

FOR ALL IT'S WORTH



VALUE Quarterly

3/31/2018

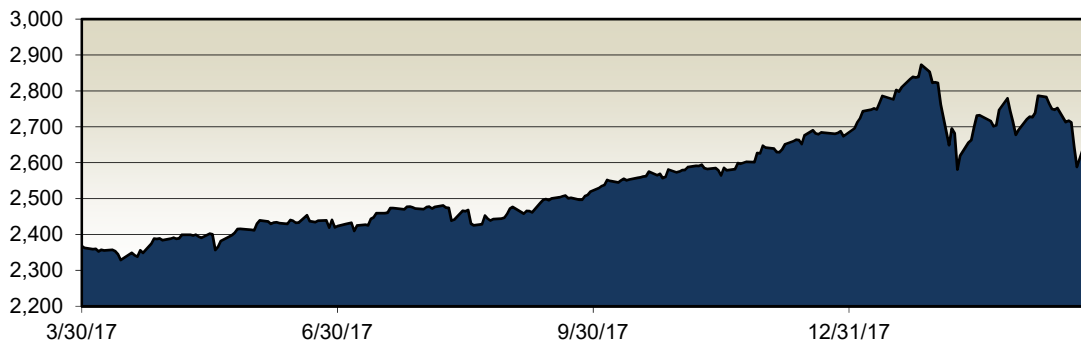
The first quarter of 2018 brought significant stock market volatility not seen since 2015. Twice during the quarter, the Dow Jones industrial average dropped more than 1,000 points, and twice it had a daily gain of more than 500 points. The Dow finished the quarter at 24,103, down 3.0% for the quarter, and ranged from 23,533 to 26,617 – a 13.1% spread between the high and the low.

Interest rates were higher across the board, though down from the peak during the quarter. The Federal Reserve increased the Fed Funds rate to 1.50% in the January meeting and 1.75% in the March meeting. Notably, in the January meeting, the Fed held the interest rate paid on required and excess reserves at 1.50%, making it equal to the Fed Funds target rate for the first time since 2008. This was a significant step in the Fed's normalization process, which led to a 6.0% decrease in excess reserves since January. The Fed will meet again on May 2, and futures are predicting no change in interest rates.

Oil prices, based on West Texas Intermediate, increased 8.5% for the quarter to \$64.94 per barrel, while average gasoline prices were up 7.1%. Gold prices were up 2.4%, while silver prices were down 2.9% for the quarter.

S&P 500

<u>Year Ended 3/31/18</u>		<u>Quarter Ended 3/31/18</u>		<u>As of 3/31/18</u>	
12-Mo. Low	2,329.0	3-Mo. Low	2,581.0	Current Level	2,640.9
12-Mo. High	2,872.9	3-Mo. High	2,872.9	30-Day Avg.	2,710.9
12-Mo. Δ	11.5%	3-Mo. Δ	-1.7%	200-Day Avg.	2,589.1



<u>As of 3/31/17</u>		<u>As of 12/31/17</u>		<u>As of 3/31/18</u>	
Price to Earnings	21.67	Price to Earnings	22.31	Price to Earnings	21.27
Price to Book	3.09	Price to Book	3.30	Price to Book	3.23
Price to Sales	2.09	Price to Sales	2.24	Price to Sales	2.17
Dividend Yield	2.0%	Dividend Yield	1.9%	Dividend Yield	2.0%



U.S. Stock Market Indices

	Current	30-Day Avg.	200-Day Avg.	Quarterly Δ:	12-Month Δ:
S&P Barra Value Index	1,080.1	1,103.7	1,083.6	-4.6%	5.2%
S&P Barra Growth Index	1,557.7	1,605.5	1,496.0	1.0%	17.9%
Dow Jones Industrial Avg	24,103.1	24,761.0	23,412.1	-3.0%	16.7%
Russell 1000 Index	1,464.9	1,502.0	1,434.4	-1.7%	11.9%
Russell 2000 Index	1,529.4	1,551.2	1,487.8	-1.3%	11.5%
CBOE SPX Volatility Index	20.0	18.9	12.7	96.2%	74.9%

U.S. Stock Market Sectors

Standard & Poor's 500:	Current	30-Day Avg.	200-Day Avg.	Quarterly Δ:	12-Month Δ:
Aerospace & Defense	1,266.9	1,290.0	1,137.3	7.1%	39.2%
Airlines Index	347.5	351.3	345.3	-5.8%	7.9%
Automobiles Index	97.8	99.2	105.3	-12.4%	-4.1%
Chemicals Index	589.3	616.4	604.5	-6.8%	7.3%
Computers & Peri.	2,062.0	2,140.1	1,984.2	-0.1%	17.3%
Div. Financials Index	680.8	699.3	644.0	-0.4%	21.7%
Energy Index	498.3	496.9	501.2	-7.0%	-3.0%
Food/Staples Retail	369.6	378.8	379.9	-8.5%	2.3%
Health Care Index	940.7	972.0	952.7	-2.3%	9.1%
Insurance Index	390.3	396.5	395.5	-3.3%	8.3%
Real Estate Index	192.1	189.1	198.8	-5.9%	-1.1%
Software Index	1,764.1	1,812.1	1,609.4	7.1%	34.2%
Semiconductors	995.1	1,017.9	899.5	5.1%	35.3%
Utilities	256.1	251.0	267.8	-4.2%	-2.0%

Standard & Poor's 500:	3/29/2018		12/28/2017		3/29/2017	
	Price to		Price to		Price to	
	Earnings	Sales	Earnings	Sales	Earnings	Sales
Aerospace & Defense	24.5	2.0	23.8	1.9	19.3	1.5
Airlines Index	11.7	0.9	12.4	0.9	9.3	0.9
Automobiles Index	6.1	0.3	7.1	0.4	6.6	0.3
Chemicals Index	20.8	2.2	23.4	2.4	19.8	2.2
Computers & Peri.	17.1	2.7	18.0	2.8	17.2	2.6
Div. Financials Index	20.6	2.9	21.0	2.9	18.2	2.6
Energy Index	33.3	1.5	40.9	1.7	111.5	1.8
Food/Staples Retail	17.3	0.4	19.8	0.5	18.1	0.5
Health Care Index	20.4	1.8	20.9	1.9	20.3	1.8
Insurance Index	17.1	1.3	21.1	1.4	18.0	1.3
Real Estate Index	45.7	6.5	46.9	7.0	45.3	6.7
Software Index	30.9	6.8	30.4	6.6	33.5	5.9
Semiconductors	17.8	4.5	18.8	4.5	21.5	3.9
Utilities	17.3	2.0	18.5	2.1	18.1	2.1

Macro-Economic Indicators

	Money Supply (M2M)	New Orders (Durables)	Housing Starts	Consumer Confidence	Personal Income	GDP (Chain Wtd.)	CPI-U
Annual Rates:	3/19/2018	2/28/2018	2/28/2018	2/28/2018	2/28/2018	12/31/2017	2/28/2018
3-Month Δ:	0.6%	8.9%	-18.0%	1.1%	5.1%	2.9%	3.6%
12-Month Δ:	3.7%	6.4%	4.0%	4.1%	3.4%	2.6%	2.4%



Interest Rates as of 3/29/2018

	1-Year	5-Year	10-Year	20-Year	30-Year
US Treasury	2.07%	2.56%	2.75%	2.95%	2.98%
AA Corporate	2.43%	3.08%	3.58%	3.92%	3.97%
A Corporate	2.60%	3.22%	3.68%	4.09%	4.08%
BBB Corporate	2.85%	3.59%	4.19%	4.60%	4.56%
BB Corporate	3.83%	5.11%	6.10%	6.67%	6.66%
B Corporate	3.93%	5.84%	7.04%	8.55%	8.48%

Interest Rates as of 12/28/2017

	1-Year	5-Year	10-Year	20-Year	30-Year
US Treasury	1.72%	2.22%	2.44%	2.73%	2.75%
AA Corporate	1.92%	2.56%	3.11%	3.57%	3.63%
A Corporate	2.05%	2.71%	3.25%	3.77%	3.74%
BBB Corporate	2.25%	3.06%	3.73%	4.23%	4.17%
BB Corporate	3.00%	4.37%	5.41%	6.32%	6.32%
B Corporate	3.45%	5.23%	6.43%	8.19%	8.20%

Federal Reserve Watch

Current Rate (Overnight)	1.68%
Current Target (3/21/18)	1.75%
Next Meeting	5/2/2018
Fed Funds Futures (May)	1.69%

US Dollar LIBOR Rates

	3/28/2018	12/29/2017
7-Day	1.74%	1.48%
1-Month	1.89%	1.56%
3-Month	2.31%	1.69%
6-Month	2.44%	1.84%

Currency & Commodity Spot Prices

	Current (\$)	Quarterly Δ:	12-Month Δ:
Euro Spot	\$ 1.23	3.0%	14.2%
Japanese Yen Spot	106.43	-5.7%	-4.2%
Gold Spot \$/oz	1,325.54	2.4%	5.7%
Silver Spot \$/oz	16.38	-2.9%	-10.3%
DRAM (computer memory) Price Index	1.82	-0.5%	4.6%
Bloomberg West Texas Intermediate	64.94	8.5%	31.2%
U.S. Average Gasoline Price	2.65	7.1%	15.1%
USDA Cattle	121.36	1.1%	-6.6%

Top Quarterly Merger and Acquisition Announcements

Date	Target	Acquiror	Offer (\$MMs)
3/8/2018	Express Scripts Holding Co.	Cigna Corp.	\$ 68,375.7
3/27/2018	GGP Inc.	Brookfield Property Partners LP	27,760.8
1/29/2018	Dr Pepper Snapple Group Inc.	Keurig Green Mountain Inc.	23,167.7
1/29/2018	Financial data unit/Thomson Reuters Cc	Blackstone Group LP, at al.	17,000.0
1/3/2018	SCANA Corp.	Dominion Energy Inc.	14,504.3
1/22/2018	Bioverativ Inc.	Sanofi	11,137.4
1/31/2018	Xerox Corp.	FUJIFILM Holdings Corp.	10,324.0
3/1/2018	Microsemi Corp.	Microchip Technology Inc.	9,837.9
2/12/2018	CSRA Inc.	General Dynamics Corp.	9,695.9
3/28/2018	RSP Permian Inc.	Concho Resources Inc.	9,204.5
1/22/2018	Juno Therapeutics Inc.	Celgene Corp.	7,920.8
2/23/2018	Blue Buffalo Pet Products Inc.	General Mills Inc.	7,885.9
3/20/2018	MuleSoft Inc.	salesforce.com Inc.	5,667.4
1/11/2018	DST Systems Inc.	SS&C Technologies Holdings Inc.	5,562.6
3/29/2018	NEX Group PLC	CME Group Inc.	5,425.3



Interest Expense Limitations

While most investors are enjoying the benefits of the corporate tax reduction, some are learning of certain nuances included in the tax reform, such as the interest expense limitation. Section 163(j) of the Internal Revenue Code states that, in general, the interest expense allowed as a tax deduction shall not exceed (a) the business interest income, plus (b) the greater of zero or 30% of the adjusted taxable income ("ATI"), plus (c) floor plan (inventory) financing interest.

The interest expense limitation generally does not apply to companies with less than \$25.0 million in revenue, as described in Internal Revenue Code Section 448(c). But for larger businesses, ATI will be defined as roughly equivalent to EBITDA before the year 2022, and roughly equivalent to EBIT on or after January 1, 2022.

Companies with interest coverage ratios below 3.3x may be affected by the interest expense limitation. The interest coverage ratio is calculated as EBIT divided by interest expense. While this ratio does not consider certain exceptions to the interest expense limitation, such as floor plan interest, it is an easy starting point to determine whether a company may be impacted by the expense limitation.

While somewhat complicated, the ultimate result of the interest expense limitation is a higher cost of debt for some companies, as interest expense is no longer fully tax deductible. A higher cost of capital decreases a company's value, offsetting some of the benefit of the corporate income tax reduction. For most companies we have seen, the impact at this point has not been substantial due to the historically low level of interest rates. However, if interest rates increase, the effect of the interest expense limitation will cause businesses to reconsider their capital structure.

Guidance on the new corporate tax law is limited, so be sure to talk with a tax advisor regarding how the new tax laws may affect the deductibility of business expenses. As always, give us a call if you have any questions. We are always happy to discuss issues and brainstorm ideas.

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