

Economic & Public Market Update

First Quarter 2020

Markets Turn Bearish in Shutdown Economy

Executive Summary

Though US stock markets were reaching all-time highs while the coronavirus first appeared in China, the spread to Europe and the United States caused near-immediate stoppage of international travel, quarantines for recent travelers, and, as the number of cases grew in the US, a practical shutdown of the economy. Ongoing social distancing measures led to the largest and fastest job loss in US history and record Government intervention. As a result, the US stock market ended the longest bull run in history and produced the fastest 20% drop on record.

The stock market has since recovered significantly in the second quarter, with the NASDAQ trading at a year-to-date gain, as of May 12th, on optimism of reopening the economy and a declining trend in new cases of the coronavirus. However, economic data continues to suggest that the near-term outlook for the economy isn't as bright as the stock market, which generally attempts to value long-term future earnings. With social distancing measures ongoing through summer, albeit at less-strict levels, chances of a V-shaped economic recovery appear less likely.

On the other hand, unprecedented levels of government support directly to consumers through stimulus checks and to businesses through loans and grants are expected to soften some of the economic impact. In addition, the Fed reduced rates to near zero and is pumping significant liquidity into the market. Certain sectors of the market are hoping to experience a release of pent up demand from consumers once they become more comfortable leaving home again.

We expect the recovery to be uneven as certain technology, healthcare, and food wholesale segments are actually seeing upticks in the "corona economy." Some sectors will take much longer to recover, while others will be changed forever.

As always, contact us if you would like to receive information about activity in your specific industry.

Q1 Economy & Public Market Highlights

- The stock market ended the longest bull run in history and entered bear market territory the quickest on record during the quarter
- Companies are stalling initial public offering efforts in what was supposed to be a big year for IPOs
- Advanced estimates of first quarter GDP came in at -4.8%, the first quarterly decline since 2014, and Q2 estimates currently project a decline of more than 30%
- Joblessness surged as the economy shut down, with more than 36 million Americans filing for unemployment insurance in an 8-week span, starting at the very tail end of Q1
- The Government enacted record stimulus through the CARES Act, while the Fed eased rates to near zero and began buying assets

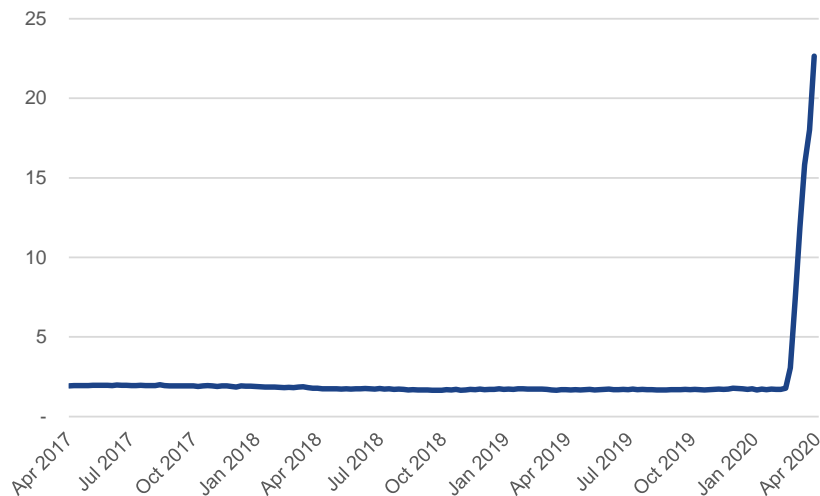
Economy Faces Hard Stop Amid Coronavirus Spread

Economy Overview

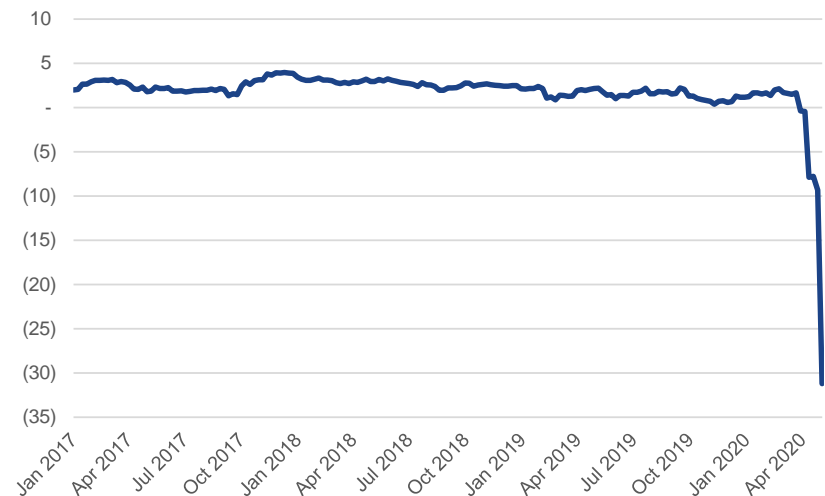
US states have largely faced sudden stops, or immediate and severe limitations or closures, in an effort to contain the spread of the coronavirus. Certain industries were immediately affected, particularly those in hospitality (e.g., restaurants and hotels) and travel, yet the entire economy is at risk of a tangential spread or ripple effect. It is of little surprise that many economic indicators have begun to show grim readings of where the economy is headed. Some first quarter and recent economic highlights illustrate this:

- On March 26th, the Department of Labor published the first quarter's last report for unemployment insurance weekly claims. For the week ended March 19th, claims reached 3.28 million, the highest amount on record, far surpassing October 1982's previous record of 695 thousand. From that point through May 14th, more than 36 million Americans would file for unemployment insurance, setting a grim outlook for the second quarter.
- According to its advanced estimate, the Bureau of Economic Analysis reported first quarter real GDP at a decline of 4.8 percent, the first drop since 2014, reflecting negative contributions from consumer spending, non-residential fixed investment, and private inventory investment. Both the Atlanta Fed's GDPNow and New York Fed's Nowcast estimate of GDP currently predict Q2 GDP to decline in excess of 30%.
- Congress passed the CARES Act, the largest stimulus bill in history to alleviate economic harm from social distancing measures to both businesses and individuals. The Fed also cut interest rates to near zero and began significant asset purchases to provide liquidity in the markets.

Continued Unemployment Claims (in millions)



New York Fed GDP Nowcast (current quarter, percent)



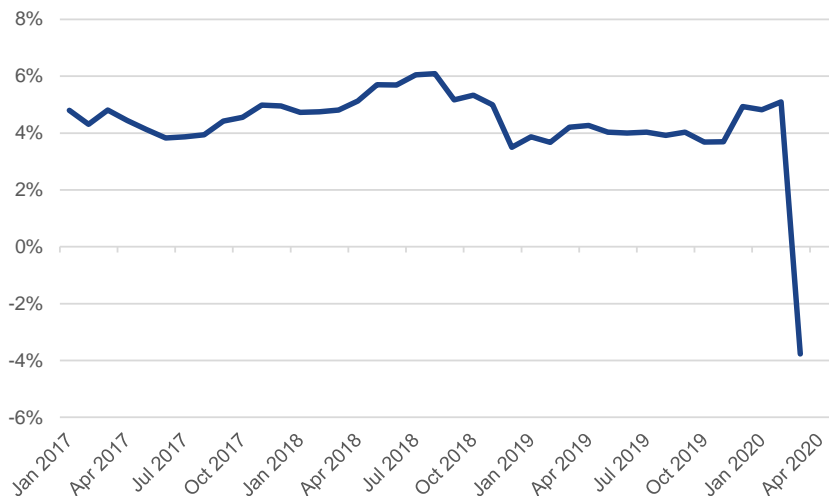
Economy Faces Hard Stop Amid Coronavirus Spread (cont.)

Economy Overview (continued)

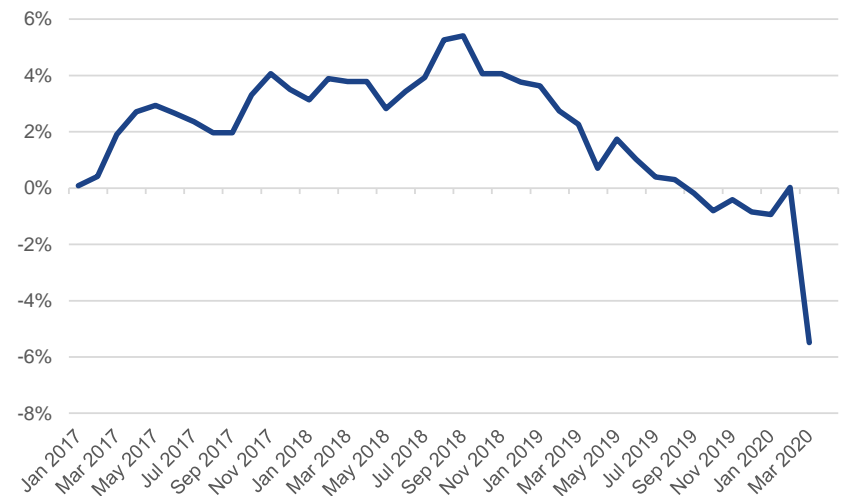
- The US Census Bureau reported that retail and food service sales declined 8.7% in March, highlighting just a fraction of the quarter in which restaurants and other consumer discretionary businesses were affected by social distancing measures
- The economic pain isn't limited to consumers and consumer-based businesses. The Federal Reserve reported an industrial production decline of 5.4% in March, or the largest decline since February 1946. Regional manufacturing in the northeast, the hardest-hit region of the US, shows substantial declines as well – the Empire State Manufacturing Index fell to -78.2 in April, the lowest reading in the Index's history and by a wide margin. The Federal Reserve Bank of Philadelphia reported a similar trend in its manufacturing survey.

Hopes for a quick V-shaped recovery are looking less and less likely. Despite where the stock market has trended recently, it's important to note that the stock market does not equal the state of the economy. Even as certain states begin to open their economies, the threat of the virus will be a limiting factor towards economic growth. While the definition of a recession has long been considered two consecutive quarters of negative growth in GDP, the National Bureau of Economic Research defines a recession as “a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale retail sales.”

Personal Consumption Expenditures (year-over-year change)



Industrial Production (year-over-year change)



Stock Market Turns Bearish in Q1

Stock Market Index Data

Index	Closing Price		Q1 2020 Return	52-Week		3/31/2020 Closing, % of 52-WK High
	12/31/2019	3/31/2020		Low	High	
S&P 500	3,230.78	2,584.59	-20.0%	2,191.86	3,393.52	76.2%
DJIA	28,538.44	21,917.16	-23.2%	18,213.65	29,568.57	74.1%
NASDAQ	8,972.60	7,700.10	-14.2%	6,631.42	9,838.37	78.3%
Russell 2000	1,668.47	1,153.10	-30.9%	966.22	1,715.08	67.2%
Skyline Midwest Index	100.00	68.06	-31.9%			

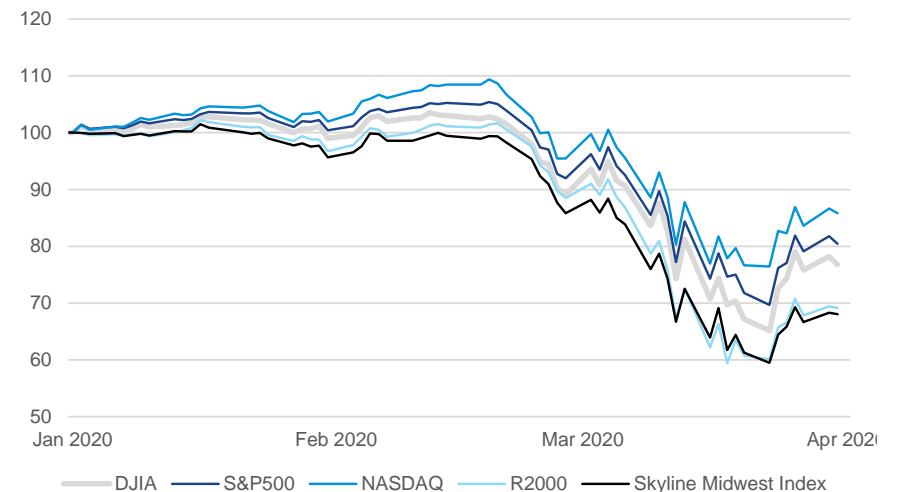
First Quarter Stock Market Highlights

This first quarter of 2020 marked the end of an 11-year bull market, the longest bull market in American history. The S&P 500, Dow Jones Industrial Average (DJIA), Russell 2000, and the Skyline Midwest Index, which tracks the returns of large Midwest companies, all finished with declines in excess of 20%¹. Volatility picked up in late February and early March, when the spread of the coronavirus became a reality in the United States.

Some of the Midwest's strongest public performers in Q1 included Quality Technology Services, NIC, and Jack Henry and Associates, which accounted for the only three companies of 72 in the Skyline Midwest Index that posted positive returns during the quarter.

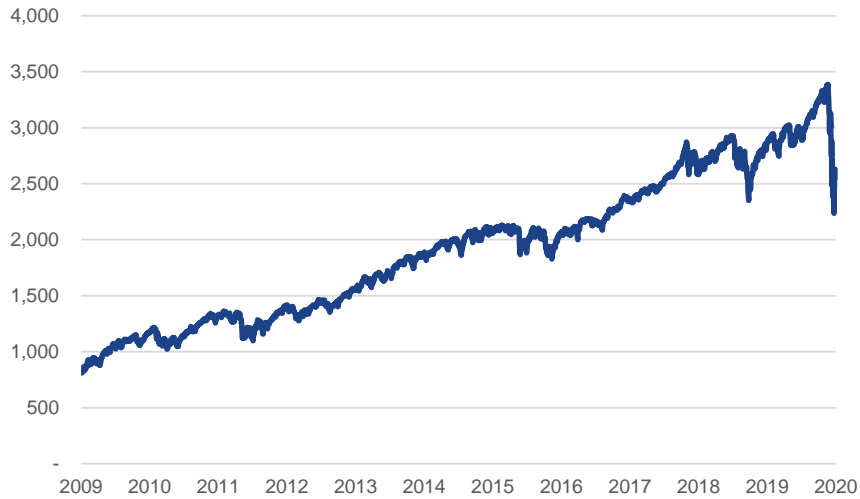
Since the end of the first quarter, major indices have returned above 20%. Technology stocks and grocery stocks have generally outperformed the broader stock market.

First Quarter Indexed Performance

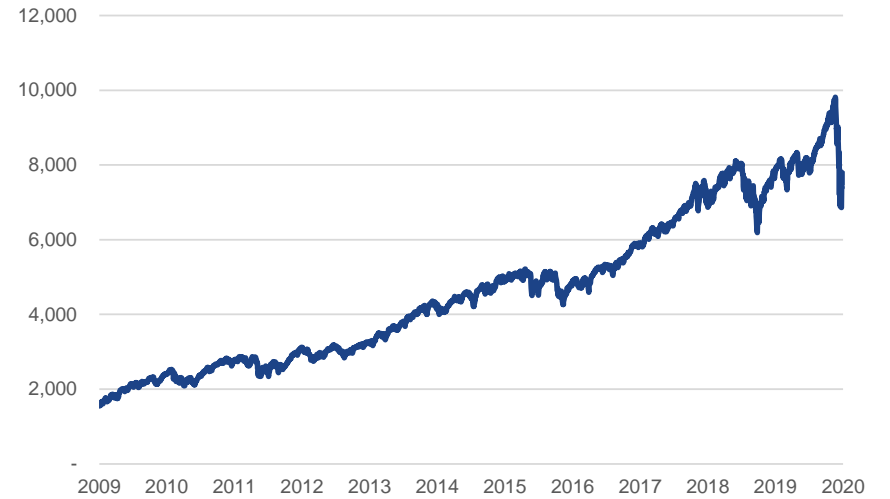


Q1 Bear Market Wiped Out Years of Gains

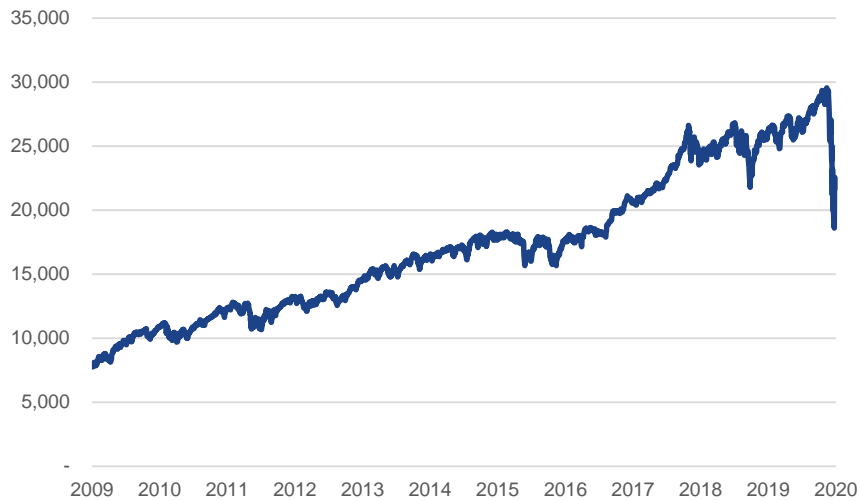
S&P 500 10-Year History



NASDAQ 10-Year History



DJIA 10-Year History



Russell 2000 10-Year History



Valuations Decline with Market

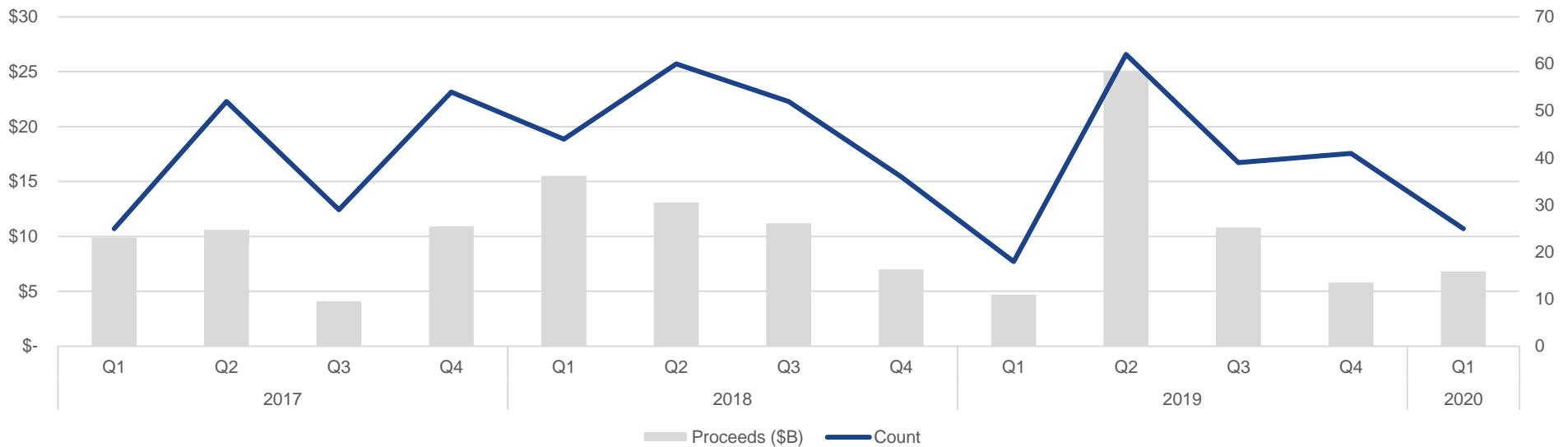
Public Company Valuations Industry	Median Enterprise Value / TTM EBITDA			
	Q2 2019	Q3 2019	Q4 2019	Q1 2020
Food/Beverages & Ag	14.3x	14.5x	14.6x	11.8x
Agribusiness	10.5x	9.6x	10.9x	7.8x
Alcoholic Beverages	17.5x	15.1x	18.1x	14.6x
Baked Goods	17.1x	15.9x	11.1x	12.4x
Branded/Processed Foods	14.1x	15.2x	15.3x	13.4x
Dairy	12.7x	14.1x	14.0x	12.0x
Food Wholesale	6.0x	6.3x	7.6x	8.8x
Foodservice	14.6x	15.5x	16.5x	9.0x
Fruits & Vegetables	17.7x	18.2x	16.4x	9.7x
Grocery Distribution	9.8x	11.5x	14.5x	11.6x
Ingredients & Flavors	19.2x	19.4x	18.1x	14.6x
Natural/Organic Foods	56.4x	69.2x	46.5x	23.0x
Non-Alcoholic Beverages	17.2x	14.8x	15.1x	12.8x
Other Restaurants	15.1x	15.0x	17.6x	10.1x
Private Label Food & Bev	16.7x	34.4x	26.5x	20.6x
Protein Processing	14.2x	19.5x	19.1x	7.8x
Quick-Service Restaurants	15.4x	15.7x	18.6x	15.8x
Snacks	16.7x	18.6x	17.9x	13.7x
Healthcare	13.7x	14.6x	16.1x	14.3x
Assisted Living	18.6x	15.9x	15.4x	16.3x
Behavioral Health	18.1x	18.0x	17.7x	10.7x
Distribution & Supplies	12.4x	11.5x	13.0x	11.5x
Healthcare IT	22.9x	22.1x	20.7x	19.4x
Physician Services	11.0x	11.4x	15.8x	13.4x
Staffing	12.2x	13.2x	13.7x	10.9x

Public Company Valuations Industry	Median Enterprise Value / TTM EBITDA			
	Q2 2019	Q3 2019	Q4 2019	Q1 2020
Industrials	11.1x	11.7x	12.6x	9.8x
Air Freight & Logistics	12.2x	12.3x	13.2x	11.4x
Building Products	13.3x	12.6x	13.6x	10.5x
Construction/Engineering	8.2x	9.7x	10.2x	7.2x
Distributors & Wholesalers	11.4x	11.3x	12.1x	9.5x
Diversified Industrials	16.8x	16.6x	16.1x	10.0x
Electrical Equipment	12.7x	13.4x	16.7x	12.1x
Machinery	12.8x	14.5x	15.4x	10.3x
Professional Services	13.5x	13.6x	13.5x	11.9x
Rail	12.1x	11.4x	12.5x	10.4x
Trucking	5.5x	6.2x	6.9x	6.7x
Technology	22.9x	22.1x	23.1x	17.1x
Data Hosting	23.5x	23.9x	25.3x	21.5x
Diversified Technology	16.8x	16.2x	18.0x	14.4x
Enterprise Software	26.5x	27.6x	31.5x	14.3x
Financial Technology	27.0x	28.1x	30.5x	26.4x
Healthcare IT	22.9x	22.1x	20.7x	19.4x
Human Capital Management	61.1x	53.4x	64.5x	39.6x
IT Services	14.9x	15.1x	16.0x	12.7x
Other SaaS	87.4x	79.4x	72.6x	71.8x
Supply Chain Software	39.2x	32.1x	34.0x	25.0x

*Valuations are not a one-size-fits-all application and 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.

Filers Delay IPOs on Coronavirus Worries

Quarterly IPO Activity¹



US IPO Highlights

- 25 IPOs raised \$6.8 billion in the first quarter, a sequential increase of \$1 billion in value across 16 fewer IPOs from the fourth quarter
- Healthcare accounted for half of all IPOs during the quarter, with biotech garnering most interest
- Three billion-dollar IPOs accounted for 63% of proceeds
- In what was supposed to be a big year for IPOs, more than 20 IPOs have been delayed due to the coronavirus
- Notable delayed or withdrawn IPOs include Warner Music Group, Cole Haan, Procore Technologies, SHE Beverage, and others
- As the stock market has recovered some ground, IPOs may resume

Notable US Q1 IPOs

Date	Company	Size (millions, USD)
02/06/20	Pharmaceutical Product Development (NASDAQ: PPD)	\$ 1,860
01/31/20	Reynolds Packaging Group (NASDAQ: REYN)	1,200
01/31/20	One Medical (NASDAQ: ONEM)	245
02/13/20	Revolution Medicines (NASDAQ: RVMD)	238
02/06/20	Schrödinger (NASDAQ: SDGR)	202
03/18/20	Carrier Corporation (NYSE: CARR)	167

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 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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