Poor Richard Capital Management

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(4/25/2023)

Dear Poor Richard Partners,

Although the fund launched just a little over a month ago, the end of March marked the end of the fund's first quarter. Therefore, I felt it appropriate to produce a quarterly report to update the partners on the fund's current positions as well as outlook. Because this report is supposed to cover such a small period of time, this report will differ from future reports in the following way.

- I will walk through what the fund's positions are at the time of sending this report out (4/25/2023) not the end of the quarter (3/31/2023). Going forward, investors can expect quarterly reports to encompass holdings up to the end of the previous period.

As of 4/24/2023 (before market open), this is what the fund's holdings look like:

Security Held	**Portfolio Weight**
Nexstar Media Common (NXST)	56.75%
Gray Television Common (GTN)	22.38%
Cash and Cash Equivalents	20.87%

The Current Market Environment:

Over the past year, capital markets have arguably been experiencing the largest valuation adjustment across all asset classes in the past forty years. As the cost of capital has become more expensive, markets have had to digest how to change valuations across all asset classes to factor in a rising risk free rate of return. When an adjustment like this happens, allocations for institutional money managers, pension funds, and endowments change creating heightened volatility.

It's important to understand that interest rates have a gravitational pull on asset values, meaning that a low interest rate environment will lift asset values to mirror the risk adjusted rate of return for that specific environment. The opposite happens in a rising interest rate environment. As the risk free rate of return rises, investors will demand higher rates of return to reflect the risk premium they are taking for staying in equities as well as other asset classes over treasuries.

With interest rate risk being practically non-existent over the past decade, many businesses as well as investors got away with what I would consider to be participation trophies. They could invest in many types of businesses that produced poor returns on capital, used excessive amounts of leverage, and failed to turn a profit and still get rewarded with high valuations as long as the investment was a good promotion. It should be assumed by investors today that inflationary pressure will persist for the foreseeable future and in return, also assume that rates will stay elevated for a substantial period of time. Under these conditions, it is especially important to own assets that produce high returns on invested capital.

Our Holdings:

Over the course of the end of Q1, we acquired a significant stake in Nexstar Media, the largest T.V station owner in the United States. Among their holdings outside of local T.V stations, Nexstar owns pay T.V network NewsNation, a 31% equity stake in the Food Network, the daily political newspaper The Hill and most recently a 75% controlling stake through a debt swap transaction for America's 5th largest broadcast network, The CW.

It is my opinion that Nexstar's stock price is not reflecting what the business produces. It consistently spins off a substantial amount of cash which it has used to fund acquisitions, pay down its long term debt load, and return more capital to shareholders. Last year, between cash dividends and share repurchases, Nexstar returned a total of $1.023 billion dollars to shareholders, an almost 16% yield to where the company trades at currently. At the start of 2023, Nexstar's board approved a dividend increase of 50% from $0.9/share to $1.35/share further extending capital returns to shareholders.

At the start of Q2, the fund started acquiring a position in Gray Television, another broadcasting company heavily concentrated in local television stations. Gray's stock has fallen almost 60% over the last year over what appears to be concerns of the company's ability to meet long-term debt obligations (which total about $6.5 billion) as well as 2023 being an off-election year. In 2021, the company used a substantial amount of debt to acquire local television companies Quincy and Meredith Media. While some Wall Street analysts have reservations about Gray's debt obligations, I hold the opinion that Gray's debt is more than manageable citing consistently high levels of free cash flow with no significant maturities until 2026.

Looking past the company's debt obligations, Gray as an entity looks to be trading well below its intrinsic value. Between 2016 to 2022, (I use 6 years instead of 5 so that both values are on election years) Gray has increased its free cash flow at a compounded annual growth rate of 14.14% while the company trades at a price to free cash flow ratio of around 2-3 times. Over that same time period, Gray has increased top line revenue at a compounded annual growth rate of 28.62%.

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%
Cumulative Return	**$103,254.12**	**3.25%**	**$104,874.28**	**4.87%**

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.