VENATOR
CAPITAL MANAGEMENT LTD.

ENTERCOM'S 'UGE DEAL

Instrument (Inception)*	February 2017 Return	Year-to-Date Return	Compound Growth
Venator Founders Fund (March 2006)	**1.5%**	**-2.4%**	**11.9%**
Venator Investment Trust (September 2007)	**1.5%**	**-2.5%**	**8.2%**
Venator Income Fund (August 2008)	**0.5%**	**1.5%**	**12.2%**
Venator Select Fund (September 2013)	**4.5%**	**-2.4%**	**15.5%**
S&P/TSX Total Return (March 2006)	0.2%	1.1%	5.5%
Russell 2000 (March 2006)	1.9%	2.3%	7.5%
S&P Toronto Small Cap (March 2006)	-0.1%	0.5%	2.6%
S&P 500 (March 2006)	4.0%	5.9%	8.0%
Merrill Lynch High Yield Index (August 2008)	1.6%	2.9%	9.2%

As many of our readers know, we have written romantically about Entercom for over a year now. It has been the largest position in our long/short strategy for quite some time, and has rewarded us with a 50%+ return over our investment period. Some massive changes have happened over this time frame, all of which have been positive, driving the company's fundamentals well beyond our original thesis. In early February, a completely unforeseen and materially positive development occurred when the Company agreed to merge with CBS Radio, which will likely result in Entercom being the largest operator in the US within the next five years (it will be number two when the deal closes later this year).

When we first bought Entercom, it was trading around $10.00 per share, earning about $0.90 per share, with free cash flow of $1.20, all of which made the stock good value in the context of the market at the time. We also identified additional value in a mountain of tax shields, and a potential debt refinancing that would effectively drive free cash flow per share up to $1.65 within two years. In 2015, Entercom completed an additional, and materially accretive, acquisition that took free cash to over $2.00 per share, significantly topping our initial expectations.

Unfortunately, the stock didn't respond proportionally to the free cash flow expansion from $1.20 to over $2.00, rising less than the 65% expansion in its earnings, from what was an inexpensive valuation to begin with. We did, however, keep increasing our position size as the quality of the company was improving faster than the stock price, making the investment better value with each announcement. Coming into 2017, we had pretty much exhausted our store of catalysts and only had one remaining: that the pending IPO/spin-off from CBS Radio would finally give Entercom a true competitor valuation to compare themselves against; and that CBS Radio's analyst coverage might bring some analyst coverage to Entercom, as the only other investible company of any size in the space.

That catalyst expectation got turned on its head when in early February, CBS Radio decided that rather than go it alone, it would merge into Entercom. CBS Radio is a substantially larger operation than Entercom, and this is reflected in the deal terms (CBS shareholders will end up with about 70% of the shares of the combined company), but all of this will still end up being hugely beneficial to Entercom shareholders for a myriad of reasons:

- Entercom will become the second largest operator in the industry behind debt laden, and likely bankrupt, iHeart Radio. With the other large player in the sector, Cumulus Radio, in a similarly dire financial situation, we imagine that Entercom will be well positioned to take advantage of those other two restructuring situations, potentially making it the market leader within five years.

- Entercom will go from $100 million in EBITDA and $500 million in debt, to having $500 million in EBITDA against $2 billion in debt, effectively de-levering the business.

- Entercom's fully taxed EPS (we assume an eventual tax rate of 25%) will approach $2.00 on an annualized basis vs roughly $1.50 today. Longer-term free cash flow per share will not change much because the combined company will be so profitable that we believe it will exhaust its store of tax assets within three years (whereas prior to the deal, tax shields were expected to last more than 10 years). The street has never given Entercom any credit for its tax asset, so I will take $2.00 in fully-taxed EPS over $2.00 in untaxed free cash flow any day.

- Shares outstanding will go from 40 million currently to over 140 million at closing, nearly all of which will be in the public float (as the difference will be owned by current CBS Media shareholders). Moreover, the multi-voting shares that currently give the Field family control over the company will only amount to 24% post the merger, putting control of the company in the market.

- With a combined market value of $2 billion, plus $2 billion in debt, and large institutional ownership inherited from CBS, we believe that the company will likely achieve more analyst coverage and street attention.

We believe that this merger will turn out to be a great deal for all involved. For those CBS shareholders that choose to stick around (we suspect that a number of CBS shareholders will sell their stock once the deal closes, not the least of which will be large cap ETFs such as the SPY), they will see the potential of this substantial media asset fulfilled in the hands of the strongest operators in the market. Under CBS, radio was a forgotten asset and one that many vocal shareholders wanted to get rid of. That said, radio is a profitable division that recently started growing again after a difficult restructuring in 2015.

Indeed, the whole sector appears to be showing signs of revenue growth in the past twelve months. While radio isn't getting any more users (it's already the most consumed media among all demographics, with a current reach of 93%, including millennials at 92%), it is getting more usage, up 7% last year. It's also an under-spent advertising category given that it has the #1 ROI for advertisers, according to Nielson. While there aren't more advertising slots becoming available, advertisers are starting to pay more for radio.

Despite all of this, we realize the difficulty in convincing people to get excited about radio. It is far easier to get people excited about a good company, with good management. Entercom CEO David Field has proven to be a shrewd deal maker, which is an important point to consider given that the business is entering a time when there will be deals to be made. With increasing scale, cash flow, and float, allocating cash to stock buybacks also becomes more practical provided the stock continues to trade below 8x earnings.

The key to future gains in Entercom could be the Company's ability to convince people to bet on the jockey, and not the horse. Entercom is a high return, high cash flow business, run by great operators looking to further

consolidate the industry from a position of strength, relative to their financially bankrupt competition. While investors may not be positively predisposed to terrestrial radio, it's worth noting that radio is not declining, and that its demise is still very much a theoretical maybe.

By way of comparison, the chart below summarizes companies that operate in industries that investors are not positively pre-disposed to. It illustrates that despite secular issues, some companies still manage to achieve premium valuations.

COMPANY	TKR	Price	CAP	Forward EPS	Forward P/E	SECULAR ISSUE
Monro Muffler Brake, Inc.	MNRO	$ 58.05	$ 1,913	$ 2.27	25.6	Dealers taking more servicing in-house/EVs
Energizer Holdings, Inc.	ENR	$ 54.82	$ 3,354	$ 2.98	18.4	Battery volumes in perpetual decline
Quad/Graphics, Inc.	QUAD	$ 27.15	$ 1,425	$ 2.01	13.5	Printing
Cardtronics plc	CATM	$ 44.68	$ 2,050	$ 3.10	14.4	ATM usage declining in frequency
Altria Group, Inc.	MO	$ 74.94	$ 144,866	$ 3.57	21.0	Cigarette smoking declining
The Coca-Cola Company	KO	$ 41.94	$ 178,909	$ 1.96	21.4	Carbonated soda in multi-year decline
New Media Investment Group Inc.	NEWM	$ 15.32	$ 826	$ 0.45	34.0	Local Newspapers
The New York Times Company	NYT	$ 14.43	$ 2,386	$ 0.54	26.6	Local Newspapers
R.R. Donnelley & Sons Company	RRD	$ 16.77	$ 1,171	$ 1.46	11.5	Printing
Entercom Communications Corp.	**ETM**	**$ 15.65**	**$ 2,000**	**$ 2.00**	**7.8**	**Terrestrial Radio**

We would note a few things here. First, we are only giving you a look at potential - not all secular decliners trade at such healthy multiples. Pitney Bowes (stamps), GameStop (video games retail), Transcontinental (newspaper printing) and a host of other secular decliners trade at less than 10x earnings, although in most cases their organic revenues are in multi-year declines - unlike Entercom. Second, we are using street estimates for these companies, whereas for Entercom we are using our estimates, since the few analysts that cover Entercom have not yet published post-merger expectations (it is so neglected by its own analysts that there was no mention of CBS Radio's quarterly results, even though they represent 70% of the combined company; nor have we seen any substantive analysis of the post-merger financial model). Third, we are using the more traditional adjusted P/E estimate, rather than the lazy valuation method du-jour of EV/EBITDA; this is because EV/EBITDA ignores CAPEX requirements, capital structure, interest and taxes whereas P/E takes this into account. Entercom will have a relatively low debt-to-free cash flow ratio of 7x, minimal CAPEX, low interest rates on its debt, and no tax bill for two years, so it compares favourably on these ignored EV/EBITDA metrics.

As always, we reserve the right to change our mind!

Brandon Osten, CFA
CEO, Venator Capital Management Ltd.

This commentary is intended for informational purposes only and should not be construed as a solicitation for investment in any of the Venator Funds. The Funds may only be purchased by accredited investors with a medium-to-high risk tolerance seeking long-term capital gains. Read the Offering Memoranda in full before making any investment decisions. Prospective investors should inform themselves as to the legal requirements for the purchase of shares. All stated Venator returns are net of fees. It is important to note that past performance should not be taken as an indicator of future performance.