

Mergers & Acquisitions (M&A) Update

First Quarter 2020

Market Activity Begins to See Impact of COVID-19

Executive Summary

In our year-end 2019 Capital Markets Review, we discussed potential headwinds for the economy and M&A activity. The stock market was on a record 11-year bull market run. Valuations were at their high over the last 10 years. The question was whether the peaks would sustain themselves or gradually decline.

Then the first quarter happened. The global spread of the coronavirus. An oil price war between major producers. A stock market decline into bear territory in record time.

Corporations bolstered their cash reserves, heeding caution to economic uncertainty. With the global pandemic underway, corporations continue to preserve – and raise - cash as cash receipts slow¹. The result has had an unsurprising effect on mergers and acquisitions (M&A) activity.

We anticipate that the second quarter activity will be slower than the first, given that (1) the first quarter only reflects a few weeks of the aftermath and (2) there is typically a timing lag as deals move through a pipeline. While deals that were in-process when coronavirus hit may be terminated, we believe a significant number will still proceed after being temporarily paused. With that said, deals originally targeted for Q2 may slip into Q3 or Q4.

However, there is still demand for high-quality companies, particularly those in defensible or promising industries, as evidenced by notable activity among pharmaceutical companies. Many corporations will need to make acquisitions to help extend their product or service offerings, streamline operations, or proactively grab market share from weaker competitors.

At the same time, private equity funds have record amounts of dry powder to invest. While large sums are being directed to support current portfolio companies, we have seen a significant uptick in the outreach from funds seeking new investments in recent weeks.

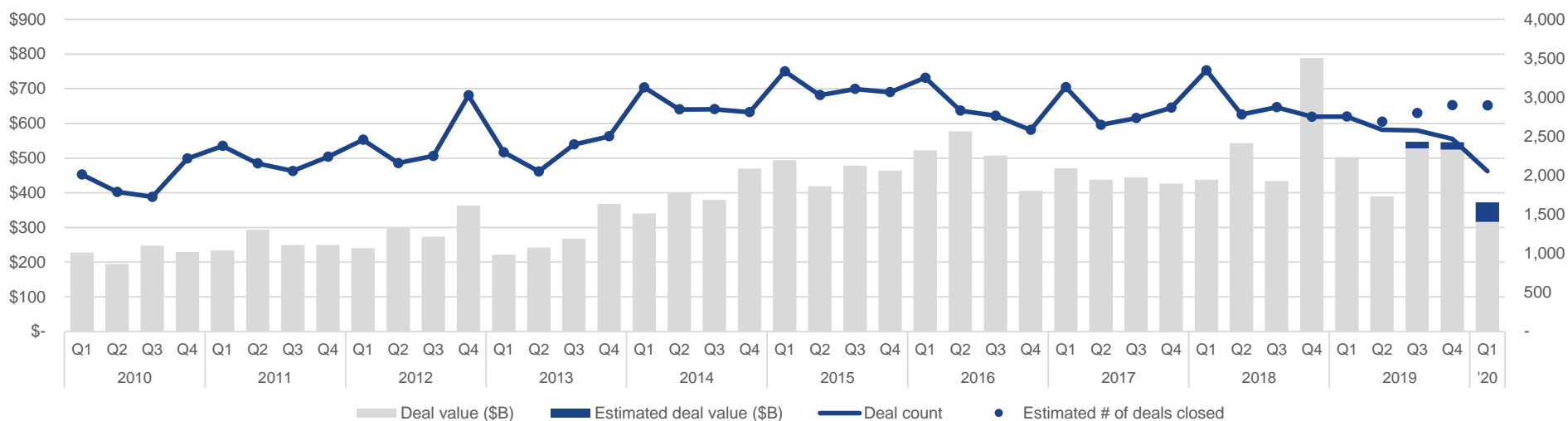
As always, contact us if you would like to discuss activity, valuations, or other trends in your industry.

Q1 M&A Highlights

- Global and national M&A activity declined during the quarter, subject to new reportings, with some estimates of US deal consideration declining as much as 50% year over year
- Midwest M&A held relatively stable ground with a smaller percent decline of deal volume in Q1, as impacts of the virus took longer to penetrate the Heartland
- Valuations declined during the quarter, reflecting lower demand for deals. The decline in valuations was more pronounced in deals led by strategic acquirers as opposed to financial acquirers
- Despite the decline in valuations compared to the last several years, the average deal valuation in Q1 is still slightly above the 10-year average
- Energy was among the hardest hit sectors, with the number of deals completed falling as much as 46% year over year and 35% sequentially from the fourth quarter, as the price of oil collapsed in March

US M&A Value Declines on Lack of Mega-Deals

Quarterly US M&A Activity¹



US M&A Highlights

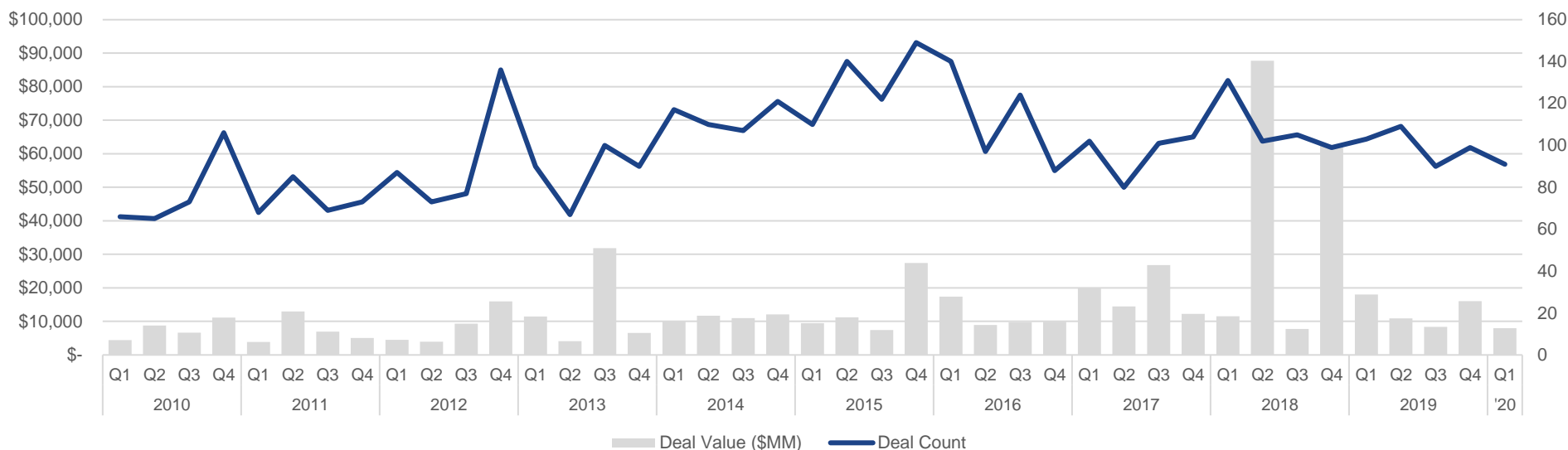
- In general, data providers have shown declines in Q1 M&A activity, with Refinitiv noting US M&A value halving to \$252 billion from the first quarter a year ago
- Similarly, PitchBook Data indicates that US M&A value declined 37% year over year to \$316 billion, and volume declined 25% to 2,056 deals
- However, PitchBook estimates that roughly \$56 billion of transaction value and 840 deals from the first quarter are yet to be reported, suggesting that deal volume may actually have increased 5% during the quarter
- A large factor in the decline in M&A value during the quarter is the relative absence of deals valued over \$1 billion - North American deals valued over \$1 billion during Q1 reached the lowest figure since Q4 of 2014¹. This was exacerbated by cancellations, such as Xerox's \$34-billion takeover of HP and the \$22-billion acquisition of Speedway by Seven & I Holdings.

Notable US Q1 Transactions

Date	Target	Acquirer	Consideration (millions, USD)
03/31/20	GE (BioPharma Business)	Danaher	\$ 21,400
01/23/20	WellCare Health Plans	Centene	15,270
02/04/20	Liberty Property Trust	Prologis	13,000
01/06/20	The Medicines Company	Novartis	9,700
01/17/20	Plaid	Visa	5,300
02/13/20	StubHub	Viagogo	4,050

Midwest M&A Sees Smaller Volume Decline

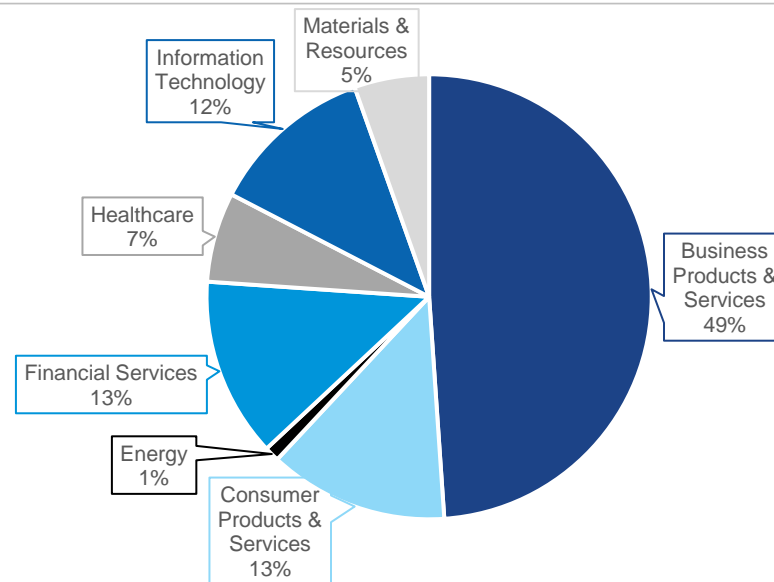
Quarterly Midwest M&A Activity¹



Midwest M&A Highlights

- Midwest M&A activity totaled \$8 billion across 91 deals in the first quarter, a sequential decrease from \$16 billion in the fourth quarter but on eight fewer deals, signaling that the Midwest has fared relatively better than the nation as a whole, as the spread of the coronavirus was less pronounced in the Midwest than in coastal population centers
- Similarly, the first quarter's activity compares to \$18 billion of value consideration in the first quarter of 2019, which was spread across 103 deals
- Providers of commercial services and commercial products garnered the most interest, accounting for nearly half of Midwest M&A
- Insurance providers, software publishers, and healthcare providers were other areas of notable interest

Q1 Midwest Activity (#) by Sector

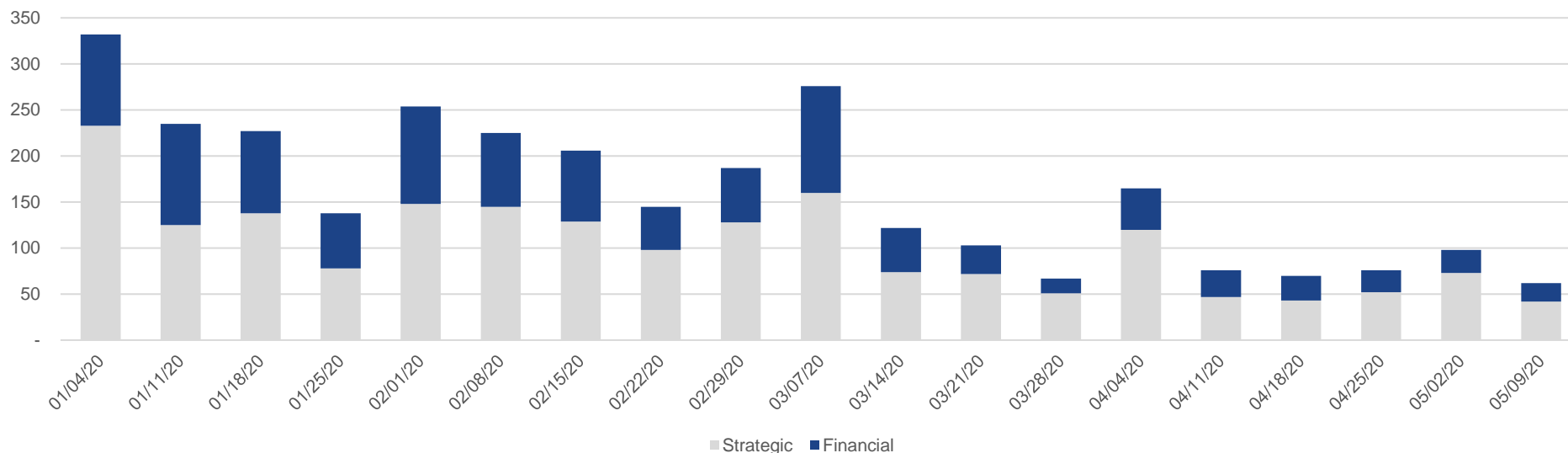


Notable Midwest M&A Transactions

Date Closed	Target	Investor	Target City	Target Description
02/20/2020	Eyecare Partners	Partners Group	Saint Louis, MO	Operator of eye care centers
02/05/2020	Dent Wizard International	Dealer Tire (Bain Capital)	Bridgeton, MO	Provider of automotive SMART reconditioning services
03/16/2020	BH Media Group	Lee Enterprises	Omaha, NE	Provider of local news print and digital media
01/15/2020	Pretium Packaging	Clearlake Capital Group	Chesterfield, MO	Manufacturer of injection-blow molded plastic containers
01/09/2020	MME Motor Express	Red Arts Capital	Bismarck, ND	Operator of a truckload carrier
01/13/2020	TrustHCS	The Carlyle Group, Cannae Holdings	Springfield, MO	Provider of outsourced coding and health information management consulting services
01/12/2020	Linn Star Transfer	Forward Air	Cedar Rapids, IA	Provider of delivery services
01/31/2020	Quad/Graphics (folding carton business)	Graphic Packaging	Omaha, NE	Manufacturer of paperboard folding cartons
01/03/2020	Ad Astra Recovery Services	Curo Financial Technologies	Wichita, KS	Provider of third-party account servicing and recovery services
01/01/2020	Hydrogreen	CubicFarm Systems	Renner, SD	Manufacturer of fully automated hydroponic growing systems
03/19/2020	Mast Technology	Ultra Defense	Independence, MO	Manufacturer of firearm ammunition
02/13/2020	Proxibid	Auction Technology (TA Associates Management)	Omaha, NE	Operator of an online marketplace for buying and selling high-value items
01/28/2020	United Rotary Brush	Undisclosed Investor	Lenexa, KS	Manufacturer of industrial brushes and brooms
02/10/2020	LMC Insurance & Risk Management	AssuredPartners (GTCR)	West Des Moines, IA	Operator of an insurance brokerage
02/21/2020	Bank of Bolivar	Reliable Community Bancshares	Bolivar, MO	Provider of community banking services
01/09/2020	4 Eco Services	ARS/Rescue Rooter (Charlesbank Capital Partners)	Lenexa, KS	Provider of HVAC and plumbing services
03/02/2020	Serenity Care Hospice	St. Croix Hospice (the Vistria Group)	Harrisonville, MO	Provider of hospice care services
01/15/2020	Mill Creek Machining	Astro-Tek Industries (SPONSOR)	Paullina, IA	Provider of contract machining and assembly services
02/26/2020	IXT Logistics	Team Drive-Away	Kansas City, MO	Provider of intermodal drayage services and shipping services
01/15/2020	Hopkins Appraisal Services	Newmark Frank Knight	Overland Park, KS	Operator of a multi-unit retail valuation and appraisal service

Indicators Suggest Further Slowing of M&A into Q2

US M&A Volume by Week, 2020¹



M&A Outlook

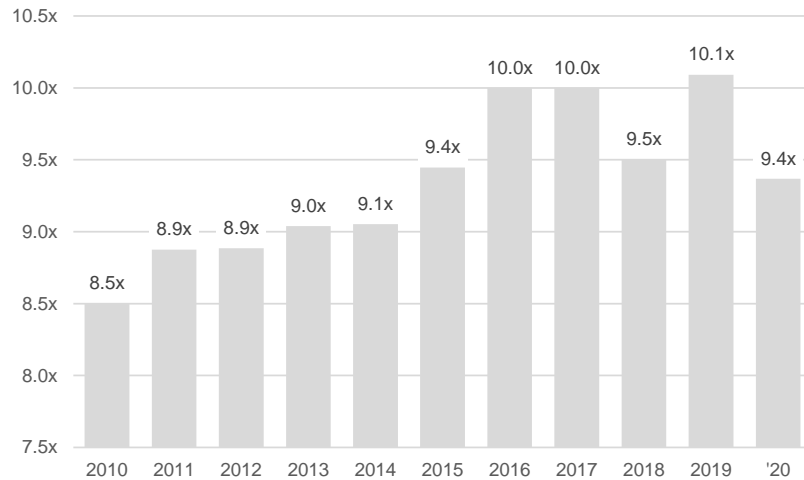
- The Conference Board's Leading Economic Index (LEI), a composite average of leading economic indicators, posted its largest decline in its 60-year history, falling 6.7% in March. The largest negative contributions came from weekly initial claims for unemployment insurance, which, in the last eight weeks as of May 14th, have topped 36.5 million Americans, reaching a real unemployment rate of above 20%
- As the economy stalls, M&A activity generally will continue to decline as well. However, we expect results to be uneven. Increased rescue deals and restructurings may partially offset the lack of other deals. And private equity funds still have significant dry powder ready to invest in quality deals. We expect deals to continue regardless of the length of the pandemic, but we don't expect to see a general "rising tide" again until a vaccine is identified, and the economy is fully open. As shown in the chart above, M&A volume has noticeably decreased in March and April¹.
- We expect 2020 to be a very "unique" year in terms of M&A valuations with diverging stories. Some sectors will likely see valuations drop significantly, while others may see multiples spike due to scarcity and strategic importance. Buyers ceasing M&A activity to preserve cash for working capital generally drives valuations down, while the need to make acquisitions to diversify revenue streams, streamline operations, or solidify supply chains may hold valuations steady or even increase them in some sectors.

Valuations Down on Market Uncertainties

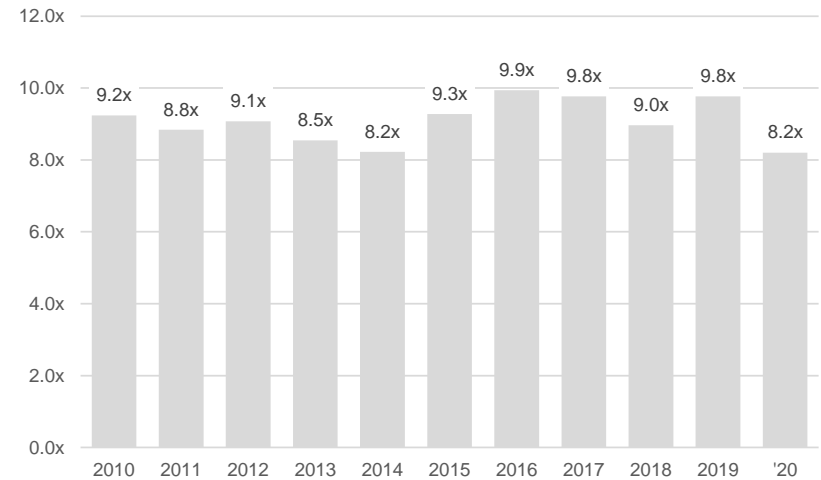
Valuation Highlights

- Broader M&A transaction valuations declined to 9.4 times Earnings Before Interest, Depreciation, & Amortization (EBITDA) from 10.1x at the end of 2019
- Valuations of strategic-acquirer transactions, or transactions in which the acquirer is not an investor by primary nature, experienced a sharper decline, falling from 9.8x EBITDA to 8.2x EBITDA
 - This is likely due to the fact that corporations are currently more likely to conserve cash to fund their primary operations while investors' primary operations are investments into companies
- Broader M&A valuations were still slightly above the 10-year average of 9.3x EBITDA
- It is important to note that valuations are not a one-size-fits-all application and that valuations differ due to a variety of factors, including company size, profitability, industry, access to financing, liquidity, and other factors. Businesses should view multiples as just the starting point for their valuation analysis.

Median North American M&A Valuations (EV / EBITDA)



Median North American Strategic M&A Valuations (EV / EBITDA)



Partners for Strategic Transactions

Overview

Skyline Advisors partners with growth stage and lower middle-market companies to successfully position for, and then execute, strategic transactions. Our experience includes sitting on all sides of the deal table – serving as investors in, executives of, members of the board of directors for, and advisors to high-growth companies that have successfully completed debt and equity financings, acquired other companies, and successfully exited through multiple avenues. This experience provides unique perspective on what you are undertaking, and what is required to ensure a smooth transaction and post-closing transition. Our principal's securities and real estate licenses enable a broad offering of services to ensure all strategic options are explored to optimize results.

Services

Mergers & Acquisitions

- Buy-side and sell-side
- Divestitures, spin-offs, and spin-outs
- Management buyouts
- Strategic partnerships

Corporate Finance

- Growth and acquisition capital
- Taking-private transactions
- Strategic investments
- Recapitalizations
- Debt financing (senior and subordinated)

Strategic Advisory

- Valuation analysis
- Due diligence
- Financial consulting and modeling

Industries Served

Industry agnostic with a key focus on the following:

- Industrials
- Food and agribusiness
- Technology
- Healthcare

Professionals















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- 20+ years in investment banking, PE, and operations
- MBA – Northwestern University
- BS in Accounting – University of Nebraska-Lincoln
- Series 62, 63, and 79 securities licenses

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- 5+ years in investment banking and other finance experience
- MS in Finance – Tilburg University (the Netherlands)
- BS in Business Administration – University of Nebraska-Omaha

Select Transactions

 <p>Acquired by</p> 	 <p>Acquired by</p> 	 <p>Airport lighting division acquired by</p> 	 <p>Acquired by</p> 	 <p>Merged with</p> 	 <p>Strategic transaction with</p> 	 <p>Acquired by</p> 
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