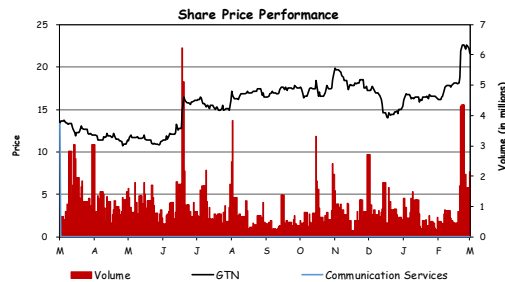


Gray Television, Inc.	Symbol: GTN
Analyst	Paul Comisso
Buy below	\$19.08
Sell above	\$24.34
Probability of Price Increase	78%
Last Price	\$21.64
Intrinsic Value	\$20.29
Target Dividends	\$0.00
Target Price	\$22.90

**Description**

Gray Television, Inc., a television broadcast company, owns and operates television stations and digital assets in the United States.

Sector	Communication Services
Industry	Media
Last Guidance	December 11, 2018
Next earnings date	NM

**People**

Howell, Hilton, Executive Chairman & CEO  
 Ryan, James, Executive VP & CFO  
 Latek, Kevin, Executive VP & Chief Legal and Development Offi  
 LaPlatney, Patrick, President, Co-CEO & Director  
 Smith, Robert, Executive VP & COO  
 Cowart, Jackson, Chief Accounting Officer & VP

**Top Competitors**

The E.W. Scripps Company	CBS Corporation
TEGNA Inc.	Tribune Media Company
Nexstar Media Group, Inc.	Wowow Inc.
Sinclair Broadcast Group, Inc.	Mediaset España Comunicación, S.A.
AMC Networks Inc.	Jiangsu Broadcasting Cable Information I

**Market Statistics**

Market Capitalization (mil)	\$2,142.46
Last Price per share	\$21.64
52 week high	\$23.45
52-week low	\$10.70
Volatility	45.40%
Daily volume (mil)	2.15
Short interest	5.82%
Days to cover short interest	6.07
Beta	1.76

**Investment Thesis****Continuing Acquisitions and Expertise**

I am initiating coverage of Gray Television Inc. with a BUY at \$19.08. Gray Television is a long established television media company with 150 channels with associations to NBC, CBS, ABC, and FOX networks. Despite Grays maturity in its business life it has been able, and still is able, to generate high growth. In fact, currently Bloomberg is estimating Gray's revenue growth for next year at 53% thanks to a successful acquisition campaign. Overall, with a large cash balance, and a significant excess of return on invested capital over WACC GTN should be a strong performer in the future as it continues to expand through acquisition.

**For the long:****1. An ambitious acquisition agenda:**

I view Gray as a strong performer in the industry especially as it just completes a \$3.6 acquisition of Raycom media. GTN appears to be continuing this acquisition strategy as it has another this month with the \$45m deal to get United Communications stations in New York and Minnesota. I also expect that GTN will continue this type of behavior in the future due to the excesses of cash they have built up over the last few years.

**2. Demanding higher prices at constant costs:**

Additionally, about 25% of Gray's revenue comes from retransmission content which is about to become a lot more expensive, supposedly 88% by 2020 according to the American Cable Association. This should result in improved margins for this segment, as they are able to charge a higher price while keeping expenses constant.

**3. Competitive advantage in building #1 rated stations:**

Gray has demonstrated that it has expertise in creating #1 ranked TV stations across many markets. This can be seen in the 61 overall #1 rated stations as well as the stat that 92% of their stations are rated either #1 or #2. This provides a great opportunity in acquiring struggling stations at a discount then applying their expertise to increase value. As gray looks to expand its portfolio they should gain more than the book value of the acquired assets because of the value they will be able to create.

**For the short:****1. Internet competition:**

Internet technologies and streaming services continue to carve out market share and it is unclear just how much they will be able to acquire leaving traditional television with too little of the pie.

**2. Uncertainty in acquisitions:**

Investing large sums into companies and stations that may not offer the return that was projected is very possible.

**Key Catalysts for price change**

- Acquisition of smaller, potentially struggling stations
- Improved margins in the retransmission content area of the business
- Competitive advantage in creating #1 rated TV stations

**Valuation**

My \$19 price target is derived from a weighted average of discounted cash flows, enterprise value to revenue, and enterprise value to EBITDA at weights of 10%, 40%, and 50% respectively.

Ownership		Change in Ownership ("Input"month)
Shares outstanding (mil)	99.26	
Diluted shares outstanding (mil)	88.78	
Options and Warrants (Shares equivalent)	0.25	
% shares held by institutions	78%	105.36%
% shares held by investments Managers	65%	74.10%
% shares held by hedge funds	16.61%	16.96%
% shares held by VC/PE firms	0.045%	0.01%
% shares held by insiders	8.26%	69.90%
Poison Pill Type	NONE	

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## Quarterly Earning Surprises (Actual Vs. Median Estimates)

Revenue	
12/31/2017	0.69%
3/31/2018	0.43%
6/30/2018	-0.75%
9/30/2018	1.18%
12/31/2018	1.91%
Mean (Standard Error)	0.69% (1.01%)
EBITDA	
12/31/2017	-36.76%
3/31/2018	-27.04%
6/30/2018	-29.59%
9/30/2018	-7.07%
12/31/2018	-50.61%
Mean (Standard Error)	0.69% (5.96%)

## Valuation

## DCF Valuation

	Revenues	Net Margin	LCF	Ke	ROE	Price Per Share
Base Year (Actual)	\$1,084.13	17%	\$871.23	15.46%	17.54%	\$35.91
year 1	\$2,086.95	14%	\$257.40	13.80%	21.77%	\$37.60
year 2	\$2,398.01	19%	\$445.07	13.80%	26.63%	\$38.03
year 3	\$2,321.05	15%	\$335.93	13.80%	16.07%	\$39.22
year 4	\$2,637.00	18%	\$477.84	13.80%	19.08%	\$39.48
year 5	\$2,849.44	13%	\$381.06	13.80%	12.99%	\$40.82
year 6	\$2,920.68	10%	\$300.60	13.80%	9.18%	\$43.07
year 7	\$2,993.69	10%	\$310.32	13.80%	8.68%	\$45.52
year 8	\$3,068.54	10%	\$320.27	13.80%	8.24%	\$48.19
year 9	\$3,145.25	10%	\$330.48	13.80%	7.86%	\$51.11
year 10	\$3,223.88	11%	\$340.94	13.80%	7.51%	\$54.33
year 11	\$3,304.48	11%	\$351.66	13.80%	7.21%	\$57.86
year 12	\$3,387.09	11%	\$362.65	13.80%	6.93%	\$61.76
year 13	\$3,471.77	11%	\$373.91	13.80%	6.68%	\$66.07
year 14	\$3,558.56	11%	\$385.46	13.80%	6.46%	\$70.85
year 15	\$3,647.53	11%	\$397.29	13.80%	6.25%	\$80.63
Continuing Period	\$3,738.71	25%	\$757.54	13.80%	13.80%	

## Relative Valuation

	EV/Rev (FW)	EV/EBITDA (FW)	P/BV (TTM)	P/E (FW)	Recovery Rate
Multiple	2.1x	8.2x	2.1x	14.3x	100%
Median (Peers)					\$10,234.80
Base	Revenue (NTM)	EBITDA (NTM)	Book Value (LTM)	Net Income (NTM)	Intangibles
GTN	\$2,144.05	\$317.74	\$1,221.38	\$317.74	Claims
Implied EV	\$4,401.31	\$2,615.30			
Total Net Claims	\$1,659.31	\$1,659.31			
Implied EQ	\$2,741.99	\$955.99	\$2,595.75	\$4,556.16	-\$1,566.87

## Valuation Summary

Model	Intrinsic Value	Target Price	Weight
DCF Valuation	\$35.91	\$37.60	10.00%
EV/Rev (FW)	\$30.80	\$35.05	40.00%
EV/EBITDA (FW)	\$10.74	\$12.22	50.00%
P/BV (TTM)	\$29.16	\$33.18	0.00%
P/E (FW)	\$51.18	\$58.24	0.00%
Asset Based Valuation	-\$17.60	-\$20.03	0.00%
Price per Share	\$21.28	\$23.89	100%

## Financials

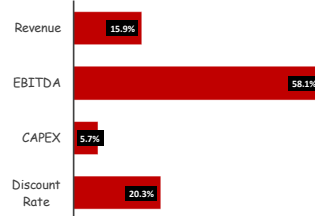
Profitability	GTN (LTM)	GTN Historical	Peers' Median (LTM)
Return on Capital	5.2%	5.73%	7.74%
Adjusted EBITDA Margin	27.6%	15.36%	23.21%
Return on Equity	17.5%	16.9%	18.6%
Adjusted Net margin	17.4%	7.1%	11.6%

Invested Funds	GTN (LTM)	GTN Historical	Peers' Median (LTM)
Cash/Capital	37.8%	4.0%	13.7%
NWC/Capital	1.5%	3.8%	5.9%
Operating Assets/Capital	44.4%	66.1%	39.7%
Goodwill/Capital	16.3%	21.5%	35.3%

Capital Structure	GTN (LTM)	GTN Historical	Peers' Median (LTM)
Total Debt/Market Cap.	2.00	1.61	0.72
Reported Cost of Borrowing	4.9%		77.2%
Cash Interest/Total Debt	3.7%		503.9%
CGFS Credit Rating	D		CC
Credit Model Rating	bb-		bb to bb+
Probability of Default	2.31%		0.05%

Cost of Capital	CGFS Credit Rating	Credit Model Rating	Probability of Default
Implied Cost of Borrowing (GTN)	9.7%	7.1%	8.0%
Implied Cost of Borrowing (Peers)	7.1%	6.6%	7.2%
Cost of New Debt Estimate	3.2%		
Market Risk Premium Estimate	10.6%		
Cost of Equity Estimate	13.8%		
WACC Estimate	13.8%		

## Sensitivity Attribution Analysis



## Intrinsic Value Distribution--Probability (Upside)=78%

