

# THIRD QUARTER | 2019

## Capital Markets Review – Midwest Edition

### In This Issue

Economic Review

Public Markets

Mergers & Acquisitions (M&A)

Private Equity

Venture Capital

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### Executive Summary

We are pleased to present our review of capital markets in the Midwest region for the third quarter of 2019. While public markets were mixed during the quarter, transaction activity continued to slow, reflecting investor uncertainty and high valuations. The Fed cut rates twice during the quarter, also signaling uncertainty regarding US-China trade relations and a potentially slowing global economy.

We continue to see mixed signals in the market. While certain indicators remain strong, dovish Fed language regarding potential rate reductions represents a two-way street: lower rates may spur economic growth, but their implementation is a cause for concern due to a slow- or negative-growth economy. Furthermore, capital markets deal volume continues to slow, despite higher valuations.

As we enter the final quarter of 2019, we continue to pay close attention to several developments and trends:

- The Federal Reserve lowered rates twice during Q3 and has signaled it may pause further rate changes.
- Investors still have significant amounts of dry powder. Will they seek to deploy this capital in smaller deals? Or will multiples continue to be pushed up mainly at the larger end of the spectrum?
- Unemployment remains very strong. Will this pressure cause companies to increase costs through higher wages?
- The yield curve has steepened, though we are cautious and attentive to its movements.
- Will we see a conclusion to the trade wars before election season kicks into high(er) gear?

As always, contact our team if you have any questions or would like to learn more about capital markets activity within your region or industry. Also, visit [www.skyline-advisors.com/midwest](http://www.skyline-advisors.com/midwest) to automatically receive quarterly and annual updates of this regional report.

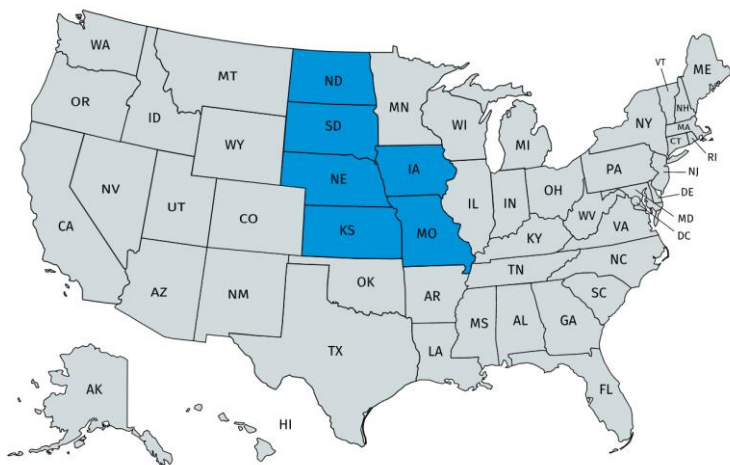
We wish you all the best through the balance of the year and holiday season.

-The Skyline Advisors team

### Table of Contents

Economic Review.....	3
Public Markets.....	4
Valuations.....	5
Mergers & Acquisitions.....	6
Private Equity.....	8
Venture Capital.....	11
Skyline Advisors.....	14

### Midwest Region



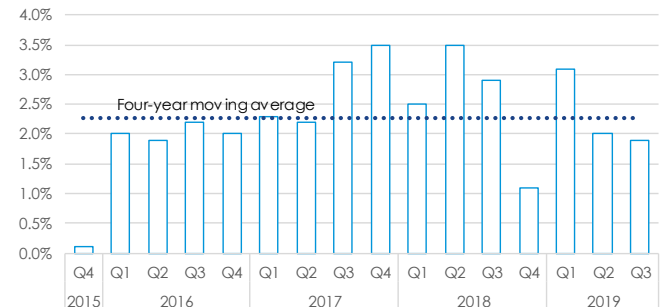
## ECONOMIC REVIEW

### U.S. economy continues to grow

The Bureau of Economic Analysis (BEA) reported that real GDP increased at a 1.9% annualized rate, just shy of the 2.0% rate realized in the second quarter. GDP growth was largely aided by an increase of 2.9% in consumer spending, demonstrating continued American consumer confidence. The strong consumer spending can partly be attributed to a 50-year-low unemployment rate of 3.5% in September. However, GDP growth was partially offset by weakness in business investment. In four of the last five quarters, fixed investment in non-residential structures has fallen from the preceding period, with the latest value a decline of 15.3%.

**Real Gross Domestic Product Growth**

Percent Change from Preceding Period; Seasonally Adjusted at Annual Rates



### Mainstreet Economy Report's Area Economic Index climbs above growth neutral

In Creighton University's Mainstreet Economy Report, a monthly survey of non-urban community bank CEOs and presidents within the Midwest, the overall Area Economic Index floated around growth neutral (a reading above 50 indicates growth and a reading of less than 50 indicates contraction), reaching 50.2 in July, 46.5 in August, and 50.1 in September. The overall reading was strongly affected by weak farm equipment sales, sluggish farmland prices, and survey respondents' prediction of a weaker economy six months from the survey.

### Federal Reserve decreases rates twice in Q3

The US Federal Reserve held its open meeting committee meetings twice in the third quarter (July 30 - 31 and September 17 - 18) and elected at both to decrease the Federal Funds Rate by 25 basis points, cutting the Federal Funds Rate range to 2.00 - 2.25 in August and 1.75 - 2.00 in September. In the two meetings, the Fed indicated a strong labor market, positive economic growth, and continued growth in household spending. However, the Fed noted a reduction in business fixed investment and exports in addition to potential negative externalities from global developments.

**Effective Federal Funds Rate**

Percent, 10-Year History



### Business investment declines in Q3 amid trade concerns

Business investment continued to fall in the third quarter, declining 3% following a 1% decline in Q2. This includes a 15.3% drop in structures investment - expenditures on new construction or improvements to existing structures - as well as a 3.8% decline in machinery and equipment investment, which has been found to have a strong association with growth.

These trends can be explained in part by concerns regarding U.S. - China trade tension. Though Fed Chairman Jerome Powell believes progress towards a phase one trade agreement with China could "bode well" for business confidence, trade concerns will continue to negatively impact business expenditures until there is more certainty regarding the outlook on U.S. - China trade.

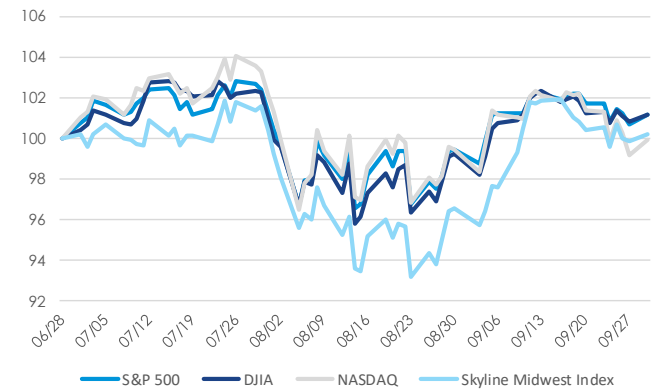
## PUBLIC MARKETS

### Stock market continues to see modest gains in Q3 despite concerns regarding growth and U.S.-China trade tensions

After a volatile second quarter, the stock market realized a modest gain in the third quarter, following an August downturn and a September recovery. During the quarter, the S&P 500 and Dow Jones Industrial Average both increased 1.19%, while the Nasdaq and Russell 2000 decreased 0.09% and 2.76%, respectively.

Our "Skyline Midwest Index," comprised of 76 equally weighted companies all headquartered in the Midwest with market capitalizations of at least \$500 million, increased by 0.22% during the quarter. The region's strongest performers included Heartland Express, CorEnergy Infrastructure Trust, The Buckle, and Investors Real Estate Trust.

Q3 2019 Indexed Stock Market Performance



Index	Closing Price		Q3 2019 Return	52-Week	
	6/30/2019	9/30/2019		Low	High
S&P 500	2,941.76	2,976.74	1.19%	2,346.59	3,027.98
DJIA	26,599.96	26,916.83	1.19%	21,712.53	27,398.68
NASDAQ	8,006.24	7,999.34	(0.09%)	6,190.17	8,339.64
Russell 2000	1,566.57	1,523.37	(2.76%)	1,266.92	1,703.81
Skyline Midwest Index	100.0	100.2	0.22%	N/A	N/A

S&P 500 10-Year Performance



Nasdaq 10-Year Performance



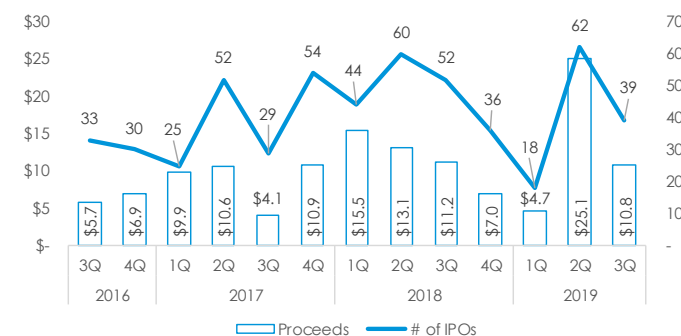
### IPO activity wanes in Q3

While IPO activity in the third quarter waned following a historically strong Q2, IPO activity in Q3 still topped the historical average, with 39 IPOs raising 10.8 billion.

Tech and Biotech IPOs dominated the market, making up 62% of all IPOs in the quarter. Notable transactions include the public offerings of SmileDirectClub and Peloton. The highly anticipated WeWork IPO was postponed during the quarter.

The Midwest saw its first IPO of 2019, with CrossFirst Bank raising \$101.7mm in its public offering.

US IPO Activity  
Proceeds in Billions



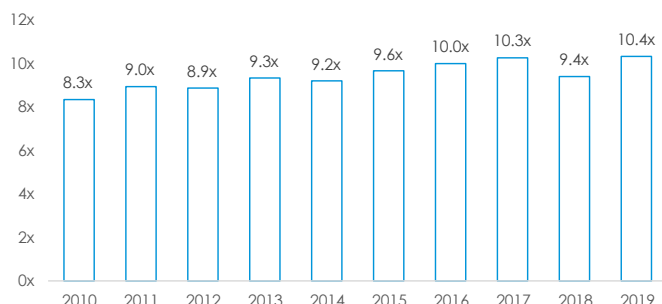


## VALUATIONS

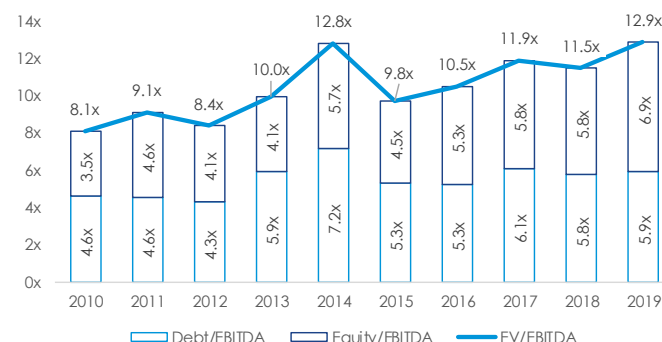
### Market valuations inch up in Q3

Median North American M&A valuations increased to 10.4 times earnings before interest, taxes, depreciation, and amortization (EBITDA) through the first three quarters of 2019, up from 10.2x through the first half of the year, while the median EBITDA multiple of US-based private equity buyouts increased to 12.9x from 12.4x over the same period. Current transaction valuations are at their highest in ten years. In fact, many private equity funds reportedly have begun to assume lower exit multiples in their base-case models going forward.

North American EV/EBITDA Multiples  
Median



US Private Equity Buyout Multiples  
Median



Public company valuations within Skyline's industry focus also generally increased, with the broader food & ag industry valuation increasing to 14.3 times trailing-twelve-month EBITDA, healthcare increasing to 14.6x, and industrials increasing to 12.0x. 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, liquidity, industry, and other factors. Businesses should view multiples as just the starting point for their valuation analysis. (Note: certain industries may have abnormal valuations due to a limited sample size of companies [e.g., Natural/Organic Foods]) In addition, private companies typically sell at lower valuations than publicly-traded companies.

Median Enterprise Value / TTM EBITDA

Industry	Q4 2018	Q1 2019	Q2 2019	Q3 2019
Food/Beverages & Ag	11.8x	13.5x	14.1x	14.3
Agribusiness	10.5x	9.7x	10.5x	9.6x
Alcoholic Beverages	4.3x	16.5x	14.5x	15.0x
Baked Goods	11.4x	15.7x	17.1x	15.9x
Branded/Processed Foods	14.2x	14.2x	14.1x	15.1x
Dairy	13.1x	14.3x	12.7x	14.1x
Food Wholesale	6.2x	6.2x	6.0x	6.3x
Foodservice	13.0x	13.9x	14.6x	15.5x
Fruits & Vegetables	16.6x	16.4x	17.7x	14.3x
Grocery Distribution	12.1x	9.0x	9.8x	11.5x
Ingredients & Flavors	16.9x	20.3x	19.2x	19.4x
Natural/Organic Foods	20.3x	53.8x	40.8x	48.3x
Non-Alcoholic Beverages	13.7x	15.3x	16.2x	12.3x
Other Restaurants	10.9x	14.2x	15.0x	14.0x
Private Label Food & Bev	17.5x	16.9x	14.4x	15.5x
Protein Processing	8.8x	10.4x	13.4x	19.5x
Quick-Service Restaurants	12.3x	14.3x	15.4x	15.7x
Snacks	14.8x	16.3x	16.7x	18.6x
Healthcare	11.9x	12.4x	13.8x	14.6x
Assisted Living	14.1x	17.9x	18.7x	15.9x
Behavioral Health	9.5x	17.7x	18.1x	18.0x
Distribution & Supplies	11.9x	12.2x	12.4x	11.5x
Healthcare IT	22.2x	21.4x	22.9x	22.1x
Physician Services	9.0x	9.1x	11.0x	11.4x
Staffing	12.7x	11.6x	12.2x	13.2x

Median Enterprise Value / TTM EBITDA

Industry	Q4 2018	Q1 2019	Q2 2019	Q3 2019
Industrials	9.9x	11.1x	11.7x	12.0x
Air Freight & Logistics	10.2x	11.5x	12.2x	12.3x
Building Products	10.5x	11.9x	13.3x	12.6x
Construction/Engineering	7.4x	7.5x	10.0x	10.0x
Distributors & Wholesalers	10.4x	11.0x	11.4x	11.3x
Diversified Industrials	10.5x	13.0x	12.7x	13.1x
Electrical Equipment	11.1x	12.0x	12.6x	13.4x
Machinery	10.4x	13.0x	12.8x	14.5x
Professional Services	11.6x	12.5x	13.5x	13.6x
Rail	10.4x	11.9x	12.1x	12.3x
Trucking	5.5x	5.8x	5.5x	6.2x
Technology	17.3x	21.4x	23.5x	23.4x
Data Hosting	22.6x	22.5x	23.5x	23.9x
Diversified Technology	12.9x	15.5x	16.8x	16.2x
Enterprise Software	13.8x	19.3x	26.5x	27.6x
Financial Technology	20.3x	23.8x	27.0x	28.1x
Healthcare IT	22.2x	21.4x	22.9x	22.1x
Human Capital Mgmt.	36.1x	52.2x	46.9x	43.4x
IT Services	11.9x	12.5x	15.5x	15.5x
Other SaaS	59.9x	79.7x	87.4x	79.4x
Supply Chain Software	17.3x	24.1x	39.2x	32.1x

Pitchbook. Note certain past public market industry multiples have been adjusted to reflect take-private transactions

## MERGERS & ACQUISITIONS

### Larger but fewer deals contribute to an increase in M&A value in Q3

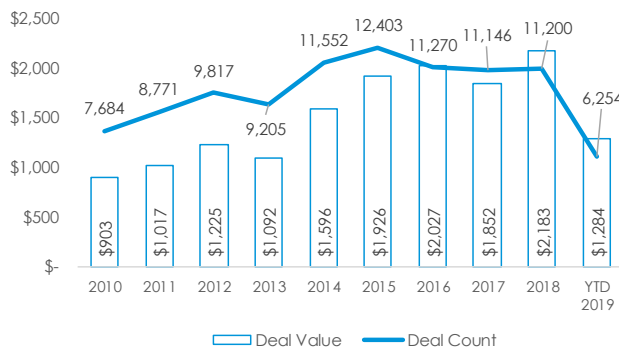
Total US M&A value rebounded in the third quarter after a weak second quarter, increasing 36.9% to an estimated \$465.5 billion from Q2's \$340.1 billion. Meanwhile, total deal count declined 17.7% to an estimated 1,773 deals during the quarter. Through the first three quarters of 2019, total deal value was \$1.3 trillion, and deal volume totaled 6,254 deals, declines of 9.1% and 27.7%, respectively, from the first three quarters of 2018. Eight deals above \$10 billion in value closed during the quarter (led by the \$43-billion acquisition of WorldPay), helping boost total value consideration. With Bristol-Myers Squibb's \$74-billion acquisition of Celgene and BB&T's \$66-billion acquisition of SunTrust Bank estimated fourth quarter close dates, the year may end on a high note.

A story of note is the significant decline in Chinese investment in North American companies. At its peak in 2016, North American M&A activity with Chinese acquirers topped \$298.5 billion across nearly 700 deals. Through the first three quarters of 2019, those values are just \$20 billion across 73 deals, or annualized declines of roughly 90%. In addition to generally avoiding completing deals together, the US Government has, in some cases, blocked deals or forced Chinese exits of US companies.

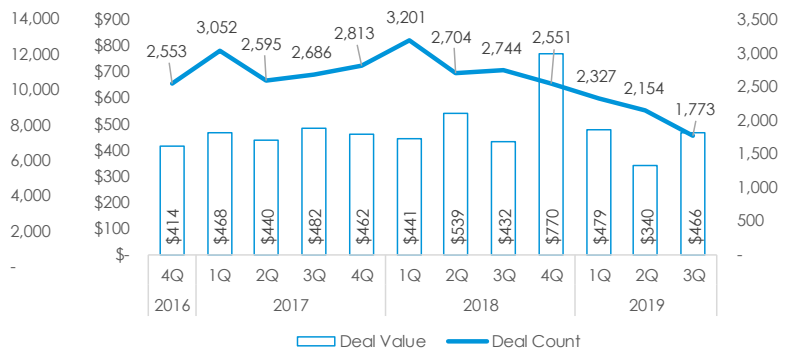
M&A consideration in the Midwest came in at \$7.8 billion for the third quarter, a decline of \$1.2 billion from the second quarter and an increase of \$0.5 billion from the third quarter of 2018. Deal count, however, fell to 64 from 88 in the second quarter and 99 in the third quarter of 2018. Through the first three quarters of 2019, total deal value reached \$24.9 billion, significantly down from the \$104.6 billion in the same period of 2018. However, the second quarter of 2018 included Bayer's \$63-billion purchase of Monsanto, a deal that topped every total quarterly M&A spend in the Midwest on record. The largest deal in the third quarter of 2019 was Mutual of Omaha Bank's \$1-billion sale to CIT Group.

The trend towards larger deals and higher valuations continues amid increased competition. Once accounting for over 80% of total deal volume, transactions valued under \$100 million have consistently declined, as a proportion of all transactions, since 2015, falling from 71.7% to 58.3% through year-to-date 2019. Over the same period, transactions valued \$500 million and above went from accounting for 6.8% of total transactions in 2015 to 11.3% in 2019.

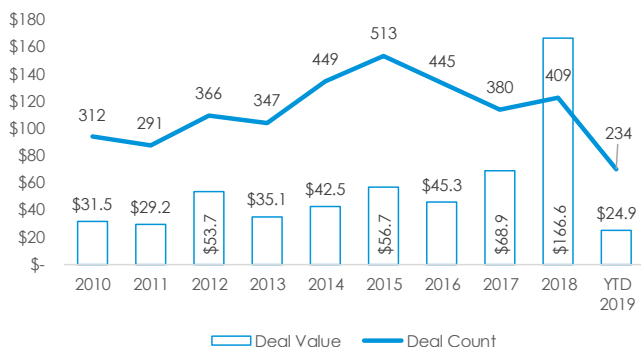
**US M&A Activity**  
Deal Value in Billions



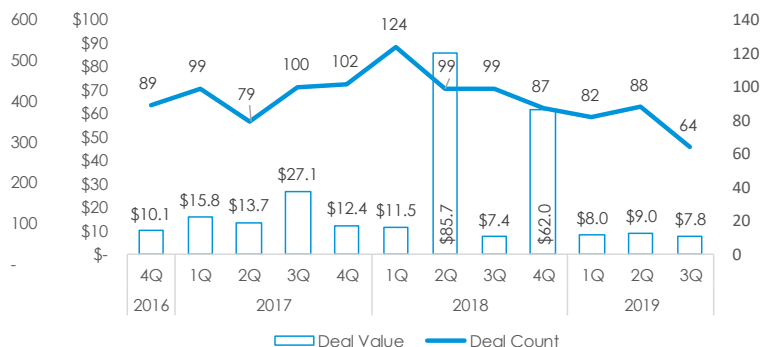
**US M&A Activity**  
Deal Value in Billions



**Midwest M&A Activity**  
Deal Value in Billions



**Midwest M&A Activity**  
Deal Value in Billions



## MERGERS &amp; ACQUISITIONS

## Notable Midwest M&amp;A Deals in the third quarter of 2019

State	Date Closed	Target	Investor	Target City	Target Description
IOWA	09/19/2019	EMC Insurance Group	Employers Mutual Casualty Company	Des Moines, IA	Provider of insurance products (non-life)
	08/23/2019	Sioux City Brick & Tile	Brickworks	Sioux City, IA	Manufacturer and supplier of clay bricks
	08/26/2019	G & L Clothing	Boot Barn	Des Moines, IA	Operator of an online clothing store
	09/03/2019	Iowa Steel Fabrication	TerraVest Industries	Osceola, IA	Manufacturer and provider of steel fabricated products and services
	08/20/2019	Pinnacle Combat	B2Digital	Dubuque, IA	Operator of mixed martial arts business
KANSAS	07/18/2019	Aratana Therapeutics	Elanco	Leawood, KS	Provider of research and development for pet therapeutic products
	08/19/2019	Quintana Energy (pressure pumping unit)	Hurricane Services	Chanute, KS	Provider of pressure pumping services
	07/18/2019	DPI Benefits	Arthur J. Gallagher & Company	Manhattan, KS	Broker of employee benefits and provider of consultant services
	09/18/2019	Packaging Products Corporation	Pacific Packaging Products	Mission, KS	Provider of flexographic printing services
	09/01/2019	United Prairie Ag	Skyland Grain LLC	Ulysses, KS	Provider of agri-business services
MISSOURI	07/26/2019	American Railcar Industries	The Greenbrier Companies	Saint Charles, MO	Manufacturer of hopper and tank railcars
	09/24/2019	Peak Resorts	Vail Resorts	Wildwood, MO	Owner and operator of ski resorts
	09/11/2019	Kansas City Royals	Private investor group	Kansas City, MO	Operator of a professional baseball team
	08/01/2019	BankLiberty	Central Bank	Kansas City, MO	Provider of banking solutions
	08/27/2019	Pulse Systems	CareTracker	Kansas City, MO	Developer of health care information systems software
NEBRASKA	08/12/2019	Mutual of Omaha	CIT Group	Omaha, NE	Provider of banking solutions
	07/08/2019	Perrigo	PetIQ	Omaha, NE	Provider of animal care and veterinarian products
	09/11/2019	Staffing Services, Inc. (SSI)	QPS Employment Group	Lincoln, NE	Provider of staffing and recruiting services
	07/02/2019	D3 Banking	NCR	Omaha, NE	Developer and marketer of SaaS and cloud-based banking and financial management software
	07/01/2019	O'Keefe Elevator	ThyssenKrupp Elevator	Omaha, NE	Provider of full-scale elevator services
NORTH DAKOTA	08/01/2019	National Farmers Union Insurance	National General Insurance	Jamestown, ND	Provider of farmer insurance services
	08/30/2019	Lakeside Insurance Agency	Cornerstone Bank	New Town, ND	Provider of insurance services
	07/15/2019	Bismarck Mining	Odyssey Marine Exploration	Bismarck, ND	Provider of exploration licensing
	08/08/2019	American Midstream (ND assets)	Caliber Midstream	McKenzie County, ND	North Dakota oil gathering and transportation assets
	07/17/2019	EDF Renewables Development	Offer Tail Power Company	Merricourt, ND	150MW wind farm development assets
SOUTH DAKOTA	07/12/2019	NASCENTechnology Manufacturing	Newava Technology	Watertown, SD	Designer and manufacturer of multi-layer ceramic transformers
	07/01/2019	Pattern Energy Group (SD assets)	Lincoln Clean Energy	Butte County, SD	103MW construction-ready wind project in Butte County, SD
	07/01/2019	Black Hills Receiver (SD nursing homes)	Legacy Healthcare	Various (SD)	16 nursing home assets in various South Dakota cities

## PRIVATE EQUITY

### US PE activity cools in Q3 on economic uncertainty

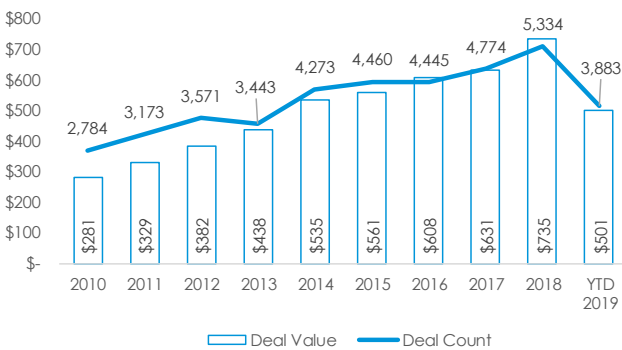
US private equity firms invested approximately \$150.2 billion during the third quarter and \$501.2 billion through year-to-date 2019 across 1,263 and 3,883 deals, respectively. Third quarter deal value was \$43 billion less than the second quarter and \$39.6 billion less than the third quarter of 2018, or declines of 22.2% and 20.9%, respectively, and there were 122 fewer deals completed compared to the second quarter and 23 fewer than the third quarter of 2018. Though the year may be a down year from 2018, 2019 may finish strong, as there are several multi-billion-dollar deals that may close in the fourth quarter, including the buyouts of short-line rail operator Genesee & Wyoming, the logistics assets of Colony Capital, BP's Alaskan businesses (including upstream oil & gas interests and its stake in the Trans-Alaska Pipeline), and hotel and resort operator Strategic Hotels & Resorts, among others.

PE investors deployed \$3 billion of capital across 26 Midwest deals in the third quarter. For the first three quarters of the year, there has been \$10.7 billion spent among 100 deals, which compares to \$12.9 billion across 108 deals from the same period a year ago. Notable deals during the quarter include the buyout of Overland Park, Kansas-based Centralized Showing Service by ShowingTime, through its financial sponsor, Range Light, and the buyout of Bettendorf, Iowa-based TriSource Solutions by Realtime Electronic Payments, through its financial sponsor, Corsair Capital.

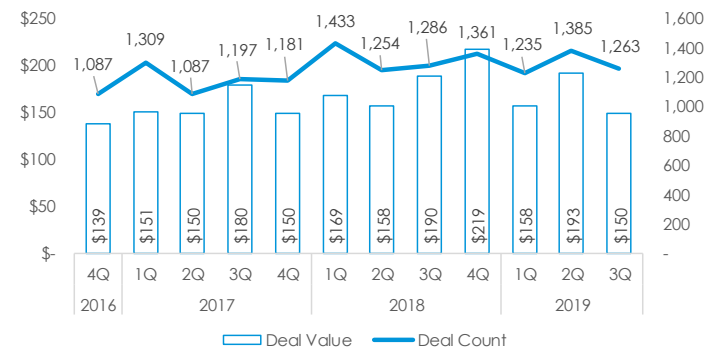
The trend of increased deal sizes took a slight reversal in the third quarter, though the trend still holds true from prior years. In the third quarter, the average PE buyout deal size topped \$702 million, up from 2018's \$627.3 million, and the median increased to \$205 million from \$180 million. Through the first half of 2019, the average size was \$886.3 million, and the median was \$275.7 million.

Healthcare and technology deals continue to be attractive areas for investment among PE investors. Ten years ago, technology deals accounted for 13.6% of total PE deal volume, while healthcare deals accounted for 11.8%. Through the first three quarters of 2019, tech deals accounted for 19.2% of completed deals, and healthcare accounted for 14.8%. On a value basis, the two categories accounted for 21.6% of total deal value in 2009, whereas that figure stands at 37.7% thus far in 2019.

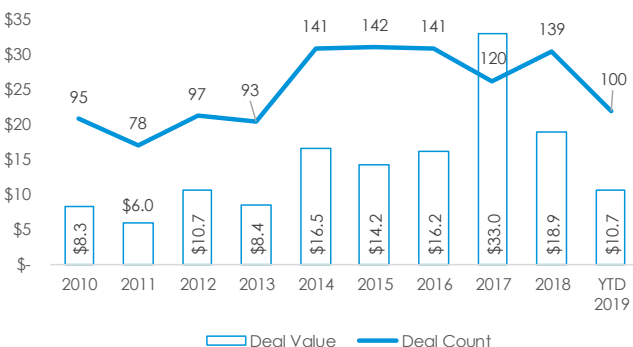
**US Private Equity Activity**  
Deal Value in Billions



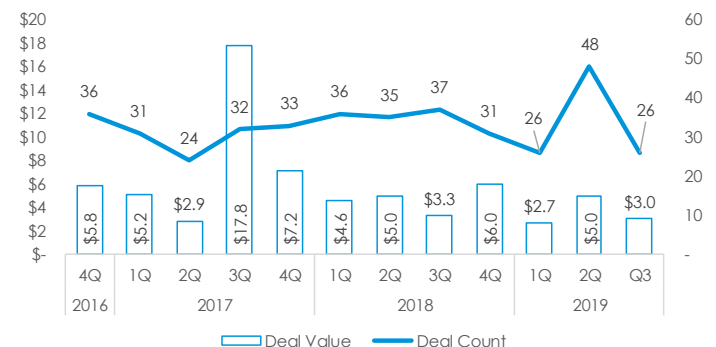
**US Private Equity Activity**  
Deal Value in Billions



**Midwest Private Equity Activity**  
Deal Value in Billions



**Midwest Private Equity Activity**  
Deal Value in Billions





## PRIVATE EQUITY

### PE Fundraising through Q3 nearly tops all of 2018

PE firms raised \$191 billion across 131 funds through the first three quarters of 2019, nearly topping the \$195.8 billion raised in all of 2018. The \$191 billion value is an increase of 38.4% from the first three quarters of 2018 and a decline of 18.4% in fund count over the same period. The increase in fundraising, which is on a clip to be the highest inflation-adjusted amount since 2007, can be partially attributed to the massive fundraises of Blackstone Capital Partners VIII, a \$26-billion buyout fund, which became the largest PE fund ever raised, and Vista Equity Partners VII, a \$16-billion fund and the largest-ever tech-focused fund.

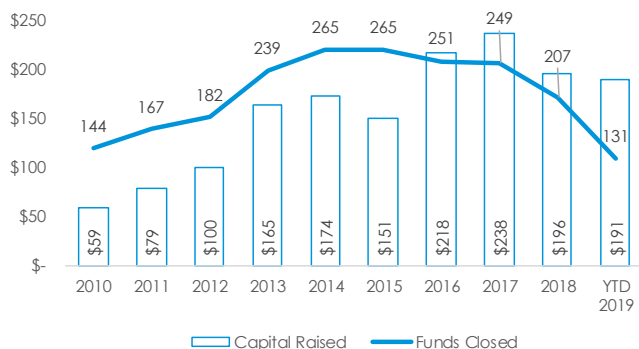
A notable Midwest fundraising round that closed in the third quarter was Overland Park, Kansas-based Mariner Holdings' Mariner 2019 Private Opportunities Fund, which raised nearly \$26 million.

### Exits weak in Q3 amid high valuations and economic uncertainty

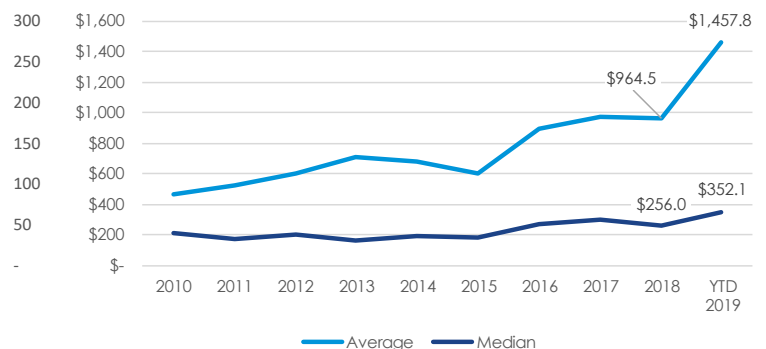
Third quarter private equity exits came in at \$67.2 billion across 248 exits, or a decline of 31.8% in value from the second quarter on one additional exit. Through the third quarter, the value of exits has reached \$220.2 billion among 726 PE exits, or declines of 29.6% and 19.5%, respectively, from the first three quarters of 2018. Fewer PE exits may be attributed to less-certain economic conditions; however, corporate acquirers have shown to be less willing to acquire private equity-backed companies at such high valuations. In fact, private equity exits by corporate acquisition are on pace to reach 323 exits in 2019, or a decline of 42.2% from 2018.

The shift to secondary buyouts, or buyouts by other private equity groups, continued in the third quarter. Ten years ago, secondary buyouts represented just 31.8% of exits based on exit volume, and the type's portion of total exits in the third quarter topped 59.9% of all exits. Meanwhile, initial public offerings and strategic acquisitions from corporations transitioned from 6.6% to 4.5% and 61.6% to 35.6%, respectively, of exits over the same timeframe. On a value basis, corporate acquisitions represented 33.0% of exits, while IPOs represented 15.5%, and SBOs represented 51.6%. A notable Midwest PE exit during the quarter was Overland Park-based Stewart Capital Management's exit from QK Holdings, which was the largest franchisee of Denny's restaurants.

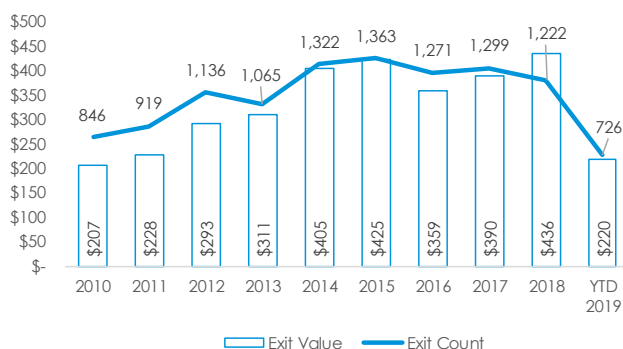
**US Private Equity Fundraising**  
In Billions



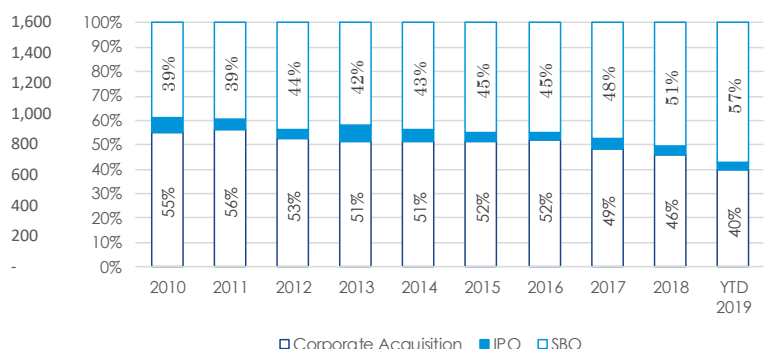
**Private Equity Fund Sizes**  
In Millions



**US Private Equity Exits**  
In Billions



**Exits by Type**  
Based on Volume



## PRIVATE EQUITY

## Notable Midwest PE Deals in the third quarter of 2019

State	Date Closed	Target	Investor	Target City	Target Description
IOWA	08/14/2019	TriSource Solutions	Realtime Electronic Payments (Corsair Capital)	Bettendorf, IA	Operator of an electronic payments company
	08/15/2019	The Graphic Edge	Athletic Supply (Trivest Partners)	Carroll, IA	Designer of customized t-shirts and apparel
	07/15/2019	The Boulder Company	AFC Industries (Incline Equity Partners)	Des Moines, IA	Provider of industrial parts and MRO solutions
	07/09/2019	Integrated Telehealth Partners	Psychiatric Medical Care (Consonance Capital)	Des Moines, IA	Provider of psychiatric services
	07/01/2019	KemX Global	AgCertain Industries (Midwest Growth Partners)	Boone, IA	Provider of refinery services and manufacturer of glycerin, vegetable oil and other bio-based products
KANSAS	09/05/2019	Centralized Showing Service	ShowingTime (Range Light)	Overland Park, KS	Provider of an appointment software intended for the real estate industry
	09/06/2019	Treat America Food Services	365 Retail Markets (McCarthy Capital)	Mission, KS	Provider of food service management services
	08/23/2019	Elevated Electronics	Bravas Group (Presidio Investors)	Overland Park, KS	Provider of smart home technology solutions
	08/06/2019	Lockpath	NAVEX Global	Overland Park, KS	Developer of an enterprise integrated risk management platform
	08/30/2019	Heartland (Mission Woods)	Sterling Investment Partners	Mission Woods, KS	Provider of commercial landscaping services
MISSOURI	07/15/2019	BriteCore	Warburg Pincus	Springfield, MO	Developer of a cloud-based insurance software system
	08/09/2019	Vanguard Packaging	Dunes Point Capital	Kansas City, MO	Designer and manufacturer of packaging projects
	08/06/2019	Cretcher Heartland	Hub International Insurance Services	Kansas City, MO	Provider of insurance, risk and business support services
	07/19/2019	2e Creative	Fishawack (LDC)	Saint Louis, MO	Provider of healthcare marketing strategy services
	07/09/2019	Lew's Fishing	BDT Capital Partners	Springfield, MO	Supplier of fishing equipment and tackle
NEBRASKA	There were no private equity investments in Nebraska companies during the third quarter.				
NORTH DAKOTA	08/06/2019	American Midstream (North Dakota Assets)	Caliber Midstream (Blackrock)	McKenzie County, ND	North Dakota oil gathering and transportation assets
SOUTH DAKOTA	07/16/2019	Rapid Fire Protection	Boyne Capital Partners	Rapid City, SD	Provider of fire protection systems

## VENTURE CAPITAL

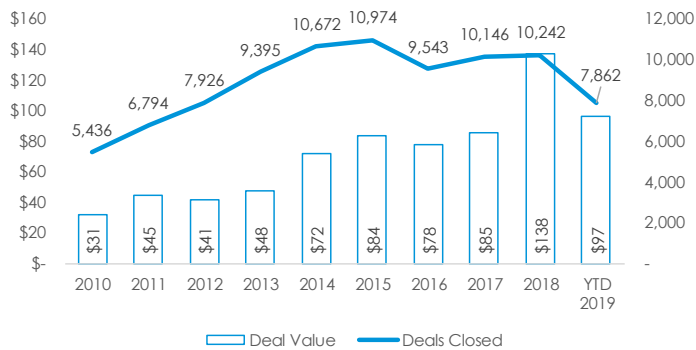
### US VC investment up year over year but unlikely to top 2018's record levels

US venture capital investment totaled \$28.2 billion on 2,265 deals in the third quarter. While the total investment value in the quarter declined 17.4% from the second quarter, and the deal volume declined 19.4%, 2019 is on pace to be an up year from 2018, as 6.2% more was invested across 3.2% more deals in the first three quarters of 2019 compared to the same period a year ago. However, it should be noted that the fourth quarter of 2018 was a record quarter, which included Altria's \$12.8-billion investment in Juul as well as \$1.25-billion investments in both Uber and Epic Games (the developer of Fortnite).

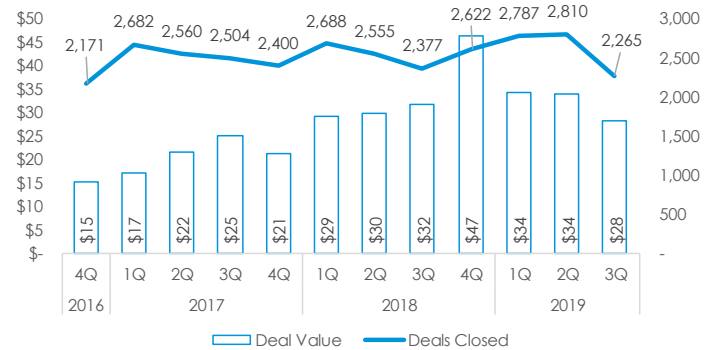
Midwest VCs deployed the most capital in a year during the quarter, at \$286.3 million, and across the most investments in more than three years (51 deals). These values translate to increases \$176.1 million, or 159.9% and 14 more deals, or an increase of 37.8%, from the second quarter. However, the year-to-date total of \$573.8 million is \$184.0 million less than the first three quarters of 2018, as the third quarter of 2018 included Cerner's investment in Essence Group Holdings, which accounted for more than a quarter of 2018's total Midwest transaction value of \$1 billion. Notable Midwest VC deals during the quarter included Leawood, Kansas-based C2FO's \$200-million Series G round, led by SoftBank, and Springfield, Missouri-based BriteCore's \$47.5-million Series B round.

The software sector remained the most attractive space for VC investors, accounting for 36.5% of all deals year to date; however, the count of software VC deals is on pace to decline 6.4% from 2018 levels, a time in which software accounted for nearly 40% of all VC deals. Similarly, software deals captured the most investment dollars of any sector, fetching \$31.8 billion year to date, or 32.9% of all VC investment. Healthcare services and systems was another strong area of investment, with the space's deal count on pace to increase 17.1% from 2018's 657 deals.

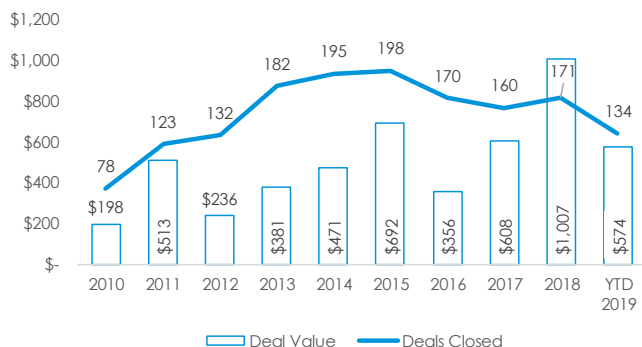
**US Venture Capital Activity**  
Deal Value in Billions



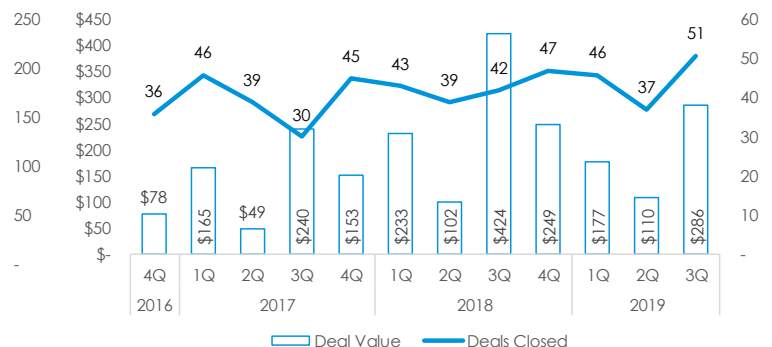
**US Venture Capital Activity**  
Deal Value in Billions



**Midwest Venture Capital Activity**  
Deal Value in Millions



**Midwest Venture Capital Activity**  
Deal Value in Millions



## VENTURE CAPITAL

### Record exits may mean a rebound from lower fundraising

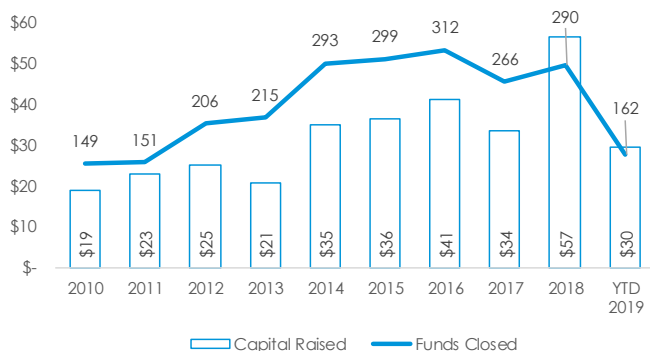
VC fundraising in the US totaled \$29.6 billion across 162 funds through the first three quarters of 2019 and will likely miss 2018's record of \$56.8 billion. However, at the current clip, 2019 should end strongly compared to years prior to 2018.

VC exit value, on the other hand, has shattered previous records, surpassing \$200 billion for the first time ever and with a quarter to go. Second quarter exits drove 2019's total, with unicorns Uber, Pinterest, Zoom, Slack, and others boosting the quarter's total value to \$141.1 billion, which is more than any single year in the last ten years. Third quarter exit value came in at \$35.4 billion across 189 exits. The third quarter may have been a more impressive quarter had WeWork not postponed its IPO. Given the extraordinary exits of the year, many believe that LPs will reinvest their realized returns in the coming months, further boosting fundraising levels.

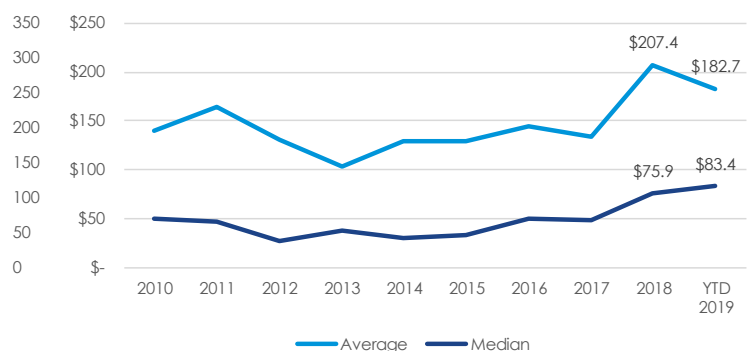
Corporate acquisitions continue to decline as the go-to option for VC exits. The proportion of VC exits to corporate buyers is now just 69% after being as high as 89% ten years ago. Over the same period, IPOs grew from 2.3% of exits to 10.6%, and private equity buyouts increased from 8.7% to 20.4%. However, due to the high-profile unicorn exits this year, the IPO proportion of exit value has swelled to a record 82%, more than doubling the previous five-year average proportion of 40.2%. There are still several high-profile IPO in the rumor mill for this year or next, including those of Airbnb, Postmates, and Robinhood; however, performance of recent IPOs and the drama of the now-postponed WeWork IPO may lead some planning companies to delay or cancel their IPO ambitions.

Notable exits for Midwest VC investors include West Des Moines-based UnityPoint Health Ventures' exit of Health Catalyst (NAS: HCAT); Clayton, Missouri-based Ascension Ventures' partial exit of Phreesia (NYSE: PHR); and Saint Louis-based RiverWest Venture Partners' partial exit of Mirum Pharmaceuticals (NAS: MIRM).

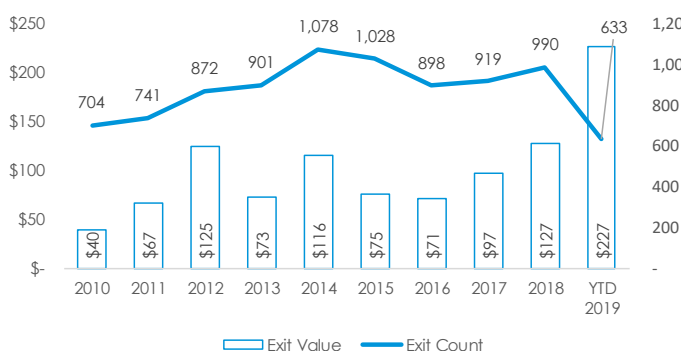
US Venture Capital Fundraising  
In Billions



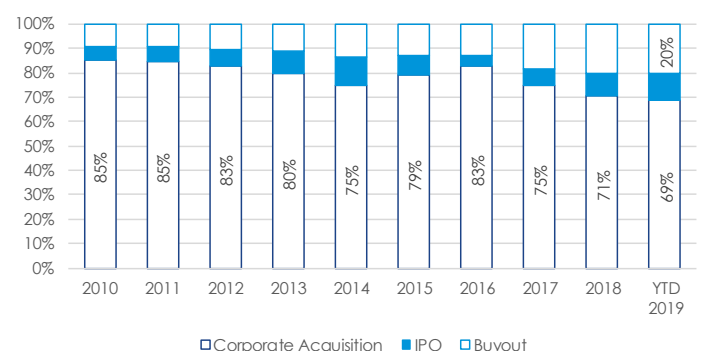
Venture Capital Fund Sizes  
In Millions



US Venture Capital Exits  
In Billions



Exits by Type  
Based on Volume



# VENTURE CAPITAL

## Notable Midwest VC Deals in the third quarter of 2019

State	Date Closed	Target	Investor	Target City	Target Description
IOWA	08/28/2019	iotaMotion	Undisclosed Investors	Iowa City, IA	Developer of implantable robotics devices
	07/31/2019	VIDA (Clinical Solutions)	UnityPoint Health Ventures	Coralville, IA	Developer of a medical analysis platform intended to transform pulmonary care through intelligence
	09/16/2019	Corvida Medical	Undisclosed Investors	Coralville, IA	Developer of a closed-system transfer device used in the healthcare sector
	07/15/2019	Tractor Zoom	Innova Memphis, Ag Startup Engine	Des Moines, IA	Provider of a mobile application platform intended to digitally connect farmers with equipment auctioneers
	09/09/2019	Gross-Wen Technologies	Undisclosed Investors	Ames, IA	Developer of an algal wastewater treatment designed to help clients sustainably treat water
KANSAS	08/07/2019	C2FO	SoftBank Investment Advisers	Leawood, KS	Provider of a working capital marketplace platform designed to control cash flow
	09/12/2019	Replica	Firebrand Ventures et al	Kansas City, KS	Developer of an urban planning tool designed for transportation planning and city design development
	08/27/2019	Bungii	KCRise Fund	Overland Park, KS	Developer of an on-demand hauling platform designed to offer truck hauling services
	09/18/2019	Insights Career Consulting	Undisclosed Investors	Wichita, KS	Developer of a career networking platform intended to connect candidates with employers
	07/01/2019	Enduralock	Keiretsu Forum	Lenexa, KS	Developer of lock and ratcheting fasteners
MISSOURI	08/26/2019	Capacity	Rice Park Capital	Saint Louis, MO	Developer of an artificial intelligence platform created for company data analysis
	09/26/2019	Geneoscopy	Cultivation Capital, NT Asset	Saint Louis, MO	Developer of next generation diagnostics designed to treat digestive diseases
	09/26/2019	Balto software	OCA Ventures, Stage Venture Partners	Saint Louis, MO	Developer of live call guidance software designed for sales representatives
	08/12/2019	Vortex Surgical	Jeremy Wolfe	Chesterfield, MO	Developer of surgical disposables and instruments
	08/16/2019	Main Street Data	Undisclosed Investors	Kansas City, MO	Provider of agricultural data analytics services
NEBRASKA	08/26/2019	Centese	Invest Nebraska	Omaha, NE	Developer of advanced post-operative surgical drainage solutions
	08/01/2019	Tethon 3D	Linseed Capital	Omaha, NE	Manufacturer of ceramic powders and photocurable ceramic and iron polymers intended for 3D printing
	08/13/2019	BasicBlock	Global Financial Group	Omaha, NE	Developer of a mobile application designed to facilitate invoicing transactions
	09/16/2019	Scribe Greetings	Invest Nebraska	Omaha, NE	Provider and designer of greeting cards
	07/31/2019	KPI Ninja	Invest Nebraska	Lincoln, NE	Operator of a healthcare analytics company
NORTH DAKOTA	08/28/2019	PrairieRx	Undisclosed Investors	Fargo, ND	Producer of pharmaceutical plant extracts
	08/20/2019	Project Phoenix	Undisclosed Investors	Fargo, ND	Provider of an online marketplace intended to offer robots and drone-related services
	07/30/2019	Summers Manufacturing	ND State Government	Devils Lake, ND	Manufacturer of agricultural equipment
SOUTH DAKOTA	09/05/2019	Immutrix	Undisclosed Investors	Rapid City, SD	Developer of a blood cleansing treatment device
	09/20/2019	Broadway Weekends	Undisclosed Investors	Pierre, SD	Operator of a first musical theater camp experience exclusively for adults





## Select Transaction Experience

**MWC**

Acquired by



Acquired by



Airport lighting  
division acquired by



Acquired by



Merged with



Convertible note  
financing

Undisclosed  
investors



Strategic  
transaction  
with



Acquired by



Debt facility  
provided by



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## About Skyline Advisors

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 clients 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.

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- Buy-side & sell-side
- Divestitures, spin-offs, & spin-outs
- Management buyouts
- Strategic partnerships

### Corporate Finance

- Growth & acquisition capital
- Taking-private transactions
- Strategic investments
- Recapitalizations
- Debt financing

### Strategic Advisory

- Valuation analysis
- Due diligence
- Financial consulting & modeling

## Contact

John Gustafson, CFA  
President  
john@skyline-advisors.com

Chris Moore  
Associate  
cmoore@skyline-advisors.com

Cale Pleak  
Research Analyst  
cpleak@skyline-advisors.com

Grant LaFurney  
Research Analyst  
grant@skyline-advisors.com