FEBRUARY 2014

FTI Capital Advisors, LLC ("FTICA")[1] Fairness Opinion Landscape

A fairness opinion is a financial opinion offered by an advisor to a transaction indicating that from one party's perspective the transaction is "fair" from a financial point of view as of a specific date under a given set of assumptions. In this context, "fair" references the concept that consideration paid (be it cash, securities, contributed assets or other valued interest) is valued at the same level or less than consideration received. Fairness opinions are typically requested for related-party transactions, merger and acquisition transactions and financing transactions impacting current investors.

While not required by law, boards of directors often obtain fairness opinions to (a) assure minority and control owners that consideration exchanged is fair from a financial point of view and (b) protect board members from liability against possible claims from owners arguing that consideration was not fair. Ideally, fairness opinions are obtained from independent providers to strengthen their objectivity and prospective defensibility. Detailed disclosures may be required if the advisor has a stake in the successful completion of the deal, other significant compensation related to the transaction and/or other material relationships providing compensation. Disclosures also may be required if information has been independently verified; a fairness committee was involved; or if officers, directors, or employees stand to receive compensation relative to the consideration to be paid to shareholders.

Fairness opinions generally are utilized in a number of transactional instances, including but not limited to the following:

- Change of control (e.g., acquisition, merger)
- Related party transactions
- Restructuring and distressed situations
- Recapitalizations
- Divestitures of assets and/or subsidiaries
- Sale of securities
- Going private transactions
- Roll up transactions
- Credit enhancements

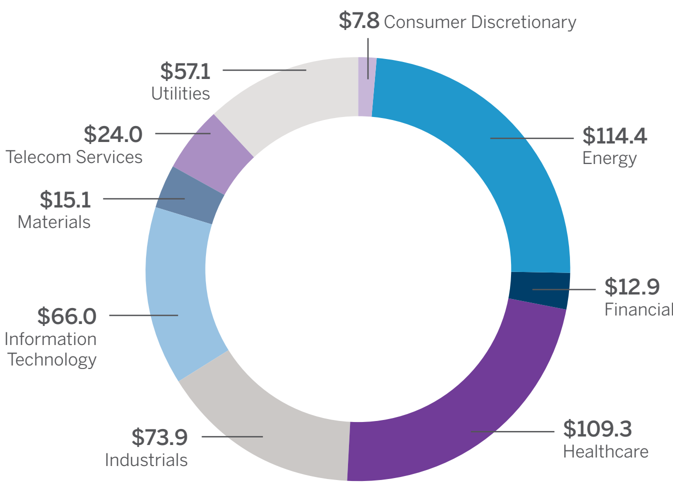
1 FTI Capital Advisors, LLC is a wholly owned subsidiary of FTI Consulting, Inc. FTI Consulting provides fairness and other opinion work through FTICA, an SEC registered broker-dealer and member of FINRA / SIPC. FTICA opinions are developed and provided under the guidance of appropriately licensed and registered representatives of FTICA and in accordance with FINRA regulatory guidance.

FTICA surveyed the recent transactional environment with regard to fairness opinions, and considered 50 major domestic transactions between 2009 and 2012[2] ("Dataset"). Each of these transactions involved a publicly traded company acquiring a controlling interest in (or the entirety of) another publicly traded company.

We observed that the transactions ranged in size from $1.0 billion to $41.0 billion across a variety of industries, notably healthcare, energy and information technology.

Transaction Value by Industry

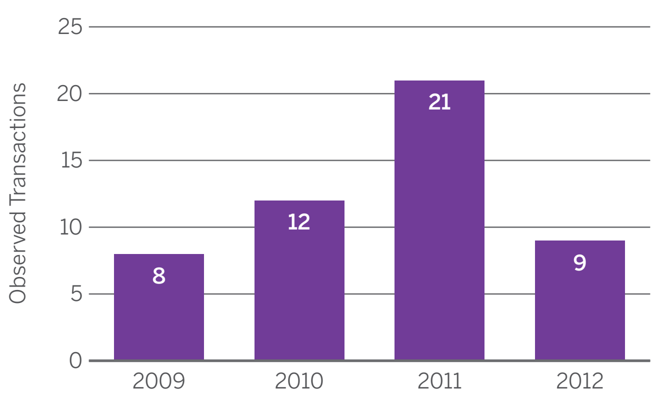
(in billions of USD)



Source: S&P Capital IQ, FTI Consulting Research

The following charts provide summary statistics of the underlying transactions:

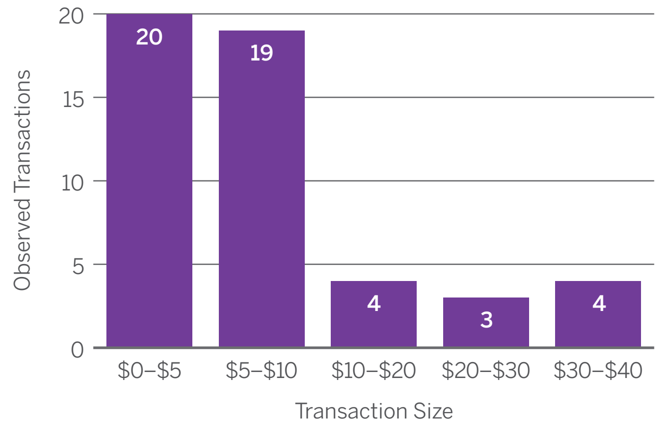
Transaction Count by Year



Source: S&P Capital IQ, FTI Consulting Research

Transaction Sizes

(in billions of USD)



Source: S&P Capital IQ, FTI Consulting Research

Across the Dataset, 95 fairness opinions were rendered for these 50 transactions. The majority of these opinions (71%) were associated with the sell-side. By extension, significantly more sell-side boards were interested in obtaining fairness opinions than were buy-side boards. For these boards, it would seem that the concern of selling too low was greater than the concern of overpaying.

Of the 95 fairness opinions rendered, 91% were provided by an investment bank. In these cases, the investment banks were receiving other consideration (often significant) in exchange for their broader role in the transaction. Only 9% of the opinions were rendered by independent advisors who did not appear to have another role in the transaction.

Frequently, there is more than one fairness opinion issued for a given transaction. When facing shareholder and market scrutiny, boards have acknowledged the benefit of multiple fairness opinions indicating consensus among advisors. Across the Dataset, FTICA observed that 46% of the transactions involved one fairness opinion, 28% involved two fairness opinions and 26% involved three or four fairness opinions.

A majority of the transactions involved going concern businesses changing hands, and the opinion providers considered a variety of methodologies in preparing their supporting analytics. Not surprisingly, the most frequently cited methodologies were the income approach[3] (using the discounted cash flow

2 Transaction data and all exhibits derived therefrom were sourced from S&P Capital IQ and public filings, including SEC S-4 Forms.

3 The income approach to valuation is based on the earnings power or cash generating abilities of the entity being valued, and focuses on determining a forecast cash flow stream that is reflective of the company's most likely operating results during the explicit forecast period. Such forecast cash flows then are discounted to present value based on the appropriate risk-adjusted discount rate or capitalization rate that is reflective of both the risk and long-term growth prospects of the subject company.

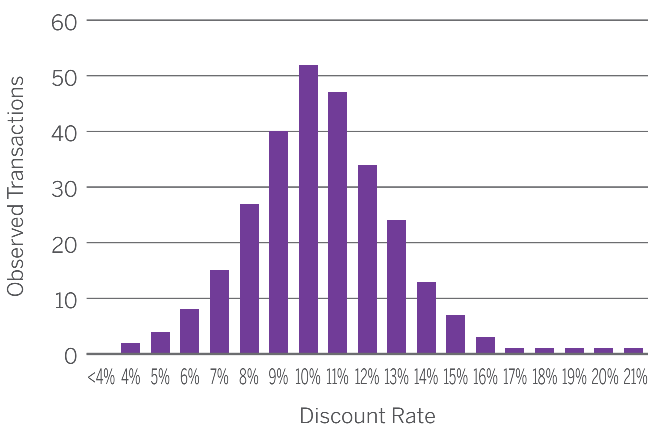
("DCF") method) and the market approach[4] (using comparable public companies or market transactions).

Across these fairness opinions rendered, 94% of the disclosures made specific reference to the DCF methodology, with 51% of such opinions including a specific reference to transaction synergies[5]. Interestingly, the implication is that a majority of these transactions were fair based on consideration of both buyer and seller contributions — in the form of deal synergies and strategic benefits. These transactions were evaluated on the merits of post-transaction integration versus standalone value. It is unclear how many transactions would have been considered fair absent such projected synergies and strategic benefits.

Under the DCF method, a discount rate is applied to a series of cash flows. In developing such discount rates, consideration typically is given to historical performance of debt and equity markets as well as to market transactions indicating terms of capital provided.

The following graphic portrays the range of observed discount rates across the opinions utilizing a DCF methodology:

Discount Rate Distribution



Source: S&P Capital IQ, FTI Consulting Research

Based on our analysis, there appears to be a broad range of discount rates used with a central tendency between 9% and 12%. (Note that when a range of discount rates was provided, each rate within that range was counted.) The discount rates generally can be interpreted as weighted average costs of capital—reflecting a blended cost of debt and equity. As debt is generally cheaper than equity, the implied costs of equity would be higher than the noted discount rates. For reference, the trailing 10-year and 20-year average annual returns of the S&P 500 Index ending December 31, 2009 through 2012 are shown in the following table:

Average Annual Returns of the S&P 500 Index
(including dividends)

Period Ending December 31,	10-Year Average	20-Year Average
2009	1.1%	9.9%
2010	3.5%	10.8%
2011	4.8%	9.3%
2012	8.6%	9.8%

As noted previously, opinion providers applied costs of equity in excess of 9% to 12%, which is considerably higher than the 10-year average equity market returns, which were unusually depressed by historical standards. Such judgment in deriving appropriate discount rates may reflect perceptions regarding the risk of underlying cash flow projections in the transactions, differences between perceived market risk compared to the risk of a single transaction or transaction-specific risks not reflected in overall market measures.

Across these fairness opinions, 96% made specific reference to a market approach, which involves the analysis of valuation ratios observed in public equity markets and/or during the acquisition of companies deemed similar to the subject company. Frequently, the market approach is used as a reasonableness test to the income approach.

FTICA observed that 51% of the fairness opinions considered a control premium. A control premium is defined as a value premium existing above a marketable minority interest[6] value. The control premiums applied appear to be meaningful in terms of the fairness opinions provided—although it is unclear if the transactions would have been considered fair from the advisors' perspective absent such control premiums.

As the transaction environment continues to improve with inexpensive financing and significant equity investors looking for more aggressive risk/return tradeoffs, the demand for fairness opinions likely will strengthen as well. Boards will continue to utilize fairness opinions as a basis for supporting transactional decisions in the eyes of markets and shareholders.

4 The market approach references actual transactions in the equity of the enterprise being valued or transactions in similar enterprises that are traded in the public markets. Under the market approach, indications of value are derived from the sale of shares of comparable public companies or comparable transactions, which would imply a price per unit for a given measure of financial performance. This "multiple" approach uses a market transaction multiple (e.g., P/E ratio) applied to the appropriate financial performance measure generated by the subject company in order to derive value.

5 Synergies represent the potential for the value of two companies combined to be greater than the sum of the standalone company values. This may be due to cost efficiencies, higher revenue growth or other opportunities available to the combined companies but not to the individual companies operating independently.

6 A control premium references an amount by which the pro rata value of a controlling interest exceeds the pro rata value of a non-controlling interest in a business enterprise, which reflects the monetary value of control. When investors contemplate an investment in a business or asset, a minority interest has a lower value than a controlling interest because the controlling interest can direct the operations of the business or assets without consideration of other parties.

FTICA Fairness Opinions

FTICA has distinguished itself as a leading independent global advisor in assessing, opining on and defending transaction fairness in a broad range of industries and transactional situations across the globe.

Given the increasingly litigious and regulated business environment, more lawyers are advising company directors to obtain objective and conflict-free fairness opinions, whether as a stand-alone or secondary opinion. FTICA's objectivity provides great comfort to boards of directors, special independent committees and the legal advisors involved in a transaction.

Fairness opinions are completed by FTI Capital Advisors, LLC, a 100% owned subsidiary of FTI Consulting, Inc. and a member of FINRA/SIPC.

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About FTI Consulting

FTI Consulting, Inc. is a global business advisory firm dedicated to helping organizations protect and enhance enterprise value in an increasingly complex legal, regulatory and economic environment. FTI Consulting professionals, who are located in all major business centers throughout the world, work closely with clients to anticipate, illuminate and overcome complex business challenges in areas such as investigations, litigation, mergers and acquisitions, regulatory issues, reputation management and restructuring.

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