

Private Equity Update

First Quarter 2020

Private Equity Prepares for Unprecedented Times

Executive Summary

Private equity investors stayed busy in the first quarter, investing \$186 billion across nearly 1,400 deals, roughly matching the average quarterly value and volume from 2019. Considering concerns regarding the spread of the coronavirus grew throughout the quarter, it's impressive that first quarter totals could parallel those of 2019.

While the first quarter was impressive, there is a clear declining trend in deal volume as the year has progressed, and we foresee weaker readings for the second quarter. However, there are record levels of dry powder that PE funds are waiting to deploy, and, as we learn through our conversations with PE groups, there is still a strong appetite to put this money to work in strong companies in defensible industries.

Not surprisingly, exit volume (PE funds selling existing investments) continued its decline as exit valuations generally trended lower, and demand, both through strategic M&A and initial public offerings, seemed to wane.

While we expect deal volume to generally continue its downward trend in the second quarter, as the full impact of coronavirus is recorded, we generally expect that PE volumes will not decline as significantly as general merger and acquisition (M&A) activity. This will be driven by the aforementioned dry powder but also by the fact that PE firms may take a longer-term view with their new platform investments, they have existing platform companies that they want to expand upon through add-on acquisitions, and they may find a slightly down market to have more attractive valuations, particularly for contrarian plays. We are also seeing a significant shift in which industries are in and out of favor with PE firms.

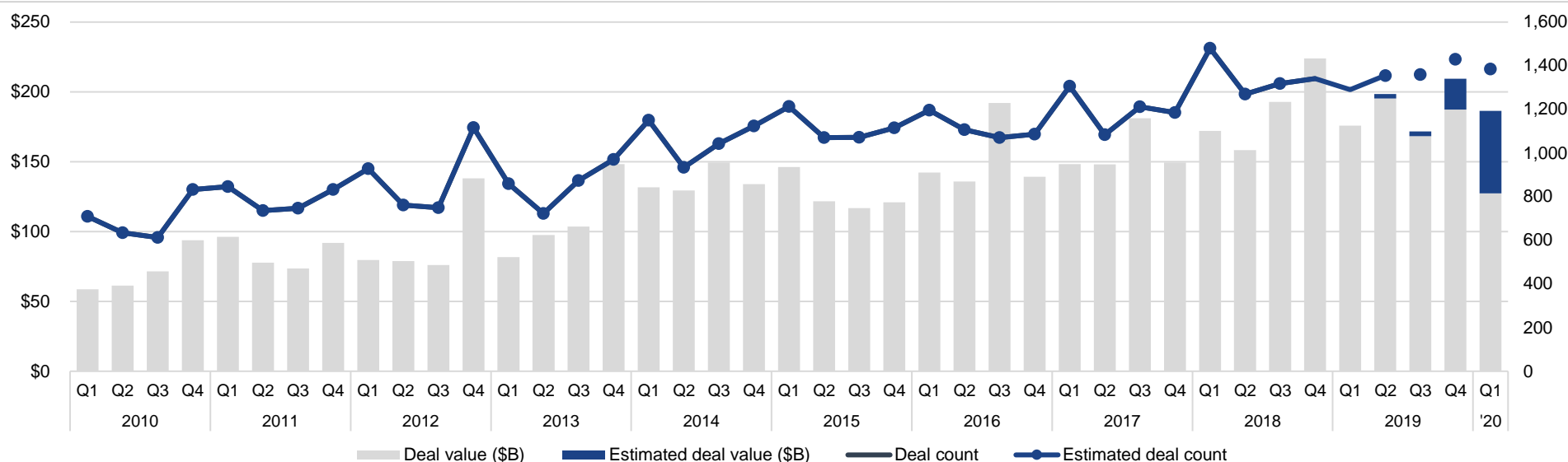
As always, contact us if you would like to discuss strategic options or activity in your particular industry.

Q1 Private Equity Highlights

- Private equity deal flow rose year over year in the first quarter 7% but fell sequentially 3% from the fourth quarter
- According to Pitchbook Data, exit value in Q1 declined sharply, with financial sponsors waiting for less volatile pricing environment
- Private equity fundraising also declined in Q1, though to a lesser extent than exits. However, dry powder is at a record \$241 billion, and the estimated years of dry powder on hand is at a consistent 2.4
- Buyout valuations edged up during the quarter and were at levels higher than the prior ten years' averages

US PE Activity Up from Last Year Despite Virus Concerns

Quarterly US PE Activity¹



US PE Highlights

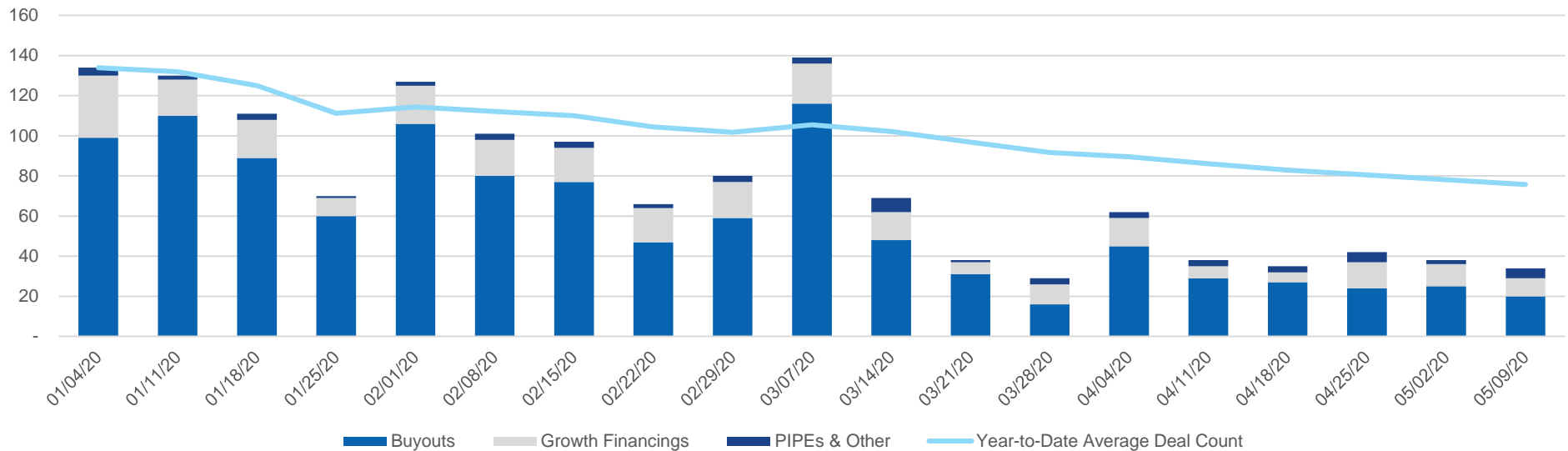
- First quarter private equity activity totaled an estimated \$186 billion across nearly 1,400 deals
- Deal flow is expected to slow in the coming quarters as a result of market uncertainty, potentially falling to levels not seen since the global financial crisis
- A shift in deal composition is expected to come as the year progresses. In addition to distressed buyouts, we expect an increased number of private investment in public equities (PIPEs) and minority investments
- Financial sponsors are shifting gears to handling solvency needs for portfolio companies instead of investing in new companies

Notable US Q1 Transactions

Date	Target	Acquirer	Consideration (millions, USD)
03/03/20	Zayo Group	EQT, Ardian, Digital Colony	\$ 14,300
03/17/20	Pattern Energy Group	Canada Pension Plan Investment Board	6,740
02/14/20	MGM Grand & Mandalay Bay Properties	MGM Growth Properties, Blackstone REIT	4,600
01/09/20	Wesco Aircraft Hardware	Platinum Equity	1,898
02/18/20	Masco Cabinetry	American Industrial Partners	1,000
01/02/20	On Location Experiences	ACE & Company	660

Second Quarter Set to Decline on Weak Buyout Volume

US PE Volume by Week, 2020

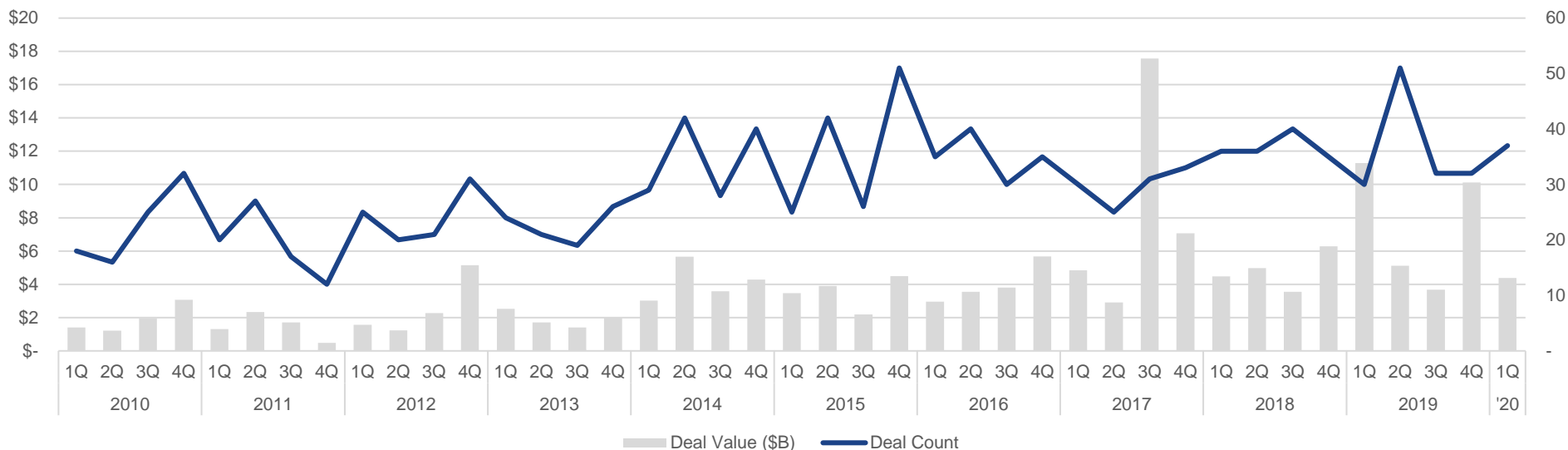


PE Outlook

- As the economy stalls, PE activity generally will shift to fewer deals and to more-select sectors, notably essential, or critical, healthcare and technology (e.g., online or virtual software). There will likely be an increase in rescue deals and restructurings that may partially offset the lack of other deals. Broadly speaking, we don't expect to see a substantial recovery until we see developments or a cure for COVID-19 and economies fully open.
- In fact, according to preliminary PitchBook data, PE activity is set to slow further in the second quarter. Whereas year-to-date, weekly deal volume averaged over 100 buyouts, growth and expansion financings, and private investments in public equity (PIPEs) through the first half of March, weekly volume averaged 40 transactions from the second half of March through the first week of May, seemingly leveling off.
- We are closely watching leading and concurrent economic indicators, including the Conference Board's Leading Economic Index (LEI), a composite average of leading economic indicators, which 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 nine weeks as of May 21st, have topped approximately 38.6 million Americans.

Investments in the Midwest Up 15% from Q4

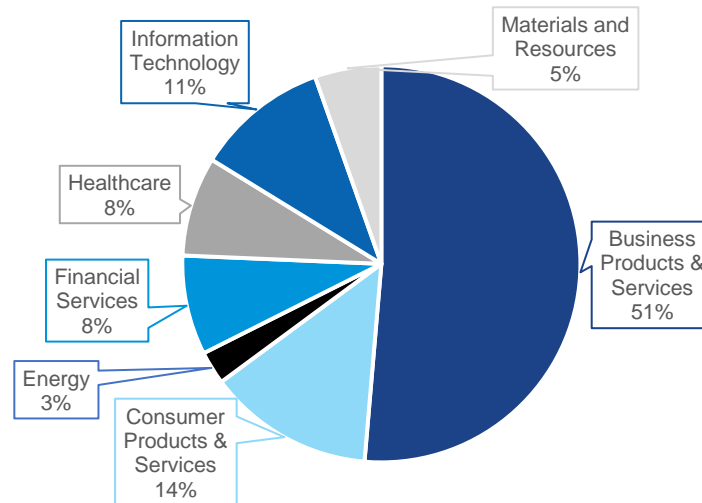
Quarterly Midwest PE Activity in Q1¹



Midwest PE Highlights

- In the first quarter, 37 deals were closed in the Midwest, accounting for total value of approximately \$4.4 billion
- Total Midwestern deal count this quarter was up 23% while total Midwest deal value was down 61% year over year
- The most active industry in the Midwest was business products & services, which comprised 51% of the total Midwestern PE deal count. This was followed by consumer products & services at 14%, and information technology at 11% of total Midwestern deals

Q1 Midwest Activity (#) by Sector



Notable Midwest PE Transactions

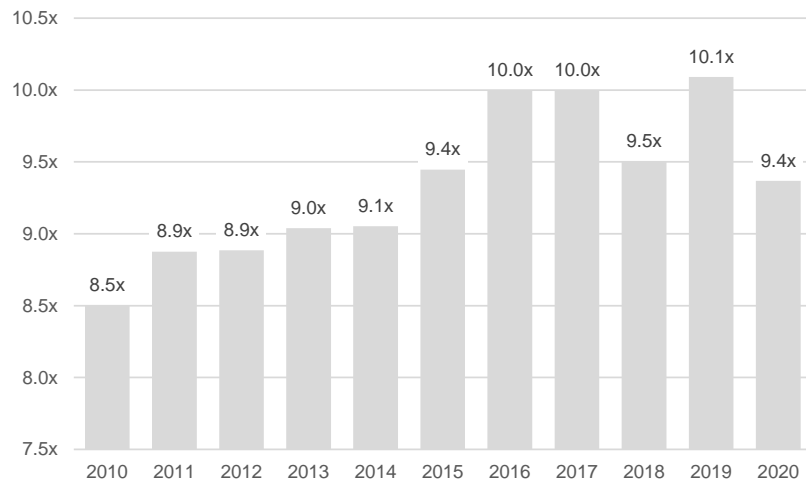
Date Closed	Target	Investor	Target City	Target Description
02/20/20	Eyecare Partners	Partners Group	Saint Louis, MO	Operator of eye care centers
02/05/20	Dent Wizard International	Dealer Tire (Bain Capital)	Bridgeton, MO	Provider of automotive reconditioning services
01/15/20	Pretium Packaging	Clearlake Capital Group	Chesterfield, MO	Manufacturer of plastic containers created for the making product packing
01/09/20	Midwest Motor Express	Red Arts Capital, Prudential Private Capital, <i>et al.</i>	Bismarck, ND	Operator of a truckload carrier
02/07/20	Creative Planning	General Atlantic	Overland Park, KS	Provider of wealth management services
02/07/20	DCA Outdoor	Midwest Growth Partners	Kansas City, MO	Operator of a large-scale production and distribution landscape
02/10/20	LMC Insurance & Risk Management	AssuredPartners (GTCR)	West Des Moines, IA	Operator of an insurance brokerage firm
02/13/20	Proxibid	Auction Technology Group (TA Associates Management)	Omaha, NE	Operator of an online marketplace for buying and selling highly valued items
01/13/20	TrustHCS	Cannae Holding, The Carlyle Group	Springfield, MO	Provider of outsourced coding and health information management consulting services
03/18/20	Olson Group	Patriot Growth Insurance Services (Summit Partners)	Omaha, NE	Operator of an employee benefits consulting firm
01/30/20	iOR Partners	Undisclosed Investors	Kansas City, MO	Provider of office-based surgery suites
03/01/20	Burton Plumbing Service	Shoreview Capital Partners	Omaha, NE	Provider of HVAC and plumbing services to residential and commercial customers
03/27/20	Datafile Technologies	ScanSTAT Technologies (Palmares Capital Partners, Trivest Partners)	Kansas City, MO	Provider of health information management services
01/24/20	Outdoor Living	Twin-Star International (Z Capital Group)	Saint Louis, MO	Provider of deck and fence building services
03/31/20	Steck Wholesale Foods	The Bakery Companies (Arbor Investments)	North Sioux City, SD	Manufacturer of English muffins and biscuits
01/08/20	US Coatings	Seal For Life Industries (Arsenal Capital Partners)	Saint Louis, MO	Manufacturer of protective maintenance coatings
01/06/20	Compass Marketing Solutions	MeritDirect (Mourningate Capital)	Lincoln, NE	Provider of targeted sales and marketing information intended for both businesses and consumers

Buyout Valuations Currently Trending Higher

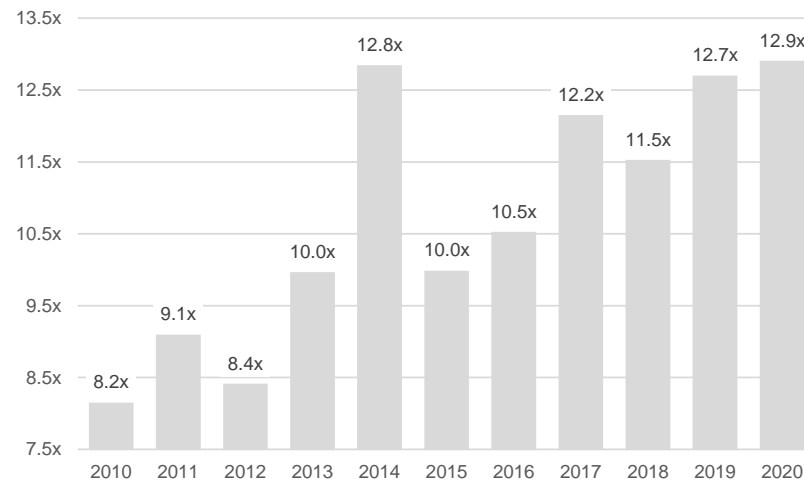
Valuation Highlights

- 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 private equity buyout transactions actually increased from 2019, despite economic uncertainty, to 12.9x EBITDA, bolstering overall M&A valuations
- 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)

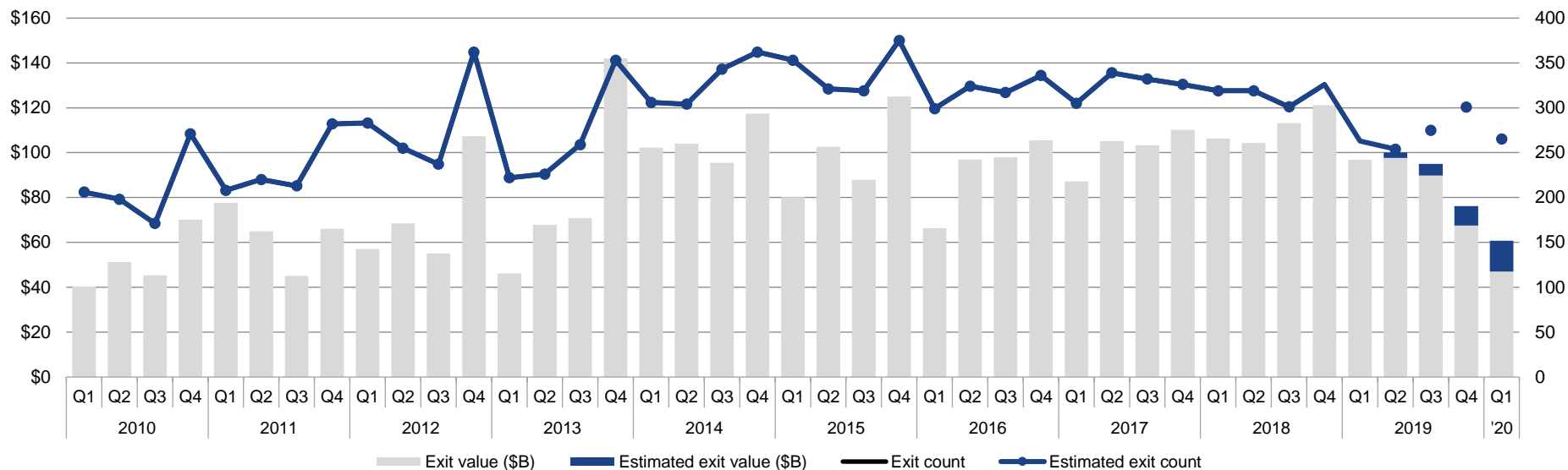


Median North American PE Buyout Valuations (EV / EBITDA)



US PE Exits Fall in Q1 2020

Quarterly US PE Exit Activity¹



US PE Exit Highlights

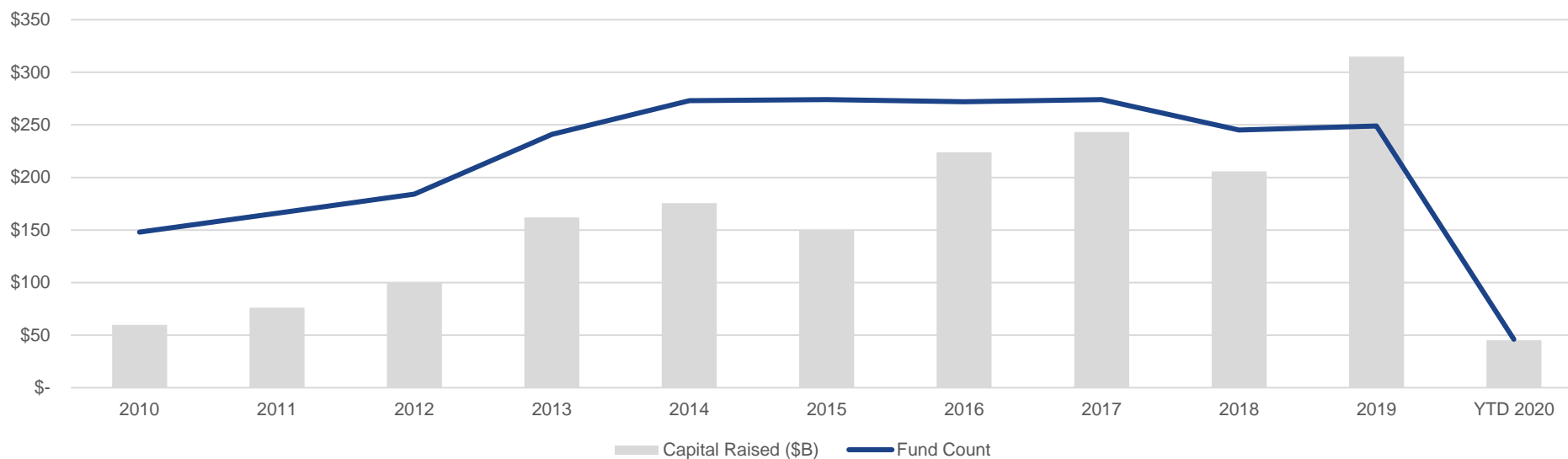
- Private equity exits totaled approximately \$61 billion across 265 deals in the first quarter, representing declines of 20% and 12% from the fourth quarter
- As valuations have declined and demand has dried, deal volume has slowed, forcing private equity groups to hold portfolio companies longer
- Business travel has been cancelled due to the pandemic and potential buyers are unable to conduct due diligence, further slowing exit activity

Notable US Q1 Exits

Date	Target	Investor	Consideration (millions, USD)
03/16/20	Peoples Natural Gas (Steelriver Infrastructure Partners)	Aqua America	\$ 3,175
03/11/20	Survey.com (Hendale Capital)	Trax Image Recognition	N/A
02/10/20	Privilege Underwriters (KKR, XL Group <i>et al.</i>)	Tokio Marine Holdings	3,100
03/06/20	Felix Energy II (Encap Investments)	WPX Energy	2,500
02/28/20	APR Energy (Albright Capital Mgmt <i>et al.</i>)	Atlas Corp	750
01/01/20	Enclara Pharmacia (Consonance Capital)	Humana	707

US PE Fundraising in Q1 2020

Annual US PE Fundraising Activity¹



US PE Fundraising Highlights

- There were 46 PE funds raised in Q1 2020, with a median fund size of \$435 million
- The \$45 billion raised in the first quarter is greatly lagging the record \$315 billion raised in all of 2019; however, despite the decline in fundraising, there is an estimated \$241 billion in dry powder, ready to invest
- Two mega-funds (\$5+ billion) closed in the first quarter, thanks in part to established LP bases supporting fundraising efforts

Notable US Q1 Fundraises

Date	Fund	Size (millions, USD)
01/27/20	Odyssey Investment Partners Fund VI	\$ 3,250
02/03/20	Pamlico Capital V	1,400
03/06/20	Rubison Technology Partners III	1,270
02/28/20	BVIP Fund X	1,120
03/20/20	Seidler Equity Partners VII	857
01/14/20	Consonance Private Equity II	856

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








John Gustafson, CFA | 402-827-9905 | john@skyline-advisors.com

- 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

Chris Moore | 402-213-6029 | cmoore@skyline-advisors.com

- 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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