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Gabelli Merger Arbitrage Update – NXP Semiconductors

It was announced yesterday evening that Qualcomm will no longer pursue its offer to acquire NXP Semiconductors as the deadline for the deal passed last night without receiving antitrust approval from China's State Administration for Market Regulation ("SAMR"), which was the last regulatory approval needed to complete the transaction. After the close yesterday, Qualcomm reported earnings and subsequently announced a $30 billion share buyback program in the absence of receiving approval from SAMR.

As background, NXP agreed to be acquired by Qualcomm for $110 cash per share in October 2016. Under pressure from activists, the deal price was raised to $127.50 in February 2018. Ultimately, it is our view that the merger became a victim of the US-China trade war.

We owned NXP because we saw the deal as both strategically and financially compelling for Qualcomm. It would have diversified Qualcomm's revenue base and been strongly accretive to EPS. While we did not view antitrust as a risk, we underestimated the impact that Sino-US trade relations ultimately had on the fate of the deal.

With NXP now trading in the low $90s, we will follow the same sale discipline that we have in past deals, and exit the position opportunistically. There will be pressure on the stock, as hedge funds sell their positions, but there are several positives that may lend support to NXP going forward. Firstly, they will receive a $2 billion termination fee which translates to about $5.80/share. Secondly, management held a conference call today and their general tone was upbeat. The company today announced a $5 billion buyback, approximately 15% of the shares outstanding. Post buyback, NXP will have leverage below 1x EBITDA, less than it has historically had. NXP now trades at trough multiples, below 10x EBITDA, and derives over 40% of sales from the automotive segment, one of the fastest growing segments in the semiconductor space given the increase in electronic contents and shift toward hybrid and electric vehicles. Our fundamental technology analyst has a 2018 PMV for NXP of $115 per share. Even though the 12x EBITDA multiple he uses to get to that PMV is below the average multiple of NXP comps, we expect the stock to trade at a discount to his $115 price. This and like every transaction in our portfolio, we leverage our value research team, which when looking at opportunities, focuses on industry knowledge to help our team better understand the various deal dynamics, including where a company could trade in the event of a deal break.

Back to basics- While our mandate is to invest in announced deals, we do not have to immediately sell a position absent of a deal if a stock is trading below what we believe to be its

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fundamental value. Given historical multiples for the sector and where NXPI trades today, along with the added pressure of forced sellers, we will opportunistically exit the position as the trading activity begins to normalize.

More broadly, June capped another quarter of vibrant M&A activity, bringing worldwide M&A activity to $2.5 trillion for the first half of 2018, which was an increase of 61% over the same period in 2017, a record. Cross border dealmaking had its best quarter since 2007, totaling $1 trillion in the first half, or 41% of total M&A. Additionally, deals held within the portfolio continue to close and the portfolio remains well diversified with roughly 50 transactions.

We continue to believe it to be an opportune time to allocate to our merger arbitrage portfolio alongside our partner capital and we expect further positive performance in the coming months as deals continue to progress toward closing independent of the broader equity and fixed income markets. We have the dry powder to take advantage of mark to market dislocations as they arise. Our conservative and disciplined research-driven approach positions us well to invest strategically within the funds, as we continue to focus on individual deal risk and not broader market volatility.

Our process is the same as when we began since our first dedicated merger portfolio launched in 1985. We expect the current robust deal environment will continue and offer us attractive opportunities aimed at our objective to compound and preserve wealth over time. If you have any comments or questions, we can be reached directly at +1-914-921-5135; +44 20 3206 2100; +39 02 3057 8299 or at GMPassist@gabelli.com. Thank you for investing alongside our partner capital.

[see next page for disclaimer and important information]

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