



November 4, 2016  
**Albert Fried & Company, LLC**  
 Institutional Reductive Research

## MDC Partners Inc.

### OVERWEIGHT \$7

Price Close \$8.40  
 Shares Out (MM) 52  
 52Wk Range 28.65-2.85  
 MCAP (USDx 1000) 158,600  
 Balance Sheet Net Debt 951,000

Enterprise Value 1,1090,00

Target 12 to 18 Months 7.00

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#### MDCA: We Upgrade to Overweight on Our Expected 1Q17E Deal Timeline and Short Covering

**Thesis** We think MDCA Shares are now speculative. At current levels, MDCA shares may be a Strategic value in our view and we encourage management to explore opportunities. Since Miles Nadal left MDCA has communicated poorly but much of the recent earnings misses are owing to a slowing Advertising business cycle. We now think the timing on a deal is mid 2017 with some certainty as MDCA has hired a top investment bank with a good track record.

#### Risks to Thesis:

- Roughly 20% of MDCA's revenue is special project related and vulnerable to cost cuts.
- MDCA competes against well funded holding companies and could lose market share if its competitors undercut MDCA
- MDCA is highly leveraged and the ability to refinance debt creates shareholder risk.

#### Key Levers:

- Normally we would have downgraded MDCA on a knee jerk basis but we are not writing off the Company today despite terrible MDCA optics. In 2015 at \$19 a share we urged MDCA partners to merge with Publicis, at \$12 a share we urged MDC Partners to merge with Publicis and at a price better than last night's close \$8.40 we now urge MDC Partners to merge with Publicis. To be clear management's unwillingness to sell MDC Partners has destroyed +\$751 million market capitalization.
- We suggested a dividend cut and rational budgeting publically and privately since 2013. We always argue debt can destroy equity value even as the Enterprise Value grows. So now MDCA has hired a white shoe investment bank and will pay a very competent Aryeh Bourkoff +/-seven figures "...to assist in evaluating the Company's financial and capital structure strategy". For a Company that owns PR agencies we think the previous mentioned quote is unwise for MDCA to make, the words infer financial distress and we think MDCA has ample time and the necessary resources to address its balance sheet we think the engagement is more about optimization than crisis management.
- We have confidence in Liontree as that is the firm that has engineered the Charter / TWC deal and the Liberty /Virgin Media deal. In our view today's action helps Lion Tree Flush out weak holders and puts short sellers at an out sized risk so they should cover immediately. We could be wrong it's just an opinion.
- We think the outcome of the Liontree "...assist in evaluating the Company's financial and capital structure strategy" can take many forms: 1) There is a 25% probability of pipe PIK financing with a major backer, 2) a 25% probability of an accounts receivable financing, 3) a 20% probability a venture like investor submits a tender for MDCA shares 4) a 15% probability MDCA will sell an equity stake to a LionTree client such as Liberty or Equity crossover partners 5) a 15% probability MDCA will sell Media Assembly, Donor, or 72 and Sunny to a potential buyer such as Publicis. The outcome will be a sacrifice of as much as 20% of MDCA's equity value to gain stability and long term growth but we argue 80% of something 3x the current price is better than nothing worth \$0.00. The Risk to our upgrade, is it may be too little too late if the current Ad sector weakness we observe on due diligence deepens. The horse is not out of the barn in our view.
- While MDCA's results were better than we expected 3Q results are behind us and do not matter at all. MDCA cut revenue guidance to \$1.365 billion at the low end from \$1.39 billion. Revenue guidance at the low end is in line with our prior estimate however we are cutting our 2016 revenue estimate to \$1.354 billion because MDCA has been unreliable. Adjusted EBITDA was also guided to \$170 million at the low end which compares to our prior estimate of \$206 million and \$155 million new estimate. Included in EBITDA guidance is roughly \$20 million in incremental reorg expenses and on an apple to apples basis new guidance is closer to \$190 million at the low end and \$200 million at the high end, thus also close to our model prior to our cut.

**Price Target** to derive our new \$7 Target, we apply a 6x EV/AOCF multiple to 2016E AOCF (EBITDA) estimate of \$203 million (revised from \$229 million) The multiple we apply is a discount to MDCA's approximate 10x peer group EV/EBITDA multiple. We had used an 8.5x multiple on our prior \$206 million estimate to derive our prior \$14 target.

Key Metrics (under review)	2014A	2015A	2016E	2017E	2018E
Revenue	1,223,512	1,326,256	1,326,256		
Gross Margin (loss)	424,994	446,540	446,540		
GAAP EPS	(0.06)	(0.75)	(0.06)		
AOCF	157,441	197,700	155,411		

In x1000 USD except per share statistics

Multiples	2014A	2015E	2016E	2016E	2018E
EV/Sales	1.3x	1.2x	1x		
EV AOCF	10.1x	8.1x	5.3x		
PE	NM	-22.9x	NM		

GAAP EPS includes non-cash executive compensation under FASB 123R, sum of quarterly estimates may not add to annual due to rounding and shares differences.

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Company Comparable Analysis > MDCA Compset (#MDCA) > Trading Multiples					
Details					
Template:	Capital IQ Default Comps				
Currency:	US Dollar				
As-Of Date:	Nov-04-2016				
Company Comp Set					
Company Name	TEV/Total Revenues LTM - Latest	TEV/EBITDA LTM - Latest	TEV/EBIT LTM - Latest	P/Diluted EPS Before Extra LTM - Latest	P/TangBV LTM - Latest
Publicis Groupe SA (ENXTPA:PUB)	1.7x	9.1x	10.4x	14.9x	NM
Omnicom Group Inc. (NYSE:OMC)	1.5x	9.9x	11.3x	17.0x	NM
WPP plc (LSE:WPP)	2.1x	13.5x	16.9x	26.5x	NM
Havas SA (ENXTPA:HAV)	1.4x	8.6x	9.7x	17.0x	NM
Dentsu Inc. (TSE:4324)	1.6x	7.5x	10.3x	15.1x	9.4x
The Rubicon Project, Inc. (NYSE:RUBI)	0.4x	2.4x	7.2x	14.0x	1.5x
TubeMogul, Inc. (NasdaqGS:TUBE)	0.9x	NM	NM	NM	2.0x
Criteo SA (NasdaqGS:CRTO)	1.4x	14.5x	21.5x	32.8x	5.1x
MDC Partners Inc. (NasdaqGS:MDCA)	1.0x	5.3x	16.3x	NM	NM
Summary Statistics	TEV/Total Revenues LTM - Latest	TEV/EBITDA LTM - Latest	TEV/EBIT LTM - Latest	P/Diluted EPS Before Extra LTM - Latest	P/TangBV LTM - Latest
High	2.1x	14.5x	21.5x	32.8x	9.4x
Low	0.4x	2.4x	7.2x	14.0x	1.5x
Mean	1.4x	9.4x	12.5x	19.6x	4.5x
Median	1.4x	9.1x	10.4x	17.0x	3.6x
Displaying 9 Companies.					

From: the Capital IQ Service excluding MDCA EV/EBITDA.

We do not cover Publicis, WPP, Havas, CRTO or Dentshu

We Cover TUBE (MP), RUBI (UW), IPG (MP), and OMC (MP)



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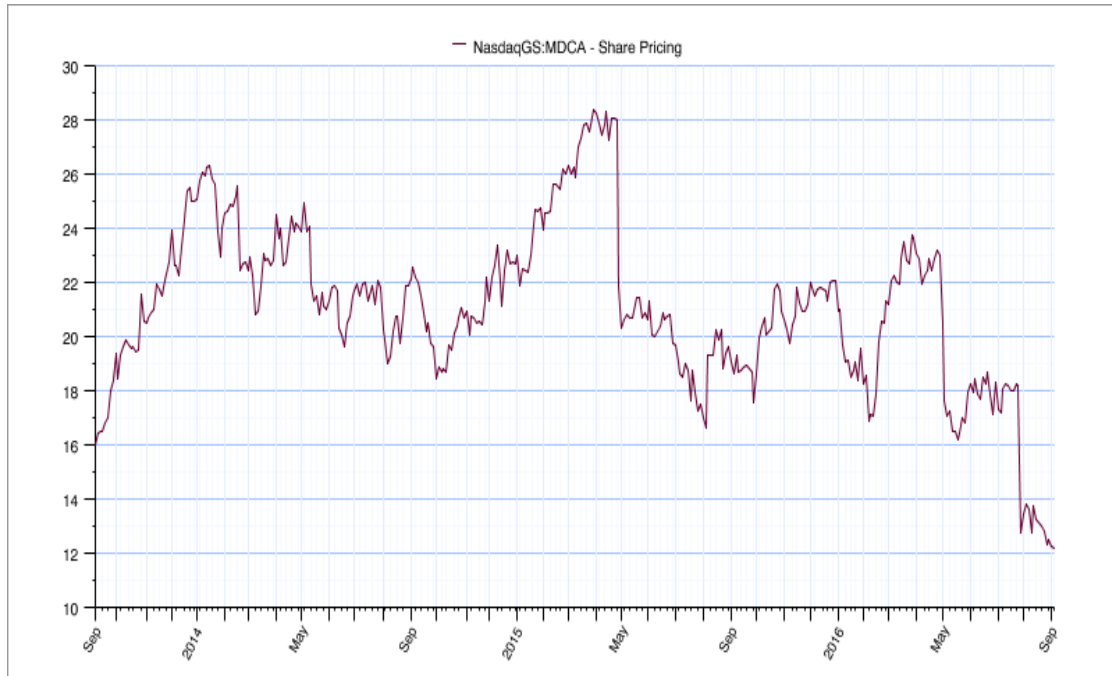
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AOCF is a NON-GAAP measure of income similar to EBITDA (Earning before interest, taxes, depreciation and amortization expense). We define AOCF as; operating income less depreciation, amortization and non-cash executive compensation. We like AOCF as it provides a standard measure of earnings and value across a large spectrum of the Technology, Media and Telecommunications universe we cover. As we cover securities which have significant non-cash costs and or significant differences in capital structures, even within industry peers, we use Enterprise Value-to-AOCF (EBITDA) as a primary valuation method in most of our coverage universe. We define Enterprise-Value (EV) as Market Capitalization less Cash, plus Debt and we exclude minority interest as minority interest income and or expense is typically excluded from our AOCF calculations. Moreover, in several Companies we follow options exist to PUT (Buy) Minority interest to the parent on favorable terms which may or may not add value in an acquisition scenario. Companies we follow may, in Company reports, use their own definitions of AOCF or similar measures such as AOI, EBITDA or Company share of EBITDA which may differ materially from our AOCF measure. We maintain no obligation to either reconcile our measure to company metrics or reconcile to GAAP Measures.



### 3 Year MDCA Share Pricing



Price Chart										
Date	7/28/2011	2/27/2012	4/26/2013	7/30/2013	12/30/2013	4/27/2015	07/14/2015	07/01/2016	07/29/2016	07/29/2016
Rating	OW	OW	OW	OW	OW	MP	OW	OW	UW	OW
Price Chart	\$13.70	\$9.92	\$12.11	\$18.03	\$24.47	\$27.98	\$19.13	\$18.12	\$18.12	\$12.57
Target	\$18.75	\$13.50	\$24.75	\$27.00	\$35.00	\$27.00	\$27.00	\$23.00	\$17.00	\$17.00
Additional *										
Rating Action	None	None	None	None	None	Lower	Raise	None	Lower	Lower
Target Action	Raise	Lower	Raise	Raise	Raise	Lower	None	Lower	Lower	Lower
Report Type	Note	Note	Note	Note	Note	Note	Report	Note	Note	Note

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- 1) OVERWEIGHT suggests capital appreciation to our 12 to 18 Month Price Target of at least 30% from the price on the initiation or upgrades date of coverage.
- 2) MARKET PERFORM denotes less than 30% upside but greater than 10% upside to our 12 to 18 Month Price Target on the initiation or upgrade date of coverage.
- 3) UNDERWEIGHT suggests price appreciation of 10% or less from the price on the initiation or downgrade date of coverage over the next 12-18-month period
- 4) NC denotes "Not Covered".

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