

# Mergers & Acquisitions (M&A) Update

Second Quarter 2020

# Coronavirus Continues to Leave Impact on Economy, M&A

## Executive Summary

Trends in M&A activity are a visual representation of the uncertainty that began in the first quarter and persisted for most of the second quarter. The number of deals completed in the quarter and the value of those deals declined sharply, at roughly 42% and 25%, respectively, from the first quarter. Further concerning, as states began reopening their economies, many of them began rolling back their reopening plans in light of surging new COVID cases, casting doubt on a “return to normal” in 2020.

As highlighted in our [Second Quarter Economic & Public Market Update](#), the economy was kept afloat by unprecedented Government stimulus, yet economic data still shows concerning trends for individuals. Given that consumer spending accounts for roughly 70% of US GDP, we continue to carefully monitor data and trends that affect consumer decisions, including changes in payroll, unemployment, personal income, and other metrics. And given that certain CARES Act stimulus, namely the extra \$600-a-week unemployment benefit, expired at the end of July, we are acutely aware of economic impacts for any subsequent lost income arising from a newer, smaller benefit or any lack of benefit resulting from a gap between the expiration of existing benefits and the passage of new stimulus. Economic effects are likely to further influence broader M&A activity.

Despite the uncertainty, there are still bright spots in the M&A world. Though nearly every sector has seen a dramatic decrease in volume, the volume for IT deals is nearly on pace to match the volume of 2019, driven by shifts to remote working and learning. Healthcare companies are also relatively unscathed, as health and wellbeing have become top priorities. Lastly, valuations trended to a 10-year high.

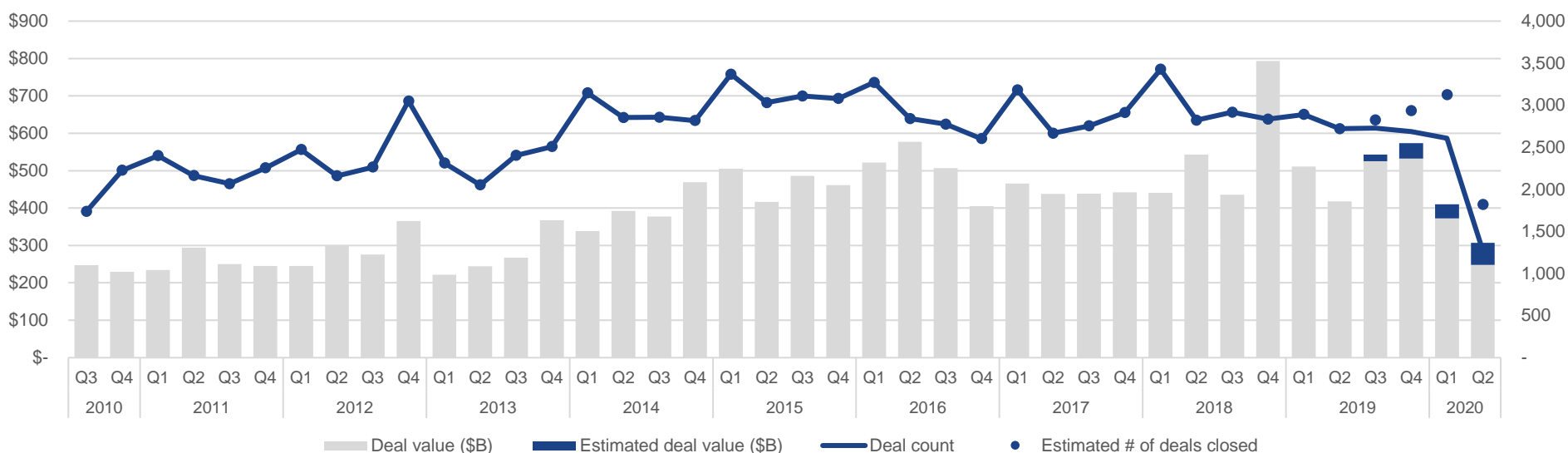
As always, contact us if you would like to receive information about activity in your specific industry or geography or if you would like to discuss options for your business.

## Q2 M&A Highlights

- Q2 M&A activity slowed significantly from the first quarter, largely due to COVID-related shutdowns that persisted late into the quarter
- Following the national trend, Midwest M&A activity declined sharply yet recorded a large increase in total consideration resulting from the T-Mobile / Sprint megadeal closing after two years from its announcement
- Valuations bounced back to highs, as M&A volume dipped, and investors pursued higher-quality takeover candidates
- Energy remains one of the more hard-hit sectors, with deal volume on pace to decline more than 40% from 2019. For interesting perspective, see [this post](#) from Visual Capitalist.
- There are immense uncertainties going forward in the second half, namely escalating new COVID cases and further fiscal stimulus policy
- Tech and healthcare companies have remained attractive targets given trends toward virtual/remote gatherings and a higher focus on wellbeing in these unprecedented times

# US M&A Activity Slows in Corona-economy

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



## US M&A Highlights

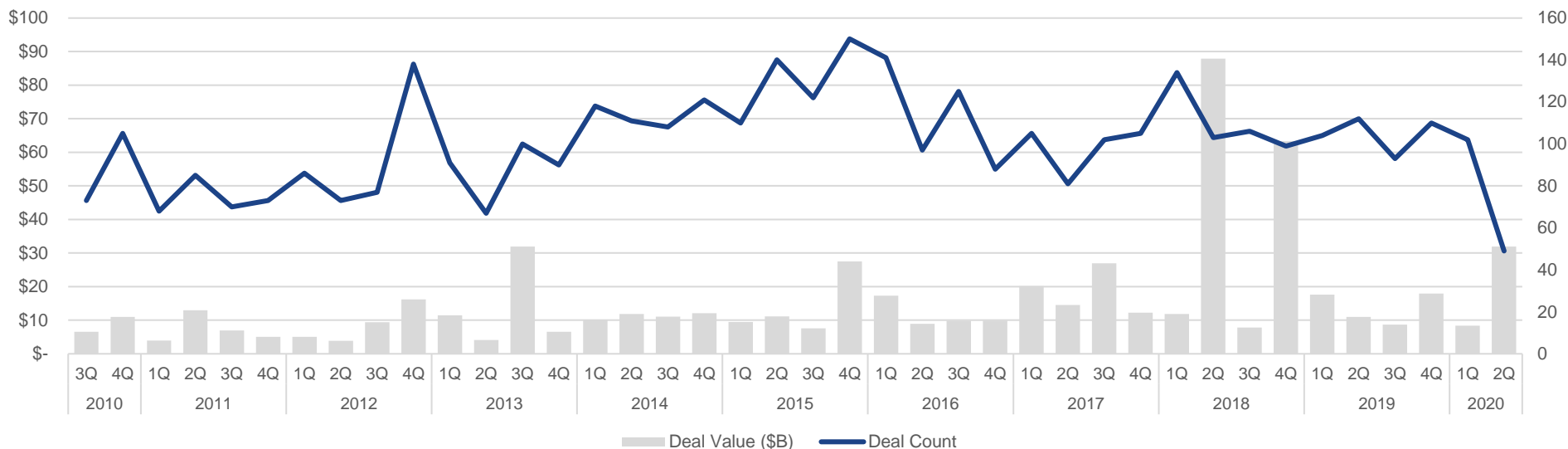
- The second quarter was evidence of the impact of economic uncertainty on mergers & acquisitions activity. Just over 1,800 deals were estimated to close during the quarter, at a total value of \$3.7 billion. These figures represent declines of 33.1% and 26.6%, respectively, from the quarter a year ago and declines of 41.8% and 25.2%, respectively, from just the first quarter
- A number of factors, namely rising COVID cases and fiscal policy, make the second half of the year uncertain
- Certain sectors are performing well and are thus relatively attractive M&A targets: healthcare and IT deals both increased as a proportion of deal volume. Furthermore, consideration spent on IT deals is roughly on track to match 2019's totals, whereas most other sectors are on pace to match only 50-60% of 2019 levels

## Notable US Q2 Transactions

Date	Target	Acquirer	Consideration (millions, USD)
04/01/20	Sprint	T-Mobile	\$ 26,500
04/30/20	Symantec (Enterprise Business)	Accenture	10,700
04/16/20	Cypress Semiconductor	Infineon Technologies	9,810
04/27/20	Mellanox Technologies	Nvidia	7,000
04/07/20	Forty Seven	Gilead Sciences	4,900
06/22/20	Anixter International	WESCO International	4,500

# Midwest M&A Highlighted by T-Mobile / Sprint Merger

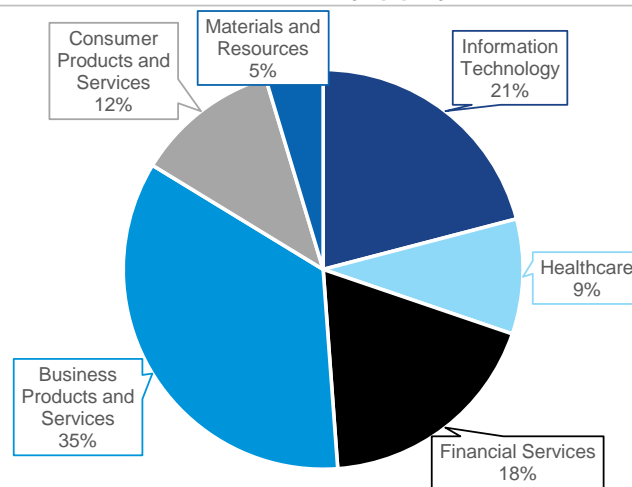
Quarterly Midwest M&A Activity<sup>1</sup>



## Midwest M&A Highlights

- Midwest M&A activity totaled \$31.9 billion in the second quarter, largely accounted for by the T-Mobile/Sprint merger. Though value increased substantially, deal volume declined just over 50% from the first quarter, nearly in parallel with overall US volume
- In the Midwest, commercial products & services continued to account for the majority of deal volume, though IT (mostly software deals) and financial services were other sectors of interest
- Some notable deals announced in Q2 but have yet to close include: R1 RCM's PE-backed buyout of RevWorks, Peoples Bank's acquisition of Triumph Premium Finance, the purchase of Hyliion by blank check company Tortoise Acquisition, and ValuNet Fiber's acquisition by Cable ONE

## Q2 Midwest Activity (#) by Sector



# Notable Second Quarter Midwest M&A Transactions

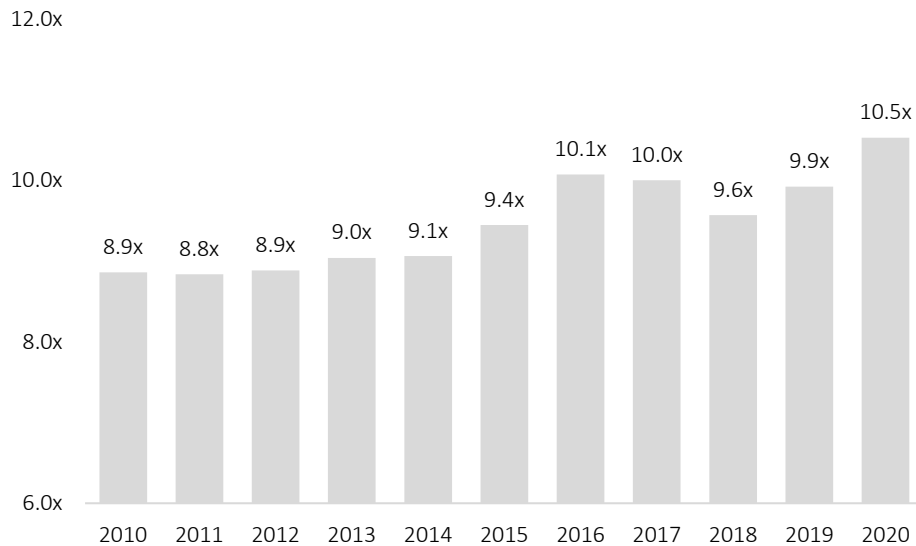
Date Closed	Target	Investor	Target City	Target Description
Apr 1	Sprint	T-Mobile	Overland Park, KS	Provider of telecommunications services
Jun 1	Fidelity Guaranty & Life	Fidelity National Financial	Des Moines, IA	Offerer of annuity and life insurance products
Apr 1	Homecare of Mid Missouri	Missouri Home Hospice	Moberly, MO	Provider of home healthcare services
May 1	Inside Response	SelectQuote	Overland Park, KS	Developer of advertising campaigns
Apr 16	Pacific Aurora	Aurora Cooperative	Aurora, NE	Producer of corn-based ethanol
May 22	Central Federal Bancshares	Southern Bank	Rolla, MO	Bank holding company; provider of banking services and products
Jun 4	United States Appraisals	Stewart Title Guaranty Company	Overland Park, KS	Provider of professional appraisal management services
May 4	HorizonWest	Titan Machinery	Scottsbluff, NE	Supplier of agricultural and construction equipment
May 26	NG-911	Comtech Telecommunications	Williamsburg, IA	Developer of network, hardware, and software solutions
Jun 17	Quantified	Merck Animal Health	Lincoln, NE	Developer of a cattle health management platform
Jun 18	RnAgri	RNAissance Ag	Saint Louis, MO	Developer of gene regulation technology to produce RNA
Jun 29	MCT Transportation	TFI International	Sioux Falls, SD	Operator of a refrigerated and dry van carrier
Apr 9	Pixius Communications	KwiKom Communications	Wichita, KS	Provider of wireless broadband internet service
Apr 7	Performance Livestock Analytics	Zoetis	Ames, IA	Provider of data analytics for precision cattle farming
May 4	Meridian Business Services	Marketsphere Consulting	Overland Park, KS	Provider of financial consulting services
Jun 18	McCoy Nationalease	Nationaleaser Purchasing	Dubuque, IA	Provider of truck rental and leasing services
Jun 24	Feedback Marketing Group	Model FA	Omaha, NE	Provider of strategic consultancy services
May 12	Denim Labs	Denim Social	Des Moines, IA	Developer of SaaS-based insurance software
Apr 3	GT Fire & Security	Per Mar Security Services	Grand Island, NE	Provider of fire security services
May 28	Kalos (Pharmacy Software)	Fusion Capital Management	Topeka, KS	Developer of pharmacy management solutions
Jun 24	St. Louis Staffing	Advanced Resources	Earth City, MO	Provider of temporary staffing services
May 8	Karstens Investment Counsel	Frontier Wealth Management	Omaha, NE	Provider of wealth management services

# Valuations Rebound with Market

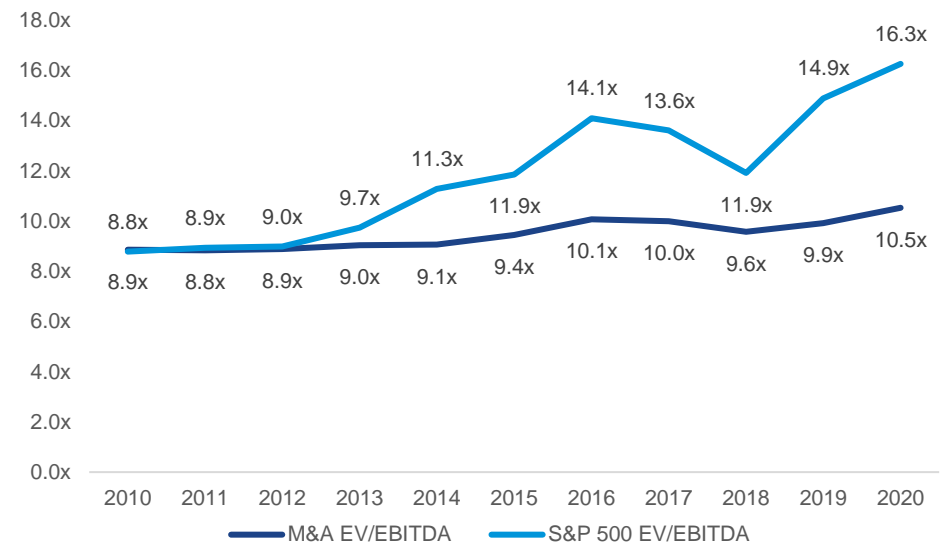
## Valuation Highlights

- Broader M&A transaction valuations rebounded to 10.5x times Earnings Before Interest, Depreciation, & Amortization (EBITDA) from 9.4x in the first quarter and 10.1x at the end of 2019
- Valuations of strategic-acquirer transactions, or transactions in which the acquirer is not an investor by primary nature, experienced a sharper increase, climbing to 10.5x EBITDA from 8.2x EBITDA
- The gap between valuations of North American M&A targets and valuations of publicly traded companies in the S&P 500 is at its widest in the last decade. While there are a number of ways to look at this, the most practical view is that the stock market has risen to near-record highs while recent profitability has declined (Q1 before-tax corporate profits totaled \$1.83 trillion compared to Q4's \$2.13 trillion<sup>1</sup>)
- Though M&A valuations are the highest in the last decade, it's important to note that this is a result of acquirers pursuing higher-quality (but far fewer) companies
- 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 North American M&A Valuations (EV / EBITDA)



Median North American M&A & S&P 500 Valuations



# 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 | 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



Acquired by


Acquired by





Airport lighting division acquired by




Acquired by

Merged with




Strategic transaction with




Acquired by

