Gannett Co., Inc.

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Note: Please see the disclaimer at back of this report for important information.

Recommendation: BUY

Executive Summary

- We recommend a **BUY** on Gannett Co., Inc. ("GCI"). Our price target of $27.65 is above the current stock price of $17.60 as of December 14, 2012, which provides a sufficient margin of safety for recommending this stock.
- We believe that the company has stabilized since the 2008 financial crisis and is likely to remain stable over the next few years, with some businesses declining (newspaper advertising) and others expanding (digital).
- We believe that many in the market are too pessimistic and are overestimating the risk of bankruptcy or significant deterioration in the company.
- Though the core businesses are not as fundamentally strong as we would like, and though GCI is engaged in many **highly competitive businesses**, the valuation is just too compelling for us to sit on the sidelines.

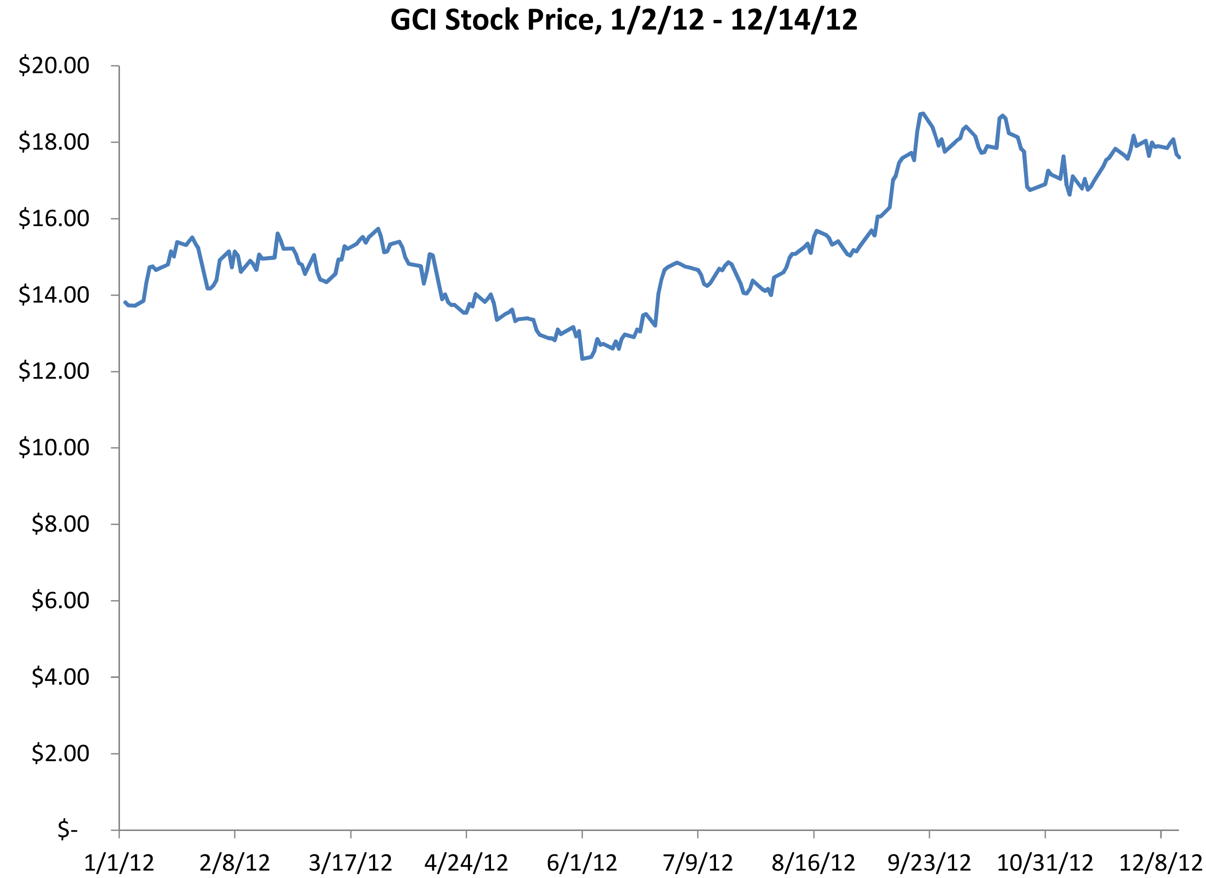
Company Overview

Gannett Co., Inc. ("GCI") is a diversified media company that derives the majority of its revenue from its newspaper business but also owns digital firms such as advertisers and classified properties as well as television affiliates. USA Today, the second largest U.S. newspaper by circulation, is arguably the most iconic property of Gannett.[1]

Our assessment of the company is best discussed in the context of the financial model, so more detailed commentary is below.

[1] See "TOP 25 U.S. NEWSPAPERS FOR SEPTEMBER 2012," Alliance for Audited Media, Accessed November 26, 2012. http://www.auditedmedia.com/news/research-and-data/top-25-us-newspapers-for-september-2012.aspx

Figure 1



Source: Yahoo! Finance

GCI Financial Model

In order to better assess the investment merits of the GCI, we created a model to derive what we believe to be the true intrinsic value per share of GCI. This model represents our base case for GCI.

Inputs into the GCI Model

The major inputs into the GCI model are summarized below. A discussion of select variables follows:

Cost of Capital Assumptions

Figure 2

Variable	Value	Description	Source
r_F	1.72%	10-year treasury yield as of 12/14/2012	U.S. Treasury Department
Equity Beta[1]	2.1	See discussion	Team Calculation
Risk Premium	5.5%	Average MRP used by US practitioners in Fernandez, et al. (2011) survey	Fernandez, et al. (2011)
Tax Rate	30%	Team estimate using effective tax rates reported by management	Team Estimate
r_D	7.67%	Assumed cost of debt. Weighted average interest rate for total outstanding debt (1st 9 mos of 2012)	10-Q filed 10/31/12
D/E ratio	39.9%		S&P Capital IQ
E	4,044	in millions; as of Dec. 14	S&P Capital IQ
D	1,635	in millions	S&P Capital IQ
Asset Beta	1.7	See discussion in text	Team Calculation
r_E	11.1%		Team Calculation
Terminal Growth	3.0%	Assumed LR economic growth rate	

Note:
[1] Excludes month of July 2009 from calculation due to dramatic price movements. See footnote in text for more information.

Risk-Free Rate We used the current 10-year treasury yield of 1.72%, per the U.S. Department of the Treasury.

Equity Beta We estimated an unlevered (asset) beta of 1.7 and a levered beta of 2.1. (Note: All of our supporting charts can be found in the Appendix).

We went through an extensive process in order to determine the appropriate beta. When we reviewed the charts for the rolling 60-month beta for GCI, we saw that the number exhibited some instability in earlier periods . We created charts for the 36-month and 24-month rolling betas, and also saw instability. We then looked at the industry chart for the 60-month rolling beta and saw more movement than we would hope.[2] We then ran a 24-month beta in hopes of removing the 2009 data and better reflecting the new landscape newspapers face, and again saw less stability than we would hope. Thus, given no good options, we chose to use the 60-month beta for GCI. We believe that using a company-specific beta is appropriate, and incorporating the 2009 time frame into our calculation is reasonable because of the current macro instability. Thus, if we are biased, our equity and unlevered betas are too high, and the company valuation would increase.

We are confident that the appropriate equity beta for GCI is greater than one from an empirical perspective given that finding across multiple companies and time periods. Our analysis supporting this assumption can be found in the appendix.

[2] We excluded results from July 2009 in our calculation and charting of beta. The value of the newspaper industry rose substantially in July 2009 as investors reassessed whether their pessimism was justified, distorting our initial results. See, e.g., "Newspaper stocks up on '10 estimate." Bloomberg News via Boston.com. July 28, 2009. Accessed October 8, 2012. http://www.boston.com/business/articles/2009/07/28/newspaper_stocks_up_on_10_estimate/ AHC does not have 60 months' worth of data, so as much data as is possible is used and is not shown on the graph below.

Market Risk Premium We use 5.5%, the average market risk premium used in the United States per Fernandez et al (2011).[3]

Cost of Debt We use the weighted average cost of debt over the past nine months (7.67%) per the latest 10-Q filing.

Tax Rate A future effective tax rate of 30% is assumed based upon our judgment considering past tax rates. For example, according to the most recent 10-K and 10-Q, the effective tax rates were as follows:

- 9 mos ending September 2012: 26.6% (special net tax benefit)
- 2011 Effective Tax Rate: 25% (special net tax benefit)
- 2010 Effective Tax Rate: 30.1% (special net tax benefit)
- 2009 Effective Tax Rate: 35.2%

In our judgment, 2009's high rate is likely due to relatively lower income that year. Thus, we assumed a tax rate closer to 30% than 35%. In addition, discussion of lowering the federal corporate tax rate supports this lower value.

Estimating GCI's EBIT

GCI presents both a traditional income statement with a list of revenues and expenses as well operating profit information by segment. We felt that using operating profit by segment would be more useful for our readers. Thus, we first discuss Operating Profit Before Taxes by segment (publishing, digital, broadcasting, and corporate), then we discuss additional variables that must be estimated to reach our EBIT estimates. The largest segment of the company is the publishing segment, so most of our forecasting energy goes into that section.

Operating Profit by Segment

A couple of overall notes are worth mentioning. Because GCI doesn't break down operating costs by segment beyond a total and depreciation and amortization, we will not estimate the breakdown of cost categories. Instead, we focus on two drivers: revenue growth and changes in operating margins.

Publishing

Gannett derives the majority of its revenues from the publishing business. As of the end of 2011, Gannett had 82 daily U.S. publications, with USA TODAY having the highest circulation, and 500 non-dailies.[4] Among the non-dailies, USA WEEKEND is one of the most prominent, with a circulation of 22.6 million through 800 local publishers.[5] In the U.K., Gannett owns Newsquest, a regional community news provider with 17 daily newspapers and 200 other products.[6]

GCI has publications in large cities (Phoenix, Indianapolis), mid-sized cities (Salem, OR; Palm Springs), and small cities (Ithaca, NY and St. George, UT). In our judgment, the trends affecting the overall newspaper industry will affect GCI with the same magnitude given the broad array of U.S. publishing assets. The publications division distributes to 11.6 million readers on weekdays and 12.6 million people on Sundays.[7]

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[3] See "Market Risk Premium Used in 56 Countries in 2011: A Survey with 6,014 Answers" by Pablo Fernandez, Javier Aguirreamalloa, and Luis Corres. Available at www.iese.edu/research/pdfs/DI-0920-E.pdf. Accessed September 16, 2012.

[4] The 10-K has the most comprehensive information about the newspaper holdings. See 2011 GCI 10-K p. 3.

[5] 2011 GCI 10-K p. 6

[6] 2011 GCI 10-K p. 13

[7] 2011 GCI 10-K p. 7

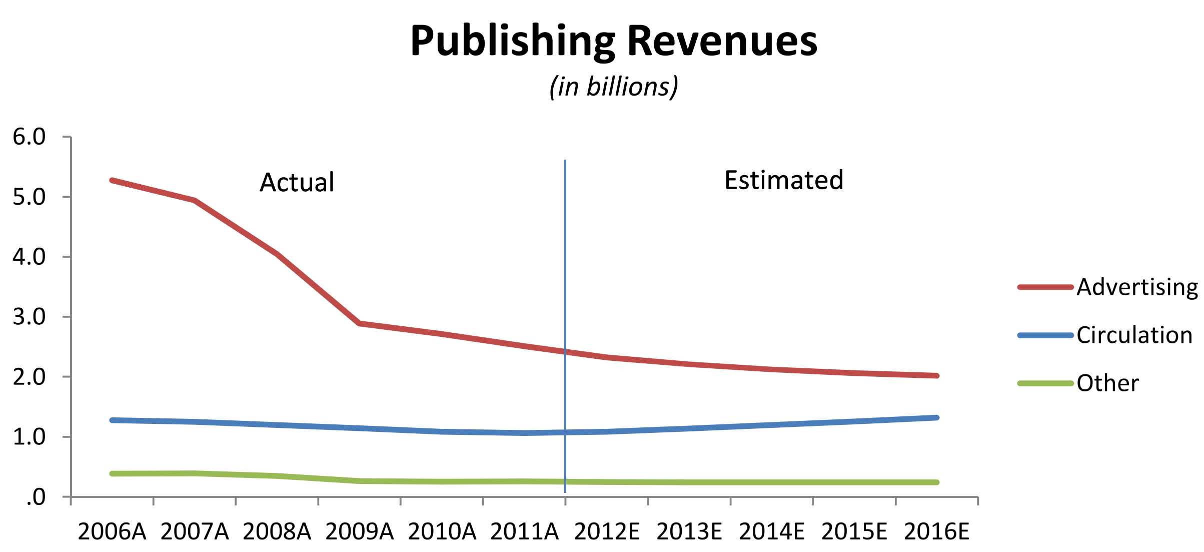
Figure 3

Major Publishing Assets[8]
Local newspapers
USA TODAY
USA WEEKEND
Newsquest (newspaper publisher in the U.K.)
Clipper Magazine (Direct mail advertising)
Gannett Healthcare Group (Nursing Spectrum, NurseWeek, Nurse.com)
Gannett Government Media (military and defense publications)
Gannett Offset commercial printing
Other assets

Revenues and Expenses

GCI earns the majority of revenues from its publishing segment. The advertising component in particular has been decimated. Specific revenues for individual publications are not known, but Newsquest generated $513 million in revenue in 2011.[9] A chart of revenues is below.

Figure 4



Strategic Developments in Publishing

[8] Per the 2011 Gannett 10-K
[9] 2011 GCI 10-K p. 11.

It's no surprise that the newspaper industry has been in decline. Gannett has suffered similar trends of other newspaper publishers, with declining circulation and advertising revenues. At this point, we believe that these strategic moves (discussed further below) are the right moves, but their implementation is just beginning.

GCI has engaged in several initiatives to produce cost efficiencies and better and more valued local content (for example, one entity, Gannett Publishing Services, now performs production and circulation for the newspapers). USA TODAY has also gone through a major redesign. Our view is that these are standard initiatives that any responsible business manager should be engaged in, and they help keep the product relevant for consumers, but these initiatives are not what investors should be focused on the most.

The most important initiative that GCI is engaging in is the "New Content Subscription Model." GCI worked for a year to develop a strategy that sold access to content on multiple platforms. That strategy is being rolled out to GCI websites, with completion targeted for this year. 71 markets (as of October 15) have this model, and circulation revenues have improved.[10] In the third quarter, U.S. publishing at local sites increased circulation revenues 10%.[11] According to GCI, their model for online subscriptions seems to have reasonable predictive power based on current trends. GCI expects $100 million in operating profit increase in 2013.[12]

GCI touts that online visitors increased 10% year over year in 2011.[13] U.S. Community Publishing, the group responsible for local newspapers, seeks to offer appealing content to online readers and achieve synergies between online and offline media operations.

Gannett has been acquiring sports assets for USA TODAY sports media group, but our view is that these purchases will not contribute meaningful revenues.

Forecasting Considerations

Unfortunately, GCI doesn't break down the revenues and costs of individual publications, nor does it break out many of the different parts of its holdings. Thus, we must estimate trends based upon the industry.

Circulation

We assume that the increase we saw in Q3 2012 circulation revenue translates into a Q4 2012 increase, which seems very reasonable given the new subscription model used. GCI anticipates $100 million in operating profit above trend in 2013, as mentioned above, and for the foreseeable future. We believe that some of this operating profit increase will be eaten up by continued revenue declines. However, we have seen material growth in circulation for some properties (13 – 31%).[14] GCI anticipates 25% subscription increases for U.S. local properties. Since U.S. local properties are only a portion of publishing circulation, and when they were up 10%, total circulation revenue was up about 5%, we forecast 5% growth for the

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[10] "Gannett Management Discusses Q3 2012 Results - Earnings Call Transcript" SeekingAlpha.com, Accessed November 27, 2012 at http://seekingalpha.com/article/924661-gannett-management-discusses-q3-2012-results-earnings-call-transcript

[11] "Gannett Management Discusses Q3 2012 Results - Earnings Call Transcript" SeekingAlpha.com, Accessed November 27, 2012 at http://seekingalpha.com/article/924661-gannett-management-discusses-q3-2012-results-earnings-call-transcript

[12] "Gannett Management Discusses Q3 2012 Results - Earnings Call Transcript" SeekingAlpha.com, Accessed November 27, 2012 at http://seekingalpha.com/article/924661-gannett-management-discusses-q3-2012-results-earnings-call-transcript

[13] 2011 GCI 10-K p. 11.

[14] "Gannett Management Discusses Q3 2012 Results - Earnings Call Transcript" SeekingAlpha.com, Accessed November 27, 2012 at http://seekingalpha.com/article/924661-gannett-management-discusses-q3-2012-results-earnings-call-transcript

next four years as the digital model gets rolled out across the firm. We then reduce our growth to 3% for the next three years, and then reduce growth to zero.

Advertising

We assume that the Q3 2012 advertising decline will continue at the same rate in Q4 2012. Advertising declines have decimated revenues at GCI, as was shown in the revenue chart earlier. Thus, the question is, will these declines continue? We think so, and we predict a stabilization in advertising in about five years, as the decline in print is offset by an increase in digital advertising. We anticipate that the advertising revenues will have stabilized in five years after the subscription model for newspapers has stabilized, and we taper the declines from their current levels to zero in 2018.

Other Revenue

Our judgment is that Other Revenue will grow in proportion to advertising and circulation revenues. This assumption has been true in recent history. Thus, for Q4 2012 we take the seven quarter average of proportion of other revenues as a percentage of circulation and advertising of the actual 2011 and 2012 quarters. For subsequent years, we take the eight-quarter average of 2011 and 2012, including our Q4 2012 estimate.

Operating Margin

We anticipate operating margin to be the same in Q4 2012 as it was in Q3. We believe that, going forward, present operating margins represent a floor on what operating margins will be in the next five to seven years as production expenses decline as a share of expenses. We expect a gradual rise in operating margin from an eight quarter average of 2011 and 2012 to a higher level in roughly 10 years. In the long run, we anticipate that publishing operating margin will be about 4 percentage points above today's values. We know that newsprint and other production material is about twelve percent of operating expenses, which translates into about fifteen percent of publishing operating expenses.[15] We predict that newspapers will have trouble expanding margins in the long run, as the competition to provide information will be fierce. However, we predict that their operating margins will increase marginally from where it is today by roughly one-quarter (4 percentage points) as they shed production costs.

Digital

Overview

GCI includes a digital business segment for digital businesses. GCI includes businesses such as CareerBuilder, an online job site, PointRoll, a digital marketing services company, and ShopLocal, a marketing company with clients such as Target, Best Buy, and Home Depot.[16] Unlike the publishing and broadcasting segments, the digital segment (and CareerBuilder in particular) includes operations in countries outside of the United States and the United Kingdom.

Figure 5

Major Digital Assets[17]
CareerBuilder
PointRoll
ShopLocal

[15] 2011 GCI 10-K p. 38.
[16] 2011 GCI 10-K p. 15.
[17] 2011 GCI 10-K

Reviewed.com Planet Discover

Strategy

CareerBuilder looks to expand globally and has made a number of acquisitions towards that end across the globe.

The digital segment is a challenging landscape, and GCI has numerous competitors. Below is a table showing the asset and how competitive GCI considers the industry per its most recent 10-K.[18]

Figure 6

Asset	Competitiveness of Space per 10-K
CareerBuilder	"highly competitive"
PointRoll	"highly competitive"
ShopLocal	"highly competitive"

Rationale for the Segment

Besides growth prospects for the company, we question the value of the digital segment to the other parts of the firm. Our view is that the Digital segment represents assets that were created or purchased in order to combat the decline in advertising revenues, and they could operate as autonomous businesses that contract with Gannett entities. Thus, we don't believe that many of these businesses are essential to Gannett and could be divested. Management may be holding onto the businesses because of the growth they offer relative to the declining newspaper and stagnant broadcasting industries, but we don't see synergies with the other parts of the firm that couldn't be accomplished in other ways.

Revenues and Expenses

Digital revenues have expanded dramatically in the past few years and are one of the few sources of growth for the company. CareerBuilder is a major source of those gains, and digital revenues increased 11% in 2011.[19] The company expects continued growth from CareerBuilder, and will invest money in expansion.

Forecast

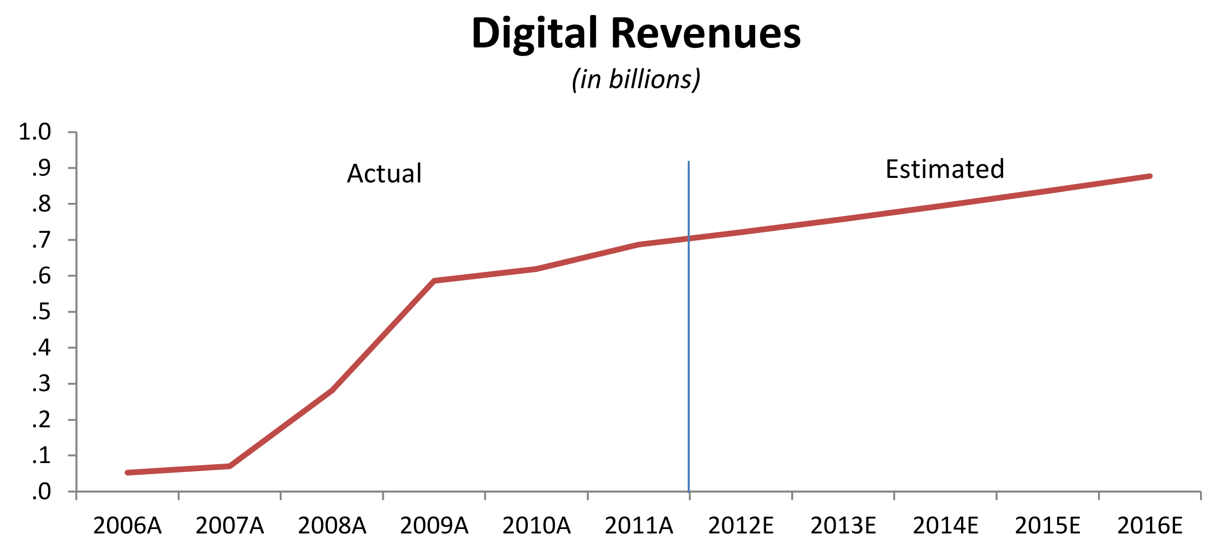
GCI expects continued growth from CareerBuilder for the foreseeable future, and, thus, the digital segment. We thus face the challenge of estimating future growth of this segment over time. For the fourth quarter of 2012, we estimate year-over-year revenue growth equal to the third quarter of 2012 (4.7%). CareerBuilder grew 7% in the third quarter.[20] For upcoming years, we forecast more growth in

[18] 2011 GCI 10-K, p. 14.
[19] 2011 GCI 10-K, p. 37.
[20] "Gannett Management Discusses Q3 2012 Results - Earnings Call Transcript" SeekingAlpha.com, Accessed November 27, 2012 at http://seekingalpha.com/article/924661-gannett-management-discusses-q3-2012-results-earnings-call-transcript

this segment, with CareerBuilder again driving the growth. GCI doesn't provide breakouts about CareerBuilder's contribution to growth. However, we believe that, given CareerBuilder's recent purchases around the world, it will continue to growth at the same pace for roughly next five years, driving digital segment growth until we gradually taper off growth to our long run range thanks to saturation and competition.

In terms of margin, the digital segment recently experienced margin expansion thanks to CareerBuilder growth. We use the Q3 margin to forecast Q4 2012. For subsequent years, we use the eight quarter margin average, with one year to taper the growth down from 2012. We believe that this average is appropriate to use given that the businesses are already operating in highly competitive environments and thus experience normal rates of profitability.

Figure 7



Broadcasting

GCI owns 23 broadcasting stations in 19 markets that offer programming to 18% of the U.S., or about 21 million households.[21] The company also includes Captivate in the broadcasting segment, a subsidiary that provides news and information on 9,700 screens in elevators and lobbies of office buildings and hotels, respectively.[22]

Figure 8

Major Broadcasting Assets[23]
23 affiliates in 19 markets; 21 million households reached
Top 5 stations by weekly audience (# of households reached):
Washington, DC: WUSA-TV, CBS, 1,797,000
Atlanta, GA: WXIA-TV, NBC, 1,602,000

[21] 2011 GCI 10-K, p. 3
[22] 2011 GCI 10-K, p. 14-15
[23] Per the 2011 Gannett 10-K, p. 3

Minneapolis-St. Paul, MN: KARE-TV, NBC, 1,297,000
Tampa-St. Petersburg: WTSP-TV, CBS, 1,201,000
Phoenix, AZ: KPNX-TV, NBC, 1,180,000
Captivate Networks

Revenue Sources

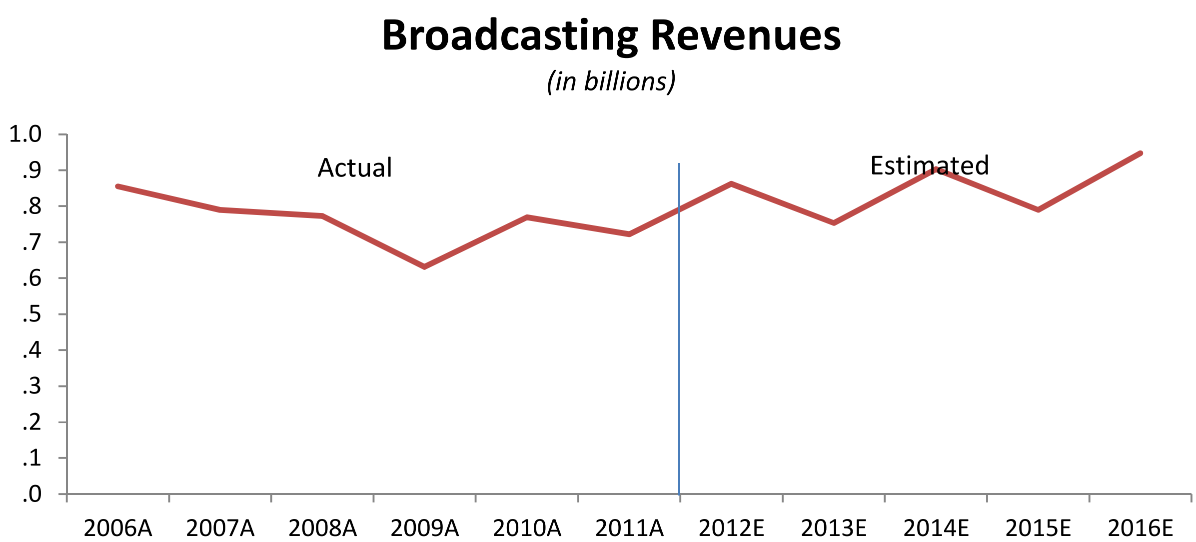
Broadcasting revenues are derived from[24]:

1. Local advertising
2. National advertising
3. Retransmission revenues from cable and satellite
4. Web and mobile advertising
5. Other services provided to advertisers

Local advertising appears to be a significant factor based upon our analysis.

A chart of historical revenues is presented below:

Figure 9



Expenses

Programming costs comprise a major portion of broadcasting expenses. These expenses include locally-produced programming, such as news, and syndicated programming, such as sitcom reruns. Other expenses include employee costs. GCI doesn't break out their costs for the broadcasting segment.

Strategy and Outlook for Broadcasting

We anticipate that GCI will continue to run its broadcasting affiliates: making adjustments on a regular basis through strategy initiatives to maximize profits. In some cases, the firm integrates the operations of the TV station and local newspaper it owns (for example, in Phoenix). We view this strategy as a good

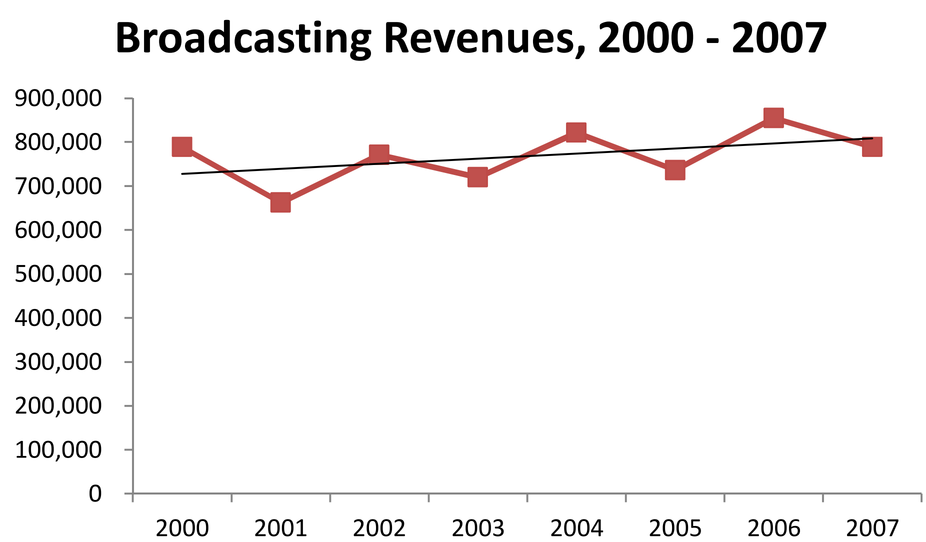
[24] 2011 GCI 10-K, p. 14

strategy in order to take advantage of operational efficiencies as well as leveraging valuable brands in the local market. We believe, however, that local affiliates are only partially responsible for their own fate. They rely on the success of the parent network in order to drive viewers, and thus we view strategic options for the broadcasting segment to be more limited than for other segments given this relationship.

Forecasting

Broadcasting revenues come from various factors, including advertising. In even years, advertising tends to be higher than in odd years, all other things being equal, because in the even years, GCI's 12 NBC affiliates broadcast the Olympics, and all affiliates benefit from political advertising for midterm or presidential elections. Thus, special attention must be paid to these areas. A chart of broadcasting revenues from the more stable 2000-2007 period shows the unevenness of the revenues as well as the steady growth the space has experienced.

Figure 10



Source: Capital IQ

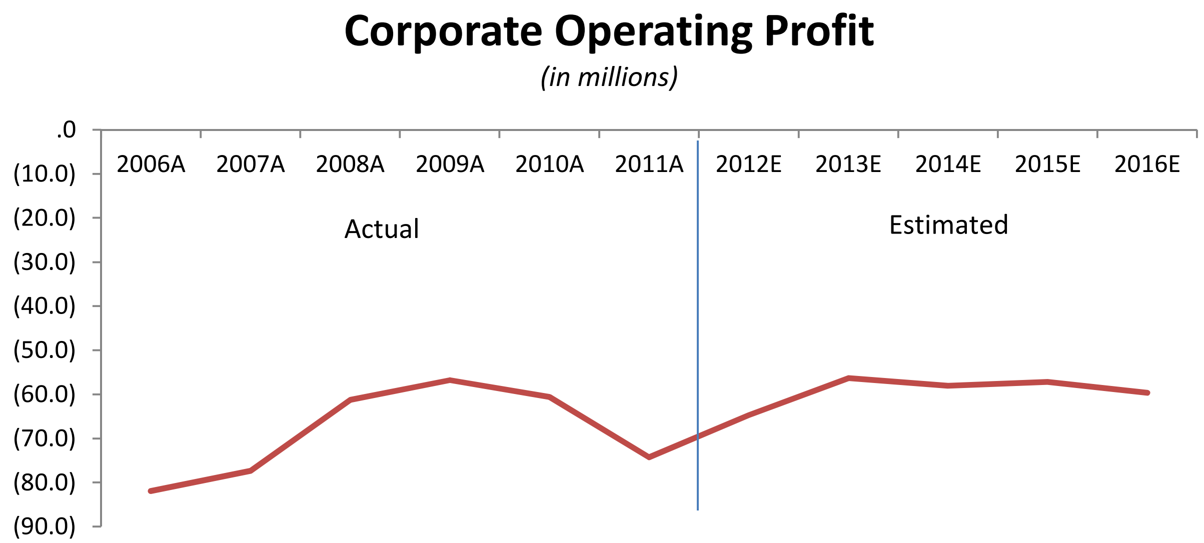
We view the broadcasting firms as relatively mature companies, poised to grow at the rate of GDP for the near future. From 2001-2007, segment revenues grew at a CAGR of about 3%, roughly two percentage points below nominal GDP growth (or roughly the value of real GDP growth over this time frame). We believe more recent results show greater volatility thanks to the financial crisis than we expect in the future. We forecast similar growth trends below nominal GDP for the future given the maturity of the space. We forecast based off of revenues two years ago in order to account for the cyclicality of the revenues. We use Economist data for the next six years and then use our long-run growth rate.

We believe that margins are poised to fluctuate from year to year based upon whether it is an even or odd year. We don't foresee dramatic changes to broadcasting margins since we believe that secular trends affecting broadcasting have largely already affected broadcasting and programming and employee costs should be manageable in the years ahead. We use the average margin from the four quarters of 2011 to forecast odd years and the average margin from the four quarters of 2012 (including a forecast of Q4 based on the Q3 margins) to estimate margins in the future.

Corporate Operating Profit Margin

GCI doesn't attribute any revenues to the corporate segment, so only expenses are attributed to this segment. We assume that corporate operating profit is best estimated as a percentage of revenue. We calculate the 2006-2011 Corporate Operating Profit as a Percentage of Revenue as -1.1%, so we apply that percentage to revenue during our estimate horizon and estimate the corporate operating margin. Since we expect revenues to be relatively flat, we estimate future corporate operating profit to be relatively flat (3 quarters of 2012 are already spoken for, which explains the difference).

Figure 11



<u>Additional Variables Required for EBIT Estimate</u>

Equity Income (losses) in Unconsolidated Investees , Net We assume that equity income in unconsolidated investees, net will be proportional to operating profit in GCI's other businesses. Thus, we estimate that Equity Income (losses) in Unconsolidated Investees, Net as a Percentage of Operating Profit is 1.8% over the last eight quarters. We multiply this percentage by operating profit to arrive at our estimate of Equity Income (losses) in Unconsolidated Investees, Net.

Minority Interest The minority interest is the portion of the earnings (after tax) that is attributable to ownership in entities consolidated onto the financial statements of GCI. It is relevant for investors to be aware of, as it should be backed out of the EBIT value that is used in calculating free cash flow (it can also be removed when calculating equity as a portion of enterprise value). We estimate pre-tax minority interest and subtract it from EBIT based on the historical percentage of minority interest as a percentage of revenue.

Other Non-Operating Items The number has jumped around quite a bit, and over the past seven quarters has been negative, largely due to a write-down in the fourth quarter of 2011. Without Q4 2011 results, the six-quarter average was $711,000 per quarter. We balanced the risk of future writedowns with our lack of visibility into this number and assumed no value going forward.

<u>Estimating Discounted Free Cash Flows</u>

We estimate the intrinsic value of GCI by taking EBIT, applying a tax of 30%, adding back non-cash charges (depreciation and amortization) and subtracting changes in working capital and

Depreciation and Amortization Our best assumption is that depreciation and amortization will be recorded at the historical rate (3.7% of revenue) and then decline towards the rate of capital expenditure.

Changes in Working Capital Our assumptions for revenue and other variables are fairly stable over time, thus we don't on average expect substantial changes in working capital over time. In addition, this number has jumped around historically, making appropriate directional forecasts to be challenging and likely inaccurate.

Capital Expenditures We assume that capital expenditures will continue at the same rate as they have over the past eight quarters (1.6%).

Expected Debt Level Surprisingly, Gannett has paid off debt over time. We anticipate that Gannett will pay off one more chunk of debt in 2014, and then keep the debt amount at roughly $1.4 billion.

Excess Cash We assume that Gannett has the appropriate amount of cash on its balance sheet. Gannett has to move a lot of cash at times to fund capital expenditures, dividend payments, and debt repayment, so we are hesitant to characterize the current cash on the balance sheet ($237 million) as "excess."

Reasons for Difference from Current Stock Price

Our target price of $27.65 is 57% above the current stock price of $17.60. However, our estimates are below the estimates of Wall Street analysts. We believe that our numbers represent our best guess about what will happen to GCI, while the Wall Street numbers represent a rosier scenario. Market participants must not trust the analysts' numbers if the market is performing a discounted cash flow analysis, as the market must be pricing in a large risk of bankruptcy. We can illustrate the large perceived risk of bankruptcy in three ways.

Implied Chance of Bankruptcy: Our Estimates

If we assume that there are only two outcomes possible for GCI, one in which GCI performs as expected in the base case presented in this report and one in which GCI declares bankruptcy, we can calculate the implied risk of bankruptcy, where p is the probability of bankruptcy. In the case of bankruptcy, for simplicity we assume that equity holders are wiped out.

$$\$17.60 = \$27.65 * (1 - p) + \$0 * p$$

Solving for p, we get $p = 36\%$, so the market is assuming a 36 percent chance of bankruptcy if the market is using our estimate of value.

Implied Chance of Bankruptcy: Analyst Estimates

We can take the analyst estimates and determine the bankruptcy risk the market might believe GCI faces. As in the first bankruptcy discussion, we assume two scenarios. Additional assumptions are below:

Scenario 1: GCI survives

- Net Income = Free Cash Flow
- WACC is either our estimate (9.4%) or several percentage points above or below this value
- No growth in perpetuity

Scenario 2: GCI goes bankrupt

- Equity holders are wiped out.

Analyst estimates are as follows per S&P Capital IQ:

	Q4 12	2013	2014	2015
EPS (Normal)	0.89	2.24	2.6	3.06

Thus, under these conditions, the implied risk of bankruptcy is as follows:

WACC	Implied Bankruptcy Risk
8.0%	55%
9.0%	50%
9.4%	48%
10.0%	45%
11.0%	39%
12.0%	34%

Implied Terminal Value Growth

Similarly, we can see how pessimistic the market is relative to the analyst estimates by calculating the implied terminal growth rate used by the market after the analyst estimates end in 2015. (We note that analysts estimate long-term growth to be around 5 – 6% on average). We perform the calculations below:

WACC	Implied Terminal Growth Rate
8.0%	(14%)
9.0%	(13%)
9.4%	(12%)
10.0%	(12%)
11.0%	(10%)
12.0%	(9%)

Our Assessment of Bankruptcy Risk

Clearly, the market appears to be extremely pessimistic about the chances of GCI. Our assessment is more optimistic for the following reasons, summarized here but discussed in further depth above. In total, we view the risk of bankruptcy for GCI as being low, and not warranting the discount that is currently applied to it:

- GCI has had recent success getting paid for its content and stopping the reduction in circulation revenue
- GCI has steadily paid down its debt in the past few years
- GCI has a highly profitable broadcasting division that it can sell should it need cash

We stand by our model and do not apply a bankruptcy discount to the valuation because we view the risk as somewhat low.

Base Case Model: Full Version

The model is presented in three parts below: From Revenues to EBIT, Margin and Growth Assumptions, and Free Cash Flow.

From Revenues to EBIT

($ in thousands)

Category	2006A	2007A	2008A	2009A	2010 Q1A	2010 Q2A	2010 Q3A	2010 Q4A	2010A
Publishing									
Publishing Revenues									
Circulation	1,279,530	1,252,356	1,196,745	1,144,539	279,000	270,086	264,627	272,989	1,086,702
Advertising	5,275,650	4,937,159	4,040,890	2,888,034	649,335	692,172	646,720	722,297	2,710,524
Other Revenue	384,839	390,301	348,136	259,771	63,124	64,765	58,022	67,702	253,613
Total Publishing Revenues	**6,940,019**	**6,579,816**	**5,585,771**	**4,292,344**	**991,459**	**1,027,023**	**969,369**	**1,062,988**	**4,050,839**
Publishing Expenses									
Depreciation and Amortization	212,712	227,921	187,435	255,733	35,028	34,251	35,137	65,657	170,073
All Other Operating Expenses (Plug)	5,138,335	4,961,725	12,390,236	3,520,283	791,998	812,442	803,346	825,239	3,233,025
Total Publishing Expenses	**5,351,047**	**5,189,646**	**12,577,671**	**3,776,016**	**827,026**	**846,693**	**838,483**	**890,896**	**3,403,098**
Total Publishing Operating Profit Before Taxes	**1,588,972**	**1,390,170**	**(6,991,900)**	**516,328**	**164,433**	**180,330**	**130,886**	**172,092**	**647,741**
Digital									
Total Digital Revenues	**52,773**	**70,347**	**281,378**	**586,174**	**140,638**	**154,104**	**157,669**	**165,848**	**618,259**
Digital Expenses									
Depreciation and Amortization	5,360	5,260	16,950	59,489	8,077	7,964	19,883	7,389	43,313
All Other Operating Expenses (Plug)	29,873	41,886	245,494	483,390	129,211	118,647	122,058	121,675	491,591
Total Digital Expenses	**35,233**	**47,146**	**262,444**	**542,879**	**137,288**	**126,611**	**141,941**	**129,064**	**534,904**
Total Digital Operating Profit Before Taxes	**17,540**	**23,201**	**18,934**	**43,295**	**3,350**	**27,493**	**15,728**	**36,784**	**83,355**
Broadcasting									
Total Broadcasting Revenues	**854,821**	**789,297**	**772,533**	**631,085**	**167,488**	**184,016**	**185,297**	**232,779**	**769,580**
Broadcasting Expenses									
Depreciation and Amortization	36,675	33,553	34,520	42,640	8,193	8,159	16,228	7,880	40,460
All Other Operating Expenses (Plug)	438,157	440,844	431,659	372,344	90,800	97,470	102,463	109,142	399,875
Total Broadcasting Expenses	**474,832**	**474,397**	**466,179**	**414,984**	**98,993**	**105,629**	**118,691**	**117,022**	**440,335**
Total Broadcasting Operating Profit Before Taxes	**379,989**	**314,900**	**306,354**	**216,101**	**68,495**	**78,387**	**66,606**	**115,757**	**329,245**
Total Corporate Operating Profit Before Taxes	**(81,906)**	**(77,375)**	**(61,296)**	**(56,806)**	**(19,248)**	**(13,601)**	**(12,932)**	**(14,865)**	**(60,646)**
Total Operating Profit Before Taxes	**1,904,595**	**1,650,896**	**(6,727,908)**	**718,918**	**217,030**	**272,609**	**200,288**	**309,768**	**999,695**
Equity Income (losses) in Unconsolidated Investees, Net	38,044	40,693	(374,925)	3,927	533	7,503	7,041	4,063	19,140
Other Non-operating Items	27,487	18,648	28,430	22,799	(523)	(2,934)	2,374	1,194	111
Earnings of Discontinued Operations	22,896	6,221	(20,626)	3,790	560	(882)	-	-	(322)
Minority Interest (After Tax - not included in EBIT)	-	(1,535)	(6,970)	(27,091)	(2,135)	(10,423)	(12,279)	(9,782)	(34,619)
Minority Interest (Estimated - Pretax)		(2,152)	(7,709)	(36,915)	(2,856)	(12,730)	(16,927)	(13,469)	(45,983)
Gain on Disposal of Publishing Businesses, Net of Tax	-	73,814	-	-	-	21,195	-	-	21,195
Earnings before Interest and Taxes	**1,993,022**	**1,788,120**	**(7,102,738)**	**712,519**	**214,744**	**284,761**	**192,776**	**301,556**	**993,836**

From Revenues to EBIT (con'd)

($ in thousands)

Category	2011 Q1A	2011 Q2A	2011 Q3A	2011 Q4A	2011A	2012 Q1A	2012 Q2A	2012 Q3A	2012 Q4E	2012E	2013E	2014E
Publishing												
Publishing Revenues												
Circulation	268,213	265,433	262,099	268,145	1,063,890	263,336	263,938	276,655	283,037	1,086,966	1,141,314	1,198,380
Advertising	601,736	646,864	591,676	670,749	2,511,025	551,438	594,262	552,676	626,537	2,324,913	2,208,667	2,120,321
Other Revenue	59,836	64,842	63,989	67,526	256,193	59,288	62,133	60,869	65,656	247,946	241,814	239,556
Total Publishing Revenues	**929,785**	**977,139**	**917,764**	**1,006,420**	**3,831,108**	**874,062**	**920,333**	**890,200**	**975,230**	**3,659,825**	**3,591,796**	**3,558,257**
Publishing Expenses												
Depreciation and Amortization	38,920	37,271	30,186	42,160	148,537	33,214	33,736	33,276	N/A	N/A	N/A	N/A
All Other Operating Expenses (Plug)	773,268	801,222	779,636	850,862	3,204,988	778,808	782,386	783,193	N/A	N/A	N/A	N/A
Total Publishing Expenses	**812,188**	**838,493**	**809,822**	**893,022**	**3,353,525**	**812,022**	**816,122**	**816,469**	**894,457**	**3,339,070**	**3,198,909**	**3,151,247**
Total Publishing Operating Profit Before Taxes	**117,597**	**138,646**	**107,942**	**113,398**	**477,583**	**62,040**	**104,211**	**73,731**	**80,774**	**320,756**	**392,887**	**407,010**
Digital												
Total Digital Revenues	**157,594**	**173,447**	**173,930**	**181,500**	**686,471**	**168,352**	**181,326**	**182,022**	**189,944**	**721,644**	**757,726**	**795,613**
Digital Expenses												
Depreciation and Amortization	7,424	7,648	7,729	7,892	30,693	7,905	8,330	8,391	N/A	N/A	N/A	N/A
All Other Operating Expenses (Plug)	134,085	129,626	131,851	134,876	530,438	144,184	136,465	133,719	N/A	N/A	N/A	N/A
Total Digital Expenses	**141,509**	**137,274**	**139,580**	**142,768**	**561,131**	**152,089**	**144,795**	**142,110**	**148,295**	**587,289**	**605,480**	**650,349**
Total Digital Operating Profit Before Taxes	**16,085**	**36,173**	**34,350**	**38,732**	**125,340**	**16,263**	**36,531**	**39,912**	**41,649**	**134,355**	**152,246**	**145,263**
Broadcasting												
Total Broadcasting Revenues	**163,882**	**184,353**	**174,340**	**199,835**	**722,410**	**176,173**	**205,381**	**237,039**	**271,703**	**890,296**	**752,948**	**932,635**
Broadcasting Expenses												
Depreciation and Amortization	7,459	7,465	7,118	6,884	28,926	7,110	7,124	6,879	N/A	N/A	N/A	N/A
All Other Operating Expenses (Plug)	92,964	96,483	98,670	103,227	391,344	96,448	103,671	111,488	N/A	N/A	N/A	N/A
Total Broadcasting Expenses	**100,423**	**103,948**	**105,788**	**110,111**	**420,270**	**103,558**	**110,795**	**118,367**	**135,677**	**468,397**	**439,426**	**495,694**
Total Broadcasting Operating Profit Before Taxes	**63,459**	**80,405**	**68,552**	**89,724**	**302,140**	**72,615**	**94,586**	**118,672**	**136,026**	**421,899**	**313,522**	**436,941**
Total Corporate Operating Profit Before Taxes	**(18,525)**	**(13,470)**	**(12,683)**	**(29,594)**	**(74,272)**	**(15,260)**	**(18,810)**	**(15,116)**	**(15,878)**	**(65,064)**	**(56,384)**	**(58,418)**
Total Operating Profit Before Taxes	**178,616**	**241,754**	**198,161**	**212,260**	**830,791**	**135,658**	**216,518**	**217,199**	**242,571**	811,946	802,272	930,796
Equity Income (losses) in Unconsolidated Investees, Net	3,458	7,973	2,563	(5,797)	8,197	4,312	8,663	3,005	4,283	**20,263**	14,165	16,434
Other Non-operating Items	1,297	3,841	(3,205)	(14,854)	(12,921)	2,035	(2,280)	2,933	0	**2,688**	0	0
Earnings of Discontinued Operations	-	-	-	-	-	-	-	-	0	**0**	0	0
Minority Interest (After Tax - not included in EBIT)	(7,649)	(14,000)	(11,992)	(7,738)	(41,379)	(7,611)	(15,670)	(15,525)				
Minority Interest (Estimated - Pretax)	(9,758)	(17,055)	(15,495)	(8,823)	(51,130)	(9,467)	(20,523)	(18,891)	(10,737)	**(59,619)**	(39,546)	(39,177)
Gain on Disposal of Publishing Businesses, Net of Tax	-	-	-	-	-	-	-	-				
Earnings before Interest and Taxes	**173,613**	**236,513**	**182,024**	**182,786**	**774,937**	**132,538**	**202,378**	**204,246**	**236,117**	**775,278**	**776,891**	**908,054**

From Revenues to EBIT (con'd)

($ in thousands)

Category	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Publishing							
Publishing Revenues							
Circulation	1,258,299	1,321,214	1,360,850	1,360,850	1,360,850	1,360,850	1,360,850
Advertising	2,056,711	2,015,577	1,995,421	1,995,421	1,995,421	1,995,421	2,055,284
Other Revenue	239,290	240,862	242,268	242,268	242,268	242,268	246,589
Total Publishing Revenues	**3,554,300**	**3,577,653**	**3,598,539**	**3,598,539**	**3,598,539**	**3,598,539**	**3,662,723**
Publishing Expenses							
Depreciation and Amortization	N/A	N/A	N/A	N/A	N/A	N/A	N/A
All Other Operating Expenses (Plug)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total Publishing Expenses	**3,129,971**	**3,132,648**	**3,132,944**	**3,114,951**	**3,096,958**	**3,078,966**	**3,115,569**
Total Publishing Operating Profit Before Taxes	**424,329**	**445,005**	**465,596**	**483,588**	**501,581**	**519,574**	**547,154**
Digital							
Total Digital Revenues	**835,393**	**877,163**	**921,021**	**957,862**	**996,177**	**1,026,062**	**1,056,844**
Digital Expenses							
Depreciation and Amortization	N/A	N/A	N/A	N/A	N/A	N/A	N/A
All Other Operating Expenses (Plug)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total Digital Expenses	**682,867**	**717,010**	**752,861**	**782,975**	**814,294**	**838,723**	**863,885**
Total Digital Operating Profit Before Taxes	**152,526**	**160,153**	**168,160**	**174,887**	**181,882**	**187,339**	**192,959**
Broadcasting							
Total Broadcasting Revenues	**789,881**	**978,283**	**828,948**	**1,028,683**	**876,421**	**1,091,330**	**929,795**
Broadcasting Expenses							
Depreciation and Amortization	N/A	N/A	N/A	N/A	N/A	N/A	N/A
All Other Operating Expenses (Plug)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total Broadcasting Expenses	**460,980**	**519,956**	**483,781**	**546,744**	**511,486**	**580,040**	**542,636**
Total Broadcasting Operating Profit Before Taxes	**328,900**	**458,327**	**345,168**	**481,940**	**364,935**	**511,290**	**387,160**
Total Corporate Operating Profit Before Taxes	**(57,236)**	**(60,037)**	**(59,103)**	**(61,717)**	**(60,458)**	**(63,163)**	**(62,427)**
Total Operating Profit Before Taxes	848,519	1,003,447	919,821	1,078,698	987,941	1,155,039	1,064,846
Equity Income (losses) in Unconsolidated Investees, Net	14,982	17,717	16,241	19,046	17,443	20,394	18,801
Other Non-operating Items	0	0	0	0	0	0	0
Earnings of Discontinued Operations	0	0	0	0	0	0	0
Minority Interest (After Tax - not included in EBIT)							
Minority Interest (Estimated - Pretax)	(39,133)	(39,390)	(39,620)	(39,620)	(39,620)	(39,620)	(40,327)
Gain on Disposal of Publishing Businesses, Net of Tax							
Earnings before Interest and Taxes	**824,368**	**981,774**	**896,442**	**1,058,124**	**965,764**	**1,135,813**	**1,043,320**

Margin and Growth Assumptions

Category	2006A	2007A	2008A	2009A	2010 Q1A	2010 Q2A	2010 Q3A	2010 Q4A	2010A
Notes and Assumptions:									
Total Revenues	**7,847,613**	**7,439,460**	**6,639,682**	**5,509,603**	**1,299,585**	**1,365,143**	**1,312,335**	**1,461,615**	**5,438,678**
Revenue Growth (y-o-y)									
Publishing									
Circulation	N/A	-2.1%	-4.4%	-4.4%	N/A	N/A	N/A	N/A	-5.1%
Advertising	N/A	-6.4%	-18.2%	-28.5%	N/A	N/A	N/A	N/A	-6.1%
Other Revenue	N/A	1.4%	-10.8%	-25.4%	N/A	N/A	N/A	N/A	-2.4%
Digital	N/A	33.3%	300.0%	108.3%	N/A	N/A	N/A	N/A	5.5%
Broadcasting	N/A	-7.7%	-2.1%	-18.3%	N/A	N/A	N/A	N/A	21.9%
Total Revenue	N/A	-5.2%	-10.8%	-17.0%	N/A	N/A	N/A	N/A	-1.3%
Operating Margins									
Publishing	22.9%	21.1%	-125.2%	12.0%	16.6%	17.6%	13.5%	16.2%	16.0%
Digital	33.2%	33.0%	6.7%	7.4%	2.4%	17.8%	10.0%	22.2%	13.5%
Broadcasting	44.5%	39.9%	39.7%	34.2%	40.9%	42.6%	35.9%	49.7%	42.8%
Total Operating Margin	24.3%	22.2%	-101.3%	13.0%	16.7%	20.0%	15.3%	21.2%	18.4%
Other Publishing Revenue as % of Circulation and Advertising Revenue	6%	6%	7%	6%	7%	7%	6%	7%	7%
Corporate Operating Profit as % of Revenue	-1.0%	-1.0%	-0.9%	-1.0%	-1.5%	-1.0%	-1.0%	-1.0%	-1.1%
Pretax Minority Interest as a Percentage of Publishing Revenue	0.0%	0.0%	-0.1%	-0.7%	-0.2%	-0.9%	-1.3%	-0.9%	-0.8%
Equity Income (losses) in Unconsolidated Investees, Net as a % of Operating Profit	2.0%	2.5%	5.6%	0.5%	0.2%	2.8%	3.5%	1.3%	1.9%

Margin and Growth Assumptions (con'd)

Category	2011 Q1A	2011 Q2A	2011 Q3A	2011 Q4A	2011A	2012 Q1A	2012 Q2A	2012 Q3A	2012 Q4E	2012E	2013E	2014E
Notes and Assumptions:												
Total Revenues	**1,251,261**	**1,334,939**	**1,266,034**	**1,387,755**	**5,239,989**	**1,218,587**	**1,307,040**	**1,309,261**	**1,436,877**	**5,271,765**	**5,102,471**	**5,286,504**
Revenue Growth (y-o-y)												
Publishing												
Circulation	-3.9%	-1.7%	-1.0%	-1.8%	-2.1%	-1.8%	-0.6%	5.6%	5.6%		5%	5%
Advertising	-7.3%	-6.5%	-8.5%	-7.1%	-7.4%	-8.4%	-8.1%	-6.6%	-6.6%		-5%	-4%
Other Revenue	-5.2%	0.1%	10.3%	-0.3%	1.0%	-0.9%	-4.2%	-4.9%	-2.8%		-2%	-1%
Digital	12.1%	12.6%	10.3%	9.4%	11.0%	6.8%	4.5%	4.7%	4.7%		5%	5%
Broadcasting	-2.2%	0.2%	-5.9%	-14.2%	-6.1%	7.5%	11.4%	36.0%	36.0%	2%	2%	2%
Total Revenue	-3.7%	-2.2%	-3.5%	-5.1%	-3.7%	-2.6%	-2.1%	3.4%	3.5%		-2.6%	3.6%
Operating Margins												
Publishing	12.6%	14.2%	11.8%	11.3%	12.5%	7.1%	11.3%	8.3%	8.3%		10.9%	11.4%
Digital	10.2%	20.9%	19.7%	21.3%	18.3%	9.7%	20.1%	21.9%	21.9%		20.1%	18.3%
Broadcasting	38.7%	43.6%	39.3%	44.9%	41.8%	41.2%	46.1%	50.1%	50.1%		41.6%	46.9%
Total Operating Margin	14.3%	18.1%	15.7%	15.3%	15.9%	11.1%	16.6%	16.6%	16.9%		15.7%	17.6%
Other Publishing Revenue as % of Circulation and Advertising Revenue	7%	7%	7%	7%	7%	7%	7%	7%	7%		7%	7%
Corporate Operating Profit as % of Revenue	-1.5%	-1.0%	-1.0%	-2.1%	-1.4%	-1.3%	-1.4%	-1.2%	-1.1%		-1.1%	-1.1%
Pretax Minority Interest as a Percentage of Publishing Revenue	-0.8%	-1.3%	-1.2%	-0.6%	-1.0%	-0.8%	-1.6%	-1.4%	-1.1%		-1.1%	-1.1%
Equity Income (losses) in Unconsolidated Investees, Net as a % of Operating Profit	1.9%	3.3%	1.3%	-2.7%	1.0%	3.2%	4.0%	1.4%	1.8%		1.8%	1.8%

Margin and Growth Assumptions (con'd)

Category	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Notes and Assumptions:							
Total Revenues	**5,179,574**	**5,433,098**	**5,348,509**	**5,585,085**	**5,471,137**	**5,715,931**	**5,649,362**
Revenue Growth (y-o-y)							
Publishing							
Circulation	5%	5%	3%	0%	0%	0%	0%
Advertising	-3%	-2%	-1%	0%	0%	0%	3%
Other Revenue	0%	1%	1%	0%	0%	0%	2%
Digital	5%	5%	5%	4%	4%	3%	3%
Broadcasting	2%	2%	2%	3%	3%	3%	3%
Total Revenue	-2.0%	4.9%	-1.6%	4.4%	-2.0%	4.5%	-1.2%
Operating Margins							
Publishing	11.9%	12.4%	12.9%	13.4%	13.9%	14.4%	14.9%
Digital	18.3%	18.3%	18.3%	18.3%	18.3%	18.3%	18.3%
Broadcasting	41.6%	46.9%	41.6%	46.9%	41.6%	46.9%	41.6%
Total Operating Margin	16.4%	18.5%	17.2%	19.3%	18.1%	20.2%	18.8%
Other Publishing Revenue as % of Circulation and Advertising Revenue	7%	7%	7%	7%	7%	7%	7%
Corporate Operating Profit as % of Revenue	-1.1%	-1.1%	-1.1%	-1.1%	-1.1%	-1.1%	-1.1%
Pretax Minority Interest as a Percentage of Publishing Revenue	-1.1%	-1.1%	-1.1%	-1.1%	-1.1%	-1.1%	-1.1%
Equity Income (losses) in Unconsolidated Investees, Net as a % of Operating Profit	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%

Free Cash Flow

Category	2006A	2007A	2008A	2009A	2010 Q1A	2010 Q2A	2010 Q3A	2010 Q4A	2010A	2011 Q1A	2011 Q2A	2011 Q3A	2011 Q4A	2011A
Total Revenues	7,847,613	7,439,460	6,639,682	5,509,603	1,299,585	1,365,143	1,312,335	1,461,615	5,438,678	1,251,261	1,334,939	1,266,034	1,387,755	5,239,989
EBIT	1,993,022	1,788,120	(7,102,738)	712,519	214,744	284,761	192,776	301,556	993,836	173,613	236,513	182,024	182,786	774,937
After-tax EBIT (EBIT * (1 - T))	**1,395,115**	**1,251,684**	**(4,971,917)**	**498,763**	**150,321**	**199,333**	**134,943**	**211,089**	**695,685**	**121,529**	**165,559**	**127,417**	**127,950**	**542,456**
Depreciation and Amortization (as % of Revenue)	3.5%	3.8%	3.9%	4.4%	4.3%	4.0%	4.0%	3.6%	3.9%	4.0%	3.7%	3.9%	3.5%	3.8%
Depreciation and Amortization	271,298	282,361	259,470	240,635	55,313	54,354	52,143	52,066	213,876	49,927	49,941	48,984	48,521	197,373
Changes in Working Capital (as % of Revenue)	0.6%	-0.5%	-4.4%	1.1%	-2.9%	6.0%	-2.7%	6.0%	1.8%	-8.2%	1.2%	1.8%	-0.7%	-1.4%
Changes in Working Capital	49,341	(33,979)	(292,289)	60,136	(37,206)	82,091	(35,563)	87,687	97,009	(102,956)	16,449	23,297	(9,130)	(72,340)
Capital Expenditures (as % of Revenue)	2.6%	2.3%	2.5%	1.2%	0.7%	0.8%	1.3%	2.2%	1.3%	1.0%	1.2%	1.4%	1.9%	1.4%
Capital Expenditures	200,780	171,405	165,000	67,737	8,879	11,021	16,973	32,197	69,070	12,628	16,623	17,128	26,072	72,451
FCFF	1,416,292	1,396,619	(4,585,158)	611,525	233,961	160,575	205,676	143,271	743,482	261,784	182,428	135,976	159,529	739,718
FCFF Growth (y-o-y)		-1%	-428%	-113%	N/A	N/A	N/A	N/A	21.6%	11.9%	13.6%	-33.9%	11.3%	-0.5%

Free Cash Flow (con'd)

Category	2012 Q1A	2012 Q2A	2012 Q3A	2012 Q4E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	Terminal Value
Total Revenues	1,218,587	1,307,040	1,309,261	1,436,877	5,271,765	5,102,471	5,286,504	5,179,574	5,433,098	5,348,509	5,585,085	5,471,137	5,715,931	5,649,362	
EBIT	132,538	202,378	204,246	236,117	775,278	776,891	908,054	824,368	981,774	896,442	1,058,124	965,764	1,135,813	1,043,320	
After-tax EBIT (EBIT * (1 - T))	**92,776**	**141,665**	**142,972**	**165,282**	**542,695**	**543,824**	**635,638**	**577,058**	**687,242**	**627,509**	**740,686**	**676,035**	**795,069**	**730,324**	
Depreciation and Amortization (as % of Revenue)	3.9%	3.7%	3.7%	3.7%		3.4%	3.0%	2.5%	2.0%	1.6%	1.6%	1.6%	1.6%	1.6%	
Depreciation and Amortization	47,582	48,235	48,505	53,809	198,131	173,484	158,595	129,489	108,662	85,576	89,361	87,538	91,455	90,390	
Changes in Working Capital (as % of Revenue)	-10.0%	5.8%	-0.3%	-0.5%		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Changes in Working Capital	(121,323)	76,409	(3,695)	(7,556)	(56,165)	0	0	0	0	0	0	0	0	0	
Capital Expenditures (as % of Revenue)	1.5%	1.5%	1.9%	1.6%		1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	
Capital Expenditures	18,165	20,187	24,658	22,644	85,654	80,411	83,311	81,626	85,621	84,288	88,017	86,221	90,079	89,030	
FCFF	243,516	93,304	170,514	204,002	711,336	636,897	710,922	624,921	710,282	628,797	742,031	677,352	796,445	731,684	9,338,723
FCFF Growth (y-o-y)	-7.0%	-48.9%	25.4%	27.9%	-3.8%	-10.5%	11.6%	-12.1%	13.7%	-11.5%	18.0%	-8.7%	17.6%	-8.1%	
	Discount Factor			1		0.9003	0.8106	0.7298	0.6571	0.5916	0.5326	0.4795	0.4317	0.3887	0.3887
	Discounted FCFF			**204,002**		**573,419**	**576,273**	**456,073**	**466,707**	**371,986**	**395,222**	**324,816**	**343,860**	**284,415**	**3,630,083**
	PV (All Equity Firm)			**7,626,856**											
	PV (Debt Tax Shield)														
	Expected Debt Level			1,634,833		1,634,833	1,634,833	1,384,833	1,384,833	1,384,833	1,384,833	1,384,833	1,384,833	1,384,833	
	Expected tax shield (undiscounted)			9,404		37,618	37,618	31,865	31,865	31,865	31,865	31,865	31,865	31,865	287,850
	Discount Factor			1		0.9831	0.9665	0.8701	0.7834	0.7053	0.6350	0.5717	0.5148	0.4635	0.4635
	Expected tax shield (discounted)			9,404		36,981	36,356	27,727	24,964	22,476	20,236	18,219	16,403	14,768	133,406
	PV (Debt Tax Shield)			**360,940**											
	Enterprise Value of the Firm			**7,987,796**											
	Less Current Debt			**1,634,833**											
	Equity Value			**6,352,963**											
	Shares Outstanding			229,787											
	Per Share Value			**$ 27.65**											

Risk Factors

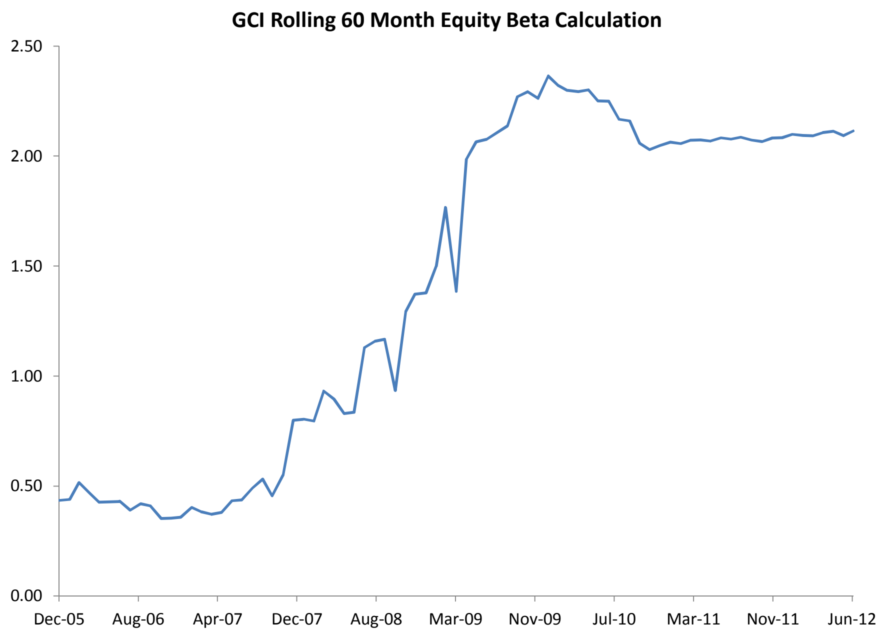
The following risk factors could potentially impact the conclusions of our report:

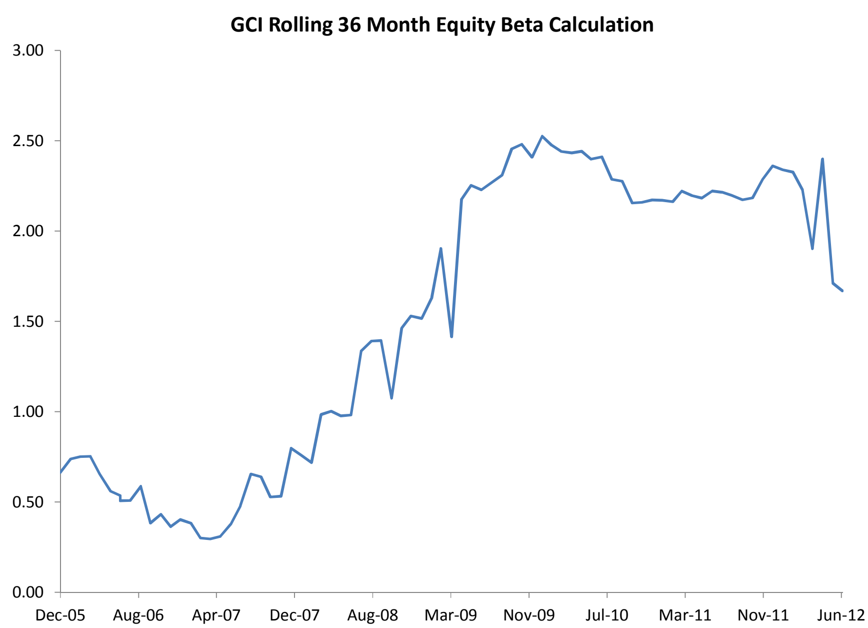
- Our revenue projections may be inaccurate. For instance, we may have underestimated the rate of decline in newspaper circulation revenues.
- New technology or business models could further erode the value of newspapers.
- Advertising in digital media may more effectively replace advertising in traditional media than we are anticipating.
- The relationships we forecasted between variables we used to project revenue may not hold in the future.
- Other inputs to our assumptions or outside events might dramatically change our estimates. A financial crisis or other low-probability event would result in actual results much different than our estimates.
- GCI may enter into new lines of business that we don't anticipate.

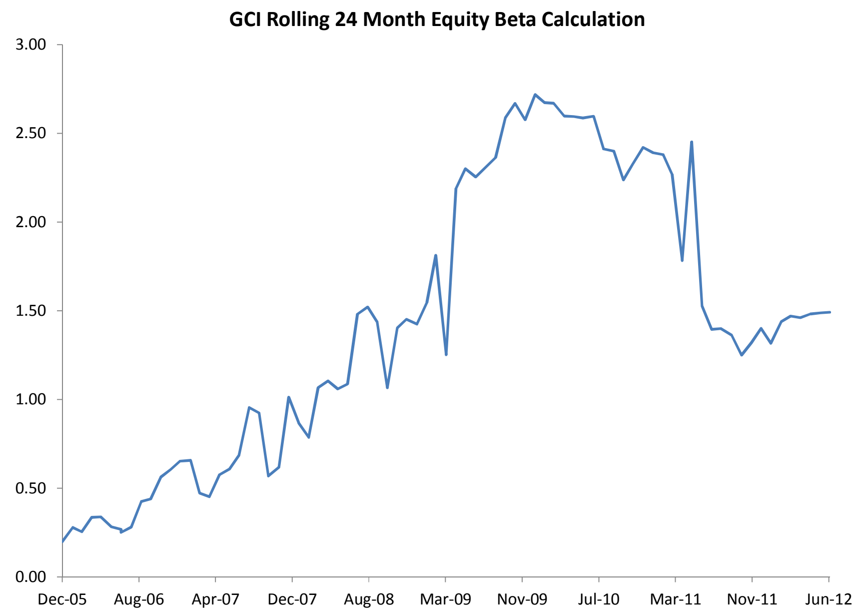
Appendix

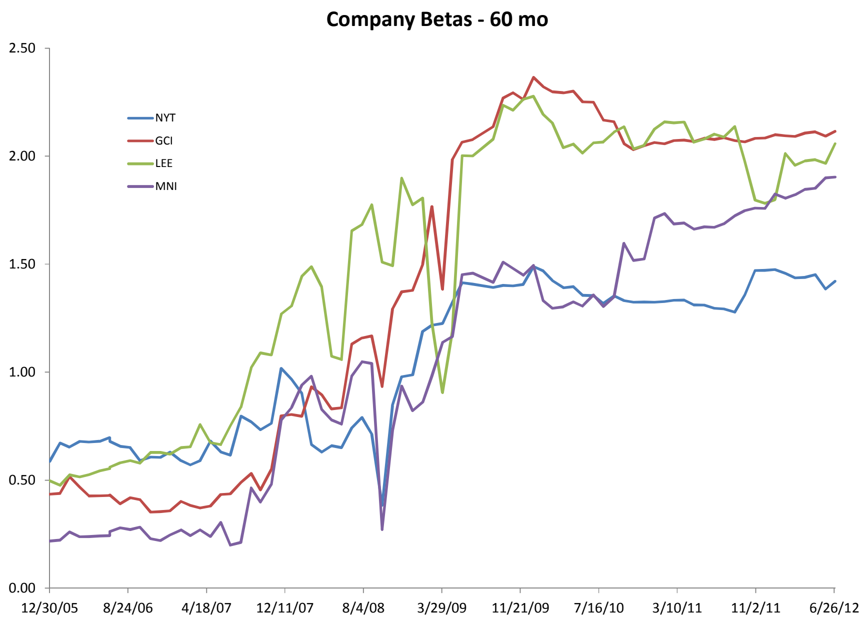
Exhibit A

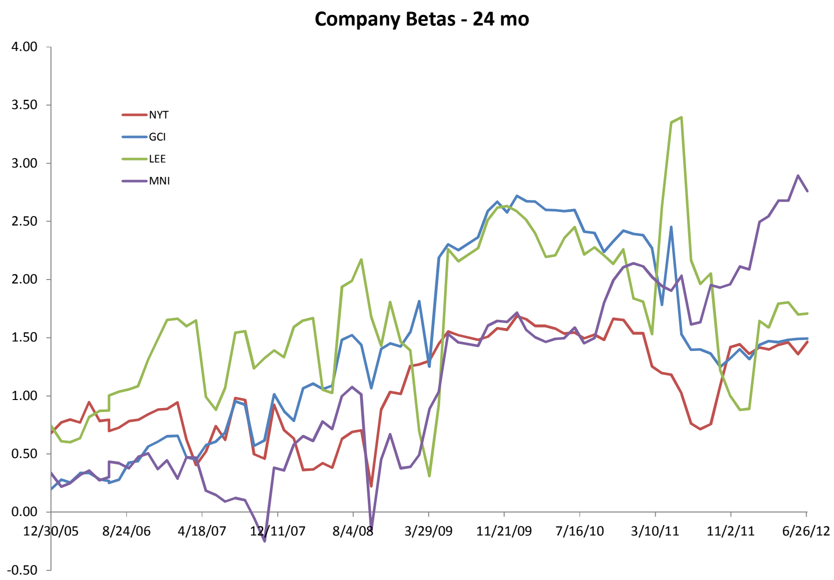
Beta Charts






GCI Rolling 24 Month Equity Beta Calculation
3.00
2.50
2.00
1.50
1.00
0.50
0.00
Dec-05
Aug-06
Apr-07
Dec-07
Aug-08
Mar-09
Nov-09
Jul-10
Mar-11
Nov-11
Jun-12


Company Betas - 60 mo
NYT
GCI
LEE
MNI
2.50
2.00
1.50
1.00
0.50
0.00
12/30/05
8/24/06
4/18/07
12/11/07
8/4/08
3/29/09
11/21/09
7/16/10
3/10/11
11/2/11
6/26/12



Source: Team Calculations; Stock returns are from CRSP and Yahoo! Finance; Risk-free rate is from Fama-French Factors;

Note: Beta is through June 2012, the last month Fama French risk-free rate data is available[25]

Ticker	Debt / Equity Ratio	60 mo beta averages		24 mo beta averages	
		Latest Beta	Unlevered Beta	Latest Beta	Unlevered Beta
AHC	0.0	0.1	0.1	1.6	1.6
NYT	0.6	1.4	1.0	1.5	1.0
GCI	0.4	2.1	1.7	1.5	1.2
LEE	14.3	2.1	0.2	1.7	0.2
MNI	6.7	1.9	0.4	2.8	0.5
Median			**0.4**		**1.0**
Relevered GCI Beta (0.40 D/E Ratio)			**0.5**		**1.3**

Source: Team Calculations; Debt/Equity Ratio derived from S&P Capital IQ data

Note: D/E ratios calculated as of 11/23/12

[25] We believe that the equity beta is unlikely to have materially changed in the past few months.

Important Disclaimer

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