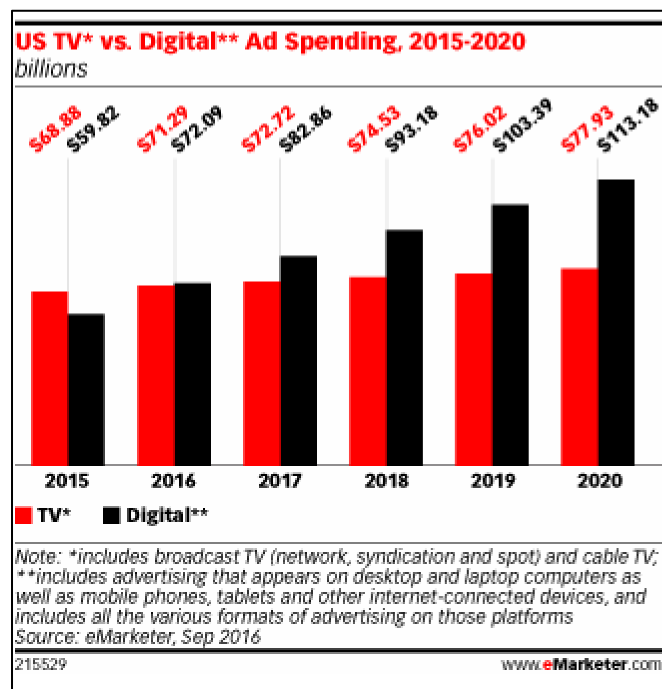
Finally, for all the OTT and cord cutting concerns mentioned above, we can see that even the most disrupted TV genre (drama) is still viewed on traditional TV more than 70% of the time. Clearly, traditional programming continues to dominate viewing and access to consumers. While many look at the explosive growth of OTT services and conclude they must be cannibalizing traditional forms of viewing, the reality is that OTT services have mostly been additive to media consumption instead of cannibalistic, as the chart below shows.



So to summarize, fundamentals remain strong for the broadcast industry, and within this healthy industry, NXST is particularly well positioned thanks to its robust portfolio of sports, news, and local content.

Ad Spending Concerns. This concern has both a short and long term aspect. For the short term, there were some areas of weakness in ad spending in the first half of the year. However, this appeared to have affected industries and regional markets unevenly, given NXST reported a solid beat for the first quarter with no change to guidance. This makes sense given the weakness was primarily in national ads, the sub-segment to which NXST is less exposed.

The longer term concern is that television ad spending will continue to lose share to digital. While I believe this is likely to happen, this view misses the fact that ad spending is strongly correlated to GDP growth, so as the economy continues grinding out small gains, the size of the pie increases as well. Hence, the television portion of the market can grow its aggregate ad dollars even at a lower market share, as the chart below depicts:



Recall NXST is shifting its revenue mix away from advertising anyway, so the segment decreases in importance each year.

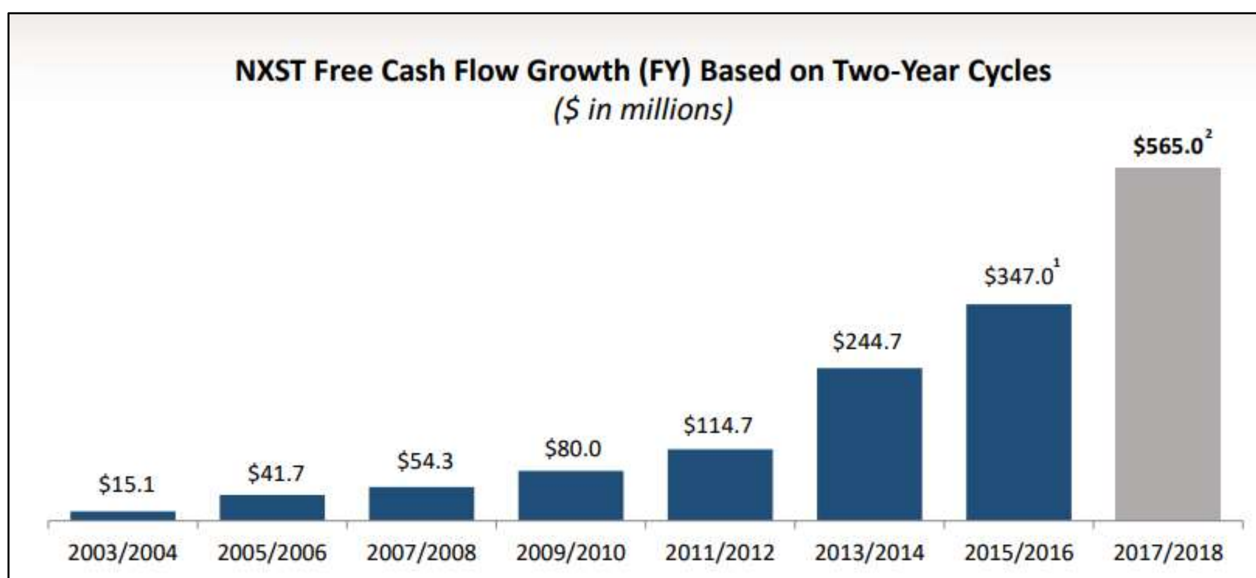
MEG Merger Concerns. Perceived issues here may be twofold. First, there are likely some concerns about the integration given its size. Media General was actually larger than Nexstar at the time of the acquisition, so it was quite a bite to chew off. However, all news to date indicates things are progressing smoothly – NXST raised both its FCF guidance and synergy

estimates (85% of which have already been realized to date). Secondly, the merger makes apples-to-apples comparisons of NXST's growth more difficult, leading some to dismiss the situation as too complex. The merger also means that NXST doesn't screen particularly well, as many screeners factor in the new financing on the balance sheet (large increase in debt levels) but not the impact on the income statement. This has the effect of inflating reported multiples, particularly on an enterprise value basis.

M&A News Concerns. I believe there may have been some fears of bidding war breaking out over Tribune Media and that the winner would ultimately be forced to overpay. Some may also be concerned about the ramifications of the reinstatement of the UHF discount and how that will affect the future M&A landscape. I believe such concerns are mostly noise as it relates to NXST, particularly now that the Tribune race is over. The investment case here was never predicated on further M&A, and as it stands now, the company is substantially undervalued considering only its current assets. Management has been prudent with its acquisitions in the past, and I'm confident this team won't destroy shareholder value in the pursuit of empire building, with or without the UHF discount in place.

Valuation

NXST trades like a melting ice cube with a history of poor execution and performance. However, a quick look at its historical and projected financials show that's anything but the case. Note that results in the broadcast industry are often presented on a two-year basis to account for the impact of political ad spending during election years.



Furthermore, while I view the industry as being broadly undervalued, NXST is especially so, particularly given its best in class margins and management team. The comp set below shows the valuation disconnect here; the top set includes companies with some broadcast operations, while the bottom focuses on the only two other pure-play broadcasters.

Company Symbol	Company Name	Current Market Value	Current EV	EV/ 16-17 Avg. EBITDA	EV/ 17-18 Avg. EBITDA	P/16-17 Avg. EPS	P/17-18 Avg. EPS	P/ 16-17 Avg. CF	P/ 17-18 Avg. CF	P/16-17 Avg. FCF	P/17-18 Avg. FCF	ND/ 16-17 Avg. EBITDA	16-17 Avg. EBITDA Margin
CBS	CBS Corporation Class B	26,724.2	35,514.2	11.7	10.6	18.2	13.7	14.4	11.8	17.6	14.5	2.89	22.0%
SSP	E. W. Scripps Company Class A	1,573.1	1,833.2	12.2	11.2	38.4	33.1	12.4	11.2	14.2	17.1	1.72	15.3%
GTN	Gray Television, Inc.	1,054.0	2,784.7	8.1	8.7	16.2	11.3	5.1	4.6	7.0	6.0	4.15	36.7%
SBGI	Sinclair Broadcast Group, Inc. Class A	3,542.3	6,775.1	7.5	7.5	14.5	13.5	5.5	4.7	7.7	7.4	4.35	31.6%
TGNA	TEGNA, Inc.	3,158.5	7,379.6	7.8	9.7	9.0	9.6	5.2	5.9	5.6	6.4	4.18	44.9%
TRCO	Tribune Media Co. Class A	3,603.0	6,277.4	13.1	13.1	56.0	24.9	13.7	12.1	NA	16.9	5.85	24.5%
FOXA	Twenty-First Century Fox, Inc. Class A	51,528.0	67,706.0	9.9	9.2	16.6	14.0	11.2	7.4	17.0	14.2	2.24	23.5%
	Average	**13,026.1**	**18,324.3**	**10.0**	**10.0**	**24.1**	**17.2**	**9.6**	**8.3**	**11.5**	**11.8**	**3.62**	**28.4%**
	Median	**3,542.3**	**6,775.1**	**9.9**	**9.7**	**16.6**	**13.7**	**11.2**	**7.4**	**10.9**	**14.2**	**4.15**	**24.5%**
	NXST	*3,073.9*	*7,502.9*	*8.1*	*7.7*	*9.0*	*8.9*	*5.1*	*5.0*	*5.6*	*5.6*	*4.75*	*38.8%*
GTN	Gray Television, Inc.	1,054.0	2,784.7	8.1	8.7	16.2	11.3	5.1	4.6	7.0	6.0	4.15	36.7%
SBGI	Sinclair Broadcast Group, Inc. Class A	3,542.3	6,775.1	7.5	7.5	14.5	13.5	5.5	4.7	7.7	7.4	4.35	31.6%
	Average	**2,298.1**	**4,779.9**	**7.8**	**8.1**	**15.4**	**12.4**	**5.3**	**4.6**	**7.3**	**6.7**	**4.25**	**34.1%**

** SBGI/GTN presented alone as well because they're the best comps*

A summary of my financial model is below. These projections are quite straightforward and are provided mainly to show that Nexstar's guidance (which management has a strong track record of hitting) can be achieved under very reasonable assumptions. I arrive at 5% consolidated EBITDA growth for the 17/18 period by assuming 10% growth in retrans (36% of revenue), 12% growth in digital (9% of revenue), and basically flat (0.5% growth) advertising results (54% percent of sales). 11% retrans growth would represent a large deceleration, but given only 10% of the sub base will be repriced in 2017 (vs. 40% in 2016), I think conservatism is warranted. The projections for advertising and digital are close to 2016's growth of 1.8% and 13.2%, respectively. I assume margins remain flat despite the increasing share of more profitable retrans and digital segments, as perhaps one-off costs will be incurred during the MEG integration. Given the historical performance of the retrans (CAGR of 51% since 2008) and digital segments (CAGR of 33% since 2008) and NXST's EBITDA margin trend (nearly 300 bps of expansion in the last year alone), I believe the risks to these forecasts are to the upside if anything.

Price	64.55
x Shares	47.62
MC	3,073.9
+ Debt	4,501.9
- Cash	72.9
EV	7,502.9
16/17 Avg. PT	92.82
Upside	43.8%
IRR	85.2%
17/18 Avg. PT	100.18
Upside	55.2%
IRR	31.6%
NTM PT	95.76
IRR	48.4%

	16/17	17/18	Notes
Legacy NXST EBITDA	374.9	-	est. based on actual results in 2016 and 2017 YTD coupled with mgt. guidance
+ EBITDA from MEG	475.7	-	
+ Synergies	80.9	-	17/18
Total EBITDA	931.5	977.6	5.0% CAGR
- D&A	286.0	300.0	
- Interest	265.6	236.9	5.9% WA IR
- Taxes	38.0	99.2	16/17 17/18
NI	341.9	341.6	10.0% 22.5% effective tax rate (due to NOLs)
/ Shares Out	47.6	47.0	<-- mgt. guidance
EPS	7.18	7.27	<-- 3 yr. median LTM/NTM avg. is 17.4x
x Multiple	14.0	14.0	14 P/E
Value	100.52	101.75	
Upside	55.7%	57.6%	
IRR	142.5%	33.4%	
Sales	2,402	2,522	5.0% 17/18 growth
EBITDA Margin	38.8%	38.8%	
Net Debt/EBITDA	4.75	3.68	
EV/(EBITDA - capex)	8.6	8.2	
Capex/Sales	2.50%	2.58%	

	Y/Y Sales Gain	% of Total
Retransmission	10.0%	35.7%
Advertising	0.5%	54.3%
Digital	12.3%	9.2%
Other	0.0%	0.8%
Totals	5.0%	100.0%

	16/17	17/18	Notes
EBITDA	931.5	977.6	5.0% CAGR
x Multiple	9.0	9.0	9 EV/EBITDA <-- 3 yr. LTM/NTM blended median is 9.7x
EV	8,384	8,798	
- ND	4,185	3,594	
MC	4,198	5,205	
/ Shares Out	47.6	47.0	
Value	88.16	110.74	
Upside	36.6%	71.6%	
IRR	68.1%	40.1%	

	16/17	17/18	Notes
FCF	544.4	552.1	1.4% CAGR
+ Maint. Capex	60.0	65.0	
CF	604.4	617.1	
x Multiple	7.0	7.0	7 P/CF <-- 3 yr. LTM/NTM blended median is 7.3x
MC	4,230.8	4,319.5	
/ Shares Out	47.6	47.0	
Value	88.84	91.91	
Upside	37.6%	42.4%	
IRR	70.3%	24.7%	
Cash EPS	13.19	13.65	
Cash P/E	4.90	4.73	

	16/17	17/18	Notes
Starting Debt Balance	4,501.9	4,034.6	
- 16/17 Avg. FCF	544.4	552.1	
+ Dividend Payment	57.1	56.4	$1.20 annual dividend
+ Growth Capex / M&A	-	200.0	
Ending Debt Balance	4,034.6	3,539.0	<-- 16/17 already includes impact from MEG deal

If my projections are approximately accurate and multiples trend toward peers and the company's own long term averages, the upside should be substantial. Assuming interest, taxes, and the share count come in near expectations, shares could be worth $90-110 each depending on the methodology used, which even at the low end of the range would represent an attractive IRR. Further multiple expansion from NXST's higher margin and less cyclical revenue streams, as well as its greater scale following the MEG merger, are also plausible, although not considered in this analysis.

The above estimates are converted into a free cash flow (which I view as the most important metric for this company) projection as follows. Net income and FCF will probably not grow on an absolute basis in 17/18, but this is only because the company is stepping up to a much higher effective tax rate – on an apples-to-apples basis, NI and FCF would grow by 16% and 12%, respectively. In any case, the nearly 18% yield is far too high for a company with a strong track record of growth, a positive outlook for further retransmission revenue increases, and one of the best management teams in the industry. Of course, the sooner this corrects the better, but either way there's significant upside. Furthermore, with a consistently growing dividend (26% CAGR payout since initiation in 2013) and ongoing share repurchase plan, investors will be paid to wait.

	16/17	17/18				
NI	341.9	341.6				
+ D&A	286.0	300.0				
- Capex	60.0	65.0				
- Program Contracts	23.5	24.5	<-- MEG merger only increases run-rate by about $1 M/yr.			
FCF	544.4	552.1				
x Multiple	8.2	8.2	8.2	P/FCF	12.2%	<-- Imp. Yield
MC	4,464.0	4,527.0	* 5 yr. LTM/NTM blended median is 9.2x			
/ Shares Out.	47.6	47.0				
Value	93.74	96.32				
Upside	*45.2%*	*49.2%*				
IRR	*110.9%*	*30.6%*				
FCF/share	11.43	11.75	<-- 17/18 guidance is for $12/share, but $0.25/share in SBC reduces it			
Current FCF Yield	*17.7%*	*18.2%*				

Conclusion

I believe Nexstar Media Group presents an excellent risk-reward proposition at current prices. While there are no hard catalysts, the most important thing is consistently strong FCF generation leading to deleveraging (transferring value from debt to equity holders) and continued capital return programs. The risks associated with the changing media landscape and preferred forms of viewing are not to be dismissed, but I believe the current valuation more than compensates for them. At its current 20% free cash flow yield, NXST will generate its entire market capitalization in cash within five years; given its entrenched position in American culture, I believe that traditional television viewing will remain highly relevant both over that period as well as over the contemplated timeframe of this investment (1-2 years). As the company continues to produce strong results and the tide of media sentiment finally turns, I expect shares to rerate towards $100/share.

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