Poor Richard Capital Management

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(2/26/2025)

Dear Poor Richard Partners,

Over this previous quarter, the fund underperformed the market, returning -16.51% compared to the 2.07% that the Standard and Poors 500 Index returned.

As of 12/31/2024 at market close, the fund's holdings were:

Security Held	**Portfolio Weight**
Nexstar Media Common (NXST)	72.50%
Gray Television Common (GTN)	26.81%
Cash and Cash Equivalents	0.69%

Continuing off of 2023, the 2024 year was a stellar one for capital markets, with the S&P 500 index notching its best 2 consecutive year performance since the late 1990's. One of the most impressive aspects of these results, is the fact that they coincided with record levels of uncertainty and systematic geopolitical change both domestically and abroad. Moving into 2025, this uncertainty and systematic change looks set to compound in conjunction with the newly elected president in office, and the contrasting policy regime he and his administration looks to implement. These policy shifts are likely to affect every major aspect of the economy, from our already tight labor market, to government spending (currently around 1/5 of US GDP), as well as international trade policy with some of our largest trading partners. On top of that, the world is recovering from a nasty post-pandemic spending hangover that saw government deficits and inflation soar, as well as monetary and fiscal responsibility sidelined. While it's close to impossible to predict how capital markets will respond to these changes, it's a given certainty that the world will look very different a couple years down the road than it does currently.

Reflecting on the past year, the market saw some of the strongest performances from securities that provide very little fundamental justification for the valulations they command. As for one example, Palantir Technologies, the third best performing S&P constituent of 2024 rising ~340%, ended the year with a price to sales ratio of almost 70x. While I take no issue with Palantir as a company, their euphoric nosebleed valuation is one of many, and the byproduct of the tokenization market regime that we're currently in, where equity valuations derive value from their narrative and tradebility rather than business fundamentals. I would consider these businesses to trade at a "greater fool premium", in which the inflated value derives from the buyer's ability to pass off the inflated asset to a greater fool, who repeats the process over, and over. As echoed in previous letters, while inflated asset prices aren't new, it's worth taking notice at the extent in which these assets have become concentrated in the major indexes. At the end of the quarter, the Magnificent 7, which made up over 30% of the S&P 500's total weight, had a collective forward earnings yield of under 3%, a substantial discount to the 10 year yield's 4.68%. With index concentration elevated and future earnings discounted well into the future, any miss on earnings or market expectations could lead to a significant pullback and future long term index under performance.

While the index had remarkably strong performance, our book saw the opposite. During 2024, our portfolio saw a performance of -21.84% against a total return of 25.02% that the S&P 500 delivered, an almost 47% deviation. This deviation can largely be attributed to a drawdown in the fourth quarter of Gray Television, in which shares fell over 50% in market value from the time of their earnings call in early November to year end. As discussed in our third quarter letter, the sharp downward movement in Gray's stock price can be attributed to its political advertising revenue missing analyst's expectations, due to a mix of ad space displacement in southeastern markets to cover Hurricane Helene, as well as a large last minute reallocation of political advertising dollars to senate races outside of Gray's DMA footprint. While our investment in

Gray has yet to pay off, investors should view our portfolio concentration in Gray as a reflection of the company's increasingly asymmetric risk/reward proposition. The company is currently trading at less than 1x 2025 operating cash flow and a small fraction of book value. While highly levered, we believe Gray's current valuation appears to not only reflect its debt levels, but also a wide market misalignment on future free cash flow generation to effectively deleverage its balance sheet. Fitch Ratings, who recently just downgraded Gray's issuer default rating due to leverage concerns, projects Gray to produce $210-$250 million in annual free cash flow over the next 4 years. This projection is well below our estimates, which sees Gray producing free cash flow in the same time period of $350-$400 million. We believe that analysts and ratings agencies alike are increasingly too pessimistic on retransmission revenue and cost projections, failing to factor in changing variants in upcoming negotiations such as how reverse retransmission rates with the broadcast networks are structured. We also see both analysts and ratings agencies citing a weak national advertising market as a key broadcast headwind, even though the biggest local broadcasters have very little national advertising exposure. We also believe that the market is discounting any potential revenue from incremental enhancements in ATSC 3.0 transmission standards and possible deregulation. Last month, Gray alongside Nexstar, launched EdgeBeam Wireless, a joint venture with EW Scripps and Sinclair Broadcasting. The joint venture, which covers a 90% footprint of the United States and a total addressable market of $7 billion, will leverage existing broadcast infrastructure to deliver high speed data transmission to cars, drones, phones, and television sets. This revenue vertical has the potential to change the fundamentals of the broadcasting space indefinitely, creating another high margin revenue stream with very minimal capex requirements. We added to our Gray position during the quarter.

Moving into 2025, I am excited to see how our portfolio companies perform. I thank all partners for their commitment to our partnership and continued focus on suitable long-term rates of return.

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%
6/28/2024	$96,349.15	-7.40%	$139,358.35	3.92%
9/30/2024	$98,273.40	2.00%	$147,064.87	5.53%
12/31/2024	$82,044.74	-16.51%	$151,035.62	2.07%
Cumulative Return	**$82,044.74**	**-17.96%**	**$151,035.62**	**51.04%**

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.