

Nexstar Added to CUSP in April 2022

By Jack Eckels, Noah Schalley

Nexstar is America's largest local television and media company. It has over 200 stations and reaches 68% of the U.S. households. The company derives most of its revenue from distribution. It has agreements with satellite providers to distribute signals of its television stations. Additionally, Nexstar has made two recent acquisitions in the digital space, Best Reviews in December 2020 and The Hill in September 2021, which have set the company up for continued growth. The CUSP portfolio managers decided to invest in NXST because of its strong management team, consistent free cash flow and recent acquisitions in digital assets.

Nexstar's management team is led by Chief Executive Officer Perry Sook, who founded the company 25 years ago and has guided it to its current state. Under his leadership, management has a history of focusing on cost controls and producing free cash flow.

We have confidence this free cash flow will continue through renegotiation of contracts and political spend. Management intends to renegotiate more than half of its distribution contracts in 2022, which is expected to positively impact 2023. Nexstar has an equivalent ratings share of 39% of the distribution market while only capturing 24% of the revenue, giving opportunity for renegotiation. Additionally, political advertisement spending for the upcoming 2022 midterms and the 2024 presidential elections should provide another boost to revenue. Nexstar has exposure to more than 80% of markets with competitive races. Further, the firm has a demonstrated history of returning this free cash flow to shareholders, with 43% of 2021 FCF going to the repurchase of company shares.

The CUSP managers are also excited by the recent investments Nexstar has made in digital assets. Digital revenue, which only represented 7% of total revenue in 2021, has room for growth. The company has made two acquisitions that should help. In September 2021, Nexstar acquired The Hill for \$103 million. The Hill is a digital political media platform and should complement Nexstar's existing local news operations. In December 2020, the company acquired Best Reviews, a reviewer of consumer products, for \$170 million.

Our analysis suggests Nexstar was reasonably valued at the time of purchase. Our forecasts suggest an approximate 13% margin of safety based on our discounted cash flow analysis. The firm was also trading at a discount compared to peers based on commonly used valuation multiples. The CUSP managers decided this combination of strong growth prospects and reasonable valuation metrics warranted adding Nexstar to the portfolio in April 2022.