



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
<i>Target 12 to 18 Months</i>	7.00

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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 vendor, validates our view MDCA Partners SHOULD BE AND CAN BE SOLD AT A +100% PREMIUM TO TODAYS 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 SNOOPES 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](#).

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- 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)



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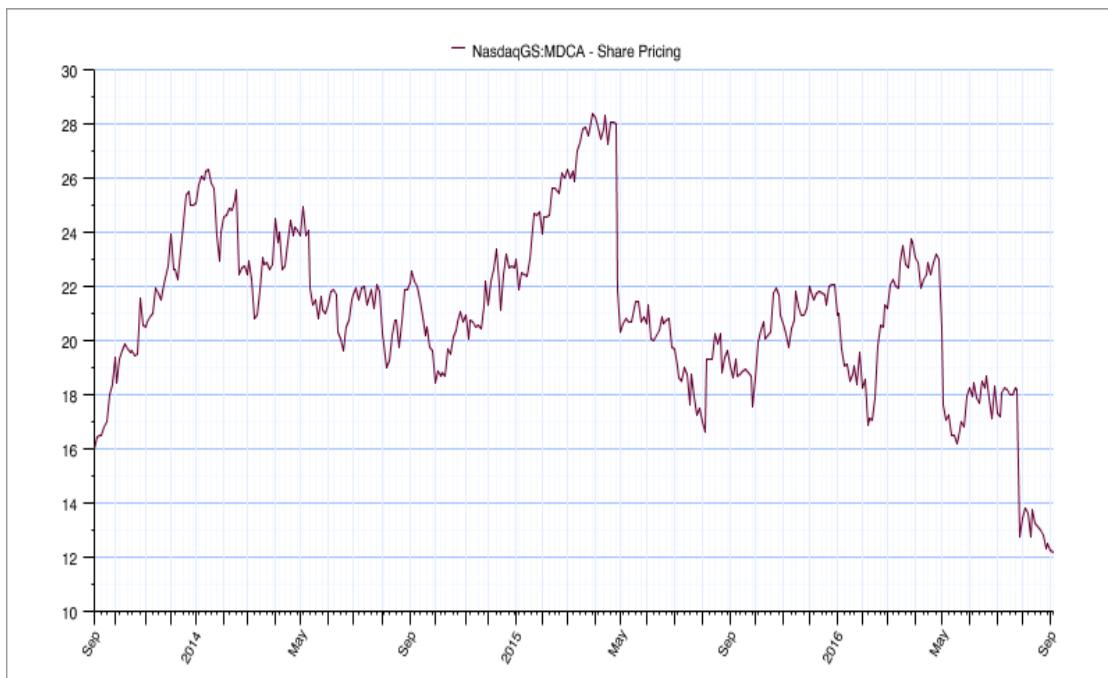
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3 Year MDCA Share Pricing



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

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