Indaba Capital Highlights That Supplemental Proxy Materials Reinforce MDC-Stagwell Combination's Deep Conflicts and Wholly Insufficient Terms

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SAN FRANCISCO--(BUSINESS WIRE)--Indaba Capital Management L.P. (together with its affiliates, "Indaba" or "we"), which is the largest unaffiliated shareholder of MDC Partners Inc. (NASDAQ: MDCA) ("MDC" or the "Company"), today commented on the supplemental proxy materials issued by the Company in connection with its prospective merger with Stagwell Media LP ("Stagwell"). **Based on its analysis of MDC's disclosures, Indaba has concluded that the additional information released only reinforces that the transaction's recently revised terms continue to deprive unaffiliated shareholders of meaningful value.** In particular, Indaba is highlighting the following:

- **Massive Stagwell Dividend Pre-Close of Combination** - A $139 special dividend to Stagwell's current shareholders, funded with a new term loan and cash on the balance sheet, is to be taken out of Stagwell immediately before closing. This dividend leverages the newly combined entity incrementally rather than facilitating the deleveraging that Mr. Penn has touted as a key benefit of the transaction.

- **Massively Dilutive Share Grant to "Brand Employees" of Stagwell**- An adjustment of 12 million shares, or $60 million, is noted on page 19 of the proxy supplement. This is recognized as a non-recurring 2020 compensation expense for *"brand employees of Stagwell"* that will be issued at the closing of the transaction. We would like to know who these *"brand employees"* are and whether Mr. Penn is one of them. How do we know there will not be another such grant in 2021, after the prospective combination is complete and Mr. Penn has what amounts to total control?

  Furthermore, we would like to know why MDC shareholders are apparently footing part of the bill for Stagwell Minority Interest Acquisitions, another approximately seven million shares to be issued to Stagwell managers upon the close of the transaction.

  It appears Stagwell as a whole is not receiving 180 million shares under its patently unfair offer, but even worse, 199 million shares. Why has Mr. Penn not discussed this aspect of the transaction with MDC shareholders? These 19 million incremental shares ("FAF" shares) to be issued to Stagwell parties equals a value today of almost $100 million and almost 25% of the consideration that MDC shareholders will receive for the equity of their company!

- **Discounted Cash Flow ("DCF") Valuation Suggests Higher Valuation for MDC**- The stand-alone DCF valuation of MDC developed by its investment banker, Moelis & Co., suggests that the Company's shares are worth between $7.21-$12.96, more than $10 at the midpoint. Despite this, the market still prices MDC's shares and this transaction at roughly half of that price, as the shares closed at $5.11 today.

- **DCF Relative Valuation Suggests Insufficient Ownership Share for MDC Shareholders** - The Moelis & Co. analysis of MDC's valuation relative to Stagwell's valuation suggests a 29% pro forma ownership of the newly combined entity at the midpoint of the range and more than 39% at the upper end of the range. To be sure, when considering Stagwell's pro forma ownership in the combined entity (almost 77% including the FAF shares and Stagwell's shares in MDC), this transaction should not be considered a merger, but rather a takeover that necessitates a premium to the midpoint.

- **Comparable Company Analysis Suggests Higher Valuation for MDC**- The comparables analysis prepared by Moelis & Co. suggests a midpoint pro forma ownership of the combined entity of 30% and an upper end of 39%. Again, the currently proposed deal at 31% does not offer a sufficient premium given the highly conflicted nature of this transaction.

- **Increase in Company Guidance and Growth Projections Justify a Higher Valuation for MDC** - According to the updated projections provided by both companies, MDC is expected to grow revenue faster than its advertising peers over the next three years and thereafter. Based on projections provided by MDC, the Company has increased its 2021 Adjusted EBITDA guidance by $10 million. Based on an 8.0x multiple, this equates to $80 million or approximately a $1 per share increase in value. Stagwell on the other hand did not increase its 2021 EBITDA guidance.

- **FAF Share Issuance** - The 19 million FAF unit issuance would take the Stagwell-owned pro forma share count to 199 million from 180 million or 71% of total shares outstanding pro forma for the combination and the share grant, and leaving MDC shareholders with a mere 29%.

- **Non-Controlling Interest** - We also noticed in the 520-page proxy that approximately $95 million of the redeemable non-controlling interest, which represents *"the fair value of redeemable noncontrolling interest in connection with minority holders' put option requiring Stagwell to acquire the noncontrolling interest in a subsidiary not previously owned,"* illustrates the balance sheet adjustments related to the closing of the transaction. These amounts did not appear on Stagwell's March 31st balance sheet. We would like some explanation about this considerable sum. Again, this appears to be a leveraging event, not the type of deleveraging event that Mr. Penn has touted as a key benefit of the transaction. We worry there is more that we are not aware of, or that Stagwell has not disclosed.

- **Insufficient Governance** - As we have previously noted, a majority of the identified directors for the newly combined entity appear to have direct personal or professional overlap with Mr. Penn. This composition is concerning, as we fear conflicts will only deepen and persist in the management of a combined entity under Mr. Penn.

In light of these preliminary findings, we intend to **VOTE AGAINST** the transaction on its current terms.

About Indaba Capital

Indaba was founded in 2010 to invest in corporate equity and debt. Based in San Francisco, Indaba currently has more than $1.5 billion in assets under management. Learn more at www.IndabaCapital.com.

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