

# **Mergers & Acquisitions (M&A) Update**

**First Quarter 2022**

# M&A Activity and Valuations Falter on Soaring Inflation

## Executive Summary

M&A activity slowed in the first quarter, while valuations fell sharply.

The volume decrease was generally expected as the buyers and investors we spoke with in Q4 generally indicated that they were in a full court press to close deals by year-end and weren't building as much of a pipeline for Q1. However, for large deals, it may have also been exacerbated by Russia's invasion of Ukraine and inflation concerns.

The ongoing crisis has pushed commodity prices considerably higher. For example, wheat rose as much as 50%. The Federal Reserve is expected to make an additional six interest rate hikes after its first in March, which is expected to further slow investment.

Nonetheless, from a historical perspective, first quarter activity was still relatively strong. More than 4,700 companies exchanged hands with a total value of more than \$600 billion. And we'd be remiss if we didn't note that investors are still flush with cash.

Valuation levels overall fell sharply during Q1. While we anticipated a decline from historical highs, it was much sharper than expected. We anticipate that both deal volume and valuations may bounce back a bit in Q2 as buyers and investors have been replenishing their deal pipelines after the year-end rush.

We have weathered a few highly uncertain years now, with new challenges arising at the start of 2022. While current trends are slightly concerning for overall M&A opportunities, we continue to believe there is significant demand for strong companies with favorable growth prospects.

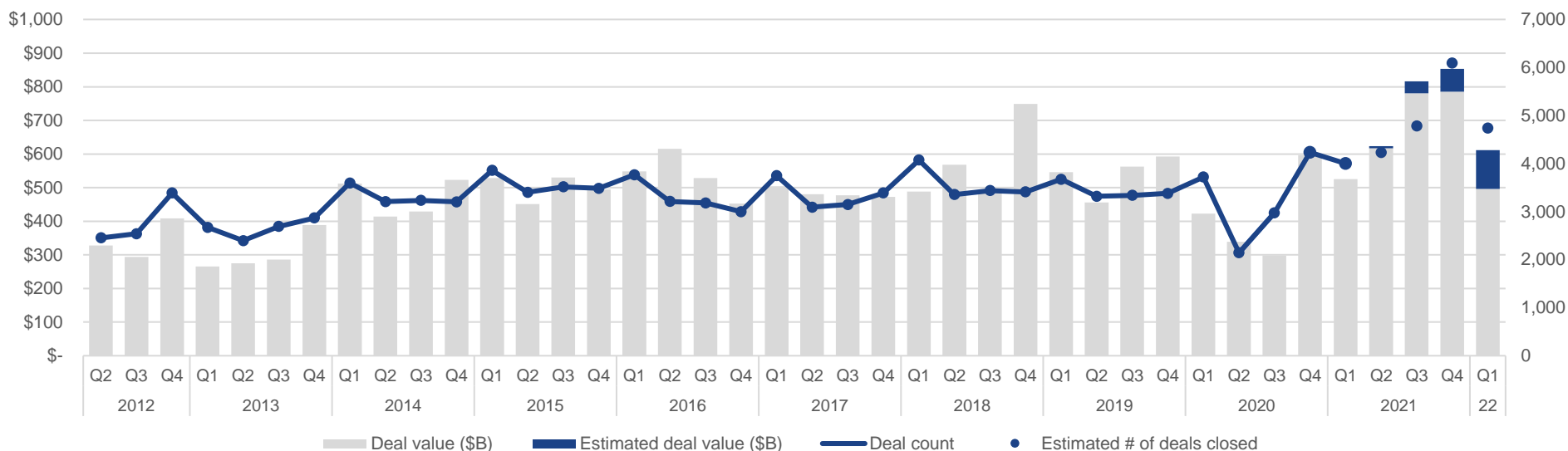
As always, contact us if you would like to receive information about activity in your specific industry or geography, or if you would like to discuss options for your business.

## Q1 M&A Highlights

- After ending on a record note in 2021, M&A activity pared back, with deal volume dropping 22% from Q4
- Midwest deal activity echoed that of North American activity but to a greater extent – deal volume fell 45% from last quarter
- After years of elevated levels, valuations fell sharply during the quarter, more than likely driven by uncertainty over inflation and geopolitical risks
- The appetite for deals going forward will continue to be driven by the fact that investors have raised record levels of cash over the past few years; however, the impact of rising interest rates on valuations remains to be seen.

# Uncertain Markets Drive Deal Activity Lower

Quarterly North American M&A Activity<sup>1</sup>



## North American M&A Highlights

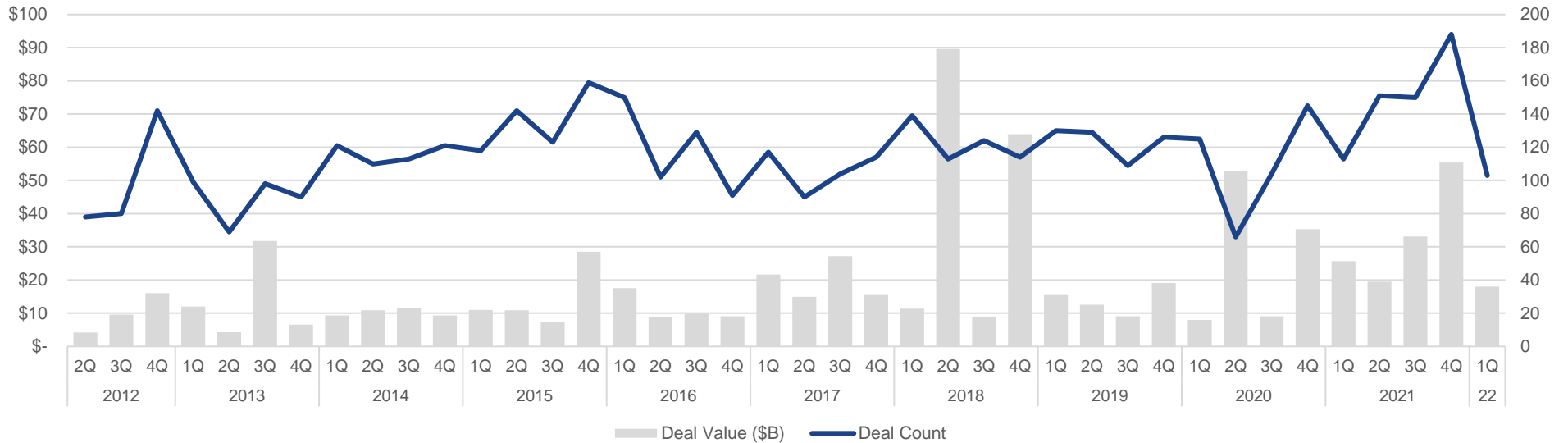
- Despite more activity than the first quarter of 2021, approximately 4,740 deals, accounting for \$611 billion in value, closed during the first quarter, down from Q4's 6,090 deals and \$854 billion of value
- Despite the sequential decline in value, activity was still strong from a historical context – 30% more deals closed in Q1 than the average quarterly figure over the past three years
- Weakness was driven by uncertainty over rising inflation, partially driven by the Russian-Ukraine crisis, as the US Consumer Price Index topped 8.5% for the twelve months ended March
- Rising inflation tends to lead to a reactionary rise in interest rates, which will slow investment spending and thus economic activity

## Notable US Q1 Transactions

Close Date	Target	Acquirer	Consideration (millions, USD)
Feb 14	Xilinx	Advanced Micro Devices	\$ 35,000
Mar 04	Nuance Communications	Microsoft	20,000
Feb 15	Athenahealth	Hellman & Friedman, Bain Capital, <i>et al.</i>	17,000
Mar 25	CyrusOne	KKR, Global Infrastructure Partners	15,000
Mar 01	McAfee	Advent Int'l, Permira, CPPIB, GIC, <i>et al.</i>	14,000
Jan 31	Sterling National Bank	Webster Financial	10,300

# Ag Companies REGI and Gavilon Fetch Offers in Q1

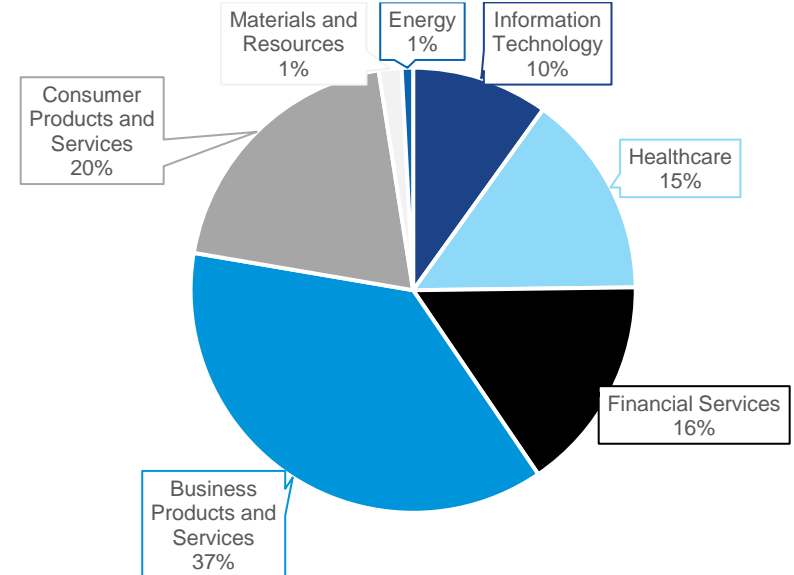
Quarterly Midwest M&A Activity<sup>1</sup>



## Midwest M&A Highlights

- Midwest activity echoed that of North American activity, edging down from a strong fourth quarter
- Roughly 100 deals closed in the first quarter, representing \$18 billion of invested capital – down from roughly 190 deals in the fourth quarter and 110 from the first quarter of 2021
- Apollo Global’s \$7.15-billion acquisition of Des Moines-based Athene Holding was the largest reported deal during the quarter
- Business product and service companies accounted for the most deals, followed by companies that focus on consumer products and services
- Notable deals announced during the quarter, but awaiting close, include Chevron’s offer to acquire Renewable Energy Group and Viterra’s proposed buyout of Gavilon

## Q1 Midwest Activity (#) by Sector



# Notable First Quarter Midwest M&A Transactions

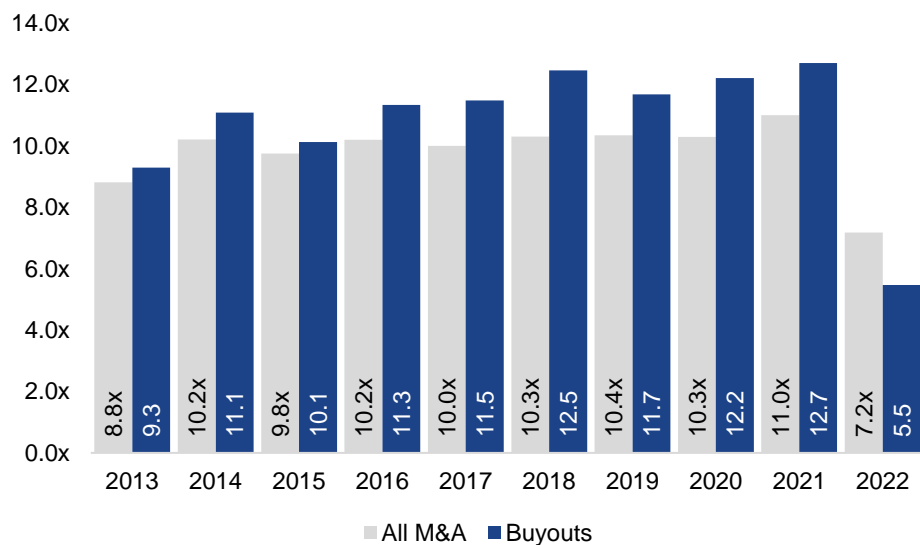
Date Closed	Target	Investor	Target City	Target Description
Jan 01	Kearney Regional Medical Center	Bryan Medical Center	Kearney, NE	Operator of a medical center
Jan 01	Madison National Life Insurance Company	Horace Mann Educators	Clinton, IA	Provider of insurance services
Jan 03	Athene Holding	Apollo Global Management	West Des Moines, IA	Provider of retirement services
Jan 04	Oxbow Animal Health	Manna Pro Products (The Carlyle Group)	Omaha, NE	Supplier of life staged foods and care products for small animals
Jan 04	ZFS Creston	Benso Hill	Creston, IA	Manufacturer of soybean products
Jan 06	Favorite Healthcare Staffing	Acacium Group (Onex)	Overland Park, KS	Provider of healthcare staffing and recruiting services
Jan 26	Midwest Medical	Harbour Point Capital	Omaha, NE	Provider of inter-facility ambulance transportation
Jan 31	Involta	The Carlyle Group	Cedar Rapids, IA	Provider of IT intelligence and end-to-end infrastructure services
Feb 01	Great Western Bank	First Interstate Bank	Sioux Falls, SD	Operator of a bank holding company
Feb 04	Mid-Am Building Supply	Hardwoods Distribution	Moberly, MO	Distributor of building products
Feb 14	Jefferson Bank & Trust Company	First Mid Bancshares	Saint Louis, MO	Provider of commercial banking services
Feb 25	Sierra Income BDC	Barings BDC	Kansas City, MO	Operator of a closed-end investment management company
Feb 28	Behaven Kids	Serra Hill	Omaha, NE	Provider of autism and behavioral services for children
Mar 01	Alpaca Audiology	Sonova	Springfield, MO	Operator of a network of audiological care clinics
Mar 01	Caravan Health	Signify Health	Kansas City, MO	Provider of accountable care advisory services
Mar 11	Preco Industries	Argosy Capital	Lenexa, KS	Provider of contract manufacturing services
Mar 21	Serenity Home Health	Traditions Health (Dorilton Capital)	Wichita, KS	Provider of hospice and home healthcare services
Mar 30	Aerofil Technology	Knowlton Development Corporation	KKR, HarbourVest Partners, <i>et al.</i>	Provider of aerosol and liquid contract packaging services

# Valuations Retreat Amid Uncertainty

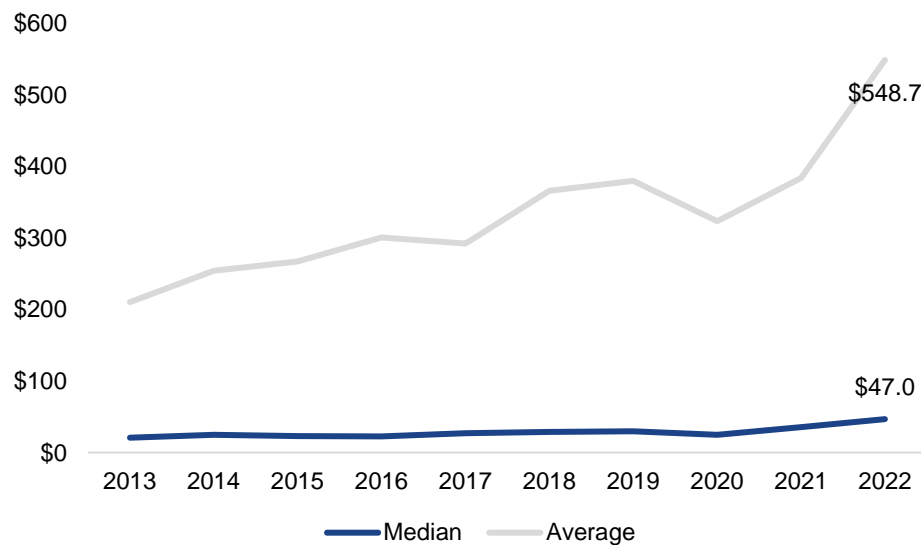
## Valuation Highlights

- M&A valuations retreated after years of lofty levels, dropping to a median of 7.2 times Earnings Before Interest, Depreciation, & Amortization (EBITDA) from 11.0x over all of 2021
- Valuations paid by financial buyers (investors by primary nature) reversed the trend of being higher than valuations paid by strategic buyers, falling to 5.5 times EBITDA
- We estimated at the end of 2021 that valuations may fall due to rising interest rates; however, the sharp decline is a little surprising and we anticipate that we may see an increase in Q2
- Average and median deal sizes remain elevated, with average deal sizes nearing \$550 million and median deal sizes amounting to \$47 million. This difference between average and median deal size is an excellent illustration of how the largest deals impact the averages, while a significant majority of the deals conducted are completed at the smaller end of the scale
- 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 M&A Valuations (EV / EBITDA)



Median & Average Deal Sizes (\$M)



# 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 | [john@skyline-advisors.com](mailto: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 | [cmoore@skyline-advisors.com](mailto: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

 Acquired by 	 Acquired by 	 Merged with 	 Airport lighting division acquired by 	 Strategic transaction with 	 Acquired by 	 Recapitalized by Undisclosed Party	 Acquired by 
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