



November 9, 2016
Albert Fried & Company, LLC
 Institutional Reductive Research

MDC Partners Inc.

OVERWEIGHT \$7

Price Close \$3.55
 Shares Out (MM) 52
 52Wk Range 28.65-2.85
 MCAP (USDx 1000) 184,600
 Balance Sheet Net Debt 951,000

Enterprise Value 1,135

Target 12 to 18 Months 7.00

Rich Tullo

Director of Research
 (212) 422 7282 x260
 rtullo@albertfried.com

MDCA: We Expect a 2H17 Business Recovery Following SEC Settlement: Reiterate \$7 Target

Thesis We think MDCA Shares are now speculative and the bonds are very attractive; at current levels MDCA shares is a Strategic value in our view. We also think management is exploring strategic opportunities. Since CEO Miles Nadal left, MDCA has communicated poorly but much of the recent earnings misses are owing to a slowing Advertising business cycle. We expect M&A or Capital markets movement in March 2017 as MDCA has hired a top investment bank with a good track record creating M&A deals at Liberty and Charter Communications.

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:

- We think ADBE's acquisition of TUBE (MP \$14), a down stream vender, validates our view MDCA Partners SHOULD BE AND CAN BE SOLD AT A +100% PREMIUM TO TODAY'S SHARE PRICE. Scott Kaufman are you hearing the shareholder now?
- We think yesterday's announcement that MDCA finished its SEC investigation with limited or any material consequences is great news for investors; we like the Bonds and the Equity. Despite the short rumors, we think the odds of MDCA Filing for bankruptcy are less than 100:1 through 2024. We think MDCA hiring LionTree to assist in MDCA's capital allocation is a smart initiative.
- While the SEC is still investigating past MDCA employees we think the investigation is immaterial and should be covered by insurance. Our take on the MDCA's statement is current MDCA management is not a topic of the SEC investigation and likely never was.
- We think Gotham City Research LLC. made comments about MDCA that did not pass our SNOSES test and this MDCA SEC news dismisses a large part of the "Tip of the Iceberg" argument the shorts were framing with the help of others.
- We never thought the Goodwill Accounting was a major issue. There is no Book Value test in the MDCA's Covenants to our knowledge. MDCA's Goodwill account was always inline to industry standards and any Holding company could have a goodwill write down. And most Important MDCA's high historic value relative to its peers which has assets that are 100 years old (the older the cheaper) creates a type of structural conservatism.
- MDCA has a \$900 million bond issue as well as equity. Currently the Par bonds are trading under \$74. We think the bonds are a better investment today (+20% upside and +9% YTW) - the equity offers more % upside to our \$7 target.
- We also note in 3Q16E MDCA's working capital defined modestly improved despite the market hyperbole.
- MDCA has several positives suggesting 2016 guidance at the mid or high end is possible. We revise our estimates to reflect new guidance and MDCA's restructuring to our model.

Price Target to derive our \$7 Target, we apply a 6x EV/AOCF multiple to 2017E AOCF (EBITDA) estimate of \$204 million (revised from \$256 million) The multiple we apply is a discount to MDCA's approximate 10x peer group EV/EBITDA multiple.

Key Metrics (under review)	2014A	2015A	2016E	2017E	2018E
Revenue	1,223,512	1,326,256	1,356,256	1,409,010	1,493,550
Gross Margin (loss)	424,994	446,540	445,686	498,233	604,733
GAAP EPS	(0.06)	(0.75)	(0.56)	0.81	1.62
EBITDA (AFCO Estimate)	157,441	197,700	142,111	204,480	266,619

In x1000 USD except per share statistics

Multiples	2014A	2015E	2016E	2016E	2018E
EV/Sales	1.3x	1.2x	0.8x	0.8x	0.8x
EV EBITDA	10.1x	8.1x	8.0x	5.6x	4.2x
PE	NM	-22.9x	NM	4.3x	2x

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.

a



- Despite the short rumors, we think the odds of MDCA Filing for bankruptcy are less than 100:1 through 2024. We think MDCA hiring LionTree to assist in MDCA's capital allocation is a smart initiative. MDCA's debt matures in 2024 more than 7 years from now. By eliminating the dividend (\$42 million annually) MDCA will save \$457 million in total present value today. The savings now covers half of MDCA's \$900 million debt. So one reason why MDCA hired LionTree is to optimize working capital and fix MDCA's balance sheet over the long term. Ultimately, MDCA is taking transformational change touching: strategy, execution, capital allocation, and the treasury. We think hiring LionTree to navigate those waters is smart.
- MDCA has a \$900 million bond issue as well as equity. Currently the Par bonds are trading under \$74. We think the bonds are a better investment today (+20% upside and +9% YTW) - the equity offers more % upside to our \$7 target. The bonds are down roughly 15 points since October 31, 2016 as MDCA's results are up marginally Y/Y and better Q/Q as well. While our new estimates suggest marginally better revenue Y/Y versus our prior estimate and MDCA may beat our estimate. Thus while the stock may take some time to recover we think the bonds are in good shape to recover should MDCA post at the low end of 2016E guidance.
- We also note in 3Q16E MDCA's working capital defined as Current Assets less Current Liabilities has improved to (\$319 million) from (\$404 million) at the end of 2016 even as MDCA has paid down roughly \$100 million in deferred acquisition consideration (DAC). Thus working capital excluding DAC can be improving which suggests the bleeding wound healing in our view.
- MDCA has several positives suggesting 2016 guidance at the mid or high end is possible. The Company won new assignments from General Mills which in aggregate spends over \$700 million annually on media. We also like the F&B acquisition so far which should add \$35 million to MDCA's top line in 2016 and add \$70 million to MDCA's top line in 2017E.
- We revise our estimates to reflect new guidance and MDCA's restructuring to our model. MDCA plans on taking \$30 million in cost of its business and we think if MDCA can do can cut costs successfully then we expect more revenue to flow to the Operating income line and more cash flow can be generated per revenue dollar. We also think given the shares have been absolutely slaughtered that MDCA has no equity to dilute and no immediate need dilute the equity owing to the dividend cut.
- We are adjusting estimates to reflect new guidance and 3Q16A results which were actually above our initial estimates. We model MDCA posting revenue of \$1.356 billion which is below guidance but we think there is +\$10 million upside to our estimate and limited downside to our model. We model operating income to post at \$87 million in 2016E as compared to \$72 million in 2015A. We model EBITDA in 2016E to post at \$142 million which compares to \$197 million in 2015A by the company's report (\$151 million excluding items which we do not include in our estimate). MDCA's earnings owing to cost cutting, and addition of F&B which so far is a good acquisition. Our estimates are revised from \$1.365 billion, \$165 million for revenue and EBITDA respectively



4Q16 Estimates and 2017E

In 4Q16E we model MDCA posting revenue of \$360 million which compares to our prior \$371 million estimate but still marginally in advance of 4Q15A \$359 million. We model operating income of \$15 million which reverses a small \$1 million operating loss of \$1.2 million in 4Q15A. On an EBITDA basis we model \$41 million as more of MDCA's revenue flows to the bottom line owing to cost cutting and MDCA faces an easy comparable quarter by our model.

We Model a Modest Growth recovery in 2017

In our view 2017E should be an easy comparable as MDCA has faced business and client headwinds through much of 2016E. In 2017 MDCA will have a full year's benefit of the F&B deal which should add about \$70 million to MDCA's Topline. MDCA also won a number of accounts which should provide a tail wind as MDCA enters 2017 assuming MDCA loses less than two top ten accounts which we have in our model, Samsung owing to its line of exploding mobile phones and we expect BMW to go into a scheduled review in 2017.

In 2017E we expect revenue to expand to \$1.409 billion up 4% from the \$1.356 billion we now estimate for 2016E's topline. As MDCA benefits from about \$53 million in topline and the aggressive cost cutting, \$30 million in 2H16 and the closing of non performing units, we expect operating income to improve to \$129 million in 2017 from \$87 million.

Owing to the absence of restructuring costs from layoffs, real estate, and the debt we model EBT to \$66 million in 2017E reversing a significant \$74 million loss in 2016E by our estimate. As MDCA benefits from better revenue and higher margin from cost cuts we think 2017 EBITDA expands to \$209 million. These are initial estimates and we have vacillated when modeling out 2017 from \$190 million to \$229 million on the high end. In either case we think movement towards \$200 million and not the actual point estimate



Company Comparable Analysis > MDCA Compset (#MDCA) > Trading Multiples					
Details					
Template:	Capital IQ Default Comps				
Currency:	US Dollar				
As-Of Date:	Nov-09-2016				
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)	1.6x	8.9x	10.1x	14.4x	NM
Omnicom Group Inc. (NYSE:OMC)	1.5x	10.1x	11.6x	17.4x	NM
WPP plc (LSE:WPP)	2.0x	13.2x	16.5x	26.2x	NM
Havas SA (ENXTPA:HAV)	1.4x	8.6x	9.6x	16.9x	NM
Dentsu Inc. (TSE:4324)	1.6x	7.2x	9.9x	14.5x	9.1x
The Rubicon Project, Inc. (NYSE:RUBI)	0.4x	2.8x	7.4x	14.9x	1.7x
TubeMogul, Inc. (NasdaqGS:TUBE)	1.0x	NM	NM	NM	2.2x
Criteo SA (NasdaqGS:CRTO)	1.4x	15.5x	23.0x	34.7x	5.4x
MDC Partners Inc. (NasdaqGS:MDCA)	0.8x	8x	15.7x	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	2.0x	15.5x	23.0x	34.7x	9.1x
Low	0.4x	2.8x	7.4x	14.4x	1.7x
Mean	1.4x	9.5x	12.6x	19.9x	4.6x
Median	1.5x	8.9x	10.1x	16.9x	3.8x
Displaying 9 Companies.					
Excel Comp Set ID: IQ379320233					
All values in millions, except per share data and ratios.					
Values converted at today's spot rate.					

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)



Analyst Certification

I, Richard R Tullo, hereby certify (1) that the views expressed in this report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this report and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

About Ratings Transparency

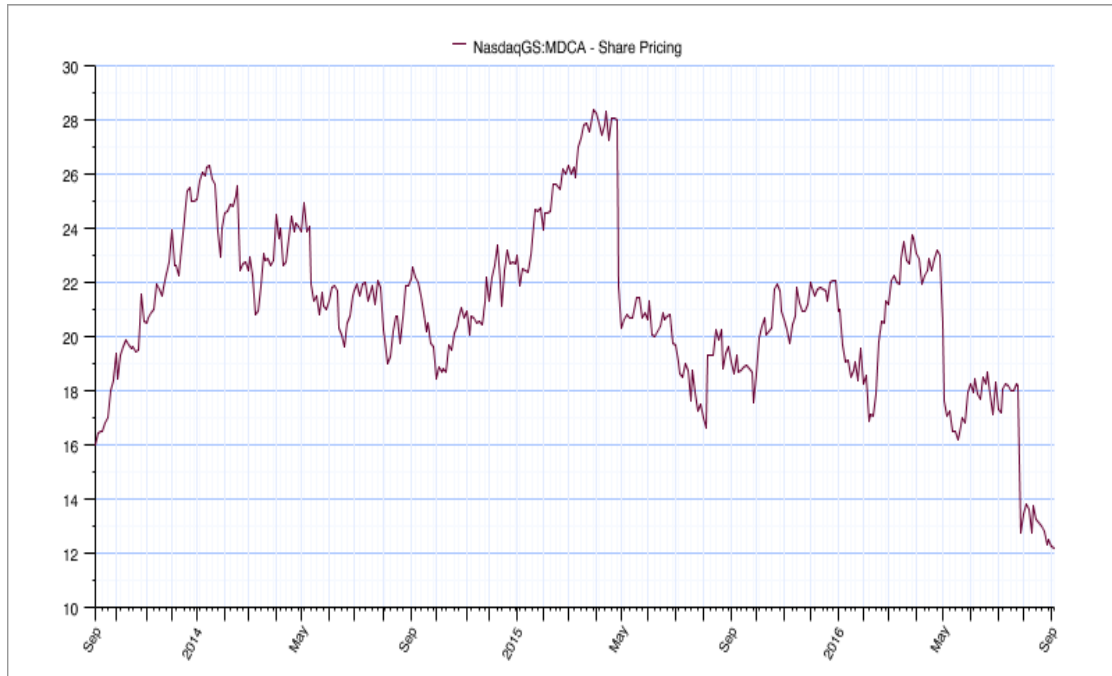
Ratings for OVERWEIGHT AND UNDER WEIGHT rated securities are typically reviewed for a potential ratings and or price target change when the market closing price is within 5% of the price target on initiation. The review process generally takes 1 to 20 days to complete however: market conditions, geopolitical events, industry regulations as well as other contingencies may influence the timeliness of the review process. We have no obligation to tell you when opinions or information in Albert Fried & Company LLC, research change apart from when we discontinue research on a subject company.

About Adjusted Operating Cash Flow (AOCF)

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	11/04/2016
Rating	OW	OW	OW	OW	OW	MP	OW	OW	UW	OW	OW
Price Chart	\$13.70	\$9.92	\$12.11	\$18.03	\$24.47	\$27.98	\$19.13	\$18.12	\$18.12	\$12.57	\$12.57
Target	\$18.75	\$13.50	\$24.75	\$27.00	\$35.00	\$27.00	\$27.00	\$23.00	\$17.00	\$17.00	\$17.00
Additional *											
Rating Action	None	None	None	None	None	Lower	Raise	None	Lower	Lower	Raise
Target Action	Raise	Lower	Raise	Raise	Raise	Lower	None	Lower	Lower	Lower	Lower
Report Type	Note	Note	Note	Note	Note	Note	Report	Note	Note	Note	Note

*Prior to 7/30/2010 Albert Fried and Company LLC Provided trading desk analytics reports which were distributed to less than 15 persons

IMPORTANT DISCLOSURES

Albert Fried & Company LLC produces a variety of analytics and research products, including but not limited to fundamental analysis, equity-linked trading desk analytics, quantitative analysis, market commentary reports, fixed income, and trade ideas. Certain products may be exempt from FINRA rule 2711. Recommendations contained in one type of analytics product may differ from recommendations contained in other types of analytics products, whether as a result of differing time horizons, methodologies, or otherwise. Albert Fried & Company LLC does not provide investment banking services and is not expected to provide investment banking services in subject securities. Businesses operated by Albert Fried & Company LLC, may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

Guide to Albert Fried Fundamental Equity Research Rating System

Stock Rating

- 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".

Distribution of ratings system

Albert Fried & Company LLC provides fundamental research on 11 companies, of which 3 (27%) are rated OVERWEIGHT, 4 (63%) are rated Market Perform and 2 (18%) rated UNDERWEIGHT

Disclaimers

Any estimates or forecasts may not be met. This report contains forward-looking statements, which involve risks and uncertainties. Actual results may differ materially from the projections described in the forward-looking statements. The material contained in this report is for informational purposes. Albert Fried & Company LLC research is not an offer to buy or sell or the solicitation of an offer to buy or sell any security/instrument or to participate in any particular trading strategy or an offer or recommendation, to buy or sell securities mentioned. We have no obligation to tell you when opinions or information in Albert Fried & Company LLC research change apart from when we discontinue research on a subject company. Facts and views presented in Albert Fried & Company LLC, research have not been reviewed by, and may not reflect information known to, professionals in other Albert Fried & Company LLC business areas, including investment banking personnel. Albert Fried & Company LLC research personnel may participate in company events such as site visits and are generally prohibited from accepting payment by the company of associated expenses unless pre-approved by authorized members of Research management.

Neither Albert Fried & Company LLC nor any person involved in the preparation of this publication accepts any liability or responsibility for the accuracy or completeness of this publication and none of them makes any representation or warranty in relation thereto. Recipients of this report should conduct their own investigation, confirmation, and analysis of the information contained in this publication. Much of the company-specific data and information in this report was obtained directly from the company's SEC filings, reputable news wires or the company's management. No recipient should act on the basis of any matter contained in this publication without considering and, if necessary, taking appropriate legal, financial, and other professional advice upon the recipient's own particular circumstances. Investors are advised to undertake their own investigation of the merits of investing in the Companies profiled in this report. The information contained herein is based on sources we believe to be reliable but we do not guarantee their accuracy. Prices and opinions concerning the composition of market sectors included in this report reflect the judgments as of this date and are subject to change without notice. Reprints of Albert Fried & Company LLC reports are prohibited without permission.

Albert Fried & Company LLC or persons associated with it may own securities of the issues described herein and may make purchases or sales while this report is in circulation. Albert Fried & Company LLC lists all companies mentioned where Albert Fried & Company LLC, owns 1% or more of a class of common equity securities of the companies. For all other companies mentioned in Albert Fried & Company LLC, research, Albert Fried & Company LLC, may have an investment of less than 1% in securities/instruments or derivatives of securities/instruments of companies and may trade them in ways different from those discussed in Albert Fried & Company LLC, research. Employees of Albert Fried & Company LLC not involved in the preparation of Albert Fried & Company LLC, research may have investments in securities/instruments or derivatives of securities/instruments of companies mentioned and may trade them in ways different from those discussed in Albert Fried & Company LLC, research. Derivatives may be issued by Albert Fried & Company LLC, or associated persons. With the exception of information regarding Albert Fried & Company LLC, Albert Fried & Company LLC, research is based on public information. Albert Fried & Company LLC makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. We have no obligation to tell you when opinions or information in Albert Fried & Company LLC, research changes apart from when we discontinue research on a subject company.

Albert Fried & Company LLC, the policy does not allow any analyst to own shares in any company he/she covers. No employee or household member thereof serves as an officer or director of a covered company. Albert Fried & Company LLC does not make a market in any securities contained in this report. Additional information is available upon request.

Models and Additional Information are Available On Request

Albert Fried & Company LLC, reserves the right to withhold reports, licensed and proprietary models, methods and analytics from entities including but not limited to persons, institutions and media outlets which do not maintain active subscription, distribution, clearance, or trading relationships with Albert Fried & Company LLC, and any of its subsidiaries and affiliations.

Research at Albert Fried & Company LLC © Copyright 2014