



Private Equity
Update

Second Quarter 2020

Private Equity Prepares for Unprecedented Times

Executive Summary

As the impact of the COVID-19 pandemic dragged into the second quarter, there was a noticeable effect on private equity deal-making. The volume of buyouts and exits (instances in which a private equity investor exits their investment) fell sharply quarter over quarter, and fundraising was also off from 2019 highs.

While the second quarter was less than ideal, it appears activity is picking up with economies reopening: jobs are being added, the unemployment rate is lowering, and the [rise in public markets](#) may carry over to private capital markets activity. However, some economic measures are still far worse than before the crisis and the progression of the economy is currently largely affixed to fiscal stimulus (and we are cautious that lapsing stimulus and investor pressure for returns may lead companies to not bring back furloughed employees). Any scaling back of reopening efforts will adversely affect capital markets activity.

We generally expect activity to pick up in the third quarter, though we remain cautious. Investors still have plenty of capital to invest, fundraising is still strong, and it's a competitive market to put capital to use, resulting in higher valuations. While activity was down significantly during the quarter, valuations appear to have increased due to a focus on fewer "higher quality" deals.

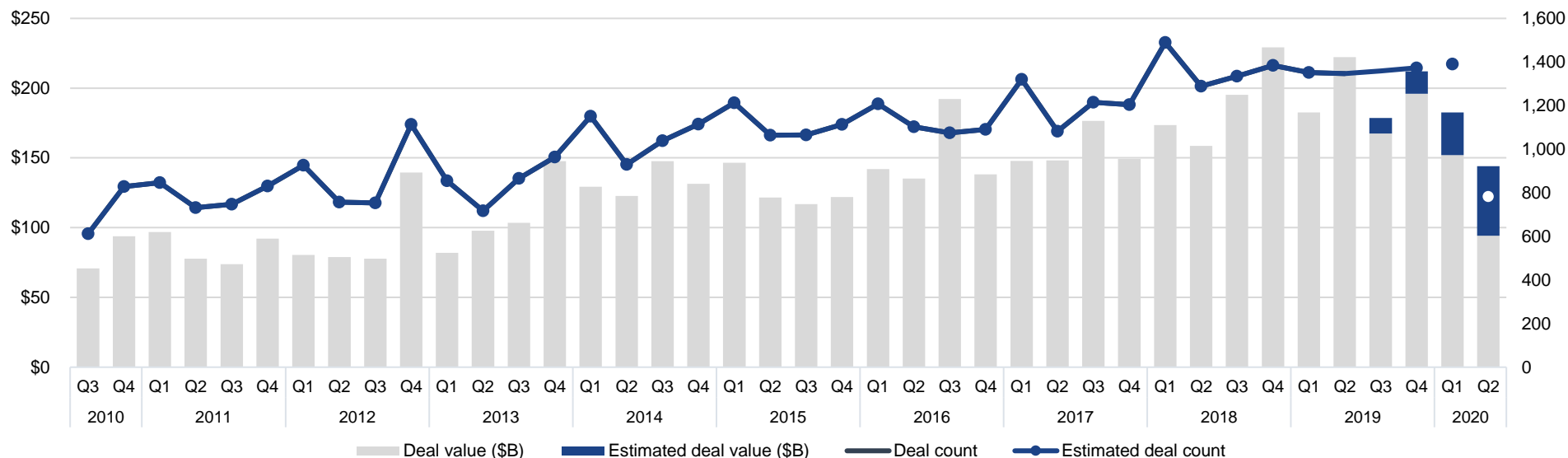
As always, contact us if you would like to discuss strategic options or activity in your particular industry.

Q2 Private Equity Highlights

- Buyout activity fell sharply from the first quarter, with US PE investors closing nearly 44% fewer deals and Midwest PE investors closing 64% fewer deals
- Similar to buyout activity, exit activity declined sharply, at 55%, from the first quarter, though total exit value was roughly on par with the first quarter
- Private equity fundraising is on pace to lag the record-breaking year of 2019, but fundraising levels are still healthy compared to historical levels
- Buyout valuations and broader M&A valuations both increased sharply in the second quarter, likely due to fewer "high-quality" investment opportunities
- As economies reopen, and particularly if additional stimulus is passed, we may see a boost in investor appetite for deals

US PE Activity Slips in Q2

Quarterly US PE Buyout Activity¹



US PE Highlights

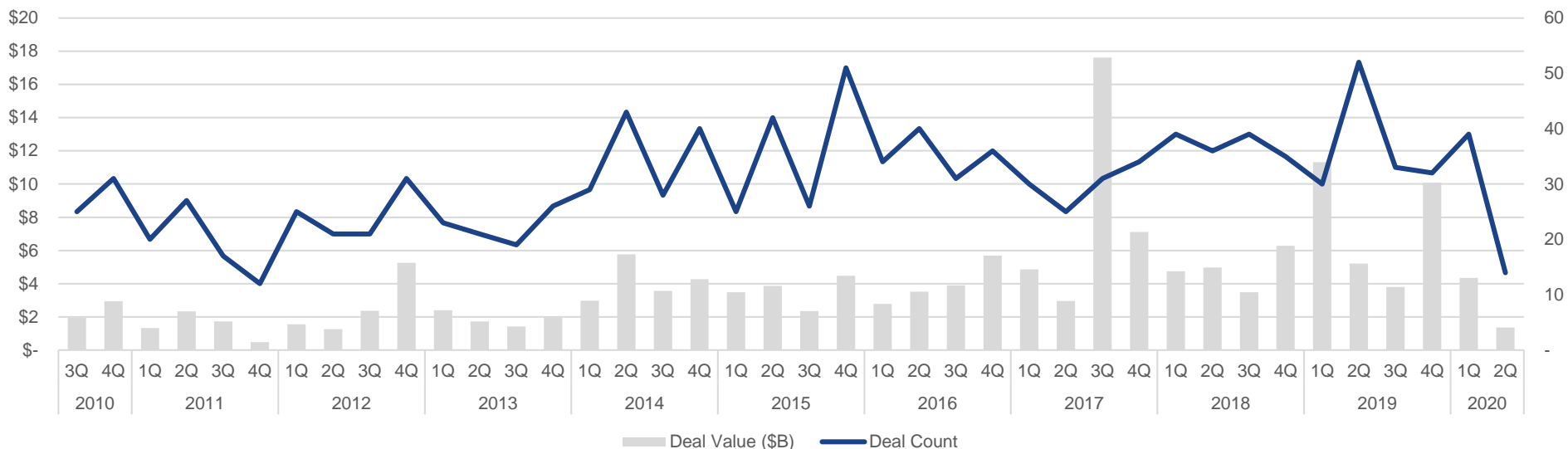
- Second quarter US private equity activity totaled an estimated \$144 billion across roughly 785 deals
- Deal flow slowed significantly due to the heightened uncertainty surrounding COVID-19 – Q2 deal volume declined approximately 44% from the first quarter
- Through the first half of 2020, deal volume is down 19.4% from the first half of 2019, and spending is down 19.3%
- Information technology and financial services companies have been more-attractive sectors on a relative basis, though both sectors are on pace for 29% declines in volume from 2019

Notable US Q2 Transactions

Date	Target	Acquirer	Consideration (millions, USD)
04/01/20	Ultimate Software Group	Kronos (Hellman & Friedman, JMI Equity, et al.)	\$ 11,000
06/30/20	BP Trans Alaskan Pipeline / Prudhoe Bay	Hilcorp Energy (The Charlyle Group, ACE & Company)	5,600
04/01/20	National Veterinary Associates	Compassion-First Pet Hospitals (JAB Holding Company)	4,600
04/14/20	Duff & Phelps	Stone Point Capital, Further Global Capital Management	4,200
06/30/20	Lummus Technology	Rhône Group, Haldia Pharmaceutical (The Chatterjee Group)	2,725

Midwest Buyout Volume Stalls to 9-Year Low

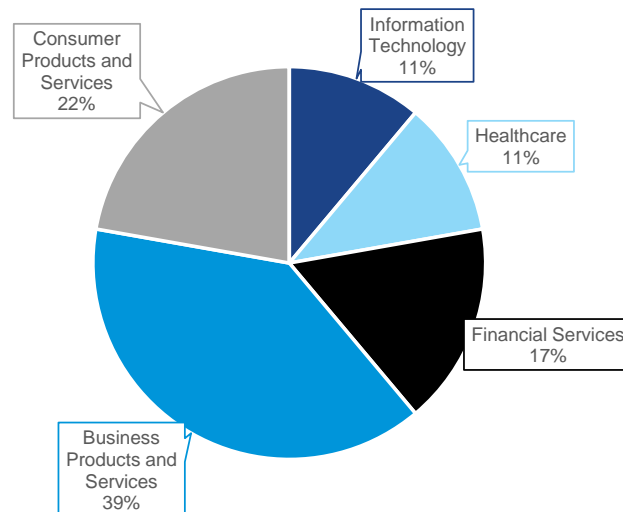
Quarterly Midwest PE Activity¹



Midwest PE Highlights

- In the first quarter, 18 buyouts were closed in the Midwest, accounting for total value of approximately \$1.4 billion
- Deal volume and value consideration declined 73 and 74%, respectively, from a year ago, with quarterly volume falling to the lowest level since the third quarter of 2011
- The most active industry in the Midwest was business products and services, which accounted for nearly 40% of the total Midwestern buyout count. This was followed by consumer products and services at 22%, and financial services at 17% of total Midwestern deals

Q2 Midwest Activity (#) by Sector



Notable Midwest PE Transactions

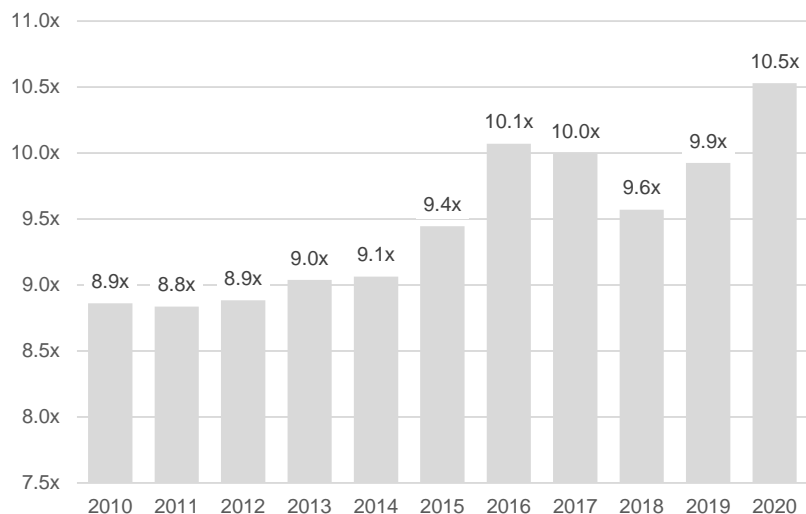
Date Closed	Target	Investor	Target City	Target Description
Apr 14	TierPoint	RedBird Capital Partners, Macquarie Group, <i>et al.</i>	Saint Louis, MO	Provider of cloud, colocation, managed service, and disaster recovery IT services
Jun 03	Hudl	Bain Capital Tech Opportunities	Lincoln, NE	Provider of sports analysis software
May 01	Inside Response	SelectQuote (Brookside Equity Partners)	Overland Park, KS	Developer of advertising campaigns for the insurance and education sectors
Jun 01	Faultless Brands	Architect Equity	Kansas City, MO	Operator of a collection of consumer products and brands
May 04	Academy Home Services	Apex Service Partners (Alpine Investors)	Earth City, MO	Provider of heating and cooling services
Apr 09	Coe Financial Services	Creative Planning (General Atlantic)	Wichita, KS	Provider of financial services
May 29	Columbia Oral & Maxillofacial Surgery	Oral Surgery Partners (Sheridan Capital Partners)	Columbia, MO	Provider of dental services
May 01	Custom Hardware Engineering and Consulting	Park Place Technologies (Charlesbank Capital Partners)	Fenton, MO	Provider of third-party maintenance of multi-vendor storage, server and networking equipment
Jun 23	Environmental Dynamics International	Nexom (Kohlberg Kravis Roberts, XPV Water Partners)	Columbia, MO	Provider of biological treatment and advanced technology diffused aeration systems services
Apr 09	Garden Weasel	General Tools & Instruments (High Road Capital Partners)	Kansas City, MO	Provider of professional-grade, multi-use garden tools
Jun 18	McNerney Management Group	Integrity Marketing Group (Harvest Partners, HGGC)	Columbia, MO	Marketer of life and health insurance products
Apr 30	Orbis Biosciences	Adare Pharmaceuticals (TPG Capital)	Lenexa, KS	Provider of controlled-release delivery technologies
Jun 23	Sunrise Advisors	Creative Planning (General Atlantic)	Leawood, KS	Provider of fee-only investment advisory services
Jun 01	TheraWe Connect	Rethink First (K1 Investment Management)	Kansas City, MO	Developer of a mobile video application for pediatric therapy
Apr 01	Underground Cavern Stabilization	Advantek Waste Management Solutions (TPG Capital)	Hutchinson, KS	Provider of waste management services

Buyout Valuations Increased Sharply During Q2

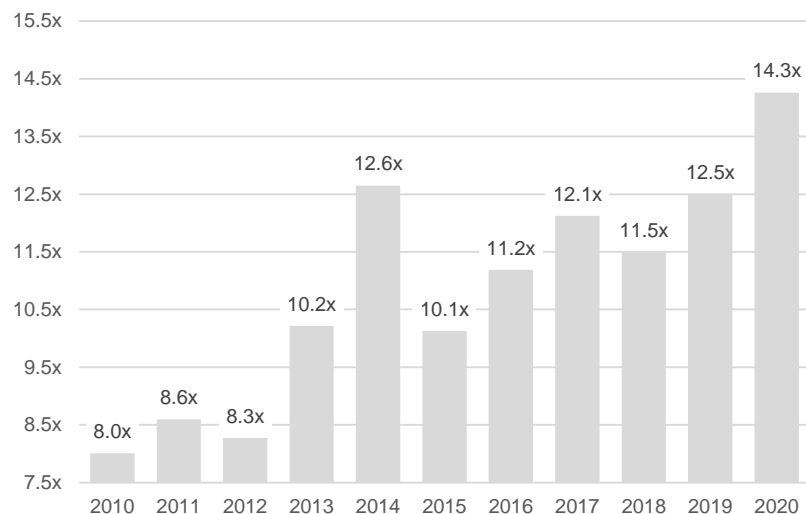
Valuation Highlights

- Broader M&A transaction valuations (including both corporate “strategic” buyers and private equity “financial” buyers) increased to 10.5 times Earnings Before Interest, Depreciation, & Amortization (EBITDA) from 9.4x at the end of the first quarter and from 9.9x at the end of 2019
- Valuations of private equity buyout transactions increased to 14.3x EBITDA from 12.5x at the end of the first quarter
- The rise in valuations during the quarter suggests that investors are more selective with their investments but are willing to pay more for fitting 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)

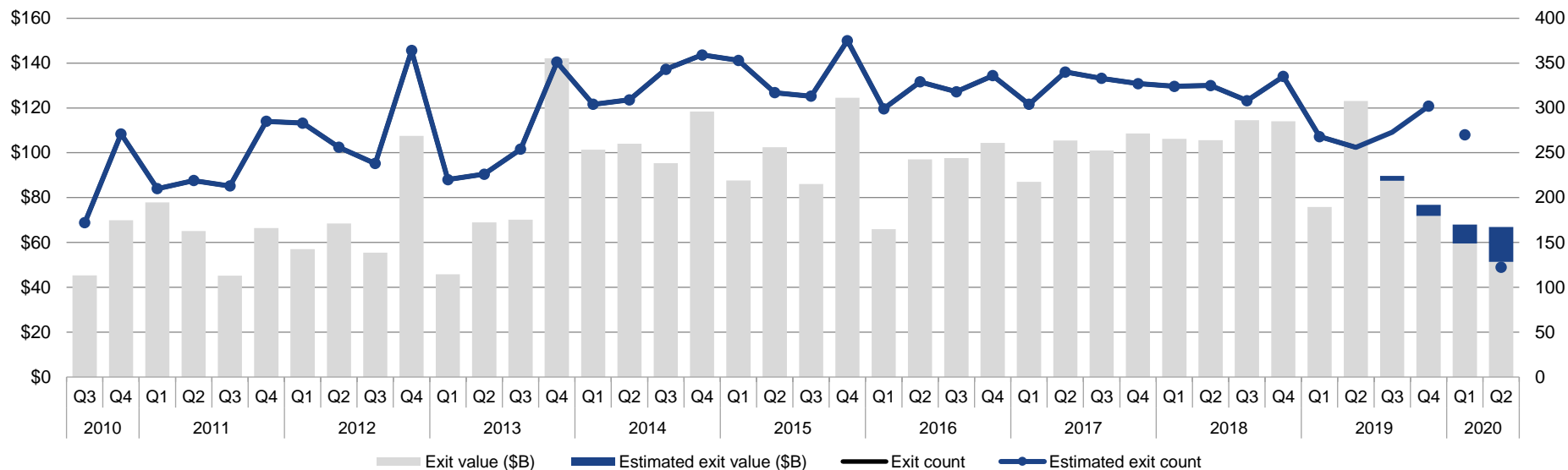


Median US PE Buyout Valuations (EV / EBITDA)



US PE Exits Fall in Q2 2020

Quarterly US PE Exit Activity¹



US PE Exit Highlights

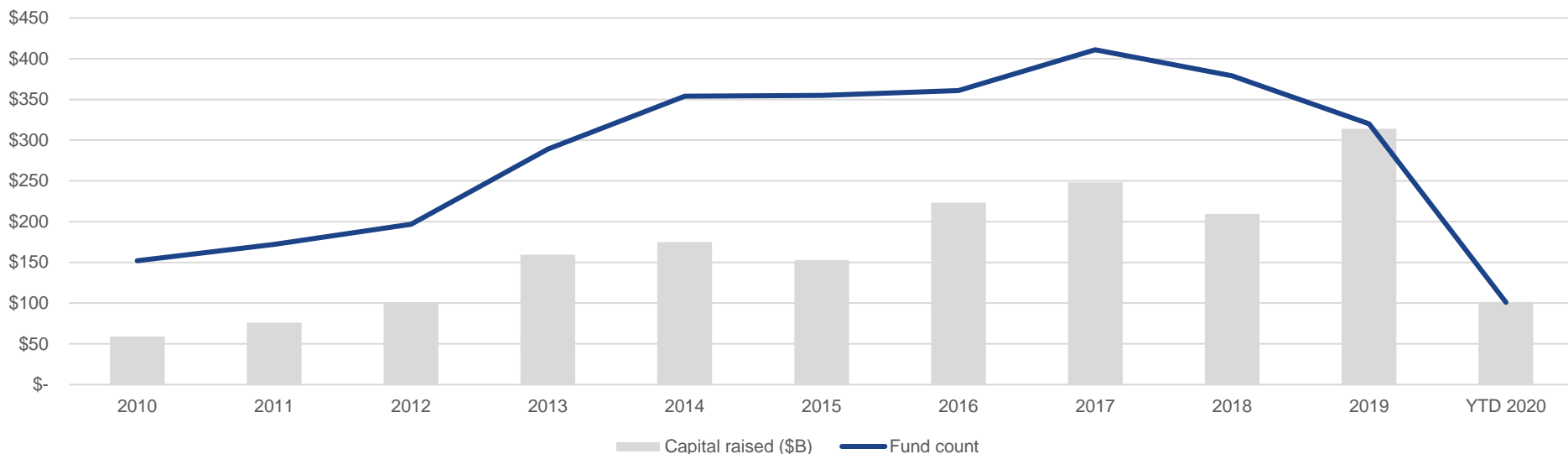
- Private equity exits totaled approximately \$67 billion across an estimated 122 deals in the second quarter – while consideration was roughly on par with the first quarter, exit volume, in parallel to investment activity, declined sharply, falling 55%
- Deal count slowed amid economic shutdowns but may improve in the third quarter as a result of the reopening of economies as well as the recovery of the US stock market (which has improved the attractiveness for initial public offerings as an exit option)

Notable US Q2 Exits

Date	Target	Exiter	Consideration (millions, USD)
04/01/20	National Veterinary Associates	OMERS Private Equity, Pantheon International	\$ 5,000
04/14/20	Duff & Phelps	Permira	4,200
05/18/20	NaviHealth	Clayton, Dubilier, & Rice	2,950
06/16/20	Royalty Pharma	Quilvest Private Equity, Paladin Capital Group, et al.	2,180
06/01/20	Compuware	Thoma Bravo, Ares Capital, AlInvest Partners, et al.	2,000

US PE Fundraising in Q2 2020

Annual PE Fundraising Activity¹



US PE Fundraising Highlights

- The number of funds raising capital in the second quarter roughly matched those of the first quarter – approximately 100 funds raised just over \$100 billion in the first half of the year, though
- Though 2020 is on pace to trail 2019, a record-breaking year, 2020 is still on pace to top the 10-year average of \$172 billion
- Similar to overall investment activity, tech-focused funds appeared to be more active in fundraising efforts – Francisco Partners launched three funds during the quarter and closed on all within six weeks

Notable US Q2 Fundraises

Close Date	Fund	Size (millions, USD)
04/03/20	Insight Venture Partners XI	\$ 9,500
05/12/20	BDT Capital Partners Fund III	9,090
06/02/20	Francisco Partners VI	7,450
04/14/20	Clearlake Capital Partners VI	7,000
05/26/20	Aquiline Financial Services Fund IV	2,040

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

 <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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