

# Mergers & Acquisitions (M&A) Update

Second Quarter 2022

# Challenges Persist, Contribute to Another Down Quarter

## Executive Summary

M&A activity softened again in the second quarter, driven by a number of factors: geopolitical tension and warfare, continued inflation and supply chain issues, the worst first-half of a year for market performance since 1970, and rising interest rates.

Roughly 4,570 North American deals were completed during the quarter, for a combined value of nearly \$550 billion. Volume remains relatively high to historical levels, while overall value matched that of a 12-quarter average.

On a positive note, valuation levels rebounded sharply from a weak first quarter. This is encouraging to see, as it suggests we're not entering a firesale-type of environment and that buyers are still willing to pay up for quality companies.

As we approach the end of the third quarter, we are hopeful that easing fuel prices and grain shipments commencing out of Ukraine will soften inflation, and we hope the market recovering from mid-June lows will increase investor confidence. Yet, we are acutely aware of the persisting challenges ahead.

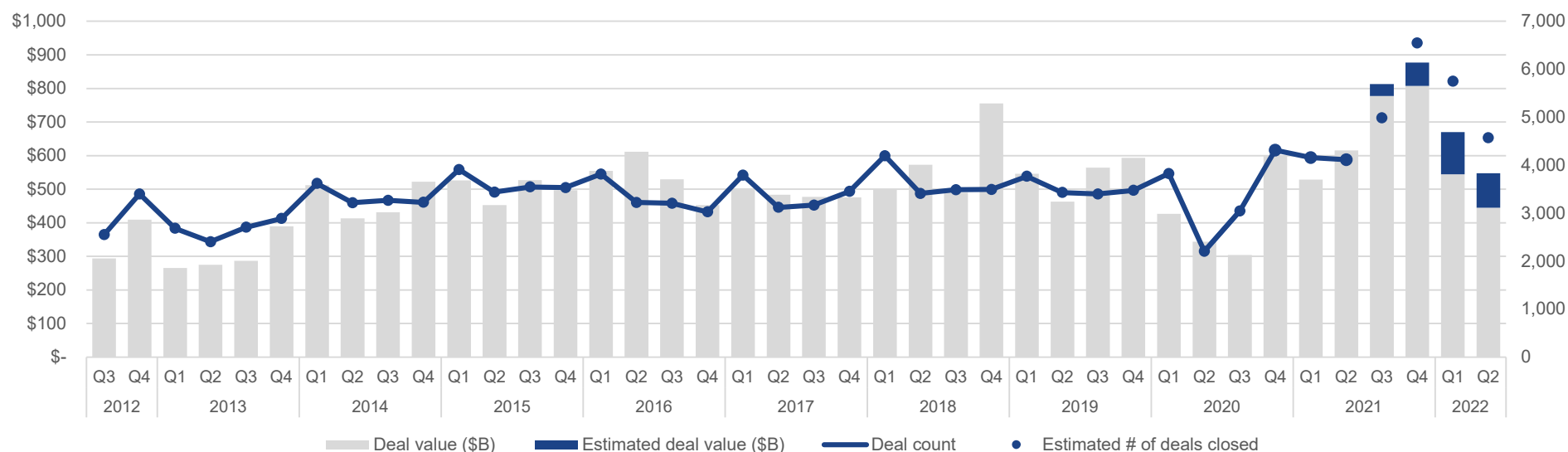
As always, contact us if you would like to receive information about activity in your specific industry or geography, or if you would like to discuss options for your business.

## Q2 M&A Highlights

- M&A activity declined a second consecutive quarter and is now in line with historical levels, with ~4,570 deals closing during the quarter
- Midwest activity slowed as well and was highlighted by Oracle's purchase of Cerner
- Great Lakes activity echoed national activity but is set for a big fourth quarter with the pending merger of Prologis and Duke Realty
- Valuations recovered from a dismal first quarter
- Rising interest rates, high inflation, a market downturn, and geopolitical tensions were contributing factors to the continued decline in deal activity

# Deal Activity Back to Historical Norm

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



## North American M&A Highlights

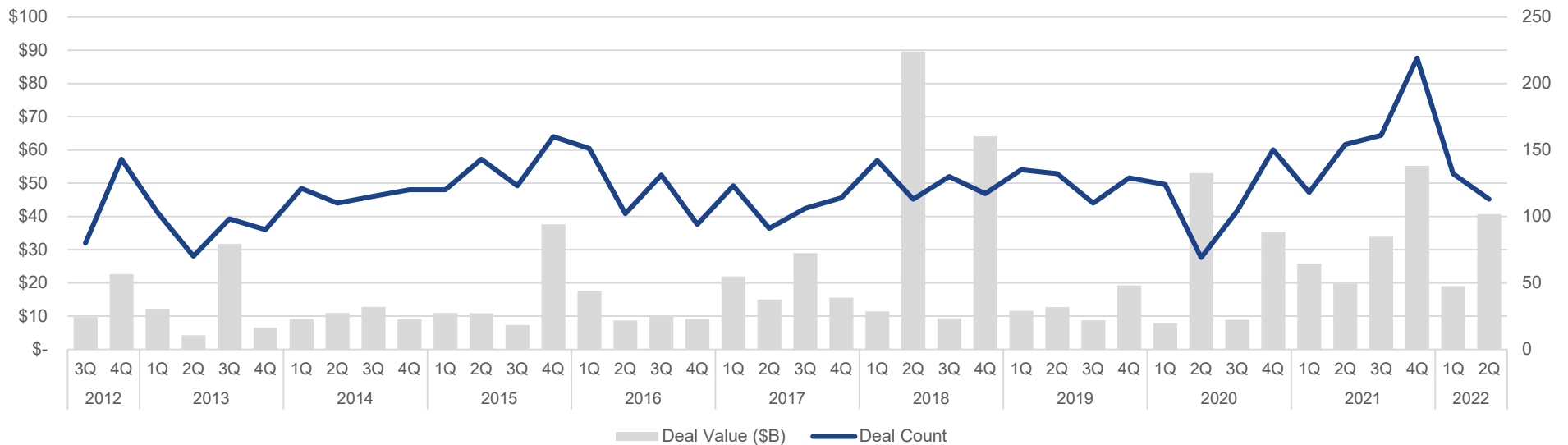
- Following a strong end to the year, in which buyers raced to complete deals amid a cheap(er) financing environment, M&A activity has stalled back to levels akin to historical norms
- Nearly \$550 billion was deployed across approximately 4,570 deals in the second quarter, a dollar total that matches the average of the last 12 quarters, and a deal count that is still approximately 800 more deals than the average over that span
- Inflation continued to affect market conditions, and we experienced our second consecutive quarter of negative GDP growth, a feat that the National Bureau of Economic Research typically defines as a recession
- Despite ongoing geopolitical and economic risks, there are fortunately some positive developments, such as [declining gasoline prices](#) and [lowered inflation expectations](#), into the third quarter

## Notable US Q2 Transactions

Close Date	Target	Acquirer	Consideration (millions, USD)
Apr 08	Warner Bros Discovery	Discovery	\$ 40,000
Jun 08	Cerner	Oracle	28,300
Apr 29	MGM Growth Properties	Vici Properties	17,200
May 23	Zynga	Take-Two Interactive Software	12,700
Jun 21	Anaplan	Thoma Bravo	10,700
Jun 09	CDK Global	Brookfield Business Partners	8,300

# Acquisition of Cerner Highlights Midwest Activity

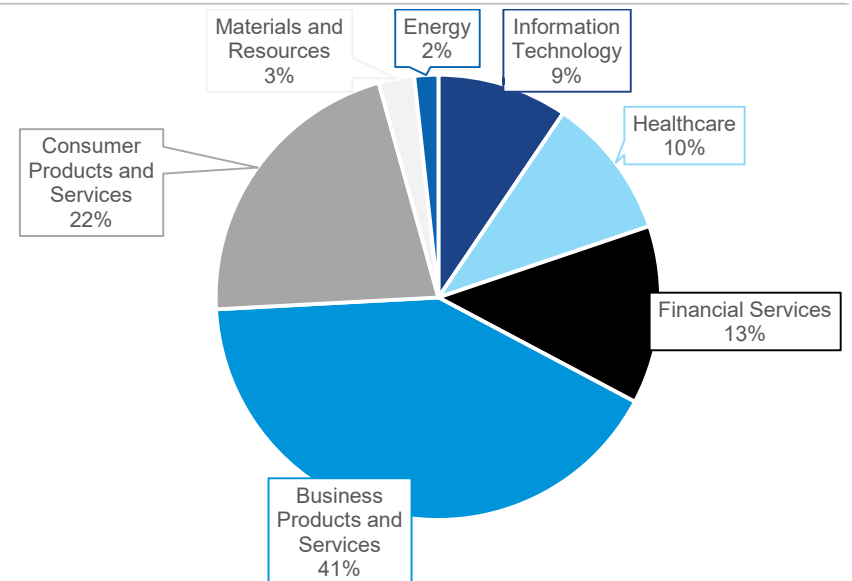
## Quarterly Midwest M&A Activity<sup>1</sup>



## Midwest M&A Highlights

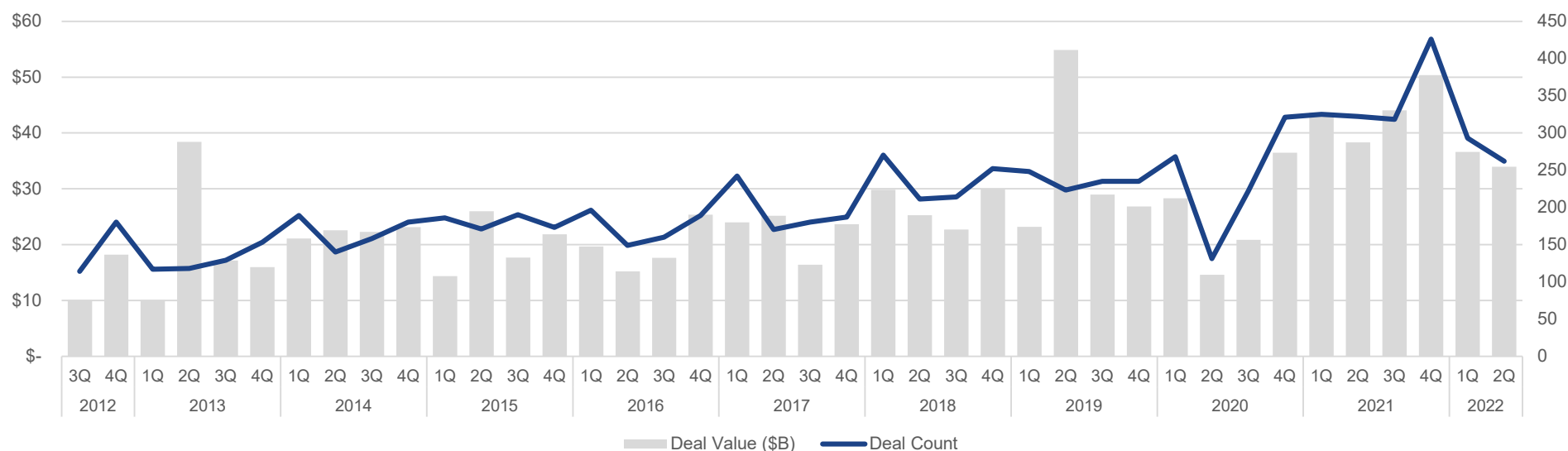
- Midwest activity followed that of North American activity, with deal counts dropping a second consecutive quarter
- Over 110 transactions were completed in the Midwest, topping \$40 billion to close out the quarter
- Oracle's June acquisition of Cerner accounted for 70% of the quarter's consideration total at \$28.3 billion
- Business product and service companies accounted for the most deals, followed by companies that focus on consumer products and services
- Among notable deals announced during the quarter, the 20,000-employee MercyOne is set to be acquired by The Trinity Health

## Q2 Midwest Activity (#) by Sector



# Great Lakes Deal Value Tops \$34 Billion

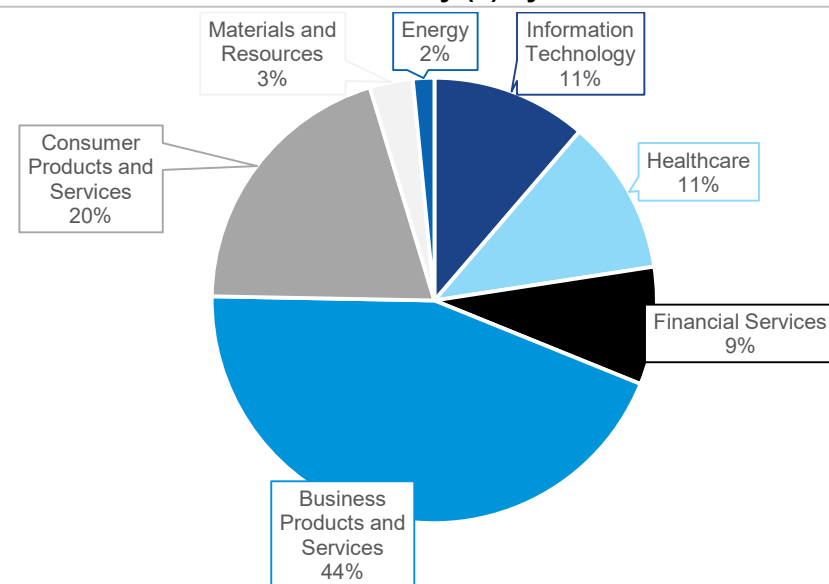
Quarterly Great Lakes M&A Activity<sup>1</sup>



## Great Lakes M&A Highlights

- Over 260 transactions were completed in the Great Lakes region during the quarter, amounting to approximately \$34 billion in transaction value
- Six transactions reached valuations over \$1 billion, led by the \$8.3-billion acquisition of Hoffman Estates, Illinois-based CDK Global
- Business product and service companies accounted for the most deals, followed by companies that focus on consumer products and services
- In June, Prologis announced its intent to merge with Duke Realty in a \$26-billion deal, highlighting transactions set to close in the fourth quarter of 2022

## Q2 Great Lakes Activity (#) by Sector





# Notable Second Quarter Midwest M&A Transactions

Date Closed	Target	Investor	Target City	Target Description
Apr 01	Guaranty Bank	QCR Holdings	Springfield, MO	Operator of a bank holding company
Apr 01	Major Brands Holdings	Breakthru Beverage Group	Saint Louis, MO	Wholesaler and distributor of premium alcoholic beverages
Apr 19	ImOn Communications	Goldman Sachs Asset Management	Cedar Rapids, IA	Provider of internet, video, and voice services
Apr 26	Platinum Realty	United Real Estate Group	Overland Park, KS	Provider of information services to independent residential brokerages
Apr 29	Raven Industries	Industrial Opportunity Partners	Sioux Falls, SD	Manufacturer of covers, liners, films, and other products
May 02	KZValve	IDEX	Ashland, NE	Manufacturer of motorized valves and controls
May 03	Huttig Building Products	Woodgrain Millwork	Saint Louis, MO	Distributor of building materials
May 04	Answers.com	System1	Saint Louis, MO	Operator of a web-based information service platform
May 11	Semco Plastic Company	Tank Holding (Carlyle Credit Solutions BDC)	Saint Louis, MO	Provider of blow molding and large-tonnage injection molding services
Mar 13	Precoat Metals	AZZ	Saint Louis, MO	Provider of metal coating services
Jun 01	PayFlex	Millennium Trust Company	Omaha, NE	Provider of administrative services for employee benefit programs
Jun 02	Level 5 Tools	Worthington Industria	Kansas City, KS	Manufacturer of drywall finishing tools
Jun 08	Cerner	Oracle	Kansas City, MO	Supplier of healthcare IT and tech-enabled services
Jun 09	Wenger Manufacturing	Marel	Sabetha, KS	Manufacturer of process and extrusion systems
Jun 09	Iowa First Bancshares	MidWestOne Bank	Muscatine, IA	Operator of a bank holding company
Jun 13	Renewable Energy Group	Chevron	Ames, IA	Provider and refiner of biofuels
Jun 17	Kansas Crossing Casino & Hotel	Peninsula Pacific Entertainment	Pittsburg, KS	Operator of a casino and hotel
Jun 21	United Poly Systems	Atkore International	Springfield, MO	Manufacturer of high-density polyethylene pipe

# Notable Second Quarter Great Lakes M&A Transactions

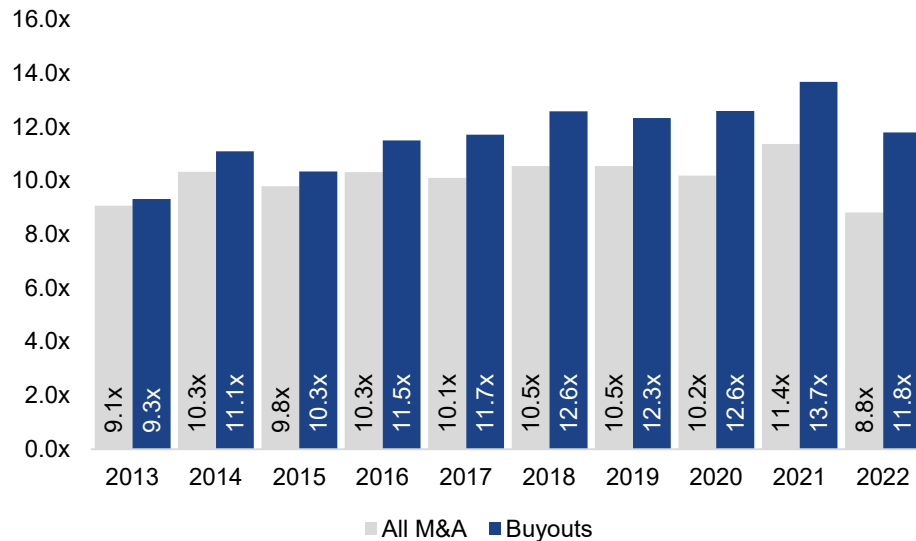
Date Closed	Target	Investor	Target City	Target Description
Apr 91	First Alert	Resideo Technologies	Aurora, IL	Manufacturer of home safety, detection and suppression devices
Apr 01	Level One Bank	First Merchants	Farmington Hills, MI	Provider of banking services
Apr 06	Long Term Care Group	Illumifin (ABRY Partners, Hoplon Capital)	Eden Prairie, MN	Provider of business process outsourcing services
Apr 11	CIC Plus	Experian	Skokie, IL	Developer of employer compliance software
Apr 13	ApexonHealth	Infostretch (Goldman Sachs Asset Management, Everstone Capital)	Southfield, MI	Provider of digital technology and engineering services
Apr 19	Cloverdale Equipment	Herc Holdings	Oak Park, MI	Operator of a full-service construction equipment distributor
Apr 21	Ferro	Prince (American Securities)	Mayfield Heights, OH	Producer of specialty materials
Apr 26	Segmint	Alkami	Cuyahoga Falls, OH	Developer of a data-driven marketing technology platform
Apr 29	Varroc Lighting Systems	Plastic Omnium	Plymouth, MI	Developer and designer of exterior lighting systems
May 02	Allscripts (hospitals and large physician practices portfolio)	Harris Computer	Chicago, IL	A portfolio of hospitals and large physician practice assets
May 02	ErisX	Cboe Global Markets	Chicago, IL	Operator of an online trading platform
May 10	ADESA	Carvana	Carmel, IN	Provider of vehicle auction and redistribution services
May 11	Intelligent Medical Objects	Thomas H. Lee Partners	Rosemont, IL	Developer of medical terminology applications
May 13	Quality Synthetic Rubber	Datwyler Group	Pepper Pike, OH	Manufacturer of silicon rubber components
Jun 01	Scholle IPN	SIG Combibloc Group	Northlake, IL	Developer and manufacturer of packaging material and equipment
Jun 01	Tuthill (Fill-Rite)	Gorman Rupp	Fort Wayne, IN	Manufacturer of pumps, meters, and accessories
Jun 09	CDK Global	Brookfield Business Partners	Hoffman Estates, IL	Provider of integrated IT solutions
Jun 24	C.H.I. Overhead Doors	Nucor	Arthur, IL	Manufacturer of residential, commercial, and rolling steel doors

# Valuations Rebound from Q1 Low

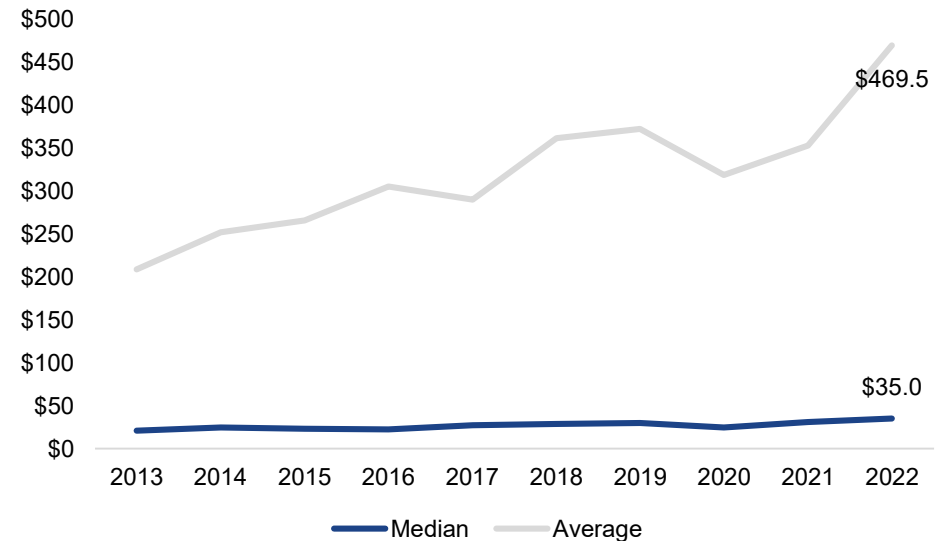
## Valuation Highlights

- M&A valuations rebounded after a notably weak first quarter, increasing to a median of 8.8 times Earnings Before Interest, Depreciation, & Amortization (EBITDA) from 7.2x last quarter
- Valuations paid by financial buyers (investors by primary nature) also increased substantially, reaching 11.8 times EBITDA, up from 5.5x last quarter
- As noted in our first quarter 2022 report, we suspected valuations would recover after such a sharp decline
- Average and median deal sizes remain elevated, with average deal sizes of approximately \$470 million and median deal sizes amounting to \$35 million
- 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

### Mike Pechette | [mpechette@skyline-advisors.com](mailto:mpechette@skyline-advisors.com)

- 30+ years in investment banking, merchant banking, and operations
- JD, Indiana University Maurer School of Law
- BS in Accounting – Indiana University Kelley School of Business

## 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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