

FOR ALL IT'S WORTH



VALUE Quarterly

12/31/2017

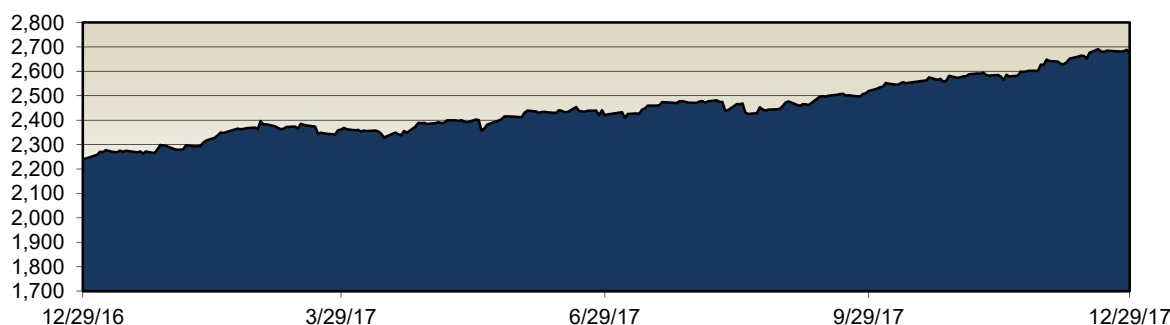
The Dow Jones Industrial Average finished the year at 24,719, up 25.1% for the year. It was the largest increase since 2013 (26.5%), and only the third time the Dow gained over 20.0% since the turn of the century. Despite the Federal Reserve rate hikes, long and intermediate interest rates decreased during the year. The thirty-year Treasury bond yield decreased 33 basis points to 2.74% while the one-year Treasury bill increased 88 basis points to 1.72%.

Real GDP grew by 3.2% during the third quarter after a 3.1% increase in the second quarter. This marked the first time since 2014 the economy produced back-to-back quarters of at least 3.0% real growth. Inflation remained flat at around 2.0% for the last twelve months as the consumer price index showed a small increase for November resulting from increased in oil prices.

Though the Fed has been increasing interest rates, the money supply maintained steady growth of 4.9% during 2017, as measured by Money Zero Maturity (MZM). Reserve balances maintained a range of \$2.2 to \$2.4 trillion during 2017, down from the peak reserves in 2014 of \$2.8 trillion (which is often referred to as the Fed's bloated balance sheet). The current interest rate the Fed pays banks on excess reserve balances is 1.50%, which remains more than the Fed Funds rate banks are paid for lending reserves to other banks (currently 1.41%).

S&P 500

| Year Ended 12/29/17 | | Quarter Ended 12/29/17 | | As of 12/29/17 | |
|---------------------|---------|------------------------|---------|----------------|---------|
| 12-Mo. Low | 2,238.8 | 3-Mo. Low | 2,519.4 | Current Level | 2,673.6 |
| 12-Mo. High | 2,690.2 | 3-Mo. High | 2,690.2 | 30-Day Avg. | 2,644.5 |
| 12-Mo. Δ | 19.4% | 3-Mo. Δ | 6.1% | 200-Day Avg. | 2,482.2 |



| As of 12/31/16 | | As of 9/30/17 | | As of 12/29/17 | |
|-------------------|-------|-------------------|-------|-------------------|-------|
| Price to Earnings | 21.03 | Price to Earnings | 21.62 | Price to Earnings | 22.45 |
| Price to Book | 2.89 | Price to Book | 3.19 | Price to Book | 3.30 |
| Price to Sales | 2.00 | Price to Sales | 2.15 | Price to Sales | 2.24 |
| Dividend Yield | 2.1% | Dividend Yield | 2.0% | Dividend Yield | 1.9% |



U.S. Stock Market Indices

| | Current | 30-Day Avg. | 200-Day Avg. | Quarterly Δ: | 12-Month Δ: |
|---------------------------|----------|-------------|--------------|--------------|-------------|
| S&P Barra Value Index | 1,127.0 | 1,108.6 | 1,052.5 | 5.7% | 12.3% |
| S&P Barra Growth Index | 1,533.4 | 1,524.4 | 1,418.2 | 6.4% | 24.5% |
| Dow Jones Industrial Avg | 24,719.2 | 24,248.7 | 22,109.3 | 10.3% | 24.7% |
| Russell 1000 Index | 1,481.8 | 1,465.5 | 1,375.6 | 6.1% | 18.8% |
| Russell 2000 Index | 1,535.5 | 1,526.6 | 1,435.4 | 3.0% | 12.6% |
| CBOE SPX Volatility Index | 11.0 | 10.3 | 11.0 | 16.1% | -17.4% |

U.S. Stock Market Sectors

| Standard & Poor's 500: | Current | 30-Day Avg. | 200-Day Avg. | Quarterly Δ: | 12-Month Δ: |
|------------------------|---------|-------------|--------------|--------------|-------------|
| Aerospace & Defense | 1,177.1 | 1,145.9 | 1,035.1 | 7.5% | 38.0% |
| Airlines Index | 366.3 | 347.5 | 339.2 | 12.6% | 10.5% |
| Automobiles Index | 110.7 | 112.6 | 103.1 | 3.0% | 7.5% |
| Chemicals Index | 630.1 | 624.9 | 580.1 | 5.4% | 23.5% |
| Computers & Peri. | 2,042.6 | 2,075.2 | 1,890.5 | 9.0% | 41.3% |
| Div. Financials Index | 679.2 | 664.6 | 600.5 | 9.1% | 23.5% |
| Energy Index | 533.4 | 511.6 | 494.4 | 5.3% | -4.1% |
| Food/Staples Retail | 401.9 | 395.9 | 372.3 | 9.5% | 10.5% |
| Health Care Index | 956.3 | 955.7 | 917.2 | 1.1% | 19.6% |
| Insurance Index | 402.1 | 403.6 | 384.6 | 2.9% | 13.8% |
| Real Estate Index | 203.9 | 204.7 | 200.1 | 2.3% | 8.1% |
| Software Index | 1,642.2 | 1,643.7 | 1,483.0 | 9.3% | 37.3% |
| Semiconductors | 937.8 | 947.0 | 825.2 | 10.2% | 33.8% |
| Utilities | 267.4 | 277.8 | 271.2 | -0.6% | 7.8% |

| Standard & Poor's 500: | 12/29/2017 | | 9/29/2017 | | 12/29/2016 | |
|------------------------|------------|-------|-----------|-------|------------|-------|
| | Price to | | Price to | | Price to | |
| | Earnings | Sales | Earnings | Sales | Earnings | Sales |
| Aerospace & Defense | 23.5 | 1.9 | 22.2 | 1.8 | 18.5 | 1.5 |
| Airlines Index | 12.3 | 0.9 | 10.4 | 0.9 | 8.7 | 0.9 |
| Automobiles Index | 7.3 | 0.4 | 7.2 | 0.4 | 5.9 | 0.4 |
| Chemicals Index | 23.6 | 2.4 | 22.8 | 2.3 | 18.8 | 2.1 |
| Computers & Peri. | 17.7 | 2.8 | 17.0 | 2.6 | 14.5 | 2.2 |
| Div. Financials Index | 20.9 | 2.9 | 19.3 | 2.7 | 18.2 | 2.6 |
| Energy Index | 41.5 | 1.6 | 50.7 | 1.6 | 143.8 | 2.0 |
| Food/Staples Retail | 19.8 | 0.5 | 18.1 | 0.5 | 18.7 | 0.5 |
| Health Care Index | 20.9 | 1.9 | 21.2 | 1.9 | 19.6 | 1.6 |
| Insurance Index | 19.4 | 1.3 | 15.4 | 1.3 | 16.0 | 1.2 |
| Real Estate Index | 46.5 | 7.0 | 45.1 | 6.9 | 43.1 | 6.4 |
| Software Index | 34.5 | 6.8 | 32.7 | 6.4 | 30.6 | 5.5 |
| Semiconductors | 18.8 | 4.5 | 18.9 | 4.2 | 22.6 | 3.9 |
| Utilities | 18.7 | 2.1 | 18.6 | 2.1 | 17.2 | 2.0 |

Macro-Economic Indicators

| | Money Supply (M2M) | New Orders (Durables) | Housing Starts | Consumer Confidence | Personal Income | GDP (Chain Wtd.) | CPI-U |
|---------------|-----------------------|--------------------------|-------------------|------------------------|--------------------|---------------------|------------|
| Annual Rates: | 12/18/2017 | 11/30/2017 | 11/30/2017 | 11/30/2017 | 11/30/2017 | 9/30/2017 | 11/30/2017 |
| 3-Month Δ: | 4.9% | 13.7% | 50.0% | 6.8% | 4.7% | 3.2% | 4.2% |
| 12-Month Δ: | 4.9% | 7.9% | 2.3% | 13.5% | 3.8% | 2.3% | 2.0% |



Interest Rates as of 12/29/2017

| | 1-Year | 5-Year | 10-Year | 20-Year | 30-Year |
|---------------|--------|--------|---------|---------|---------|
| US Treasury | 1.72% | 2.20% | 2.42% | 2.72% | 2.74% |
| AA Corporate | 1.91% | 2.54% | 3.09% | 3.56% | 3.61% |
| A Corporate | 2.04% | 2.68% | 3.23% | 3.75% | 3.72% |
| BBB Corporate | 2.24% | 3.04% | 3.71% | 4.21% | 4.16% |
| BB Corporate | 3.02% | 4.37% | 5.40% | 6.33% | 6.33% |
| B Corporate | 3.33% | 5.17% | 6.38% | 8.20% | 8.19% |

Interest Rates as of 9/29/2017

| | 1-Year | 5-Year | 10-Year | 20-Year | 30-Year |
|---------------|--------|--------|---------|---------|---------|
| US Treasury | 1.31% | 1.94% | 2.34% | 2.82% | 2.87% |
| AA Corporate | 1.51% | 2.33% | 3.06% | 3.78% | 3.84% |
| A Corporate | 1.65% | 2.50% | 3.22% | 3.93% | 3.91% |
| BBB Corporate | 1.88% | 2.86% | 3.70% | 4.41% | 4.35% |
| BB Corporate | 2.59% | 4.15% | 5.29% | 6.43% | 6.42% |
| B Corporate | 2.86% | 4.88% | 6.06% | 7.37% | 7.36% |

Federal Reserve Watch

| | |
|---------------------------|-----------|
| Current Rate (Overnight) | 1.41% |
| Current Target (12/13/17) | 1.50% |
| Next Meeting | 1/31/2018 |
| Fed Funds Futures (Feb) | 1.41% |

US Dollar LIBOR Rates

| | 12/29/2017 | 9/29/2017 |
|---------|------------|-----------|
| 7-Day | 1.48% | 1.21% |
| 1-Month | 1.56% | 1.23% |
| 3-Month | 1.69% | 1.33% |
| 6-Month | 1.84% | 1.51% |

Currency & Commodity Spot Prices

| | Current (\$) | Quarterly Δ: | 12-Month Δ: |
|------------------------------------|--------------|--------------|-------------|
| Euro Spot | \$ 1.20 | 1.6% | 14.4% |
| Japanese Yen Spot | ¥ 112.69 | 0.2% | -3.3% |
| Gold Spot \$/oz | 1,303.05 | 1.8% | 12.5% |
| Silver Spot \$/oz | 16.94 | 1.7% | 4.8% |
| DRAM (computer memory) Price Index | 1.83 | 7.0% | 18.1% |
| Bloomberg West Texas Intermediate | 60.42 | 16.9% | 12.4% |
| U.S. Average Gasoline Price | 2.48 | -3.0% | 7.2% |
| USDA Cattle | 120.00 | 10.9% | 2.2% |

Top Quarterly Merger and Acquisition Announcements

| Date | Target | Acquiror | Offer (\$MMs) |
|------------|-------------------------------|----------------------------------|---------------|
| 11/3/2017 | QUALCOMM Inc. | Broadcom Ltd* | \$ 86,865.6 |
| 12/3/2017 | Aetna Inc. | CVS Health Corp. | 68,660.5 |
| 12/14/2017 | Twenty-First Century Fox Inc. | Walt Disney Co. | 65,943.1 |
| 12/20/2016 | Linde AG | Praxair Inc. | 41,396.6 |
| 10/31/2016 | Level 3 Communications Inc. | CenturyLink Inc. | 33,500.2 |
| 1/26/2017 | Actelion Ltd. | Johnson & Johnson | 29,762.2 |
| 11/13/2017 | GGP Inc. | Brookfield Property Partners LP* | 27,640.0 |
| 4/23/2017 | CR Bard Inc. | Becton Dickinson and Co. | 24,119.2 |
| 11/29/2017 | Juniper Networks Inc. | Nokia OYJ* | 16,000.0 |
| 12/22/2017 | XPO Logistics Inc. | Home Depot Inc.* | 10,700.0 |
| 10/30/2017 | Dynegy Inc. | Vistra Energy Corp. | 10,515.4 |
| 8/28/2017 | Kite Pharma Inc. | Gilead Sciences Inc. | 10,104.6 |
| 10/30/2017 | CalAtlantic Group Inc. | Lennar Corp. | 9,248.3 |
| 12/15/2017 | Spreads unit/Unilever | Multiple | 8,029.6 |
| 8/10/2017 | Starwood Waypoint Homes | Invitation Homes Inc | 7,811.0 |

* Proposed or Rumored



Will Lower Corporate Taxes Mean Higher Valuations?

One of the methods commonly used to determine the value of a business is the income approach. Using this method, we calculate the present value of the future net cash flow that a business will generate for its owners, using a discount rate that adequately considers the riskiness of this future performance. This present value is the amount a buyer would be willing to pay to own the business and be the recipient of these future payments.

The decrease in the corporate tax rate means that a greater percentage of the future profit generated by the business is available as cash flow to owners, because they don't have to write as large a check to Uncle Sam. The math is easy, more cash flow equals higher value. At the old 35% corporate tax rate, \$1 million in pre-tax earnings created \$650,000 in net income. At the new 21% corporate tax rate, the same \$1 million in pre-tax earnings will create \$790,000 in net income, or an increase of 22%. I recalculated the valuation of a company from a recently completed report, using the new rates. I found that the value conclusion from the income approach increased by more than 20%.

The example above applies to a C-Corp, but there is a benefit to S-Corps, partnerships and LLCs as well. It has been generally accepted that interests in pass-through entities have higher values because of the tax benefit associated with avoiding corporate taxes. Generally, we calculated the value of the tax savings between owning an interest in a C-Corp (and therefore paying taxes at both the corporate and personal levels), and owning an interest in a pass-through entity (paying only personal taxes). With the new rates, this advantage is much narrower than it used to be. In fact, the value of the pass-through tax benefit decreased by 78% in the recalculation mentioned above. The net effect in the recalculated valuation was an increase in value of 8%, assuming pass-through tax treatment.

Another commonly-used valuation method is the market approach. This method is based on market data from various sources, including comparable public company prices and multiples, and comparable merger and acquisition transactions. Buyers should reflect value increases associated with the new tax rates in higher prices and higher multiples in deals going forward.

While most of the conversation about tax rates is focused on the annual savings, the real story is the significant increase that the new tax rates will generate in company valuations.

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VALUE Incorporated is a financial valuation consulting firm focused on providing valuations of businesses, securities, intellectual property and economic damages, for purposes relating to transactions, financial and tax reporting requirements, and litigation. Value is located in Irving, Texas and completes approximately 250 engagements each year in Texas and throughout the United States. Our clients include companies in virtually every industry and of a wide range of sizes.

Our transaction practice provides valuations and financial advisory services, fairness and solvency opinions, and assistance with transaction-related financial reporting and tax issues such as purchase price allocation studies. Please contact our firm when these issues come up. We'd be delighted to assist you.

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