

Mergers & Acquisitions (M&A) Update

Third Quarter 2020

M&A Activity Likely to Follow Broader Economic Trends

Executive Summary

As record stimulus measures carried over into the third quarter, consumer spending and job growth continued to improve. The US economy continued to re-open from COVID-related shutdowns, and consumers were more willing to go out. As a result, the US economy grew at a record pace in the third quarter. Similarly, M&A activity bounced off second-quarter lows, signaling that the worst may be behind us.

Nonetheless, it may be that the economy worsens again before it improves. Much of the stimulus that kept the economy afloat at the onset of the coronavirus' emergence in the US has since expired, and partisan disagreements have stalled Congressional efforts for new stimulus. Meanwhile, coronavirus cases are reaching new highs to start the fourth quarter. On the bright side, many experts are optimistic that there will be another round of stimulus even if it comes in 2021, as both Republicans and Democrats are pushing for *some level* of stimulus ([read our Third Quarter Economic & Public Market Update here](#)). We expect M&A activity to trend directionally with economic conditions.

Despite the continued uncertainty in the market, there is still demand for high-quality businesses in attractive industries. We continue to have discussions with a wide variety of acquirers and investors who are seeking to put money to work.

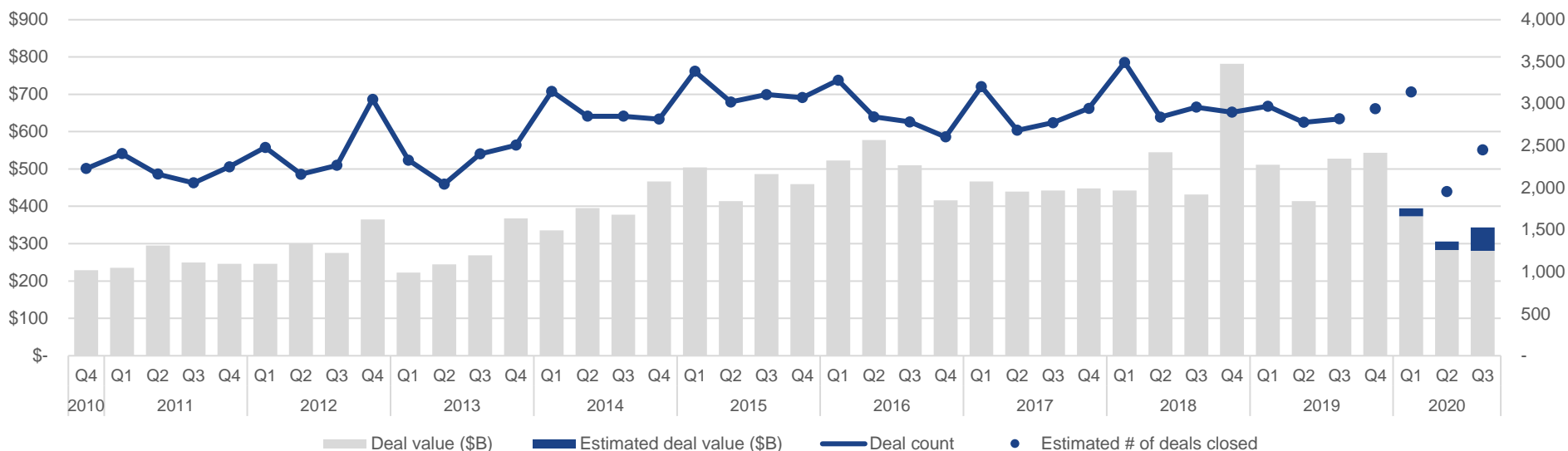
As always, contact us if you would like to receive information about activity in your specific industry or geography or if you would like to discuss options for your business.

Q3 M&A Highlights

- M&A activity improved over a lackluster second quarter, but activity is still below pre-pandemic levels
- Midwest M&A activity stalled further in the third quarter, though there are some deals announced during the quarter that may lead to a rebound in the fourth quarter
- Broader valuations remain historically high, as investors pursue a smaller number of available high-quality takeover candidates
- There are immense uncertainties going forward in the second half, namely escalating new COVID cases and political limbo preventing passage of new stimulus

US M&A Activity Recovers Ground in Q3

Quarterly US M&A Activity¹



US M&A Highlights

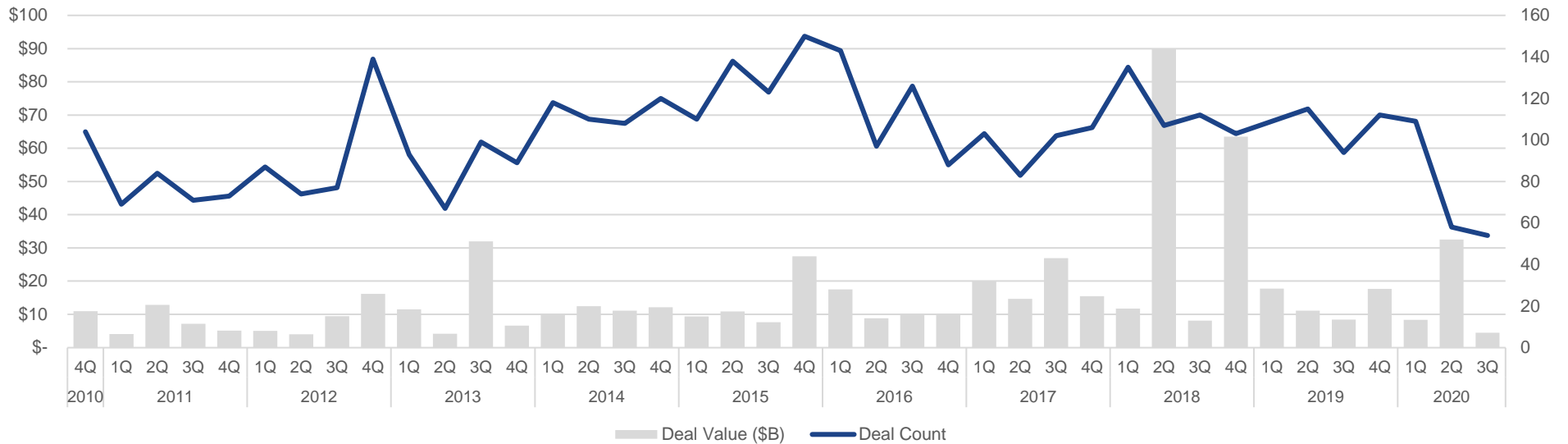
- M&A activity recovered some lost ground in the third quarter, with deal volume increasing 25.4% from the second quarter to 2,450, while overall deal value increased 12.4% to an estimated \$343.7 billion. However, activity remains below levels of the same period a year ago: volume is down 13.1%, and value is down 34.9%.
- A lack of direction regarding fiscal stimulus and rising COVID cases leave the balance of the year uncertain
- Business products and services (B2B) deals drove gains in overall volume, followed by deals in the technology sector
- There are over 500 deals, worth more than \$250 billion, announced deals this year waiting to close

Notable US Q3 Transactions

Close Date	Target	Acquirer	Consideration (millions, USD)
Jul 20	Caesars Entertainment	Eldorado Resorts	\$ 17,300
Sep 04	Ellie Mae	Intercontinental Exchange	11,000
Jul 01	Mobile Mini	WillScot Corporation	6,600
Jul 01	TechData	Appollo Global Management	6,000
Jul 31	Legg Mason	Franklin Templeton Investments	4,500
Aug 31	LogMeIn	Francisco Partners, Evergreen Coast	4,300

Midwest M&A Slows in Q3

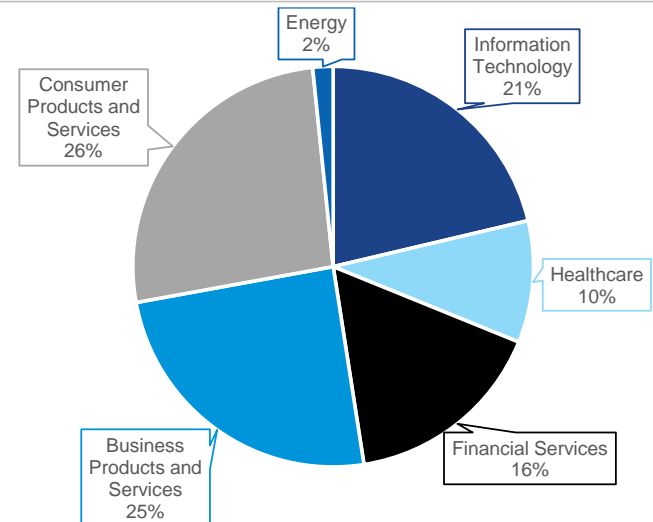
Quarterly Midwest M&A Activity¹



Midwest M&A Highlights

- Midwest M&A activity totaled \$4.5 billion in the third quarter, the lowest amount since the second quarter of 2013. Deal count, at 54, was the lowest since the third quarter of 2009, though the count will rise as deals are reported. M&A activity continues to be impacted by COVID-related slowdowns, as outlined in the executive summary.
- Consumer products and services accounted for the largest portion of M&A deals in the Midwest
- Some notable deals announced in Q3 but have yet to close include: Waystar Health’s acquisition of eSolutions, the purchase of BacklotCars by KAR Global, and Corporate Travel Management’s acquisition of Travel and Transport.

Q3 Midwest Activity (#) by Sector



Notable Third Quarter Midwest M&A Transactions

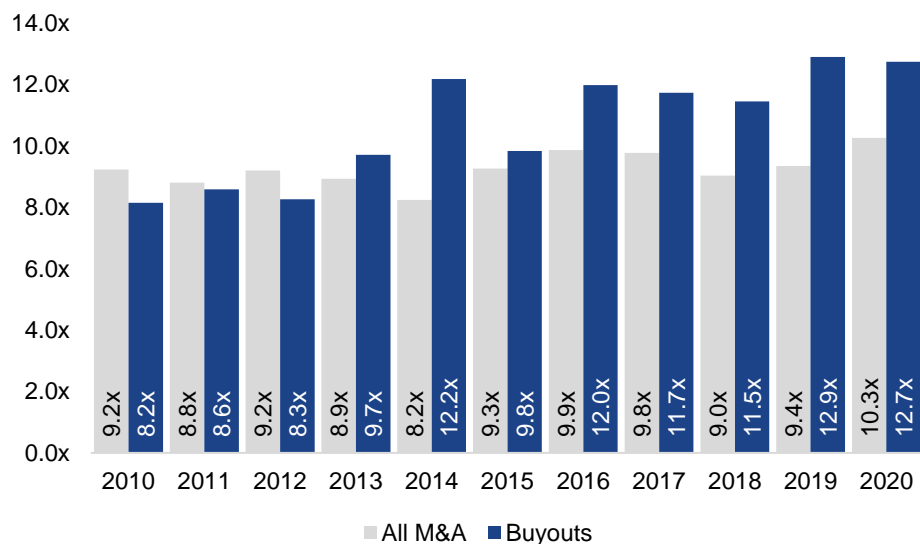
Date Closed	Target	Investor	Target City	Target Description
Jul 01	HK Financial Services	Blucora	Bismarck, ND	Provider of wealth management and tax preparation services
Jul 01	Buse Industries	Brenneman and Associates	Marion, IA	Manufacturer of custom cable and wire harness assemblies
Jul 01	Triumph Premium Finance	Peoples Bank	Kansas City, MO	Provider of property-buying and casualty insurance services
Jul 01	MinnDak Computer Services	Loffler Companies	Fargo, ND	Provider of IT managed services
Jul 06	Dow Chemical (Rail Assets)	Watco Companies	Pittsburg, KS	Six rail infrastructure assets and associated equipment
Jul 10	Turbocharger Solutions International	Cooper Machinery Services (Arcline Investment Mgmt.)	McPherson, KS	Manufacturer of turbocharger parts
Jul 11	Canopy Biosciences	Bruker Corporation	Saint Louis, MO	Provider of biomarker imaging services for immunology, immuno-oncology, and cell therapy
Jul 20	Concrete Equipment	Astec Industries	Blair, NE	Manufacturer of concrete manufacturing and mixing equipment
Jul 31	Ag Partners	Alceco	Albert City, IA	Producer of grains and other agricultural products
Aug 01	Peoples Insurance Group	World Insurance Associates (Charlesbank Capital Partners)	Topeka, KS	Provider of insurance brokerage services
Aug 03	TFM Services	Gen Cap America	Wichita, KS	Provider of maintenance services
Aug 03	RevWorks	R1 RCM	Kansas City, MO	Provider of revenue cycle management services
Aug 17	Roadrunner Temperature Controlled	Laurel Oak Capital Partners	Omaha, NE	Provider of temperature-controlled transport services
Aug 28	Northland Rehab Supply	Numotion (AEA Investors, Area Capital, LLR Partners)	Sioux Falls, SD	Retailer of medical supplies and equipment
Sep 01	ThermoGRID	ECI Software Solutions (Apax Partners, Altamir, Carlyle Group)	Dubuque, IA	Developer of HVAC software
Sep 08	Nebraska Book Company	Concise Capital	Lincoln, NE	Provider of textbooks, apparel, and college essentials to students
Sep 24	Catapult International	Magaya (LLR Partners)	Lenexa, KS	Developer of a cloud-based freight rate management platform
Sep 30	Multi Service Technology Solutions	Corsair Capital	Overland Park, KS	Operator of a fintech B2B payments platform

Valuations Remain Elevated

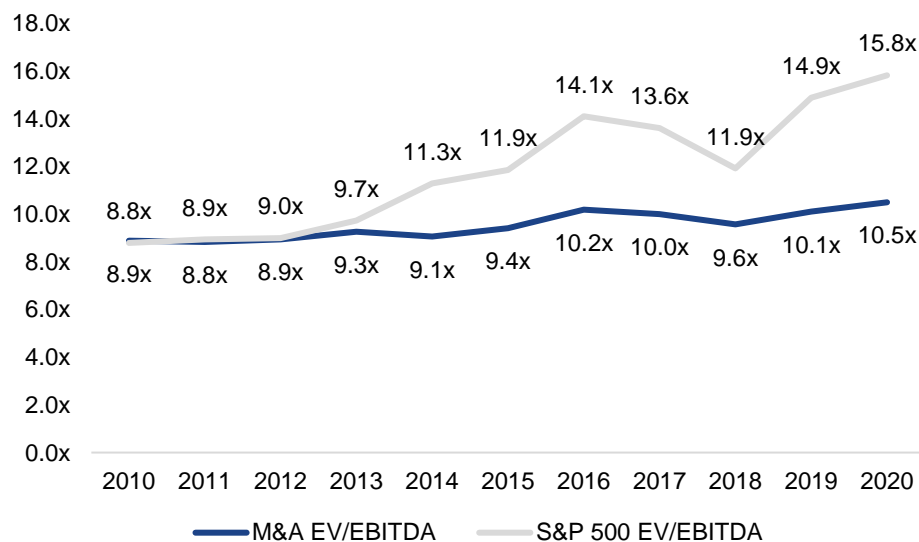
Valuation Highlights

- Broader M&A transaction valuations remained flat at 10.5x times Earnings Before Interest, Depreciation, & Amortization (EBITDA) from the second quarter - an increase from 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, have shown a stronger increase from 2019 versus valuations paid by financial buyers (investors by primary nature)
- 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 numerous ways to look at this, we believe the most practical view is that the stock market has risen to near-record highs while recent, trailing profitability has declined to create a temporarily inflated multiple on public stocks
- Though M&A valuations are among the highest in the last decade, it's important to note that this is likely 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 Strategic vs. Financial 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 | 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

- 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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