Mike Rusinas, Portfolio Manager mrusinas@brookhurstcapital.com
February 15, 2016

Dear Partners,

2015 was not the easiest year for value managers. Brookhurst Capital finished the year down 8.91% versus a 1.38% gain for the S&P 500 Index. However, we feel 2015 was a great year for the companies we hold in the portfolio. Brookhurst remains focused on our strategy of holding long-term investments in stable companies that grow their business. The day-to-day, and minute-to-minute market valuations create misleading perceptions that suggest otherwise. We strongly disagree and measure our performance over the long-term, usually in 5 to 7-year time horizons and beyond.

In October of 2009, Charlie Munger was interviewed on BBC and was asked the following question about stock declines:

"So how much does Charlie worry when Berkshire's common stock declines?"

His response: "Zero. This is the third time that Warren and I have seen our holdings in Berkshire Hathaway go down, top tick to bottom tick, by 50%. I think it's in the nature of long term shareholding of the normal vicissitudes, in worldly outcomes, and in markets that the long-term holder has his quoted value of his stocks go down by say 50%. In fact, you can argue that if you're not willing to react with equanimity to a market price decline of 50% two or three times a century you're not fit to be a common shareholder, and you deserve the mediocre result you're going to get compared to the people who do have the temperament, who can be more philosophical about these market fluctuations."

We did make some mistakes over the year. We bought into ARLP, which is a low cost producer of coal for the electricity industry. However, the continued decline in commodity prices and other factors dragged the price down and we exited the position with a small loss. We did not take into account the political ramifications of the current administrations energy policies and its effect on coal. The lesson here is not to buy companies that are effected by politics. Although our weighting was small and so the exposure was low, we still learned the lesson the hard way.

Howard Marks of Oaktree recently commented on this with Puerto Rico bonds. They won't buy them because of the political nature of the investment, decisions are made for other reasons. Additionally, we should have been more proactive and reduced our positions in STX and MU given the business cycle. We still like the two chip producers but the chip industry is very cyclical and we feel this is just the normal downturn combined with them being out of favor. Their cash flows are strong, the companies have reported good results, and demand is good and we think it will continue to be so in the future.

It seems value investing has fallen out of favor in 2015 and into 2016 as I write this report. However, our collective experience and analysis remind us that underperformance as measured over a year or so is not indicative of how value investing works. Market volatility puts pressure on short-term results and restricts most institutions. We on the other hand welcome volatility because it brings us opportunities.

One example of this is American International Group. We hold both the stock and warrants in the company. During 2015 the stock and warrants declined approximately 15%. This negatively affected our portfolio moreover since it makes up 20% of the portfolio. However, given that AIG is repurchasing Billions of dollars of its shares in the open market we are glad the stock is trading down because we are purchasing more shares at a cheaper price, which will be accretive to the stock over the long-term, we have until 2021 to either exercise the options or exit the position, as mentioned above we measure our performance over the long-term not on a year to year basis, and as the market declines and AIG purchases more shares at lower prices making our investment worth more even though as measured by the market it seems like less. Another way to look at this is through the lens of an investment in an apartment building. If you buy an apartment building your purchase price does not change but the market perceptions of its current value does. However, I don't know anybody who trades their Apartment building on a daily basis. They simply collect rent fix problems and don't think about how much it is worth until they sell it years in the future. I have not much changed my opinion of the business; it is merely that the market's interpretation of the business that has changed.
As always, our money will be invested right alongside yours so you can be sure that I will work to make sure our investments will be profitable, regardless of the market conditions. We appreciate the trust you have placed in us as your Investment Advisors.

If you ever have any questions about this report, your investments, or anything financially related in general, please do not hesitate to contact us.

As always, thank you for your support.

Mike

Set forth below is an example of how we apply these investment principles in our stock selection and a general idea of what we want to own throughout the fund. (Appendix A)

We own a long position in newspaper chain Lee Enterprises (LEE) because it is trading at a 30% discount to its peers and because we believe its share price is potentially undervalued by 76.5% based on its strong cash flow generation and continued balance sheet deleveraging. We believe that Lee offers the best return/risk profile in the newspaper industry and we increased our stake in Lee 20-fold in 2015 due to the following positive catalysts:

- Lee's strong digital revenue growth (particularly from mobile) enabled it to generate positive subscriber revenue growth
- Lee's industry leading operating margins
- Lee's continued cost cutting efforts
- Lee's strong, industry-leading returns on its invested capital (49% free cash flow yield and 16.5% ROIC)
- Lee's progress in reducing its debt
- Lee increased its debt maturities to four and seven years last year when it opportunistically refinanced its debt, enabling it to potentially pay it off without further refinancing risk
- Lee is selling excess real estate it no longer needs for its operations, which will potentially enable it to harvest $10M to prepay its high interest 2nd Lien Term Loan
- Although Lee made a technical bankruptcy filing in 2011-12, its shareholders were only diluted by 13% in total as part of the process and its debt refinancing efforts at that time
- Lee's new initiatives to stem its advertising revenue declines
- Strong institutional interest in Lee and its peers by value-oriented investors

VALUATION ANALYSIS

Strong Conviction Bullish Model:

- 0% annual Operating Income Before Depreciation & Amortization minus CapEx (OIBDA-CapEx) growth
- 15% dilution from exercise of employee equity compensation and warrants
- Terminal price multiple of 8X (14% premium versus industry leader Gannett (GCI))
- Discount rate of 13.75% (based on 2.1X beta, 5.5% equity risk premium and 2.2% risk free rate)

$Ms, Except Per Share Data	
$145	OIBDA-CapEx (2023 est)
62.5	Adjusted Diluted Share Count
$2.32	OIBDA-CapEx/Share
8	Estimated Future Price Multiple
$18.56	Future Value/Share
13.75%	Discount Rate
$6.77	Intrinsic Present Value/Share
$1.25	Market Price
81.53%	Discount to Intrinsic Present Value

Includes Unvested Warrants due to high likelihood of them being exercised

Source: Morningstar Direct

Assertively Accumulate Model:

- 4% annual OIBDA-CapEx decline
- 15% dilution from exercise of employee equity compensation and warrants
- Terminal price multiple of 7X (in line with Gannett)
- Discount rate of 15% (based on the 15% cost of Lee's previous 2nd Lien Term Loan)

$Ms, Except Per Share Data	
$105	OIBDA-CapEx (2023 est)
62.5	Adjusted Diluted Share Count
$1.68	OIBDA-CapEx/Share
7	Estimated Future Price Multiple
$11.76	Future Value/Share
15.00%	Discount Rate
$3.94	Intrinsic Present Value/Share
$1.25	Market Price
68.25%	Discount to Intrinsic Present Value

13.75% according to CAPM

Source: Morningstar Direct

Bearish Model:

- Consists of 6.5% annual OIBDA-CapEx decline,
- 15% dilution from exercise of employee equity compensation and warrants,
- Terminal price multiple of 5.5X (based on Lee's current EV/Unlevered Cash Flows) and
- Discount rate of 18% (based on Lee's ROIC).

$Ms, Except Per Share Data	
$85	OIBDA-CapEx (2023 est)
62.5	Adjusted Diluted Share Count
$1.36	OIBDA-CapEx/Share
6	Estimated Future Price Multiple
$8.16	Future Value/Share
18.67%	Discount Rate
$2.14	Intrinsic Present Value/Share
$1.25	Market Price
41.49%	Discount to Intrinsic Present Value

13.75% according to CAPM

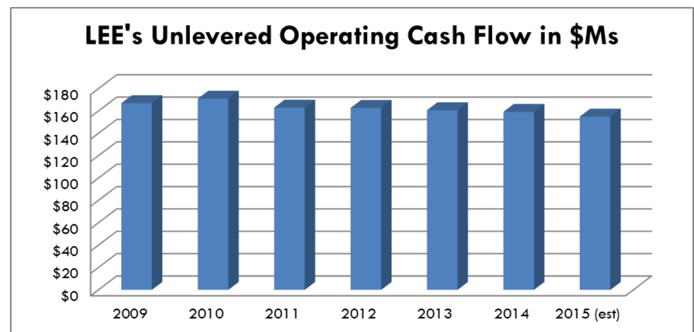
Source: *Morningstar Direct*

RISKS TO OUR LONG LEE THESIS

- Economic weakness resulting in reduced demand volumes for advertising
- Continued shifting of advertising away from print media providers towards new media alternatives
- Sharp increase in interest rates resulting in increased interest expenses associated with its 1st Lien Term Loan
- Failure to sell its excess real estate properties, or selling them at an insufficient price
- Blowback from cost cut efforts resulting in the loss of key personnel
- Loss of interest in the industry by activist investors
- Management's inability to remind investors of the value in Lee's shares due to its strong cash flow generation abilities and debt reduction progress

Of the seven risk items we listed here, the two risk factors that have the most potential to negatively impact Lee's shares are reduced demands for advertising revenue as a result of economic weakness (reducing advertising revenue volumes across the board) and or a continued shift away from print media advertising towards new media and digital alternatives.

We were initially skeptical of the merits of Berkshire Hathaway's (BRK.B) (BRK.A) investments in the beleaguered newspaper sector in 2012. We took a second look at Lee and we liked that Lee had a free cash flow yield of 90% when we released our initial report in June 2012 and that Lee survived a bankruptcy filing with only 13% stockholder dilution. Berkshire initially became a capital stakeholder in Lee by buying $85M of its Second Lien Term loans and received 3.2M shares associated with this term loan. We were surprised that Berkshire sold off 3.1M of its shares in 2012 but at least it refinanced Lee's $94M worth of debt associated with its Pulitzer Inc subsidiary in 2013. Lee paid off its remaining Pulitzer related debt in 2015, nearly two years ahead of schedule. Lee generated $74.2M in free cash flows during FY 2015 and we expect Lee to generate $80M in 2016, which would potentially enable Lee to reduce the face value of its outstanding debt below $650M at the end of FY 2016.



Source: *Lee's 2015 Deutsche Bank Leveraged Finance Presentation*

BUSINESS PROFILE

Lee Enterprises is one of eight publicly traded newspaper chains in the United States (after Gannett acquires Journal Media Group (JMG)). Lee is a leading provider of local news, information and advertising services in 50 markets located across 22 states. With the exception of its St. Louis, MO operations that it acquired from Pulitzer Inc in 2005, Lee primarily operates in small and mid-size markets in the Midwest, Mountain West and West Coast regions. Lee's product platform includes 50 daily newspapers, websites and mobile and tablet apps that augment its print publications and nearly 300 weekly newspapers. Lee seeks to achieve the following strategic initiatives:

- Continuing its commitment to provide valuable, intensely local and original news and information that, in many cases, we believe Lee's audiences cannot otherwise readily obtain. We can confirm this as one of our colleagues is a columnist for his local paper. In addition, Warren Buffett has focused on acquiring community-oriented newspaper publications located in small and mid-size markets rather than large national or regional broadsheet publications.

- Pursue revenue opportunities by gaining new local advertisers, introducing new products and increasing its share of advertising and marketing services spending from existing customers.

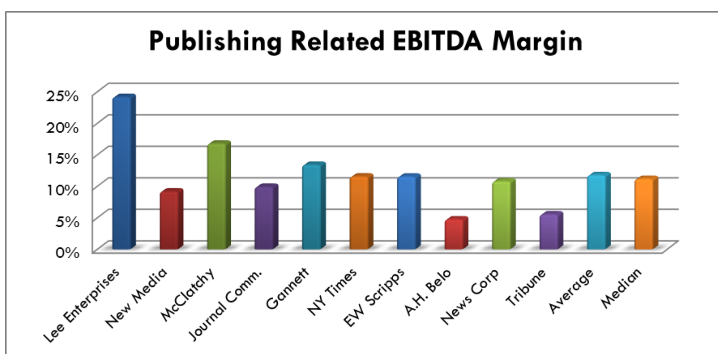
- Reach its large readership base across multiple platforms, such as print, web, mobile or tablet.

- Increase monetization of its digital platforms through paid subscription models.

- Offer innovative digital marketing solutions for midsize and small businesses.

- Aggressively manage costs, which helps Lee generate an EBITDA margin of 22.6%, which is well above its newspaper publishing peer group

- Generate strong and stable free cash flows with a commitment to reduce its debt incurred from the 2005 Pulitzer acquisition



Source: Morningstar Direct

MANAGEMENT

- Executive Chairman Mary Junck has 43 years of experience in the newspaper industry, including 15 years serving as CEO of Lee Enterprises before yielding the President and CEO roles to Kevin Mowbray in February.

- Chief Operating Officer Kevin Mowbray has 29 years of newspaper industry experience, all with Lee Enterprises and will become President and CEO in February. Suburban Newspapers of America honored *The Times of Northwest Indiana* as national Newspaper of the Year in 2005 when he served as the publisher of that newspaper.

- Chief Financial Officer Ronald Mayo joined Lee in 2015, succeeding Carl Schmidt who retired from Lee after 14 years serving as Lee's CFO, Vice President and Treasurer. Mayo previously served as CFO of Halifax Media (which New Media Investment Group (NEWM) acquired earlier this year) and served as CFO of MediaNews Group for 12 years prior to assuming his position with Halifax Media.

- Vice President of Strategy Greg Schermer is one of two Lee employees serving on the Board of Directors (CEO Mary Junck is the other). Schermer joined Lee in 1989 and led its online expansion efforts from 1998 to 2012. Schermer is the son of former Lee CEO Lloyd Schermer, who retired in 1991 after 21 years as Lee's CEO.

- John M. Humenik succeeded Joyce Delhi as Vice President of News when she retired earlier this year. Humenik also continued in his current role as President and publisher of the *Wisconsin State Journal* and president of Madison Newspapers Inc.

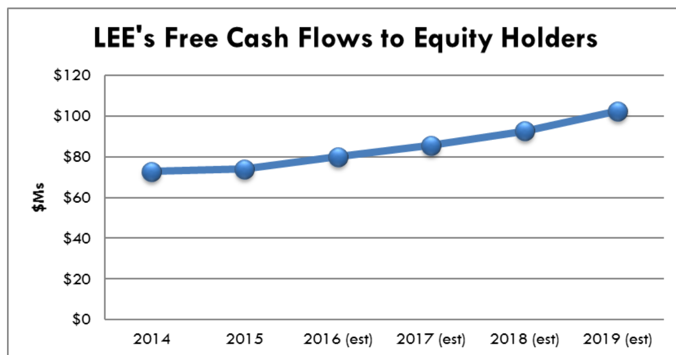
- Vice President of Consumer Sales and Marketing Nathan Bakke previously served as group publisher and publisher of Casper Star-Tribune Communications. In his new role, Bakke will lead all activities related to building digital and print audiences, including acquisition, retention, revenue generation, customer service and marketing.

- Corporate Insiders and directors collectively own 7.3% of Lee's outstanding stock. Given Lee's size as a microcap company, we believe that Lee's executives should buy a bigger stake. We understand that Lee was not always a microcap company, but we would like to see more stock ownership on the part of company

insiders (preferably through open market purchases instead of equity compensation programs).

RECENT PERFORMANCE

Although Lee's unlevered cash flows saw some slippage on a year-over-year basis, we believe that it does not reflect a permanent trend going forward. Lee's unlevered cash flows stabilized in Q4 2015, which met our expectations and we expect Lee to sustain its unlevered cash flows going forward. Lee's debt decreased by $19.25M during the quarter due to cash flows from operations and the sale of surplus real estate no longer required for its business operations.

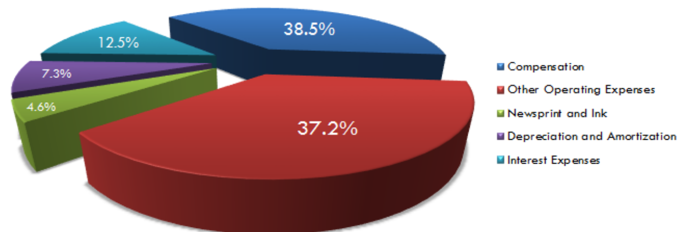


Source: Morningstar Direct and Our Estimates

Based on Lee's ability to continue generating its current level of cash flows for shareholders, it should refinance its senior notes in 2020 into a new 10-year term, use half of its free cash flows to pay down debt and the other half to buy back shares or reinstate a dividend. Lee and McClatchy (MNI) are the only two publicly traded newspaper chains that are not currently paying a dividend due to the heavy debt loads both companies are carrying. While it is too premature for Lee and McClatchy to pay a dividend now, investors should look for dividends from these firms over the next four to six years.

Lee's adjusted revenue declined by 3.7% in FY 2015 versus FY 2014 and we attribute this to declines in its adjusted advertising revenues due to the sagging demand for print advertising services experienced by all newspaper chains. Lee's 3.6% in adjusted subscriber-based revenue growth in 2015 exceeded its 3% target due to its progress with its new full access subscription initiative, especially since Q4 2015 adjusted subscriber-based revenue increased by 6.1%. Adjusted operating income decreased by 3.4% as the aforementioned revenue declines more than offset a 3.1% reduction in adjusted cash operating expenses. Lee's management expects that it will reduce its adjusted cash operating expenses by 350bp-400bp in FY 2016, after reducing its adjusted expenses by 370bp in 2013, 370bp in 2014 and 310bp in FY 2015.

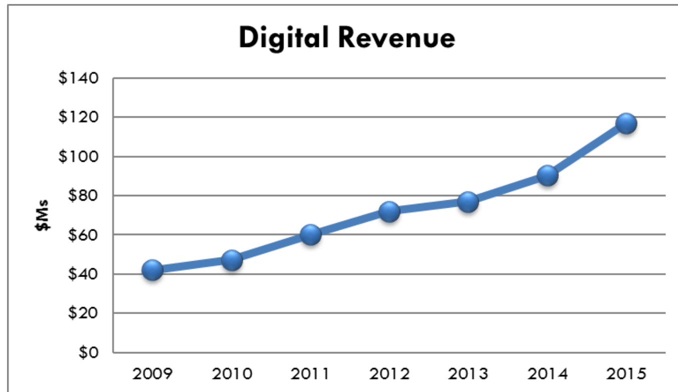
Interest Expense decreased by $7.3M year-over-year in YTD 2015 due to reduced debt outstanding and the refinancing of its Pulitzer Notes & its Second Lien term Loan. As Lee continues executing its deleveraging efforts, we expect its annual interest expenses to decline by at least $5.5M annually until it retires its 1st Lien Term Loans in 2018 and then we expect annual declines of at least $10M as it retires its Senior Notes and Second Lien Term Loans. If Lee completes the sale of its Downtown St. Louis property that formerly served as Pulitzer's headquarters, Lee could reduce interest expenses by up to $600K annually as proceeds from the sale will be used to retire a portion of its 2nd Lien Term Loan. The $10M that Lee expects to reap from its asset sale program pales in comparison to the $236M McClatchy harvested from selling its former Downtown Miami property housing the *Miami Herald* to Genting Malaysia Berhad. However, we proposed to Lee's former CFO three years ago that Lee should sell the Downtown St. Louis property to reduce the net cost of its real estate footprint and harvest cash to retire debt. Compensation expenses declined by 1.65% due to reductions in staffing. Newsprint and ink expense decreased 20% due to a reduction in newsprint volume of 12.3%. Other operating expenses decreased by 2.7% (excluding the impact of subscription-related expense reclassifications).



Source: *Lee's 2015 Annual Report*

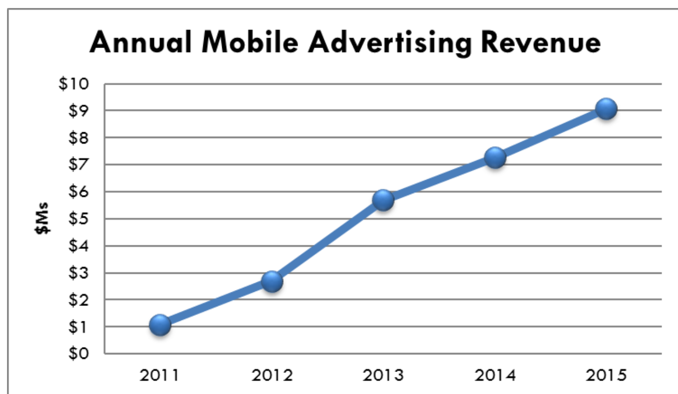
Lee continues its steady, incremental progress in monetizing its digital properties as its adjusted circulation and subscription revenue increased by 6.1% in Q4 2015. Lee's digital revenue in Q4 2015 was $31.1M and grew by 23.9% year-over-year after growing by 17.1% in FY 2014. Lee's TownNews.com subsidiary provides content management and digital ad agency services for web, print, mobile and social products to our properties as well as 1,500 other newspapers, and media

operations and checked in with 11.3% annual revenue growth during the quarter.



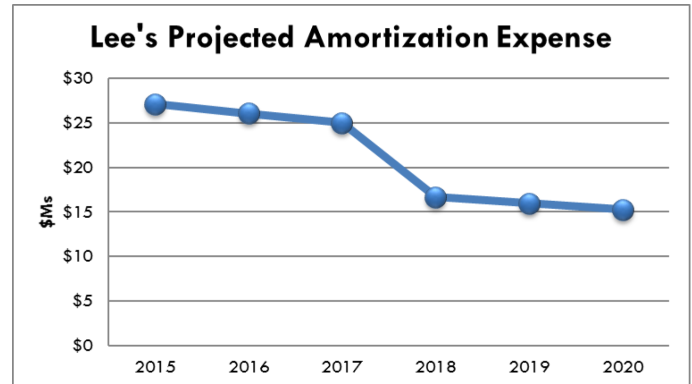
Source: Morningstar Direct and Our Estimates

Lee continued its solid mobile advertising revenue growth in Q4 2015 (10.6%). Digital advertising and marketing services revenue on a stand-alone basis increased 5.1% to $21M. Lee's combined print and digital advertising revenue decreased 9% to $97.3M, with retail advertising down 7.1%, classified down 13.9% and national down 11.7%. Print advertising revenue on a stand-alone basis decreased 12.2%.



Source: Lee's 2011-2015 Annual Reports

Beginning in FY 2018, Lee's amortization expenses will see a year-over-year decline of $8.4M from 2017 to 2018. Lee incurred $27.15M in annual amortization expenses in 2015, but this will decrease to $15.25M in 2020 as it finishes amortizing a significant portion of its 2002 acquisition of Howard Publications. Although this does not have a direct impact on Lee's cash generation ability, we believe it should help reinforce our long thesis because Lee does not adjust its EPS to account for the impact of acquisition-related intangible amortization expenses. This is more conservative as many companies who have made significant acquisitions do adjust its EPS to add back intangible amortization expenses to its "adjusted EPS". This will help boost Lee's reported profits, give greater clarity on Lee's Income Statement to its investors and potentially enable Lee to utilize more of its deferred tax assets to ensure it does not have to make significant cash tax payments annually.



Source: Lee's 2015 Annual Report

LEE'S FINANCIAL POSITION

Lee stockholders are probably regretting that Lee sold its television stations to Emmis in 2000, as TV broadcasters are trading at higher price/cash flow multiples than newspaper chains. Lee stockholders are especially regretful that Lee spent $1.9B including the assumption of Pulitzer's outstanding debt and unfunded retirement benefit obligations to acquire Pulitzer in 2005 just before the newspaper industry began its secular declines. What compounded the mistake was that Lee issued $1.46B in new debt as well as assumed $456M in existing debt and retirement benefit obligations to acquire Pulitzer. As a result, Lee's financial position is weaker than it was before it acquired Pulitzer, Lee's outstanding liabilities exceed its asset base and 56% of its asset base reflects acquisition-related goodwill, intangible assets and debt financing costs associated with its past acquisitions.

Although Lee's bond rating is only B3, it still generates $145M annually in unlevered cash flows and retired $78.9M in outstanding debt during the last 12 months. Lee's strong cash flow generation enables it to maintain quarterly cash balances of at least $10M as well as steadily retire a portion of its outstanding debt each quarter. Lee's outstanding debt is broken down as follows:

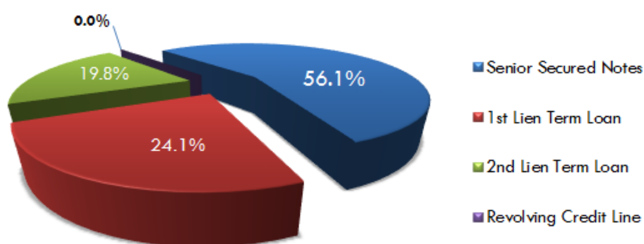
- Lee's weighted-average cost for its outstanding debt is 9.4% excluding amortization of debt financing costs.

Lee paid off and retired its remaining Pulitzer notes in June 2015, nearly two years before the notes were due.

- $180.9M First Lien Term Loan due March 2019 (7.25%) and $40M revolving credit line facility (5.65%, $0M drawn), no prepayment penalties, very strong potential for Lee Enterprises to completely pay off and retire the First Lien Term Loan by March 2019 without having to refinance any remaining portion into a new loan.

- $400M in Senior Secured Notes due March 2022 (9.5%); no prepayment penalties as of March 31, 2020, 2.375% call premium if prepaid between March 31, 2019 and March 30, 2020, 4.75% call premium if prepaid between March 31, 2018 and March 30, 2019. We believe that Lee could potentially pay off and retire at least half of the notes on or before final maturity.

- $145M Second Lien Term Loan due December 2022 (12%), no prepayment penalties if prepaid on or after March 31, 2019 for any reason or if paid off with excess cash flows and asset sales from Legacy Pulitzer operations. Otherwise, 3% call premium if prepaid between March 31, 2018 and March 30, 2019, 6% call premium if prepaid between March 31, 2017 and March 30, 2018, potential for the loan to be paid-off and retired on or before final maturity without refinancing any remaining portion into a new loan.



Source: Lee's 2015 Annual Report and Our Forward Estimates

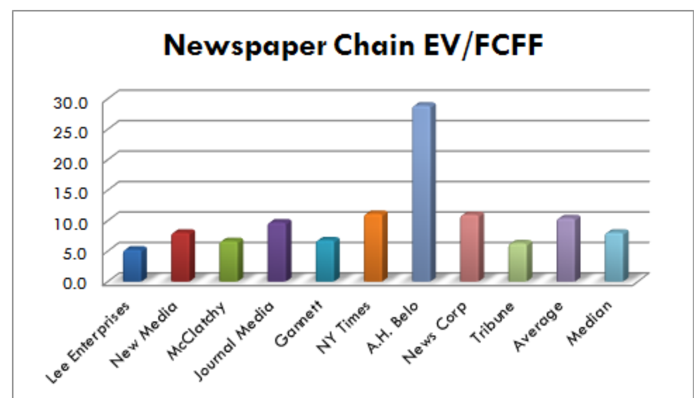
Lee took advantage of the renewed interest in newspapers in 2012-13 to sell two of its weaker performing papers (*The Garden Island* in Hawaii and the *North County Times* in the San Diego exurb of Escondido) to buyers who already owned newspaper publications in the area and were able to add scale by integrating those papers into their existing operations. Lee's sustainable free cash flows will enable it to ensure that it does not need to sell its newspaper properties at fire-sale prices. Other potential catalysts reinforcing the value of Lee's papers to a potential acquirer include the following:

- Berkshire Hathaway's BH Media Group has bought over 70 newspapers during the last five years, including 32 daily papers

- The $523M acquisition spree of New Media Investment Group over the last two years,

- The recent deal chatter surrounding *The New York Times* (NYT) and Tribune Publishing (TPUB) and

- Gannett announced it would acquire Journal Media and its remarks that it is actively working through a robust pipeline of additional acquisition opportunities.



Source: Morningstar Direct

WHAT LEE'S DEBT OFFERS FIXED INCOME INVESTORS

Lee's outstanding debt also offers a good, value-adding opportunity for fixed income investors. We were surprised that Lee's debt tranches were traded at a discount to face value considering Lee's consistent record of paying off and retiring its debt. For those who are able to successfully acquire Lee's 1st Lien Term Loans, we believe that the biggest risk an investor would be faced with if they acquired this debt would be prepayment risk (i.e. getting one's money back earlier than one would like). We believe that investors investing in this debt issue should expect the following:

- At least 7.25% annual interest rate, payable in quarterly increments and the potential for a higher

coupon if LIBOR interest rates exceed 1% (this loan's LIBOR floor)

- Approximately 7.7% of its remaining principal balance as of Q4 2015 returned to investors every quarter as Lee uses its free cash to retire this issue
- If a borrower were to acquire this loan at par, it would result in a 5.84% spread versus comparable Treasury debt and is comparable to the yield on the Markit iBoxx USD Liquid High Yield 0-5 Index.
- Investors in this loan would face very little interest rate risk due to the variable rate of this loan as well as the quarterly principal and interest coupons received.

Lee's 2nd Lien Term Loans:

- 12% annual interest rate, payable in quarterly increments.
- The option to accept early principal repayments based on excess cash flows from Lee's Legacy Pulitzer operations between now and March 31, 2017.
- Approximately 5% of its remaining principal balance as of Q3 2015 returned to investors each quarter after March 31, 2017 based on excess cash flows of Legacy Pulitzer.
- Investors in this loan would face maximum duration of 4.61 before taking into account prepayments based on Legacy Pulitzer cash flow.
- If a borrower were to acquire this loan at par, it would result in a 9.92% spread versus comparable Treasury debt and a 4.53% spread (excluding fees) versus the Markit iBoxx USD Liquid High Yield 0-5 Index.
- We see potential for Lee to retire this loan at the end of FY 2019 based on its free cash flow generation, which reinforces our thesis that Lee's debt has low credit risk and also reduces the likely interest rate risk on this loan.
- For every $25 invested in this loan at par, an investor also receives 1 warrant to buy a share of Lee's stock at $4.19/share at any time on or before the end of March 2022.

Lee's Senior Notes:

- 9.5% annual interest rate, payable in semi-annual increments
- Semi-annual prepayments after September 30, 2019
- Strong potential for Lee to retire half of the balance of these notes on or before its final maturity date of March 15, 2022
- Investors in this loan would face maximum duration of 4.45 before taking into account prepayments based on Lee's cash flows.
- If a borrower were to acquire this loan at par, it would result in a 7.49% spread versus comparable Treasury debt and a 2.03% spread (excluding fees) versus the Markit iBoxx USD Liquid High Yield 0-5 Index.

NOTABLE NEWSPAPER INDUSTRY STAKEHOLDERS

Lee Enterprises:

- Franklin Mutual Advisers, LLC (4.8M common shares plus 1.1M warrants, 9.44% total)
- Wingspan (4.41M shares plus 540K warrants, 8% of LEE)
- Silver Point Capital L.P (3.1M shares, 4.98%)
- Mudrick Capital (2.9M warrants, 4.64%)
- Quinn Opportunity Partners (former Perry Capital protégé) (625K shares, 1%)
- Lyon Street Capital (442K shares, 0.71%)
- Firefly Value Partners LP (441K shares, 0.71%)
- Trishield Capital Management (409K shares, 0.65%)
- Berkshire Hathaway (89K shares representing .14% of LEE's shares and former owner of LEE's New Pulitzer Inc. notes, before LEE retired the notes in June)

New Media:

- Franklin Mutual Advisers LLC (4.3M shares, 9.67% of NEWM)
- Omega Advisors, Inc. (3.4M shares, 7.67%)
- Shannon River Fund Management (1.175M shares, 2.63%)
- Trishield Capital Management (886.5K shares, 1.98%)
- Thompson, Siegel & Walmsley (733K shares, 1.64%)
- Portolan Capital Management (493K shares, 1.1%)

McClatchy:

- Contrarius Investment Management (6.5M shares, 7.45% of MNI)
- Royce & Associates (5.4M shares, 6.15%)

Journal Media Group:

- GAMCO (Gabelli) (1.6M shares, 6.74% of JMG)
- Contrarius Investment Management (810K shares, 3.33%)
- Gruss Asset Management (626K shares, 2.57%)
- MSD Partners, L.P. (441K shares, 1.81%)
- Minerva Advisors LLC (195K shares, 0.80%)

Gannett:

- New South Capital Management (9.3M shares, 7.42% of GCI)
- Icahn Associates (7.5M shares, 5.95%)
- Smead Capital Management (4.9M shares, 3.88%)
- LSV Asset Management (2.8M shares, 2.24%)
- Fairpointe Capital LLC (1.5M shares, 1.2%)
- Contrarius Investment Management (1.26M, 1%)

The New York Times Company:

- Fairpointe Capital LLC (13.7M shares, 8.42% of NYT)
- Contrarius Investment Management (10.8M shares, 6.6%)
- JHL Capital Group (9.3M shares, 5.7%)
- Kahn Brothers & Company (3.9M shares, 2.4%)
- Gotham Asset Management (1.6M shares, 0.97%)
- HG Vora Capital Management (1.55M shares, 0.95%)
- Sadoff Investment Management (909K shares, 0.56%)

A.H. Belo (AHC):

- Hodges Capital Management (1.35M shares, 6.27% of AHC)
- Punch & Associates (943K shares, 4.37%)
- Minerva Advisors (808K shares, 3.74%)
- Zuckerman Investment Group, LLC (807K shares, 3.74%)
- Luther King Capital Management (576K shares, 2.67%)

News Corp (NWS) (NWSA):

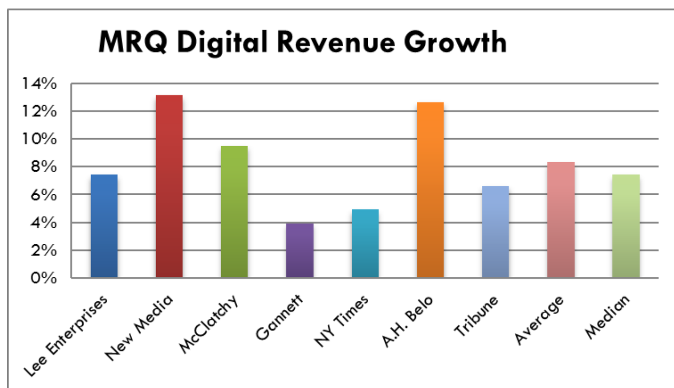
- Rupert Murdoch and Family (78.7M Class B Shares, 39.4% of NWS)
- Harris Associates/Oakmark Funds (20.9M Class A shares, 5.5% of NWSA)
- Perpetual Ltd (20.45M CHESS Depositary Interests, 10.25% of NWS)
- International Value Advisers, LLC (19M Class A shares, 5% of NWSA and 13.5M Class B shares, 6.75% of NWS)

Tribune Publishing:

- Oaktree Capital Management (4.7M shares, 18.32% of TPUB)
- PRIMECAP Management Company (3.8M shares, 14.88%)
- Franklin Mutual Advisers LLC (682K shares, 2.67%)
- Towle & Company (620K shares, 2.42%)
- New Generation Advisors LLC (498K shares, 1.94%)

NEWSPAPER INDUSTRY OVERVIEW AND PEER ANALYSIS

Although the newspaper industry continues to see revenue declines, we find that Lee's revenue declines are narrower than its peer group and its expense reductions are ahead of its peers. We also found that Lee's largest peer competitors have responded to the decline in the newspaper industry by spinning off its publishing operations and focusing its business resources on its faster growing segments such as television broadcasting or internet or by diversifying its operations through acquisition of digital and broadcast assets. Although Lee's plan to sell off its television stations in 2000 and expand its newspaper footprint through the acquisition of Howard (2002) and Pulitzer (2005) did not work out well for its shareholders, at least Lee's newspaper operations continue to generate solid levels of free cash flows. Lee's ability to maintain its free cash flows and to generate superior operating margins than its newspaper publishing peers is its digital revenue growth (24.8% from mobile, 27.8% overall, 7.3% from digital advertising year-to-date). One risk that Lee and other newspaper firms face is that recent economic weakness may potentially result in wider revenue declines, particularly due to declines in advertising spending.



Source: MRQ Reports for Lee and its newspaper peers

Lee still leads the industry in ROIC, digital revenue growth, operating income and EBITDA Margin. Lee also has the second best FCF Yield, trailing only McClatchy (which has 30% more debt outstanding than Lee) and the cheapest EV/FCFF ratio.

CONCLUSION

We believe that Lee's shares are undervalued by 29%-76.5% and investors should use the take advantage of the declines in Lee's stock and debt issues to acquire a long stake in Lee's shares and or any of its debt issues. Although Moody's Investors Service rated Lee's debt as B3, we believe the credit risk to investors owning Lee debt is very low due to its progress in retiring its outstanding debt. Although Lee's annualized adjusted EBITDA declined by 3.4% in FY2015, it should be able to retire at least $80M of its outstanding debt annually due to lower interest expenses and reductions in "non-recurring charges". We also believe that Lee represents a much better value as a takeout play versus its peers because of its EV/FCFF ratio and its industry-leading digital revenue growth and operating margins. Although Lee's revenue has been steadily sagging since 2006, it has been able to mitigate these headwinds with lower operating costs, enabling it to keep its annual adjusted EBITDA at $150M+ during this period. Lee continues its progress in retiring its leftover Pulitzer acquisition debt and we expect it to retire 75%-80% of its debt between now and FY 2023. Finally, Lee's mobile advertising revenue continues its strong growth trend, which helped Lee generate 27.8% digital revenue growth in its most recent fiscal year.

	Lee Enterprises	New Media	McClatchy	Journal Media	Gannett	NY Times	A.H. Belo	News Corp	Tribune	Average	Median
FCF Yield	74.07%	13.91%	76.32%	9.41%	13.40%	5.20%	0.92%	6.91%	27.66%	25.31%	13.40%
ROIC	17.89%	12.09%	14.55%	9.41%	13.40%	5.78%	0.92%	6.91%	14.13%	10.57%	12.09%
Digital Revenue	23.90%	13.10%	8.31%	N/A	3.90%	4.90%	12.60%	N/A	6.60%	9.16%	8.31%
Operating Margin	15.59%	5.26%	3.34%	7.01%	8.45%	7.93%	-4.10%	2.97%	3.59%	5.56%	5.26%
EBITDA Margin	22.62%	11.21%	14.10%	10.10%	12.36%	11.99%	0.53%	10.15%	6.91%	11.11%	11.21%
EV/FCFF	5.49	8.06	6.67	9.73	6.80	11.15	28.91	10.97	6.30	10.45	8.06
Div. Yield	0.00%	8.57%	0.00%	2.44%	4.75%	1.24%	6.79%	1.33%	6.16%	3.48%	2.44%

Source: MRQ Reports for Lee and its newspaper peers

Mike Rusinas is a portfolio manager and principal of Brookhurst Capital, LLC. Mr. Rusinas' thoughts in this essay are solely his own and there can be no assurance with regard to future market movements.

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