



**Economic & Public  
Market Update**  
Third Quarter 2020

# Economy Bounces Back, Stock Market Rises

## Executive Summary

Economic growth bounced back strongly in the third quarter, partially recovering from the strongest quarterly economic contraction on record. Though we are still navigating a recession, current economic forecasts optimistically point to continued – but lower, “normal” – growth. This growth may be more certain if and when Congress passes further stimulus. Despite this growth expectation, we remain cautious, as COVID-19 cases are reaching new highs as we enter the holiday season and closing of businesses would likely slow the economic improvement.

The stock market continued to bounce back from the shortest bear market on record. The S&P 500, Dow Jones Industrial Average, and the Nasdaq were just 6-8% from all-time highs as of September 30<sup>th</sup>. Individual sectors will continue to outperform and underperform under current dynamics (e.g., the work-from-home movement has led tech companies to excel). An optimistic aspect for public markets – and for all businesses and consumers alike - is that the [Federal Reserve has pledged to keep interest rates near zero for at least three more years](#).

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.

## Q3 Economy & Public Market Highlights

- US GDP expanded the most on record in the third quarter, bolstered by strong consumer spending on healthcare and food services
- The outlook for the economy remains uncertain – COVID cases are yet again reaching new highs and political limbo has further delayed new stimulus
  - Recent vaccine developments have given markets some reason to be optimistic
- The stock market yet again recorded exceptional growth, and major indices finished the quarter just 6-8% off 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 indirectly to private companies as well

# Record Economic Growth in Q3 – Will It Last?

## Economy Overview

The economy rebounded sharply during the third quarter, supported by record stimulus measures and a reopening from coronavirus-related shutdowns. Despite the record economic growth during the quarter, there remains considerable risks, namely the expiration of certain stimulus measures (that seemingly will not be renewed or expanded upon before the end of the year) and new highs in coronavirus cases as we head into colder months.

Some highlights of the third quarter economy:

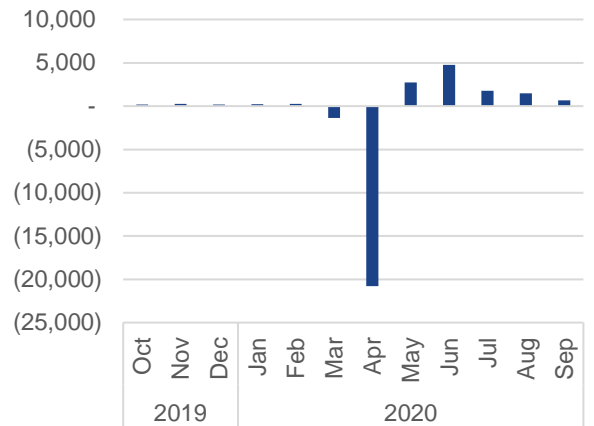
- Advanced estimates for third quarter GDP recorded an annualized expansion of 33.1% from the second quarter, a record increase from the record decline of 31.4% in the previous quarter. Despite the record growth, US economic output still trails that of pre-pandemic levels, and it is expected that the year will end with an overall decline in output.
- Consumer spending accounted for 25.3% of the rise in GDP during the quarter, with healthcare and food services contributing the most to the increase. These contributions are logical, as elective physician offices and hospitality businesses (restaurants, hotels, etc.) shuttered amid the onset of the pandemic. Consumers also flocked to buy autos and auto components, driving the category to account for the largest portion of durable goods' contribution to GDP growth. At the time of this writing, fourth quarter GDP appears on track for a more-normal 3.5% growth.
- Unemployment, which topped 10% at the end of the second quarter, fell to 7.9% by the end of September, after 3.9 million jobs were added during the quarter. Similar to GDP contributions, notable job gains occurred in leisure and hospitality, which accounted for over one-third of job gains in September, and nearly two-thirds of leisure and hospitality job gains were in food services and drinking places. Though the job situation has improved, there has been a clear leveling off of job growth, and initial claims for unemployment benefits have seemingly stalled at roughly three times pre-pandemic levels. Furthermore, there has been a notable increase in job losses deemed permanent. Notable companies that have recently announced significant job cuts or furlough efforts include Cineworld (estimated to impact 40,000 US jobs), Disney (28,000 jobs), American Airlines (19,000 jobs), Raytheon (15,000 jobs), United Airlines (13,000 jobs), and others.
- At its September meeting, the Federal Reserve vowed to keep its benchmark interest rate near zero for as long as it takes to bounce the economy back from the coronavirus pandemic. The Fed noted that the pandemic currently weighs heavy on the near-term outlook and poses “considerable risks” for the medium term. The Fed’s federal funds rate influences rates corporations pay on loans as well as rates that consumers pay on loans (e.g., mortgages, auto loans, credit cards).

As we’ve noted before, we emphasize consumer trends, such as spending and employment, because consumer spending typically accounts for approximately 70% of GDP. Consumer spending will face headwinds from rising COVID-19 cases and potential efforts to “close” more segments of the economy. However, many experts are also optimistic that additional stimulus plans will be put in place to help consumers absorb some of that impact. And optimism surrounding potential vaccines may bolster consumer confidence and business owner confidence to continue investing through any challenges during Q4 and Q1.

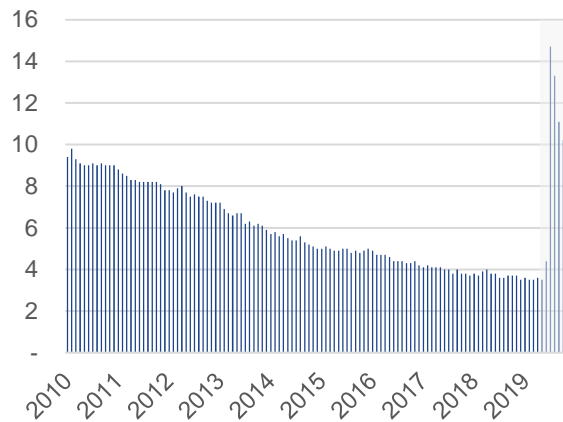
if you need assistance beyond Government stimulus to support your business, please reach out to us to discuss options.

# Economic Dashboard – Consumer Trends

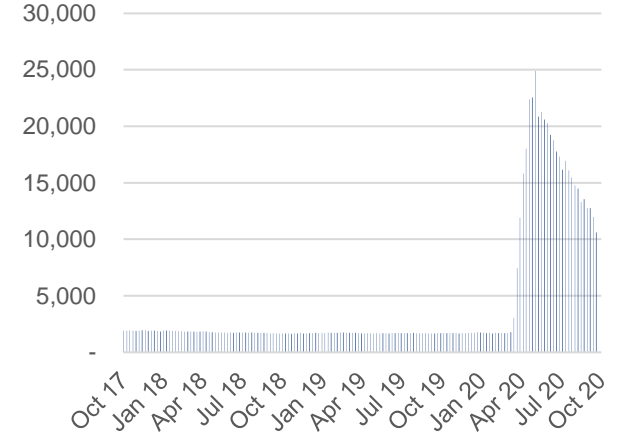
Monthly Change in Nonfarm Payroll (000s)



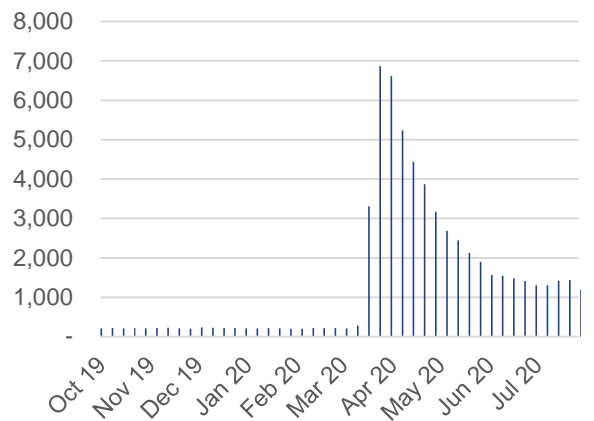
Unemployment Rate (%)



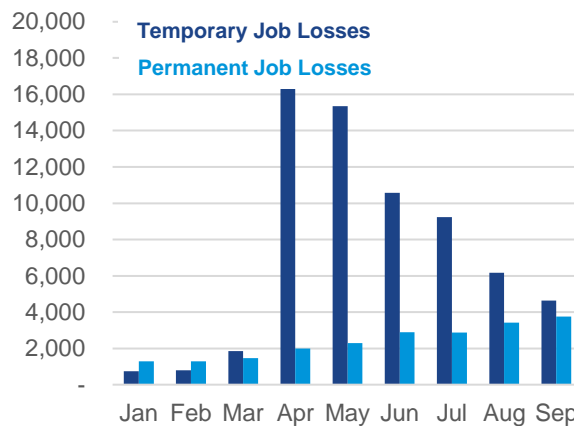
Continued Unemployment Claims (000s)



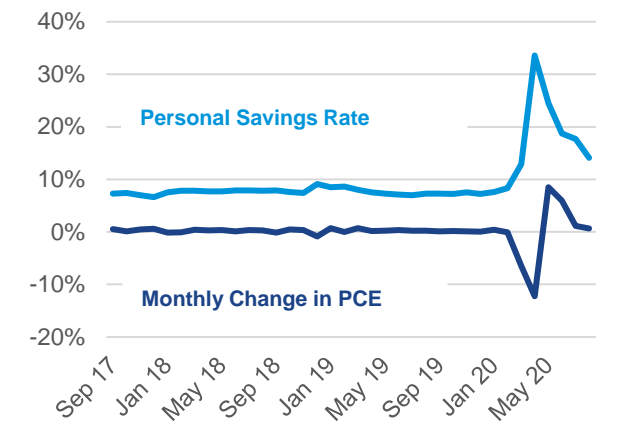
Initial Unemployment Claims (000s)



Temp. vs Perm. Job Losses (000s)

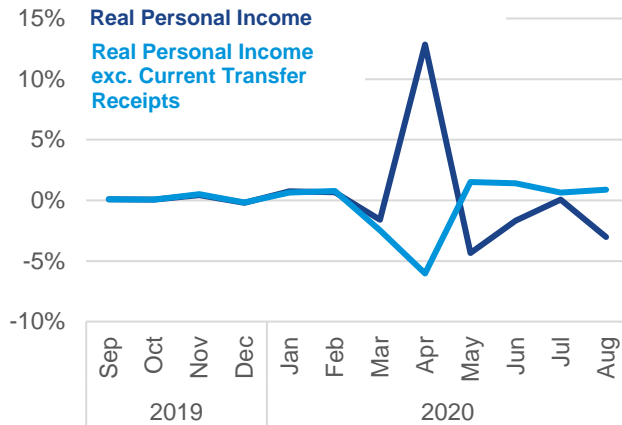


Consumer Spending vs Savings

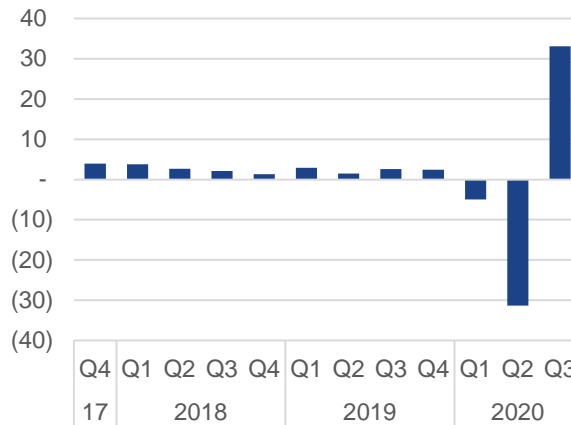


# Economic Dashboard – Other Trends

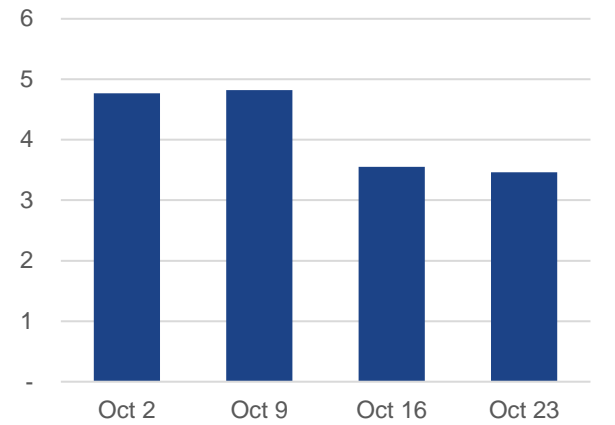
Monthly Change in Personal Income



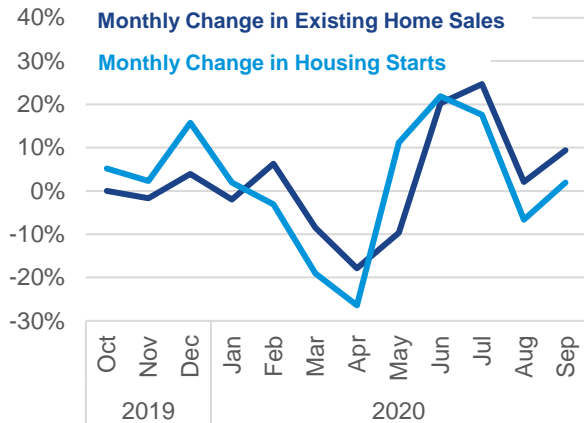
Real GDP, % Change from Prior Quarter



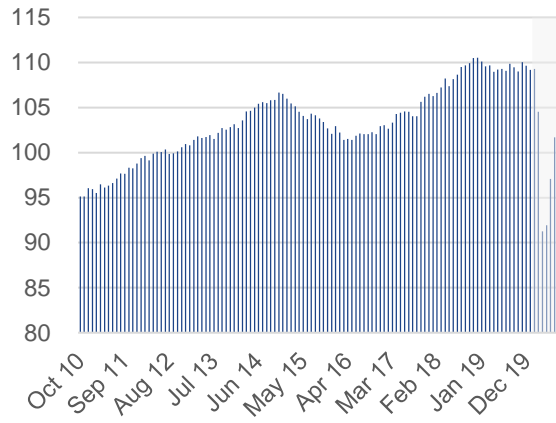
NY Fed Fourth-Quarter GDP Estimate (%)



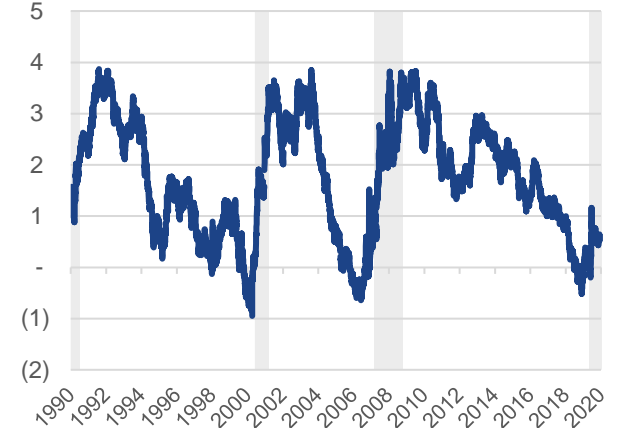
Housing



Industrial Production Index



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



# Stock Market Continues Strong Gains from Q2

## Stock Market Index Data

Index	Closing Price		Q3 2020 Return	52-Week		9/30/2020 Closing, % of 52-Week High
	6/30/2020	9/30/2020		Low	High	
S&P 500	3,100.29	3,363.00	8.5%	1,074.77	3,588.11	93.7%
DJIA	25,812.88	27,781.70	7.6%	18,213.65	29,568.57	94.0%
NASDAQ	10,058.77	11,167.51	11.0%	6,631.42	12,074.06	92.5%
Russell 2000	1,441.37	1,507.69	4.6%	966.22	1,715.08	87.9%
Skyline Midwest Index	100.00	102.62	2.6%			

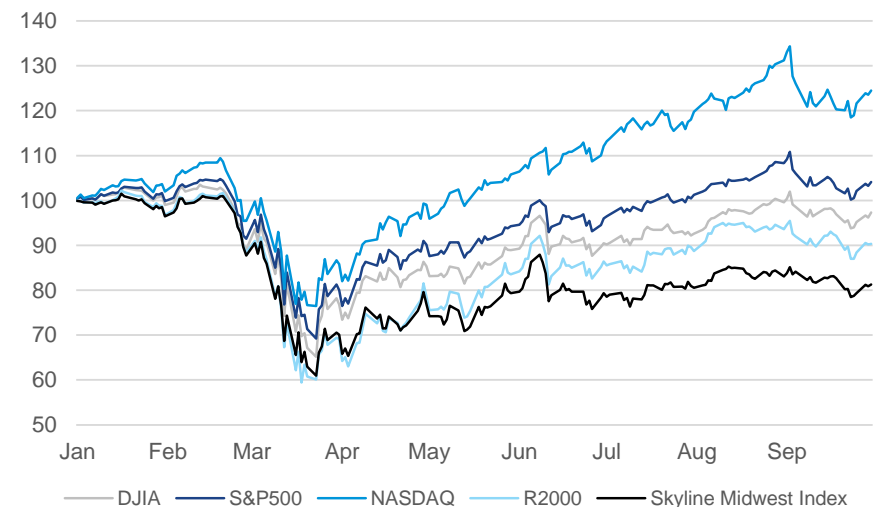
### Third Quarter Stock Market Highlights

After a strong second quarter, the stock market continued its climb in the third quarter, with the tech-heavy NASDAQ leading major indices, increasing 11%. The third quarter gains helped boost the S&P 500 to a positive return for the year, while the Dow Jones Industrial Average is now down just 2.65%. The second and third quarters were the best consecutive quarters for the stock market since 2009.

Tech has been a resilient industry in the current crisis. FAANG (i.e., Facebook, Apple, Amazon, Netflix, Google) stocks have grown to account for nearly 20% of the S&P 500. In fact, in the third quarter, Apple became the first US company to reach a market capitalization of \$2 trillion.

The market has been supported by continued optimism of a vaccine for the coronavirus, strong earnings, and improving job trends. Weighing on the market are doubts of passage for another stimulus round before the November presidential election and increasing coronavirus cases.

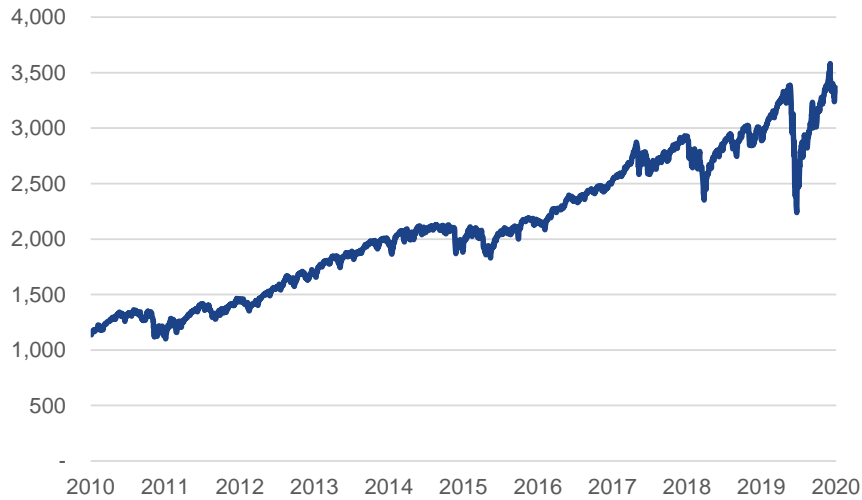
### Year-to-Date Indexed Performance



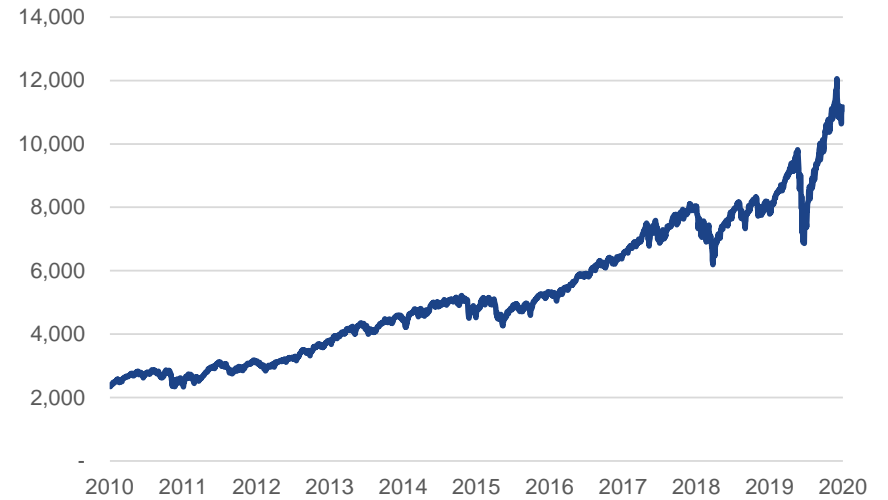
<sup>1</sup>The Skyline Midwest Index consists of 70 Midwest companies with market capitalizations in excess of \$500 million at the start of the quarter

# Stocks Retreat in September but Finish Quarter Up

S&P 500 10-Year History



NASDAQ 10-Year History



DJIA 10-Year History



Russell 2000 10-Year History



# Broader Stock Market Valuations Increase during Quarter

Public Company Valuations Industry	Median Enterprise Value / TTM EBITDA			
	Q4 2019	Q1 2020	Q2 2020	Q3 2020
<b>Food/Beverages &amp; Ag</b>	<b>14.4x</b>	<b>11.6x</b>	<b>13.5x</b>	<b>17.6x</b>
Agribusiness	10.9x	7.8x	8.4x	10.8x
Alcoholic Beverages	16.1x	13.4x	11.x	17.9x
Baked Goods	10.4x	9.6x	8.7x	7.4x
Branded/Processed Foods	16.7x	13.8x	15.5x	14.3x
Dairy	13.8x	11.2x	11.3x	11.8x
Food Distribution	14.1x	10.5x	12.7x	17.2x
Food Wholesale	7.6x	8.8x	6.7x	6.6x
Fruits & Vegetables	11.7x	9.5x	9.1x	10.3x
Ingredients & Flavors	18.1x	14.6x	17.5x	19.5x
Natural/Organic Foods	46.5x	23.0x	34.8x	31.0x
Non-Alcoholic Beverages	15.1x	12.8x	16.0x	15.6x
Other Restaurants	17.6x	10.4x	19.9x	35.6x
Private Label Food & Bev	26.5x	10.9x	13.5x	21.5x
Protein Processing	15.7x	8.0x	18.3x	15.0x
Quick-Service Restaurants	18.6x	15.8x	18.1x	21.9x
Snacks	17.9x	13.7x	15.5x	20.7x
<b>Healthcare</b>	<b>15.8x</b>	<b>13.9x</b>	<b>13.7x</b>	<b>15.7x</b>
Assisted Living	12.5x	15.1x	15.2x	14.9x
Behavioral Health	17.7x	10.7x	12.0x	13.1x
Distribution & Supplies	13.0x	11.5x	12.3x	14.1x
Healthcare IT	20.7x	19.4x	21.3x	17.6x
Physician Services	15.8x	12.6x	12.8x	17.0x
Staffing	13.7x	10.9x	12.8x	13.4x

Public Company Valuations Industry	Median Enterprise Value / TTM EBITDA			
	Q4 2019	Q1 2020	Q2 2020	Q3 2020
<b>Industrials</b>	<b>11.9x</b>	<b>9.0x</b>	<b>11.2x</b>	<b>13.7x</b>
Air Freight & Logistics	13.2x	11.4x	12.7x	16.9x
Building Products	13.6x	10.5x	16.9x	17.5x
Construction/Engineering	9.1x	6.6x	8.0x	9.6x
Distributors & Wholesalers	12.5x	10.1x	13.8x	18.1x
Diversified Industrials	14.1x	11.0x	12.5x	13.6x
Electrical Equipment	16.7x	12.1x	14.0x	14.6x
Machinery	15.4x	8.6x	10.3x	14.5x
Professional Services	13.5x	11.9x	12.9x	14.0x
Rail	12.5x	10.7x	12.2x	14.9x
Trucking	6.9x	6.7x	8.2x	9.4x
<b>Technology</b>	<b>22.0x</b>	<b>19.5x</b>	<b>21.5x</b>	<b>22.3x</b>
Application Development	22.1x	22.1x	28.0x	40.8x
Data Hosting	26.0x	25.5x	28.1x	26.3x
Diversified Technology	18.0x	14.4x	18.1x	20.0x
Enterprise Software	20.0x	15.3x	15.5x	19.2x
Financial Software	25.0x	24.7x	25.0x	24.5x
Healthcare IT	20.7x	19.4x	21.3x	17.6x
Human Capital Management	67.1x	43.8x	66.0x	76.3x
IT Services	17.2x	13.1x	14.0x	15.2x
Supply Chain Software	34.0x	25.0x	48.6x	49.1x

\*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, market cycle, and other factors. Furthermore, valuations, such as those listed above, may differ significantly due to value relative to historical, realized results and future, expected results. Businesses should view multiples as just the starting point for their valuation analysis.



# 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 | [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

 <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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