The opinions set forth in this Presentation are solely observations of JHL Capital Group LLC, and do not constitute investment advice or recommendations.

Conglomerate Boom 2.0: A Stable Platform?
October 20, 2015
This Presentation includes certain economic observations of JHL Capital Group LLC ("JHL"), and does not purport to give any form of investment advice.

There can be no assurance that the observations of JHL included in this Presentation are accurate, much less in any respect predictive of the value or future stock prices of any of the issuers with respect to which such observations are made.

JHL, in compiling this Presentation, has relied on information (including anecdotal information) obtained from third parties which JHL believes to be accurate but has no ability independently to verify.

JHL may hold certain positions which create a conflict of interest on the part of JHL in making the observations in this Presentation.

No one should rely on any of the observations made in this Presentation in making any investment decision; these observations are presented solely for the information of the recipient.

This is not an offering or the solicitation of an offer to purchase an interest. Any such offer or solicitation will be made to qualified investors only by means of a final offering memorandum and only in those jurisdictions where permitted by law.
Easy access to capital fueled housing investment in the 2000s and energy investment in the post-financial crisis era.

Source: Bloomberg, Evercore ISI, JHL research.

Global E&P Spending and US Private Fixed Residential Investment


Global E&P Spending (1985=100)  
US Private Fixed Residential Investment (1977=100)

Source: Bloomberg, Evercore ISI, JHL research.
A major boom in conglomerate formation occurred in the 1960s driven by low interest rates, muted economic growth and investors’ focus on earnings growth.

Low interest rates depressed the cost of capital and encouraged investors to move into riskier assets.


“Go-Go” fund managers or “gunslingers” focused on earnings growth independent of how it was generated, and developed an affinity for conglomerate stocks.

With a low cost of equity capital, high perceived corporate synergies and limited growth opportunities, investors paid ever-increasing multiples for acquisition-led growth.
# The 1960s Conglomerate Boom Index Companies

<table>
<thead>
<tr>
<th>Company</th>
<th>Industries</th>
<th>Leader</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gulf &amp; Western Industries Inc.</td>
<td>Auto-parts, movie production, machinery, cigars, sugar production</td>
<td>Charles Bluhdorn</td>
</tr>
<tr>
<td>International Telephone &amp; Telegraph Corp. (ITT)</td>
<td>Telecommunications, hotels, education, baked goods, rental cars</td>
<td>Harold Geneen</td>
</tr>
<tr>
<td>Leasco Data Processing Equipment Corp.</td>
<td>Computer leasing, insurance</td>
<td>Saul Steinberg</td>
</tr>
<tr>
<td>Ling-Temco-Vought Inc. (LTV)</td>
<td>Electronics, missiles, golf equipment, meat packing, pharmaceuticals</td>
<td>Jimmy Ling</td>
</tr>
<tr>
<td>Litton Industries Inc.</td>
<td>Military electronics, submarines, typewriters, frozen foods, publishing</td>
<td>Tex Thornton</td>
</tr>
<tr>
<td>Monogram Industries Inc.</td>
<td>Manufacturing, airplane toilets, electrical insulation</td>
<td>Martin Stone</td>
</tr>
<tr>
<td>Ogden Corp.</td>
<td>Scrap metal, shipbuilding, cargo handling, food service</td>
<td>Charlie Allen</td>
</tr>
<tr>
<td>Teledyne Inc.</td>
<td>Electronics, aerospace, microwaves, hydraulics, optics, steel</td>
<td>Henry Singleton</td>
</tr>
<tr>
<td>Textron Inc.</td>
<td>Textiles, gas meters, golf carts, helicopters, radar antennas, watchbands</td>
<td>Roy Little</td>
</tr>
<tr>
<td>United States Industries, Inc.</td>
<td>Automation machinery, robotics, steel, concrete pipe, textiles</td>
<td>John Snyder</td>
</tr>
</tbody>
</table>

An index of 10 conglomerates appreciated 608% from August 1962 to July 1968, outperforming the S&P 500 Index by 531%.
The 1960s Conglomerate Bust

Earnings growth failed to keep up with inflated expectations. Rising interest rates and a stalling economy resulted in lower stock prices. The conglomerates then crashed swiftly.

- Acquisitions grew in size to maintain the momentum
- The top of the market was a failed attempt by Saul Steinberg to acquire Chemical Bank in 1969

Reality Failed to Meet Inflated Expectations

- 10 year interest rates rose from 4% in 1963 to 8% in 1969
- Earnings disappointments drove stock prices lower

Interest Rates Rose and Stock Prices Declined

- Lower stock prices and higher interest rates forced management teams to shed assets in the 1970s and 1980s

Conglomerates Restructured
The 1960s Conglomerate Boom – Bust Cycle

From its peak in July 1968, the Conglomerate Index declined by 79% over the next two years.

Source: Chicago Booth Center for Research in Security Prices, JHL research.
Leasco, with $236 million in equity capital, attempted to take over Chemical Bank, the sixth largest US bank, with $9 billion in assets. The financial establishment united against Saul Steinberg.

Leasco Data Processing Equipment Corporation Stock Price

SEPTEMBER 27, 1966 – AUGUST 14, 1970

+5,495% in 4 years

Aug 1, 1968:
Reliance accepts Leasco’s tender offer

Mar 1968:
Leasco begins secretly buying Reliance Insurance stock

IPO(1)

Jan 31, 1969: Leasco’s takeover plans for Chemical Bank are disclosed

Feb 20, 1969:
Steinberg ends Chemical Bank takeover attempt

Aug 1, 1968:
Reliance accepts Leasco’s tender offer

Feb 20, 1969:
Steinberg ends Chemical Bank takeover attempt

Mar 1968:
Leasco begins secretly buying Chemical Bank stock

(25%) over two weeks: Abrupt selling of large trading blocks... bear raid led by Chemical Bank?

(87%) in 17 months

(1) Leasco filed for IPO in June 1965, but traded OTC until September 27, 1966.
An index of the four REITs with special tax privileges appreciated 290% over three years. The index plummeted 70% over the next year as President Clinton proposed regulations curbing their loopholes.

Even in a bull market, Paired-Share REITs had a devastating boom-bust cycle once the arbitrage peaked and became “front page news.”

Starwood was much smaller by market cap, but its high-priced stock provided Barry Sternlicht the currency to go after ITT Sheraton Corp – itself a remnant of Harold Geneen's 1960s conglomerate.
A new conglomerate boom developed in the aftermath of the 2008 economic crisis, driven by many of the same variables as in the 1960s. This new boom has been enhanced with tax arbitrage similar to the Paired-Share REIT boom.

**LOW AND STABLE INFLATION AND INTEREST RATES**

Low interest rates and financial repression depressed the cost of capital and encouraged investors to move into riskier assets.

**MUTED ECONOMIC GROWTH**

Post 2008 crisis growth rates have repeatedly disappointed.

**INVESTORS’ APPETITE FOR EARNINGS GROWTH**

Hedge funds focused on earnings growth independent of how it was generated, and developed an affinity for platform stocks.

With a low cost of debt capital, high perceived corporate and/or tax synergies and limited growth opportunities, investors paid ever-increasing multiples for acquisition-led growth.
## The Platform Boom Index Companies

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>Industry</th>
<th>Stock Price (1)</th>
<th>MCap (bn)</th>
<th>TEV (bn)</th>
<th>TBV (bn)</th>
<th>TBV/Share</th>
<th>EV/EBITDA</th>
<th>P/E Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allergan plc</td>
<td>AGN</td>
<td>Health Care</td>
<td>$274.08</td>
<td>$114.3</td>
<td>$156.7</td>
<td>$(52.4)</td>
<td>$(125.55)</td>
<td>18.4x</td>
<td>38.8x</td>
</tr>
<tr>
<td>Altice</td>
<td>ATC NA</td>
<td>Consumer Discretionary</td>
<td>22.68</td>
<td>24.8</td>
<td>61.5</td>
<td>(23.6)</td>
<td>(21.58)</td>
<td>9.5</td>
<td>10.8</td>
</tr>
<tr>
<td>AMAG Pharmaceuticals Inc.</td>
<td>AMAG</td>
<td>Health Care</td>
<td>38.85</td>
<td>1.6</td>
<td>2.0</td>
<td>(0.4)</td>
<td>(8.42)</td>
<td>8.7</td>
<td>11.1</td>
</tr>
<tr>
<td>Anheuser-Busch InBev</td>
<td>BUD</td>
<td>Consumer Staples</td>
<td>115.13</td>
<td>188.4</td>
<td>237.1</td>
<td>(50.5)</td>
<td>(30.86)</td>
<td>13.6</td>
<td>21.7</td>
</tr>
<tr>
<td>Avago Technologies</td>
<td>AVGO</td>
<td>Information Technology</td>
<td>121.87</td>
<td>36.3</td>
<td>38.9</td>
<td>(0.9)</td>
<td>(3.08)</td>
<td>10.6</td>
<td>25.2</td>
</tr>
<tr>
<td>Concordia Healthcare Corp.</td>
<td>CXR CN</td>
<td>Health Care</td>
<td>31.64</td>
<td>1.4</td>
<td>2.0</td>
<td>(1.1)</td>
<td>(26.10)</td>
<td>8.3</td>
<td>2.3</td>
</tr>
<tr>
<td>Danaher Corp.</td>
<td>DHR</td>
<td>Industrials</td>
<td>89.06</td>
<td>59.9</td>
<td>73.7</td>
<td>(12.8)</td>
<td>(19.01)</td>
<td>15.4</td>
<td>23.0</td>
</tr>
<tr>
<td>Endo International plc</td>
<td>ENDP</td>
<td>Health Care</td>
<td>66.60</td>
<td>15.3</td>
<td>25.6</td>
<td>(1.8)</td>
<td>(7.87)</td>
<td>17.9</td>
<td>35.8</td>
</tr>
<tr>
<td>Hain Celestial Group</td>
<td>HAIN</td>
<td>Consumer Staples</td>
<td>51.94</td>
<td>5.5</td>
<td>6.2</td>
<td>(0.0)</td>
<td>(0.12)</td>
<td>14.5</td>
<td>23.7</td>
</tr>
<tr>
<td>Horizon Pharma Inc.</td>
<td>HZNP</td>
<td>Health Care</td>
<td>18.55</td>
<td>3.1</td>
<td>3.7</td>
<td>(0.7)</td>
<td>(4.18)</td>
<td>13.9</td>
<td>265.0</td>
</tr>
<tr>
<td>Jarden Corp.</td>
<td>JAH</td>
<td>Consumer Discretionary</td>
<td>49.85</td>
<td>11.9</td>
<td>16.5</td>
<td>(2.9)</td>
<td>(12.03)</td>
<td>13.4</td>
<td>18.0</td>
</tr>
<tr>
<td>Jazz Pharmaceuticals</td>
<td>JAZZ</td>
<td>Health Care</td>
<td>136.65</td>
<td>8.9</td>
<td>9.4</td>
<td>(0.5)</td>
<td>(7.71)</td>
<td>11.7</td>
<td>25.1</td>
</tr>
<tr>
<td>The Kraft Heinz Company</td>
<td>KHC</td>
<td>Consumer Staples</td>
<td>75.22</td>
<td>91.9</td>
<td>120.3</td>
<td>(9.7)</td>
<td>(7.91)</td>
<td>17.4</td>
<td>28.4</td>
</tr>
<tr>
<td>Liberty Global plc</td>
<td>LBTYA</td>
<td>Consumer Discretionary</td>
<td>45.80</td>
<td>40.9</td>
<td>81.3</td>
<td>(23.7)</td>
<td>(25.71)</td>
<td>9.7</td>
<td>(60.1)</td>
</tr>
<tr>
<td>Mallinckrodt Pharmaceuticals</td>
<td>MNK</td>
<td>Health Care</td>
<td>66.90</td>
<td>8.1</td>
<td>14.6</td>
<td>(6.6)</td>
<td>(54.67)</td>
<td>10.5</td>
<td>24.6</td>
</tr>
<tr>
<td>Medtronic</td>
<td>MDT</td>
<td>Health Care</td>
<td>73.43</td>
<td>106.2</td>
<td>123.5</td>
<td>(15.5)</td>
<td>(10.75)</td>
<td>12.3</td>
<td>22.4</td>
</tr>
<tr>
<td>Mylan N.V.</td>
<td>MYL</td>
<td>Health Care</td>
<td>42.73</td>
<td>22.1</td>
<td>28.0</td>
<td>(2.5)</td>
<td>(4.77)</td>
<td>9.4</td>
<td>20.0</td>
</tr>
<tr>
<td>Perrigo Company plc</td>
<td>PRGO</td>
<td>Health Care</td>
<td>162.62</td>
<td>23.9</td>
<td>28.4</td>
<td>(4.7)</td>
<td>(31.79)</td>
<td>18.3</td>
<td>78.9</td>
</tr>
<tr>
<td>Platform Specialty Products</td>
<td>PAH</td>
<td>Materials</td>
<td>12.59</td>
<td>2.7</td>
<td>6.2</td>
<td>(3.2)</td>
<td>(14.83)</td>
<td>11.0</td>
<td>139.9</td>
</tr>
<tr>
<td>Post Holdings Inc.</td>
<td>POST</td>
<td>Consumer Staples</td>
<td>60.49</td>
<td>4.1</td>
<td>8.6</td>
<td>(3.5)</td>
<td>(50.98)</td>
<td>13.4</td>
<td>(103.0)</td>
</tr>
<tr>
<td>Spectrum Brands Holdings</td>
<td>SPB</td>
<td>Consumer Staples</td>
<td>92.71</td>
<td>5.6</td>
<td>9.9</td>
<td>(3.4)</td>
<td>(56.33)</td>
<td>12.3</td>
<td>26.8</td>
</tr>
<tr>
<td>Thermo Fisher Scientific</td>
<td>TMO</td>
<td>Health Care</td>
<td>125.47</td>
<td>50.8</td>
<td>64.4</td>
<td>(11.5)</td>
<td>(28.43)</td>
<td>15.4</td>
<td>25.4</td>
</tr>
<tr>
<td>TransDigm Group Inc.</td>
<td>TDG</td>
<td>Industrials</td>
<td>215.06</td>
<td>12.3</td>
<td>20.1</td>
<td>(6.4)</td>
<td>(112.81)</td>
<td>16.4</td>
<td>28.6</td>
</tr>
<tr>
<td>Valeant Pharmaceuticals</td>
<td>VRX</td>
<td>Health Care</td>
<td>168.87</td>
<td>59.3</td>
<td>91.5</td>
<td>(33.9)</td>
<td>(96.67)</td>
<td>16.3</td>
<td>61.5</td>
</tr>
</tbody>
</table>

From March 2009, to its peak on July 20, 2015, the Platform Boom Index surged almost 1,000% during a period when the S&P 500 Index rose 215%.
The new buzzword is Zero-Based Budgeting.

"They disdained dividends, made disciplined (occasionally large) acquisitions, used leverage selectively, bought back a lot of stock, minimized taxes, ran decentralized organizations, and focused on cash flow over reported net income."

- William N. Thorndike

Bill Anders (General Dynamics)  Tom Murphy (Capital Cities)
Warren Buffett (Berkshire Hathaway)  Henry Singleton (Teledyne)
Katharine Graham (The Washington Post)  Dick Smith (General Cinema)
John Malone (TCI)  Bill Stiritz (Ralston Purina)
Branded pharmaceuticals typically have a maximum patent life of 20 years. Historically, generic drugs have had annual price declines.

GAAP earnings are lower for a reason. The amortization is real.

(1) Healthcare companies in Platform Boom Index.
Source: Bloomberg consensus, midpoint of company guidance when available, company filings, JHL research.
Aggressive price inflation may not be sustainable in healthcare or other sectors as cyclical and regulatory pressures surface.

Tax arbitrage has been a critical value driver for many platform companies.
Leverage for the Platform Boom Index companies has increased dramatically over time.

Platform companies have accessed low cost debt financing for an accelerating volume of acquisitions.

Will deals still prove accretive in a more normalized interest rate environment?

(1) Includes deals announced but not closed. Debt issuance expected as stated by company press releases.
Source: Company filings, Capital IQ, Bloomberg, JHL research.
“In recent months, there have been reports of a number of corporate inversion transactions designed to change the tax domicile of a U.S.-based multinational firm with minimal change in its business operations… we should prevent companies from effectively renouncing their citizenship to get out of paying taxes.”

– Jacob Lew, U.S. Secretary of the Treasury, July 15, 2014

“Price gouging like this in the specialty drug market is outrageous. Tomorrow I’ll lay out a plan to take it on.”

– Hillary Clinton, Sep 21, 2015

“Exclusive: U.S. probes allegations AB InBev seeking to curb craft beer distribution”

– Reuters, Oct 12, 2015

“Valeant subpoenaed by U.S. prosecutors over U.S. drug pricing”


The Federal political pressure has begun. It’s “front page news.”
The State political pressure has begun. It's “front page news.”
The prevailing wisdom of “lower for longer” will not last forever. A rising interest rate environment, global macroeconomic weakness and/or stock market volatility may further pressure today’s conglomerates.

- Acquisitions have grown in size making integration difficult
- Regulators questioning aggressive pricing, tax practices and anti-competitive behavior

**Reality Fails to Meet Inflated Expectations**

- Fed ended asset purchases in October 2014
- Equity market volatility has increased in the second half of 2015
- Rising debt costs and deflated share prices will slow down pace of acquisitions

**Interest Rates and Stock Market Volatility Rising**

- Cost discipline cannot indefinitely offset volume and/or intangible asset value declines
- Break in psychology
- When will investors become more focused on earnings quality?

**Conglomerates will Experience Pressure**
Since March 2009, the Platform Boom Index surged almost 1,000% during a period when the S&P 500 Index rose 215%. Since July 20, 2015, the Platform Boom Index has plummeted 24%.

Source: Bloomberg, JHL research.
Michael Pearson led Valeant through a series of acquisitions, including a tax inversion, that fueled strong stock performance. The shares have started to rerate on regulatory scrutiny over aggressive pricing policy.

---

**Valeant Pharmaceuticals International Stock Price**

**JANUARY 2, 2008 – OCTOBER 15, 2015**

- **Feb 4, 2008:** Michael Pearson becomes Valeant CEO
- **Jun 21, 2010:** Valeant merges with Biovail and relocates to Canada
- **May 28, 2013:** Valeant acquires Bausch & Lomb
- **Nov 17, 2014:** Actavis acquires Allergan
- **Feb 22, 2015:** Valeant acquires Salix Pharma
- **Apr 22, 2014:** Valeant announces proposal to acquire Allergan
- **Sep 21, 2015:** Hillary Clinton tweets about pharma price gouging
- **Sep 28, 2015:** US House Democrats launch investigation into drug pricing and request to subpoena Valeant
- **Oct 15, 2015:** Valeant under investigation by Federal prosecutors

**Source:** Bloomberg, Wall Street Journal, Valeant and Actavis press releases, Twitter, JHL research.
Regardless of one’s view of this “Platform Value,” it now makes little sense for a creditor to want to be long this risk. Valeant’s five-year spreads have widened 160 bps in the last month.

Source: Company filings, JHL research.
Leasco reached too far and was killed politically. This process has begun for Valeant.

Leasco Data Processing Equipment Corporation Stock Price
SEPTEMBER 27, 1966 – AUGUST 14, 1970

Valeant Pharmaceuticals International Stock Price
JANUARY 2, 2008 – OCTOBER 15, 2015

(1) Leasco filed for IPO in June 1965, but traded OTC until September 27, 1966.
Source: Bloomberg, Chicago Booth Center for Research in Security Prices, JHL research.
The platform boom was larger and more prolonged than the 1960s bubble, exacerbated by financial repression, low cost debt and tax arbitrage.

### Conglomerate Indices vs. S&P 500 Indices


<table>
<thead>
<tr>
<th>Platform Boom Index</th>
<th>Current S&amp;P 500 Index</th>
<th>1960s Conglomerate Index</th>
<th>1960s S&amp;P 500 Index</th>
</tr>
</thead>
</table>

Source: Bloomberg, Chicago Booth Center for Research in Security Prices, JHL research.
“We did set an aspirational target to be a top five pharma company by the end of 2016. A couple years ago, about the same time we set the aspiration of being a top 15 pharma company by the end of 2013, which a lot of people were highly skeptical of, but fortunately we were able to do that and so we figured that would be about $150 billion market cap roughly…”

– Michael Pearson, CEO of Valeant Pharmaceuticals

“We’d love to take a look at Coca-Cola… We could run it with 200 people.”

- Jorge Lemann, Co-founder of 3G Capital

“We’ll buy a second, a third and one day we’ll be able to say: ‘Hello Mr. Comcast!’ or ‘Hello, Mr. Charter!’”

- Patrick Drahi, Founder of Altice

When an Outsider meets a cycle, it is likely the cycle whose reputation will remain intact.
All platform companies will be affected now that the feedback loop has gone into reverse.

<table>
<thead>
<tr>
<th></th>
<th>v1.0</th>
<th>v2.0</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Company</strong></td>
<td>1960s</td>
<td>PLATFORMS</td>
</tr>
<tr>
<td>Leasco</td>
<td>Teledyne</td>
<td>Valeant</td>
</tr>
<tr>
<td>Saul Steinberg</td>
<td>Henry Singleton</td>
<td>Michael Pearson</td>
</tr>
<tr>
<td>Perception</td>
<td>Bad</td>
<td>Good</td>
</tr>
</tbody>
</table>
| Peak-to-Trough Decline | (87%) | (89%)                         | [40%]?       | KHC [14%]? | ABI BB [23%]?

Source: Bloomberg, JHL research.
Serial acquirer Anheuser-Busch InBev’s stock price is faltering as the company announces the largest consumer acquisition ever.

Anheuser-Busch InBev Stock Price

JANUARY 2, 2008 – OCTOBER 15, 2015

- **Nov 18, 2008:** Merger of Anheuser-Busch and InBev is completed
- **Mar 28, 2011:** AB InBev acquires Goose Island Brewery
- **Feb 5, 2014:** AB InBev acquires Blue Point Brewing
- **Nov 5, 2014:** AB InBev acquires 10 Barrel Brewing
- **Jan 23, 2015:** AB InBev acquires Elysian Brewing
- **Oct 13, 2015:** AB InBev announces SABMiller acquisition for $106bn

+1,052% in 7 years

Looming Debt Maturities are Larger than in 2009

Companies will very likely have to refinance their debts at higher interest rates.

US High-Yield and Leveraged Loan Maturities ($ in billions)

Source: Credit Suisse, JHL research.
This cycle has been the largest bull market in history, relative to nominal GDP growth.

- S&P 500 Index return is greater than GDP growth
  - 1982-1987: 14%
  - 2009-2015: 14%

- GDP growth is greater than S&P 500 Index return
  - 1966-1970: (2%)
  - 1970-1973: 0%
  - 1974-1982: (2%)
  - 1982-1987: 5%
  - 1987-2001: 8%
  - 1994-1957: 7%
  - 2002-2008: 3%

Increasing Duration of Bull Market

Source: Bloomberg, JHL research.
DEATH, TAXES & CYCLES
Conglomerate Boom 2.0: A Stable Platform?
October 20, 2015

The opinions set forth in this Presentation are solely observations of JHL Capital Group LLC, and do not constitute investment advice or recommendations.

Strictly confidential. Not for public distribution.
© 2015 JHL Capital Group LLC. All rights reserved.