

# Kassirer Merger Arbitrage Monitor: August 16th, 2018 – 4th Edition

(All figures expressed in USD)

Payment Type Summary	# Deals	Volume	Percent
Cash & Stock	16	285.8B	37.96
Stock	17	174.14B	23.13
Cash or Stock	6	148.49B	19.72
Cash	33	144.48B	19.19

## DEAL FLOW

Deal Flow continued to slow down from the rapid pace we saw in the first half of the year as we have only seen 6 deals MTD. Part of the decline is undoubtedly due to summertime slowdown, but for the most part we believe this quieter environment is largely attributable to new CFIUS legislation that has already passed both the House & Senate and is expected to be signed into law imminently. As expected, the bill's primary target is Chinese investment in U.S tech companies and companies with sensitive personal data of US citizens. The new provisions DO NOT apply to investments made by foreign limited partners as long as the fund is managed by a U.S General partner and the foreign LPs are not privy to sensitive technical information. As the market digests this new legislation and the Treasury creates regulation to implement it, we expect pent-up deal flow to be robust, especially in light of the rapid clip we saw in the first half of 2018.

Deal Size Breakdown	# Deals	Volume	Percent
> 10,000M	13	564.75B	18.06
5000.01-10,000M	14	100.26B	19.44
1000.01-5000M	33	78.91B	45.83
500.01-1000M	12	8.98B	16.67
<b>Pending Deal Count:</b>	<b>72</b>		

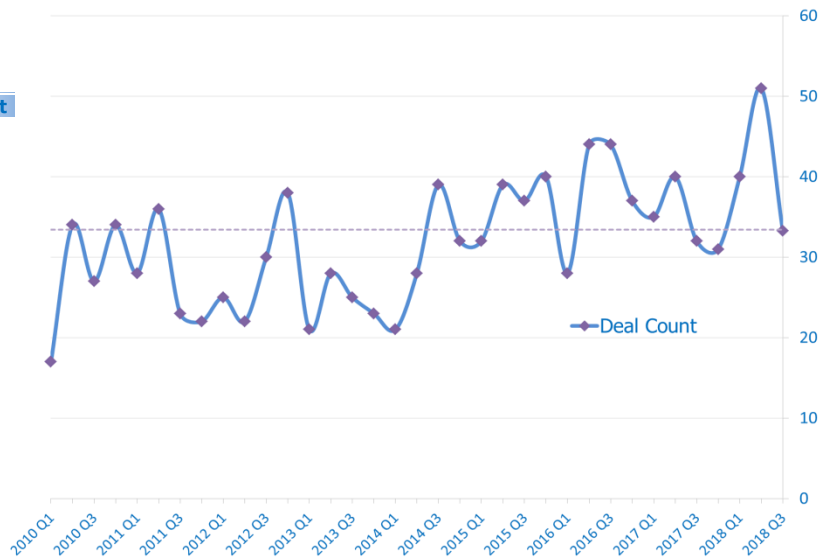
Nature of Bid Summary	# Deals	Volume	Percent
Friendly	65	716.77B	91.55
Unsolicited to Friendly	2	29.67B	2.82
Unsolicited	3	2.91B	4.23
Friendly to Hostile	1	953.02M	1.41

Premiums Paid	# Deals	Volume	Percent
>50%	5	29.5B	3.94
40.01-50%	1	1.3B	0.17
30.01-40%	10	147.98B	19.65
20.01-30%	11	116.07B	15.42
10.01-20%	22	308.84B	41.02
0-10%	13	49.55B	6.58

Target Industry Summary	# Deals	Volume	Percent
Basic Materials	4	6.8B	0.9
Communications	4	144.5B	19.19
Consumer, Cyclical	7	12.16B	1.61
Consumer, Non-cyclical	11	251.59B	33.42
Energy	5	101.04B	13.42
Financial	21	108.86B	14.46
Industrial	7	55.41B	7.36
Technology	8	41.74B	5.54
Utilities	5	30.8B	4.09
<b>Pending Deal Count:</b>	<b>72</b>		

**Deal Universe: Bloomberg Pending M&A / North American Public Target ex - L.P.'s.**

## Quarterly Deal Count



## Recent Announcements:

Announced	Target	Acquirer	Sector	Deal Size	Premium	Cash/Stock
8/14/2018	Energen Corp	Diamondback Energy Inc	Oil Exploration	9.1B	15.88	Cash
8/8/2018	Dun & Bradstreet	Thomas H Lee Partners	Data Processing	6.8B	14.06	Cash
8/1/2018	Enercare Inc	Brookfield Infrastructure Part	Rental Equipment	3.1B	56.41	Stock
7/26/2018	SUPERVALU Inc	United Natural Foods Inc	Food-Retail	3.12B	53.76	Cash
7/23/2018	LifePoint Health Inc	RegionalCare Hospital Partners	Medical-Hospitals	5.3B	32.63	Cash

## Recent Completions:

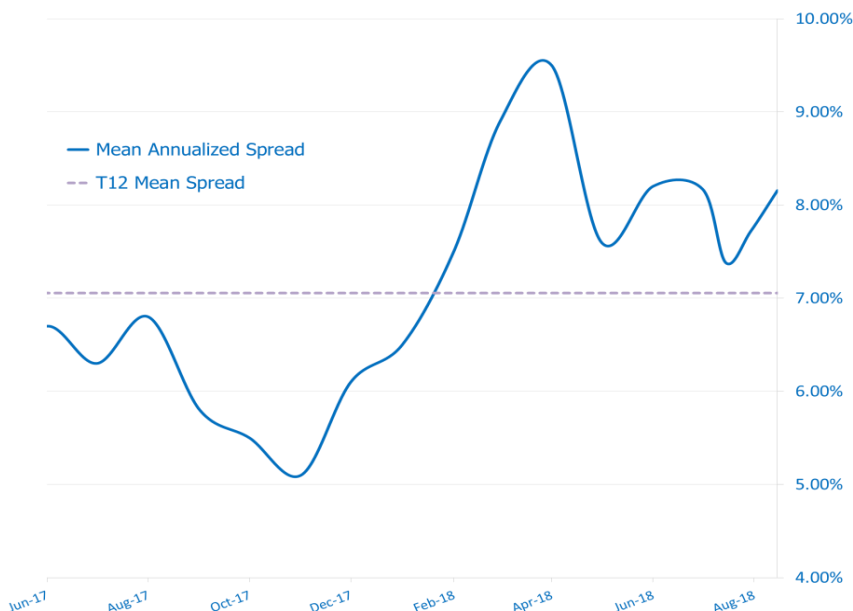
Closed	Target	Acquirer	Sector	Deal Size	Cash/Stock
13-Aug-18	Arizona Mining Inc	South32 Ltd	Non-Ferrous Metals	1.6B	Cash
1-Aug-18	Abaxis Inc	Zoetis Inc	Medical Instruments	1.7B	Cash
27-Jul-18	Quality Care Properties Inc	Welltower Inc	REITS-Health Care	3.4B	Cash
19-Jul-18	RSP Permian Inc	Concho Resources Inc	Oil Comp-Explor&Prodtn	9.2B	Stock
18-Jul-18	Validus Holdings Ltd	American International Group I	Reinsurance	5.4B	Cash

# Kassirer Merger Arbitrage Monitor: Spreads

(All figures expressed in USD)

Deal Universe Annualized Spreads

<b>Pending Deal Universe</b>	
Pending Deal Pool (\$B):	746.80
Arbitrage Potential Profit Pool (\$B)	40.80
# Deals with positive Spreads	56
# Deals with negative spreads	13



<b>Pending Deal Spreads</b>	
Annual Deal-Weighted Average Spread	11.31%
Median Spread	7.00%
Average Spread	8.16%

<b>Market Cap</b>	
Annual	
<\$1B	6.89%
1 - \$5B	7.45%
>\$15B	11.31%

Deal Universe: Bloomberg Pending M&A / North America Public Target ex - L.P's.

## Spread Commentary:

The current average spread of 8.16% remains somewhat elevated relative to its historical average, but has tightened since early spring levels of approximately 10%. We believe spreads will continue to remain volatile as we churn through a rising interest rate cycle and continue to face increased trade tensions / regulatory uncertainty. We calculate the current aggregate arbitrage profit pool to be ~\$40B, significantly more supply than the T12 average of ~ \$35B, which should present near-term opportunities in a volatile spread environment.

## Post-Mortem: Terminated Transactions:

Termination Date	Target Name	Acquirer Name	Sector	Cash Terms
8/10/2018	Tribune Media	Sinclair Broadcast Group	Media	43.5/sh.

On May 9th 2017, Tribune announced a definitive agreement to be acquired by Sinclair Broadcast Group for \$35 Cash and 0.23 SBGI shares. This deal had an unusual amount of 'moving parts' (mostly on the regulatory front) that were extremely difficult to quantify as is evident in the spread volatility throughout deal term. Within 2 weeks of deal announcement TRCO traded wide at 11% PERIOD return reflecting industry policy groups efforts to get the FCC to overturn the discount rule that paved the way for this merger. By January 2018, the market implied probability of deal failure was virtually zero as the deal traded at ~2% annualized. In April 2018 the FCC raised concerns that the divestiture package offered by Sinclair was not in compliance because the purchasing parties were not at arm's length. For months the FCC clearly stated they wanted to see "more air" between Sinclair and divestiture buyers but rather than do so, the FCC charged that Sinclair engaged in deception and referred the matter for the courts to decide. The merger agreement was subsequently terminated August 10<sup>th</sup>.

Termination Date	Target Name	Acquirer Name	Sector	Cash Terms
7/25/2018	NXP Semi	Qualcom Inc.	Semiconductors	127.5/sh.

On October 27th 2016, Qualcomm announced a definitive agreement to acquire NXP for \$110 per share which was subsequently bumped to \$127.5 in February 2018. During this 15-month time-frame, the primary point of contention for most arbs was the risk that shareholders would not tender into the \$110 offer. After the February bump the market immediately priced in a >90% probability of closing, at least for a few days. As Broadcom's hostile approaches toward Qualcomm became increasingly aggressive in March, CFIUS pre-emptively blocked Broadcom's ability to pursue NXP's Acquirer (Qualcomm) and it became increasingly clear that NXP's approval by Mofcom would likely be used as a weapon in the ongoing trade US/China trade war. Despite Mofcom/Samr denials, one must conclude the deal was blocked by China in July, which represents an escalation in trade conflict and likely warrants retaliation by the U.S, especially in light of the U.S's removal of the ban on ZTE.

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