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HUBER RESEARCH PARTNERS LLC

COMPANY REPORT

January 14, 2019

Stock Rating: **Underweight**

Sector Rating: **Negative**

Gannett Co., Inc.

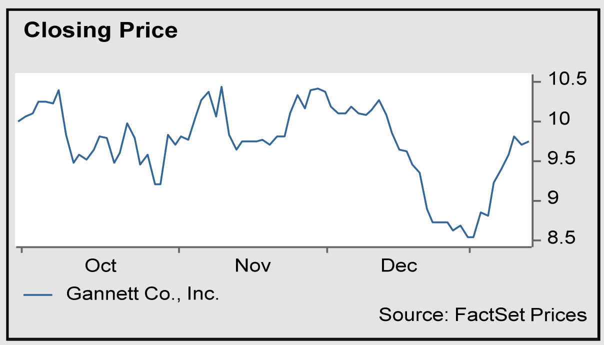
GCI Receives an Unwelcome Bid

- **MNG Enterprises, otherwise known as MediaNews Group or Digital First Media has made an unsolicited takeover bid for GCI, rated Underweight, for $12 per share. GCI formally acknowledged the bid this morning (Monday 1/14/19).** The offer is a 23% premium to GCI's close last Friday, although below GCI's 52-week high. The majority owner of MNG is **Alden Capital** which has a long history with Gannett. It's opportunistic given the stock was battered during the market's December sell-off and the CEO as well as head of digital sales have both announced they are leaving (CEO is retiring). **Our bottom line** is that the proposed price is not high enough; a 7.5% ownership position or under $100 mm based on Friday's close, is not serious, in our view, and MNG is not exactly a heralded steward of print assets. **Alden** has a controversial reputation in the newspaper business and is known for aggressively slashing staff (media sources refer to the strategy as strip-mining), selling off real estate and otherwise attempting to seemingly run papers until the very last iota of cash flow has been squeezed from it. We believe, while Underweight, GCI is on the right path with its digital growth push and legacy cost cuts.
- **All that being said, is this a good situation for GCI shareholders?** Obviously, a 23% premium is what it is. Gannett has also aggressively reduced costs in its legacy print-papers, so in that context, the strategies are similar. However, MNG's demand that Gannett 'commit to a moratorium on digital assets', suggests GCI has been going in the wrong direction. As depicted in Figure 1, GCI, through investment in digital media in its more than 100 local papers and opportunistic digital acquisitions –bought Reach Local during its turnaround- is closing in on almost $1 billion in digital-based revenues or 33% of total by 2019E. Along the way, GCI has taken costs out of the legacy papers at an aggressive, almost 15% overall rate, since early 2017 while maintaining a high-teens EBITDA margin in the papers given punishing ad pressure on traditional print or down 20.3% in Q3'18A. Difficult but not terrible -given circumstances.
- **We believe any material offer for Gannett should be at $14 per share** or above or 6x forward EBITDA or, including pension liabilities, closer to 6.5+X for a control premium. **We suspect the GCI Board will reject the bid** and look for either a white knight investor/alternative strategy. We remain UW with a now raised $10.75 price target -see Figure 2 and page 4.

Stock Data and Performance:

Ticker: GCI

12-Month Price Target:	$10.75	**Prior:**	$9.50
Stock Price (1/11/19)	$9.75		
52 Week Range:		**High:**	$12.23
		Low:	$8.37
Market Cap (mil):	$1,169.7		



Please see pages 5-6 for Important Disclosures

Financial Data-GCI	2016A	2017A	2018E	2019E
EPS ($)-adj. to exclude accl de	1.26	1.04	1.08	0.85
Previous EPS ($)	-----	-----	-----	-----
Street Consensus EPS ($)	-----	-----	1.03	1.03
Free Cash Flow per Share ($)	1.72	1.74	2.22	1.65
Revenue ($ mil)	3,047.5	3,146.5	2,921.2	2,818.4
EBITDA ($ mil)	357.1	359.9	324.6	296.0
Valuation				
P / E	7.8x	9.4x	9.1x	11.5x
EV / EBITDA	4.6x	4.5x	5.0x	5.5x

Financial Data-GCI	1Q18A	2Q18A	3Q18A	4Q18E
EPS ($)-adj. to exclude accl de	0.13	0.31	0.20	0.43
Previous EPS ($)	-----	-----	-----	-----
Street Consensus EPS ($)	-----	-----	-----	0.48
Free Cash Flow per Share ($)	-----	-----	-----	-----
Revenue ($ mil)	723.0	730.8	711.7	755.8
EBITDA ($ mil)	55.1	85.6	70.1	113.9

Dividend	
Dividend ($)	0.64
Dividend Yield (%)	6.6%

Figure 1: Gannett –Income Statement Analysis, 2017A-2020E ($ in millions, except per share data)

				extra wk								
			2017A	impact				2018E				
JMG deal close in 4/8/16	Mar.	June	Sept.(A)	Dec.(A)	2017(A)	Mar.	June	Sept.(A)	Dec.E	2018(E)	2019(E)	2020(E)
Newspapers-Print				excl 1 wk								
Local	119.3	124.7	108.9	105.4	458.3	99.6	103.4	90.7	89.6	383.3	325.8	285.1
National	60.1	62.4	56.8	61.8	241.0	47.5	49.6	45.3	49.4	191.9	163.1	142.7
Classified	91.1	86.3	79.2	97.6	354.2	78.4	74.9	68.0	80.5	301.8	264.1	237.7
Advertising-Form 10, amended	270.5	273.4	244.8	264.8	1,053.5	225.5	227.9	204.0	219.5	877.0	753.0	665.4
Circulation-as adjusted	283.3	273.7	264.4	280.0	1,101.4	266.6	263.8	258.9	268.8	1,058.1	1,021.1	985.3
Other-as adjusted	46.6	45.7	48.6	50.0	190.8	45.1	45.0	47.7	49.0	186.8	183.1	179.4
Core papers-Total Revenues	600.3	592.8	557.9	594.8	2,345.8	537.2	536.7	510.6	537.4	2,121.9	1,957.1	1,830.2
Publishing-Digital	94.6	99.4	102.5	118.9	415.4	101.5	107.9	105.8	120.7	435.8	457.3	485.0
-as % of Publishing	15.8%	16.8%	18.4%	20.0%	17.7%	18.9%	20.1%	20.7%	22.5%	20.5%	23.4%	26.5%
Digital Advertising				Estimated								
Digital Media	59.4	64.1	66.7	78.0	268.2	64.4	68.5	67.5	78.8	279.2	293.1	312.2
Digital Classified	23.2	23.7	21.8	26.0	94.7	20.0	19.3	18.2	21.5	78.9	71.0	65.7
Dig. Marketing Services	12.0	11.6	14.0	14.9	52.5	17.1	20.0	20.0	20.5	77.6	93.2	107.2
Total Digital	94.6	99.4	102.5	118.9	415.4	101.5	107.9	105.7	120.7	435.7	457.3	485.0
ReachLocal(closed 8/9/16)	77.6	85.9	93.8	101.4	358.7	96.5	100.4	109.6	113.2	419.7	461.7	500.9
Corporate revenues	1.0	1.0	1.3	52.6	55.9	2.0	1.8	1.7	2.0	7.5	7.0	7.0
Intersegment eliminations	0.0	(4.6)	(11.2)	(13.5)	(29.3)	(14.2)	(16.0)	(16.0)	(17.5)	(63.7)	(64.7)	(63.4)
Total Digital(Adv. & ReachL)	172.2	185.3	196.3	220.3	774.1	198.0	208.3	215.3	233.9	855.5	919.0	985.9
Revenue - Company total	**773.5**	**774.5**	**744.3**	**854.2**	**3,146.5**	**723.0**	**730.8**	**711.7**	**755.8**	**2,921.2**	**2,818.4**	**2,759.8**
Year to Year % change												
Newspapers(%)				extra week		--includes digital ad & marketing services						
Local	NC	NC	NC	NC	NC	-16.5	-17.1	-16.7	-15.0	-16.4	-15.0	-12.5
National	NC	NC	NC	NC	NC	-21.0	-20.4	-20.1	-20.0	-20.4	-15.0	-12.5
Classified	NC	NC	NC	NC	NC	-14.0	-13.2	-14.2	-17.5	-14.8	-12.5	-10.0
Advertising-Core papers	NC	NC	NC	NC	NC	-16.6	-16.7	-16.7	-17.1	-16.8	-14.1	-11.6
Circulation	7.8	-4.8	-7.4	-6.0	-2.8	-5.9	-3.6	-2.1	-4.0	-3.9	-3.5	-3.5
Other	5.7	4.1	-9.6	5.4	0.9	-3.2	-1.5	-1.8	-2.0	-2.1	-2.0	-2.0
Total Publishing	-8.8	-20.0	-24.3	-24.8	-19.8	-10.5	-9.5	-8.5	-9.7	-9.5	-7.8	-6.5
Digital Advertising												
Digital Media	NC	NC	NC	NC	NC	8.4	6.9	1.3	1.0	4.1	5.0	6.5
Digital Classified	NC	NC	NC	NC	NC	-13.9	-18.5	-16.6	-17.5	-16.7	-10.0	-7.5
Dig. Marketing Services	NC	NC	NC	NC	NC	42.9	72.2	42.8	37.5	47.8	20.0	15.0
Total Digital	NC	NC	NC	NC	NC	7.3	8.5	3.1	1.5	4.9	5.0	6.1
ReachLocal	---	---	---	---	NM	24.4	16.9	16.8	11.6	17.0	10.0	8.5
Total Digital(Adv. & ReachL)	NM	NM	NM	NM	NM	15.0	12.4	9.7	6.2	10.5	7.4	7.3
Revenue - Company total	17.3	3.4	-3.6	-1.5	3.2	-6.5	-5.6	-4.4	-11.5	-7.2	-3.5	-2.1
Operating Expenses($'s) -ex 1 time items												
Cost of sales/operating expenses	495.8	481.9	469.2	505.4	1,952.4	455.5	447.7	442.9	445.4	1,791.4	1,719.1	1,662.9
SG&A	207.9	209.0	201.2	216.1	834.2	212.4	197.5	198.7	196.5	805.2	803.2	800.3
Cost of sales/op expenses-% of revs	64.11	62.21	63.04	59.17	62.05	63.00	61.26	62.23	58.93	61.32	61.00	60.25
SG&A -as a % of revenues	26.88	26.98	27.04	25.29	26.51	29.38	27.02	27.93	26.00	27.56	28.50	29.00
EBITDA by Segment				extra wk								
Newspapers-core	91.7	104.1	87.5	149.2	432.4	77.8	94.4	72.7	123.6	368.4	322.9	311.1
ReachLocal(closed 8/9/16)	3.1	1.2	5.2	7.0	16.6	6.2	10.3	17.3	15.3	49.1	64.6	75.1
Corporate	(25.1)	(21.7)	(18.8)	(23.4)	(89.0)	(28.9)	(19.0)	(20.0)	(25.0)	(92.9)	(91.5)	(89.7)
Total EBITDA	**69.7**	**83.6**	**73.9**	**132.7**	**359.9**	**55.1**	**85.6**	**70.1**	**113.9**	**324.6**	**296.0**	**296.6**
EBITDA Margin (%)												
Newspapers-core	15.3%	17.6%	15.7%	25.1%	18.4%	14.5%	17.6%	14.2%	23.0%	17.4%	16.5%	17.0%
ReachLocal(closed 8/9/16)	4.1%	1.4%	5.6%	6.9%	4.6%	6.4%	10.2%	15.8%	13.5%	11.7%	14.0%	15.0%
Total margin (%)	9.0%	10.8%	9.9%	15.5%	11.4%	7.6%	11.7%	9.8%	15.1%	11.1%	10.5%	10.7%
			--excludes accelerated depreciation --									
Depreciation($)-excluding RL	28.9	28.0	24.7	33.6	115.2	25.2	23.9	24.9	27.5	101.5	99.0	96.5
Amortization	1.3	1.3	1.3	1.4	5.3	1.4	1.4	1.4	1.4	5.5	5.2	5.0
ReachLocal D&A	7.9	8.8	8.8	8.4	33.9	8.5	8.9	12.1	12.0	41.5	38.0	36.0
Total D&A	**38.1**	**38.1**	**34.9**	**43.4**	**154.4**	**35.1**	**34.2**	**38.4**	**40.9**	**148.5**	**142.2**	**137.5**
Operating Profit -excl. charges	**31.6**	**45.6**	**39.0**	**89.3**	**205.5**	**20.0**	**51.4**	**31.7**	**73.0**	**176.1**	**153.8**	**159.1**
% Margin	4.1%	5.9%	5.2%	10.5%	6.5%	2.8%	7.0%	4.4%	9.7%	6.0%	5.5%	5.8%
Non-operating Income/(Expense)							--adjusted--					
Equity Income	0.0	0.6	0.0	0.0	0.6	0.0	0.0	0.0	0.0	0.0	0.5	0.5
Interest Expense	(4.3)	(3.5)	(4.6)	(4.8)	(17.1)	(4.5)	(5.9)	(7.1)	(7.0)	(24.5)	(22.5)	(19.0)
Other Income	(3.9)	0.0	(2.9)	0.4	(6.4)	4.3	1.4	4.3	2.0	12.0	1.0	1.0
Pre-tax Income	23.5	42.7	31.4	84.9	182.5	19.8	46.9	28.8	68.0	163.6	132.8	141.6
Income Taxes	7.0	21.4	12.6	21.8	62.8	4.8	10.6	5.5	17.7	38.5	34.5	36.8
Tax Rate (%) -normalized	30.0%	50.0%	40.0%	25.7%	34.4%	24.0%	22.5%	22.5%	26.0%	23.5%	26.0%	26.0%
Net Income	**16.4**	**21.4**	**18.9**	**63.1**	**119.7**	**15.1**	**36.4**	**23.3**	**50.3**	**125.1**	**98.3**	**104.8**
Earnings per Share - diluted & adjusted	**0.14**	**0.18**	**0.16**	**0.55**	**1.04**	**0.13**	**0.31**	**0.20**	**0.43**	**1.08**	**0.85**	**0.90**
% Change	-60.2%	-38.8%	157.4%	8.8%	-17.5%	-8.7%	69.8%	23.2%	-20.8%	4.0%	-18.2%	6.6%
Avg Shares Outstanding (mil) - diluted	115.3	115.9	115.8	115.5	115.6	115.9	116.2	116.3	116.3	116.2	116.0	116.0
Segment Costs (excl. D&A) % Change												
Publishing, total	**7.6%**	**-6.2%**	**-11.9%**	**-12.1%**	**-6.1%**	**-7.0%**	**-6.4%**	**-5.1%**	**-5.3%**	**-6.0%**	**-4.5%**	**-4.2%**
ReachLocal(closed 8/9/16)	NA	NA	NA	27.2%	NA	21.3%	6.4%	4.1%	3.7%	8.3%	7.1%	7.2%
Corporate	-246.5%	-195.9%	-187.2%	-204.4%	-206.3%	15.0%	-12.2%	6.2%	6.8%	4.4%	-1.5%	-2.0%
Total Costs (excl D&A)	21.7%	6.9%	-4.7%	-7.6%	3.0%	-3.2%	-5.1%	-3.6%	-3.7%	-3.9%	-2.7%	-2.3%

Source: Company data, Huber Research Partners   Note: Excludes one-time items

Figure 2: Gannett –Multi-Input Valuation Analysis ($ in millions, except per share data)

	EBITDA 2019E	Multiple	Market Value
EBITDA, pre Corp. Exp.-19E	387.6	5.0	1,937.8
2018-Q3A cash($ mm)-adj. for acq. on 7/2			108.6
2018-Underfunded pension liability ($ mm)			(267.0)
2018-Q3(A) debt($ mm)-Wordstream acq.			338.0
Implied value ($ mm)			1,441.3
Corp expense deduction-2019E	(91.5)	5.0	(457.6)
Adjusted implied value ($ mm)			983.7
Shares outstanding(mm)-Q3'18A			116.3
Implied stock price($)			**8.46**
Actual dividend per share($)			0.64
Implied yield(%)			7.56%
Potential normalized yield			6.00%
Potential stock price at normalized yield($)			**10.67**
Free cash flow analysis			
FCF per share			
2018E			2.22
2019E			1.65
Target multiple			7.5
FCF fair value at tgt multiple($/share)			
2018E			16.67
2019E			12.36
Avg of two years			14.51
Earnings per share valuation			
2018E			1.08
2019E			0.85
Target multiple			9.0
P/E fair value at tgt multiple($/share)			
2018E			9.69
2019E			7.63
Avg of two years			8.66
DCF value($/shr)			10.65
Weighted target price($/shr) -25%, each			**10.57**

Source: Company reports, Huber Research Partners

Price Target Methodologies

Doug Arthur's **12-month price target** on shares of **Gannett** is $10.75 based on primarily two methodologies: 1) Our 10-year DCF analysis places fair value at $10.70 helped in part by a lower assumed tax rates going forward and an improved pension liability status (using a WACC of 9.2%, a long-term FCF growth rate of minus 1.5%, and a terminal FCF multiple of 9.3x, or an implied terminal EBITDA multiple of 3.7); we also include the current pension liability of now $267.0 mm and add in $229.4 mm in net debt, proforma for Windstream acquisition, which closed 7/2/18; and 2) Our weighted valuation analysis including price to earnings, free cash flow and a sum-of-the-parts EBITDA analysis places fair value at $10.60 based, in part, on applying a multiple of 5.0x for 2019E EBITDA and adjusted for the pension liability and shares outstanding of 116.3 million. We then examine valuation outcome for free cash flow and price-to-earnings and average the 2018-19E outcomes. We employ a 25% weighting to all four inputs including sum of the parts, FCF, a P/E target and our DCF value. Given the somewhat sluggish guidance by the company for 2018 coupled with continued brutal declines in print advertising and mixed/improving results on the digital front, we are weighing multi-input valuation more heavily to arrive at our $10.60 valuation. Mixing this method and our DCF findings combined with renewed takeover interest, gets us to our new price target of $10.75 per share.

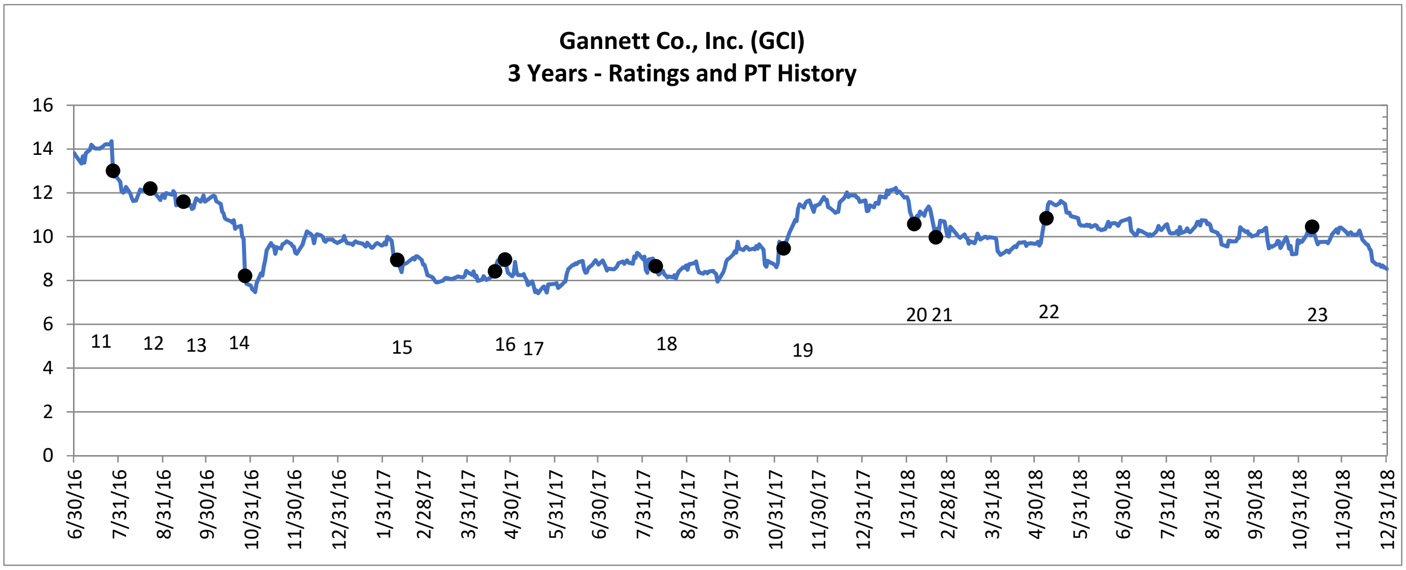
Investment Risks

Risks that may impede the achievement of our price targets for the publishers/broadcasters we cover, in our view, include the following possibilities: 1) The U.S. economy becomes weaker over the next 12–18 months; 2) national and/or local advertisers make a secular shift out of newspapers, magazines, and local television and move their advertising budgets to cable networks, Internet, mobile, direct mail, and/or cut the advertising altogether; 3) a company begins to expand its cost base in anticipation of better economic times that do not occur in the coming years; 4) a company undertakes a large, expensive acquisition and/or the integration of an acquisition does not proceed smoothly; 5) the proposed loosening of media ownership rules and regulations fail or are tightened; 6) circulation figures decrease more quickly than we anticipate, leading to lack of advertising pricing power and/or ad volume decreases; 7) newsprint prices rise faster than we expect; 8) high debt loads become too difficult to pay down and/or companies cannot get refinancing as debt maturities come up; 9) retransmission revenues growth begins to slow; 10) network (reverse) compensation begins to accelerate faster than expected; 11) Mobile TV does not take off as expected or fails to capture significant share in a competitive market; 12) The FCC takes away significant broadband spectrum without adequate compensation; 13) The FCC gets rid of the UHF discount, thus making the hard cap of TV household reach at 39%, which would limit consolidation opportunities.

Risks specific to each company that may impede the achievement of our price targets, in our view, which are not aforementioned, include the following:

Gannett: 1) Newspaper advertising drops further, faster than expected; 2) New Gannett management fails to reduce costs faster than revenues come under pressure; 3) The company goes on an acquisition splurge, takes on significant debt and acquisitions do not pan out as expected. 4) The company's effort to ramp digital advertising and digital subscriptions bogs down and fails to replace declining print revenues fast enough; 5) The U.K. newspaper operation comes under greater than expected advertising revenue pressure; 6) The U.S. dollar appreciates versus the U.K. pound more than expected; 7) The company's overall pension liability exceeds our expectations.

Stocks in this report are priced, intraday, January 11, 2019.



11	7/27/16	PT to $13.50 (DA)
12	8/22/16	PT to $10.50 (CH)
13	9/14/16	Underweight PT to $10.50 (combined cvg)
14	10/27/16	PT to $7
15	2/10/17	PT to $8.50
16	4/19/17	PT to $7.50
17	4/26/17	PT to $7.75
18	8/9/17	PT to $8.00
19	11/6/17	PT to $8.75
20	2/5/18	PT to $10.50
21	2/20/18	PT to $10
22	5/8/18	PT to $10.50
23	11/9/18	PT to $9.50

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1) **Overweight** - The stock is expected to outperform the unweighted expected total return of the sector coverage universe over a 12 month investment horizon.
2) **Underweight** - The stock is expected to underperform the unweighted expected total return of the sector coverage universe over a 12 month investment horizon.

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