

Economic & Public Market Update

Second Quarter 2020

Economy, Market Show Signs of Life Late in Q2

Executive Summary

Unprecedented levels of Government support boosted markets significantly in the second quarter, and the NASDAQ touched all-time highs. With a significantly weak start to the quarter, due to social distancing measures, the economy began to recover late in the quarter as economies reopened.

The National Bureau of Economic Research officially ruled the start of a recession at the end of the first quarter, and while some columnists are already calling this the shortest recession on record, the state of the economy is still far from where it was at the start of the year and there are many uncertainties going forward. Indeed, there are significant challenges in the next few weeks, as CARES Act extra unemployment benefits expire and as COVID cases have risen far beyond the quarter's earlier records, posing a threat of scaling back economic reopenings.

We are under the impression that the Government will carry out additional fiscal measures to ensure the economy avoids a complete crash, particularly given that it is an election year. With that said, though there may be brief hardship in which any potential new measures make their way through legislation while existing measures are expired. Initial data for the third quarter is trending positive thus far.

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.

Q2 Economy & Public Market Highlights

- US GDP is expected to contract significantly more than the first quarter's contraction of 5%, given the length of economic shutdown and social distancing measures during the quarter
- The economy began to bounce back late in the quarter, as state and local economies reopened
- The outlook for the economy is uncertain, with certain Government stimulus set to expire in the coming weeks as well as uncertainty regarding reclosing economies as COVID cases spike to new highs
- Despite the economic uncertainty, the stock market roared back, with the NASDAQ reaching all-time highs
- Valuations of public companies also generally increased during the quarter alongside the market rise; this positive trend is likely to carry over to private companies as well
- The market for IPOs returned in Q2 with the highest amount of proceeds since the second quarter of 2019

Economic Growth Hinges on Fiscal Policy

Economy Overview

The second quarter proved to be a resounding example of how the stock market's performance does not necessarily correlate to economic health. While the stock market bounced back and, in the NASDAQ's case, reached all-time highs, the National Bureau of Economic Research officially declared the US to be in a recession during the second quarter. As economies loosened restrictions, we saw a reversal of the tremendous job losses with increases of 2.7 million jobs in May and 4.8 million in June (following a decline of 20.8 million in April). Though promising, there are unmistakable challenges ahead, namely an ever-increasing rise in new COVID-19 cases that threaten renewed restrictions, an upcoming expiration of certain COVID-19 stimulus, and a seemingly stagnation in the declines of initial jobless claims.

Select economic highlights for the second quarter:

- According to the Commerce Department, the final reading of first quarter GDP was a 5% contraction, the largest contraction since an 8.4% decline in the fourth quarter of 2008. The Bureau of Economic Analysis released its advanced estimate of second quarter GDP on July 30th, which showed a record contraction of 32.9%. For the third quarter, the NY Fed Staff Nowcast and Atlanta Fed GDPNow estimate growth of 16.9% and 11.9%, respectively, as of July 31st.
- Since topping 14.7% in April, the unemployment rate subsequently fell to 13.3% and 11.1% in May and June, respectively. As highlighted in the introduction, jobs have been coming back by the millions (4.8 million in June), primarily in the most-affected segments, such as in *leisure and hospitality*. While headline figures, though still staggering, appear to be heading in the right direction, there are signs of concern in the Bureau of Labor Statistics' numbers. For one, while job losses and temporary job losses are declining, permanent job losses are increasing. The employment situation has been buoyed by stimulus such as the Payroll Protection Program, and rising permanent job losses is a concern for businesses' loan forgiveness but is also a sign that the stimulus has not proven to be enough to retain employees. If such programs are not extended and restrictions are reinforced, there may be serious consequences for the labor market. Furthermore, initial jobless claims have seemed to stall and may be signaling a reversal – after hitting a peak of 6.87 million in late March, claims reached a COVID-period low of 1,301,000 for the week ending July 11th and have since slightly increased each week, with the latest reading of 1,434,00 for the week ended July 25th.
- Media outlets noted a sharp rise in personal income in April at 10.8%. It should be reiterated that this rise was supported largely by Government stimulus (i.e., the \$1,200 checks sent out in April and May as well as the \$600 per week in additional unemployment benefits). Without these stimulus efforts, April would've seen a roughly 6% decline in personal income. May declined 4.2% as fewer government social benefits were recognized compared to April. Meanwhile, the personal savings rate shattered previous records, at 33% in April, according to the US Bureau of Economic Analysis, and consumer spending fell approximately 12% in April. While some of these metrics have bounced back in May (the latest readings), they are still significantly behind levels at the start of the year.
- First quarter corporate profits declined 14% from the fourth quarter. While second quarter data has not been released yet, there are certain companies in industries that have excelled in the pandemic, while others have suffered (read our [post](#) on how consumer spending is affecting certain industries). As evidenced by the NASDAQ's success, some tech companies are thriving in the corona-economy. Even banks are posting record trading revenues but are swelling their reserves in anticipation of impending loan write-offs. Certain consumer discretionary businesses continue to struggle, and airlines are beginning to express concern in meeting conditions for their recent bailout.

Economic Growth Hinges on Fiscal Policy (cont'd)

Economy Overview

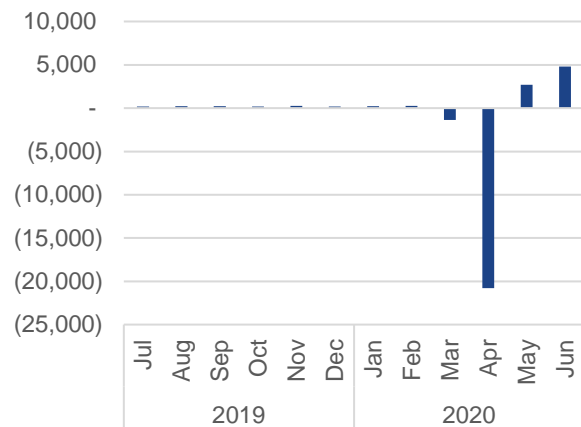
- June began to show some signs of life in certain readings, particularly in readings from the Institute for Supply Management. The June ISM Manufacturing Index showed that 52.6% of company respondents said their businesses are growing, up from May's 43.1% reading. Similarly, the Non-Manufacturing Business Survey showed that the non-manufacturing sector grew after two months of contraction, with the strongest reading in the Business Activity Index (66%, up from May's 41%).
- On July 29th, the Federal Reserve elected to keep interest rates steady at a range between 0-0.25%, noting the rate would stay in this range until officials are "confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals." The Fed specifically called out that "the path of the economy will depend significantly on the course of the virus."

With consumer spending accounting for approximately 70% of GDP, our focus lies heavily on consumer trends, namely job growth and retention. While we believe that the White House will act accordingly to extend benefits - even if it may be to a lesser extent than the initial CARES Act - or push a new, similar stimulus package in an effort to support the downturn brought upon by the coronavirus, we recognize that legislation may not be made as hastily as the last. With any delay, many families may have to make difficult decisions on which costs to cut, and we suspect the economy may feel another pinch. However, to reiterate, we fully expect further fiscal measures to keep the economy afloat, particularly in an election year. Current GOP extension discussions include unemployment benefits of \$100 per week, as opposed to the current \$600 per week, tax credits to encourage companies to hire workers, an additional round of the Payroll Protection Plan, and further direct payments to individuals, among others.

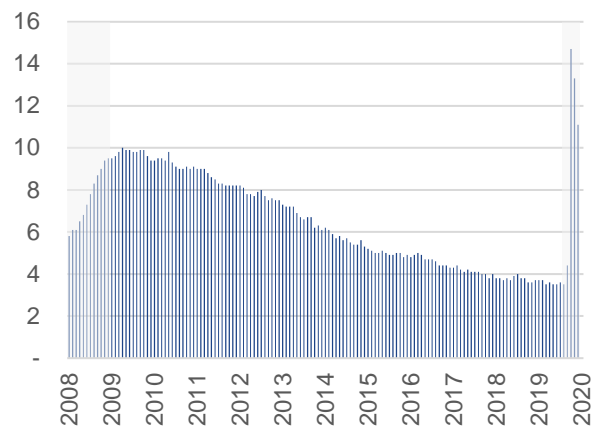
While our economic overview may spell doom and gloom, there generally seem to be positive developments in terms of other economic data (e.g., Q3 GDP growth), though we are nowhere near where we were at the start of the year. The looming questions are the expiration of certain stimulus benefits at the end of July and what next steps the Government will take. If you need assistance beyond Government stimulus, please reach out to us. We have weekly calls with various investor types and can confirm that capital markets have begun to show signs of life and that there are plenty of investors who want to put money to work.

Economic Dashboard – Consumer Trends

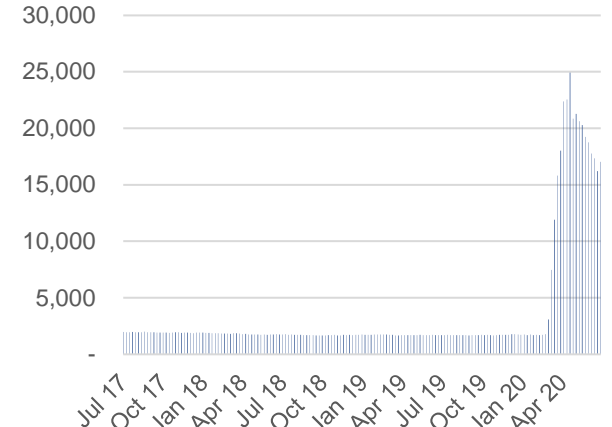
Monthly Change in Nonfarm Payroll (000s)



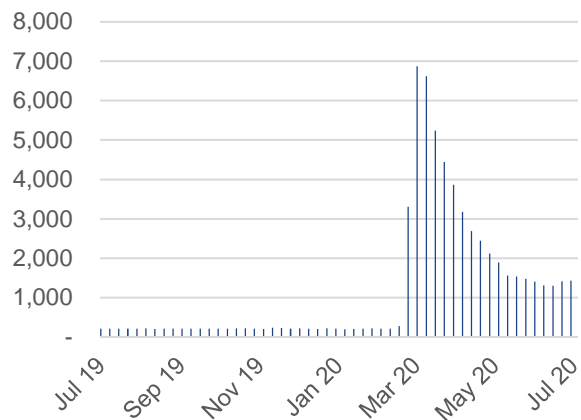
Unemployment Rate (%)



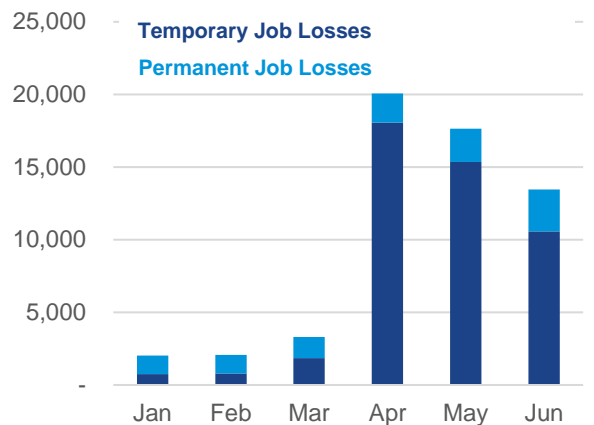
Continued Unemployment Claims (000s)



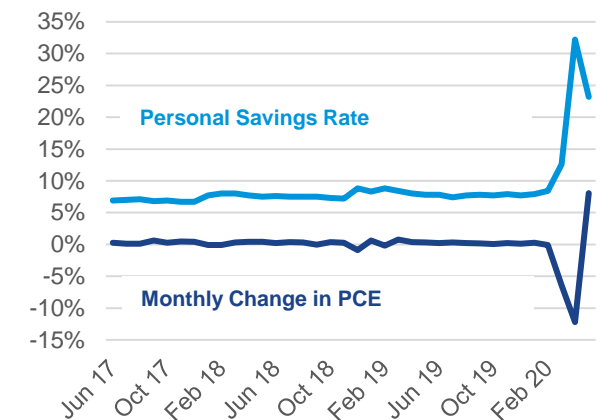
Initial Unemployment Claims (000s)



Temp. vs Perm. Job Losses (000s)

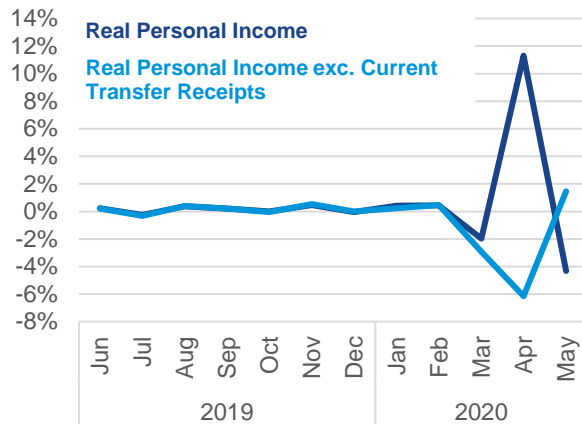


Consumer Spending vs Savings

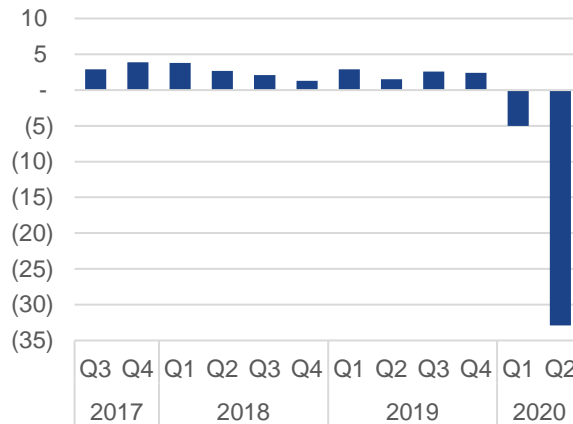


Economic Dashboard – Other Trends

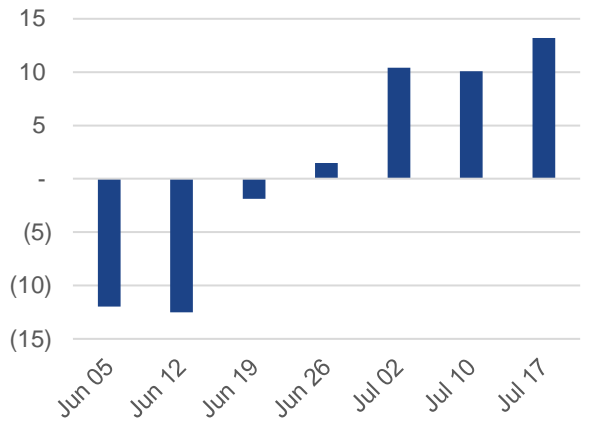
Monthly Change in Personal Income



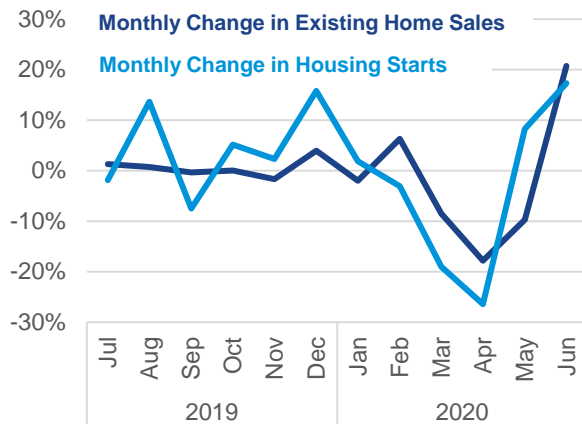
Real GDP, % Change from Prior Quarter



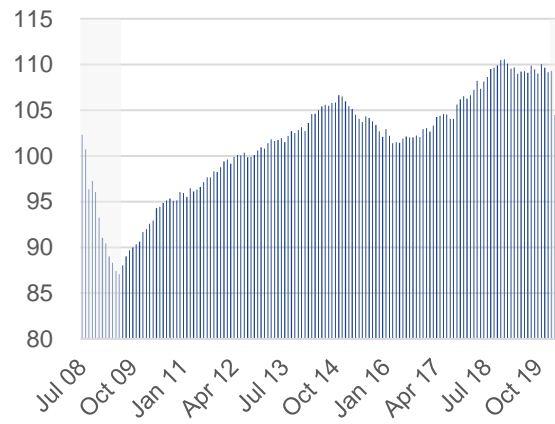
NY Fed Third-Quarter GDP Estimate (%)



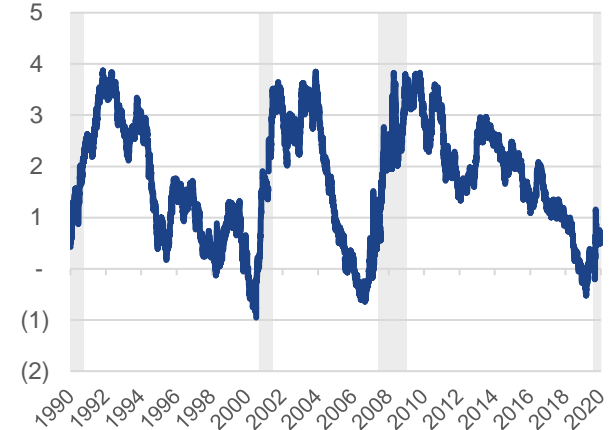
Housing



Industrial Production Index



10-Yr / 3-Mo Treasury Yield Spread (%)



Market Recovers Substantial Ground in Q2

Stock Market Index Data

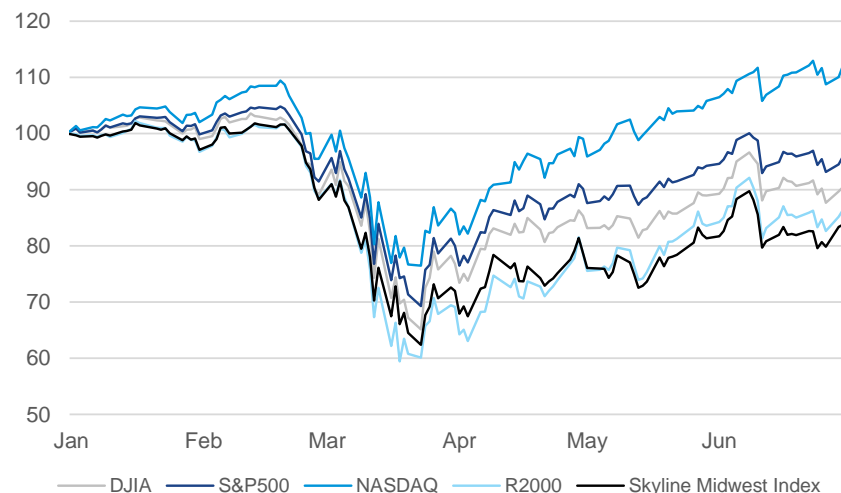
Index	Closing Price		Q2 2020 Return	52-Week		6/30/2020 Closing, % of 52-WK High
	3/31/2020	6/30/2020		Low	High	
S&P 500	2,584.59	3,100.29	20.0%	2,191.86	3,393.52	91.4%
DJIA	21,917.16	25,812.88	17.8%	18,213.65	29,568.57	87.3%
NASDAQ	7,700.10	10,058.77	30.6%	6,631.42	10,221.85	98.4%
Russell 2000	1,153.10	1,441.37	25.0%	966.22	1,715.08	84.0%
Skyline Midwest Index	100.00	116.46	16.5%			

Second Quarter Stock Market Highlights

After an abysmal first quarter that was devastatingly affected by the onset of the coronavirus, the stock market rebounded significantly in the second quarter, largely due to the partial reopening of state economies and hopes of vaccines. All major indices, other than the Dow Jones, increased 20% or more during the quarter, and the NASDAQ briefly reached record highs. The tech-heavy NASDAQ proved to thrive during the pandemic, as people met virtually, and consumers turned to at-home entertainment, such as streaming services.

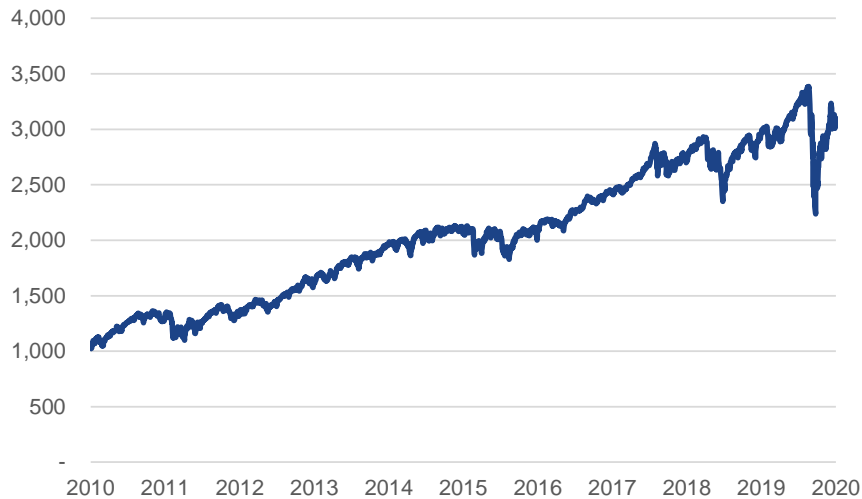
Our Skyline Midwest Index, which consists of 72 equally weighted Midwest companies with market capitalizations of \$500 million or more, returned 16.5% during the quarter. The strongest performer was Leawood, Kansas-based Tortoise Acquisition, which increased nearly 180% during the quarter after news the shell corp would complete a reverse merger with Hyliion, a provider of hybrid technology to class 8 trucks.

Year-to-Date Indexed Performance

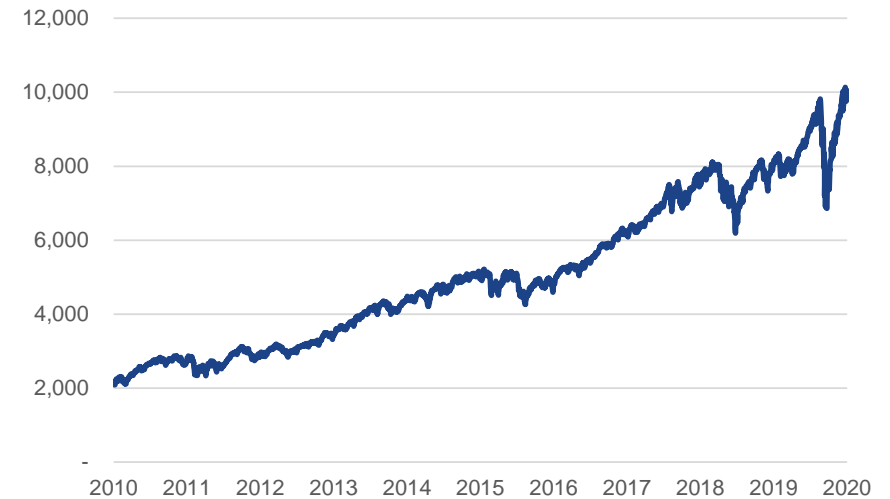


Tech-Heavy NASDAQ Bounces Back in Q2 to Record High

S&P 500 10-Year History



NASDAQ 10-Year History



DJIA 10-Year History



Russell 2000 10-Year History



Valuations Generally Rebound with Market

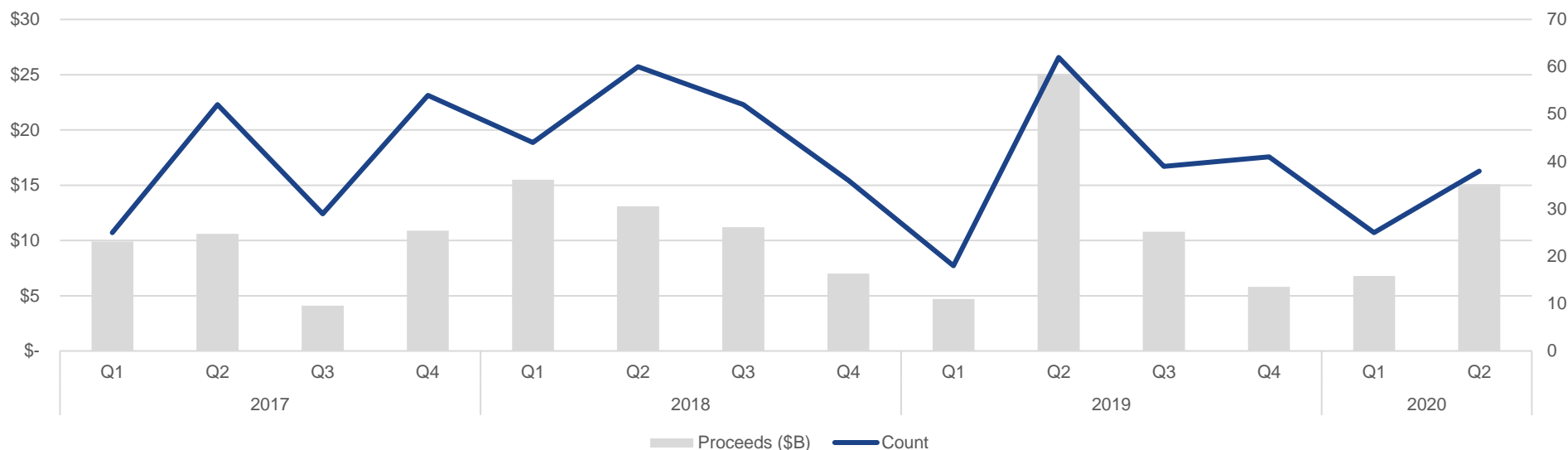
Public Company Valuations	Median Enterprise Value / TTM EBITDA			
Industry	Q3 2019	Q4 2019	Q1 2020	Q2 2020
Food/Beverages & Ag	14.2x	14.3x	11.4x	13.5x
Agribusiness	9.6x	10.9x	7.8x	8.4x
Alcoholic Beverages	15.1x	16.1x	11.4x	11.3x
Baked Goods	13.3x	10.4x	8.6x	8.7x
Branded/Processed Foods	15.2x	15.3x	13.4x	15.5x
Dairy	13.2x	13.8x	11.2x	11.3x
Food Distribution	13.0x	14.1x	10.5x	12.7x
Food Wholesale	6.3x	7.6x	8.4x	6.7x
Fruits & Vegetables	14.3x	11.7x	9.5x	9.1x
Ingredients & Flavors	14.4x	18.1x	14.6x	17.5x
Natural/Organic Foods	69.2x	46.5x	23.0x	35.9x
Non-Alcoholic Beverages	14.8x	15.1x	12.8x	16.0x
Other Restaurants	15.0x	17.6x	10.4x	19.7x
Private Label Food & Bev	34.4x	26.5x	10.9x	13.5x
Protein Processing	17.3x	15.7x	8.0x	18.3x
Quick-Service Restaurants	15.7x	18.6x	15.8x	18.1x
Snacks	18.6x	17.9x	13.7x	15.5x
Healthcare	14.0x	15.8x	13.9x	13.7x
Assisted Living	13.0x	12.5x	15.1x	15.2x
Behavioral Health	18.0x	17.7x	10.7x	12.0x
Distribution & Supplies	11.5x	13.0x	11.5x	12.3x
Healthcare IT	22.1x	20.7x	19.4x	21.3x
Physician Services	11.4x	15.8x	12.6x	12.8x
Staffing	13.2x	13.7x	10.9x	12.8x

Public Company Valuations	Median Enterprise Value / TTM EBITDA			
Industry	Q3 2019	Q4 2019	Q1 2020	Q2 2020
Industrials	10.9x	12.0x	9.0x	11.2x
Air Freight & Logistics	12.3x	13.2x	11.4x	12.7x
Building Products	12.8x	13.0x	10.5x	16.9x
Construction/Engineering	9.0x	9.1x	6.6x	8.0x
Distributors & Wholesalers	12.3x	12.5x	10.1x	13.8x
Diversified Industrials	13.3x	14.1x	11.1x	12.5x
Electrical Equipment	13.4x	16.7x	12.1x	14.0x
Machinery	14.5x	15.4x	8.6x	10.3x
Professional Services	13.6x	13.5x	11.9x	12.9x
Rail	11.5x	12.5x	10.7x	12.2x
Trucking	6.2x	6.9x	6.7x	8.2x
Technology	21.6x	22.0x	19.5x	23.3x
Application Development	20.4x	22.1x	21.3x	29.2x
Data Hosting	24.5x	26.0x	25.5x	28.1x
Diversified Technology	16.2x	18.0x	14.4x	18.1x
Enterprise Software	17.6x	20.0x	15.3x	15.5x
Financial Software	23.4x	25.0x	24.7x	25.0x
Healthcare IT	22.1x	20.7x	19.4x	21.3x
Human Capital Management	52.6x	62.0x	36.2x	65.1x
IT Services	15.8x	17.2x	13.1x	14.0x
Supply Chain Software	34.5x	34.0x	25.0x	48.6x

*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.

IPOs Bounce Back in June After Soft Q1, April-May

Quarterly IPO Activity¹



US IPO Highlights

- 38 IPOs raised \$15.1 billion in the first quarter, a noticeable recovery from a laggard first quarter, despite the slowest April and May since the Great Recession
- After accounting for half of IPOs in Q1, healthcare accounted for nearly two-thirds of second-quarter IPOs, with biotech garnering the most interest
- Private equity firms had their largest quarter, in terms of proceeds, in six years, backing the IPOs of Warner Music Group and Royalty Pharma.
- Seven Chinese issuers went public on US exchanges, despite heightened tensions and demands for increased oversight

Notable US Q2 IPOs

Date	Company	Size (millions, USD)
06/16/20	Royalty Pharma (NASDAQ: RPRX)	\$ 2,180
06/03/20	Warner Music Group (NASDAQ: WMG)	1,930
06/04/20	Zoom Information (NASDAQ: ZI)	935
06/26/20	Albertsons (NYSE: ACI)	800
05/21/20	SelectQuote (NYSE: SLQT)	570
06/09/20	Vroom (NASDAQ: VRM)	468

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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