

M&A Market Newsletter

Kansas City & Middle Market Focus

Second Quarter 2017





M&A Market Report

U.S. Market Highlights

- The first six months of 2017 proved the middle market’s most productive first half in 10 years. Deals completed in the period totaled 5,260 according to data from Thomson Reuters, representing a 12% increase over the 4,694 deals that closed in the first six months of 2016 - the strongest first six months of the year since pre-recession 2007. Private equity is experiencing the best fundraising climate in years - perhaps ever. In the first half of the year, 224 North American-focused funds closed, raising \$133 billion, while globally there have been 412 private equity funds closed, which raised a combined \$221.4 billion. ([Mergers&Acquisitions](#))
- The U.S. Energy Information Administration cut its outlook for oil prices and trimmed its forecast for how much oil U.S. drillers will pump next year. The expectation for lower prices will drag on U.S. oil production in 2018, according to EIA. Last month, EIA forecast U.S. drillers would produce 10 million barrels a day in 2018. In July, it indicated the nation would pump 9.9 million barrels a day — still the highest annual average output on record. American oil and gas companies have improved drilling methods and focused on their best wells in order to operate in a tough price environment. But lower oil prices limit their ability to hedge their production, which involves using financial instruments to lock in a price for future delivery. ([CNBC](#))
- Federal Reserve Chair Janet Yellen told Congress that the central bank will probably begin to shrink its \$4.5 trillion balance sheet “relatively soon,” a move that’s expected to nudge long-term interest rates higher. Yellen also affirmed the Fed’s plans to continue raising its benchmark short-term interest rates gradually, downplaying a recent pullback in inflation as temporary. With unemployment now at 4.4% the Fed plans to stop reinvesting the assets as they mature by gradually increasing the caps on the amount of securities it allows to roll off its books. ([USAToday](#))
- Time and again in recent months, supposed experts have suggested that turmoil and uncertainty in Washington — the Russia investigation, the travel ban, the on-again off-again health care bill — was on the verge of bringing the long stock-market rally to an end. Time and again, the markets have proved doubters wrong. ([FiveThirtyEight](#))

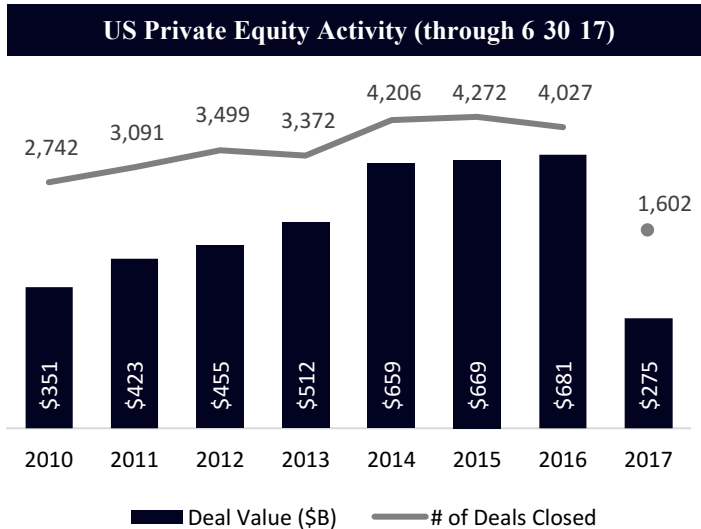


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Market Trends – Private Equity

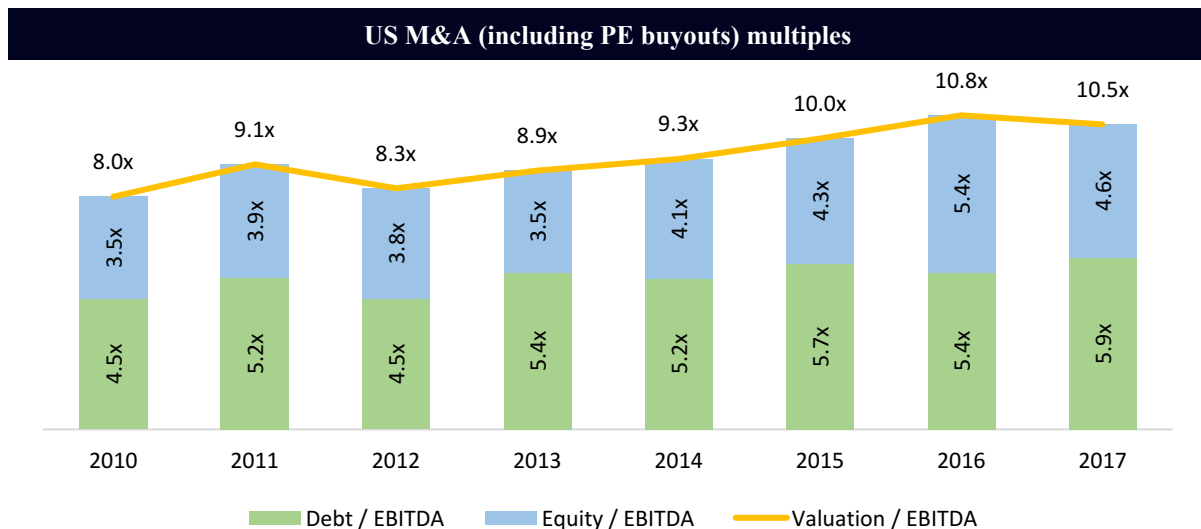
- PE deal flow held steady in 2Q 2017, though it is still slightly below last year's pace. Across the US, 866 deals were completed, totaling \$151.1 billion in value (estimated). Aided by lower high-yield credit spreads and armed with \$545.5 billion in dry powder, PE firms are continuing to deploy capital, despite high multiples and the oftmentioned lack of quality targets.
- Despite growing fund sizes, PE firms often find it difficult to compete with the bidding power of the largest corporate acquirers. Making things more difficult, company founders sometimes prefer to sell to a competitor rather than a buyout shop, believing the former will be a better steward of the organization they've spent a lifetime building.



Sources: Pitchbook, CapitalIQ

Despite uncertainty around policy in Washington, M&A activity has remained strong due to sustained low interest rates and steady earnings and economic growth. Tax reform and deregulation would likely drive deal volume and values even higher in the second half of 2017 and beyond.

Stephanie Siders, Vice President



- After clocking in at a post-crisis high of 10.7x in 2016, US M&A EBITDA multiples have regressed slightly in the first half of the year, to 10.5x. Though not quite at last year's level, current market pricing certainly poses a challenge for PE deal teams. Meanwhile, high-yield credit spreads are at a three-year low, meaning there is plenty of appetite for buyout loans.
- The increased leverage gives future PE returns more upside, but also more risk in the face of the downturn that some soon expect.

Sources: Pitchbook, CapitalIQ

Economic Snapshot

Note: Financial figures as of 7/28/2017

Unemployment	4.4%	4.4%	4.8%	4.9%
Consumer Confidence	93.40	97.00	98.50	89.80
Housing Permits (millions)	1.29	1.15	1.25	1.21
S&P/Case-Shiller 20 City	192.81	197.19	192.81	190.91
CPI	1.23%	1.78%	2.50%	0.84%

- US unemployment rate rose to 4.4% in June 2017 from the previous month's 16-year low of 4.3% and above market expectations of 4.3%. The labor force participation rate edged up to 62.8%.

Dow Industrials	21,830.31	21,580.07	21,349.63	18,432.24
S&P 500	2,472.10	2,472.54	2,423.41	2,173.60
NASDAQ	6,374.68	6,387.75	4,095.52	4,095.52
Dow Utilities	724.06	725.48	706.91	711.42
VIX: S&P 500 Volatility	10.29	9.36	11.18	11.87
S&P	\$	104.84	\$	117.20
P/E Ratio (Trailing & Forward)		23.58x		21.09x
			\$	132.84
				18.61x

- The Federal Reserve has been raising interest rates, saying that the labor market has been strengthening and that economic activity has been rising. But so far there is little evidence that Wall Street is worried. Despite the occasional swoon in technology stocks and the persistent decline in energy issues, the market continued to rise through the second quarter. But the bond market did not completely ignore the erosion in economic data. Yields on 10-year Treasury notes slipped to 2.3% from 2.4% and were as low as 2.1% in the last week of June.

Economics	Last Q	1 Q Ago	2 Q Ago	3 Q Ago
GDP Growth	1.4%	2.1%	3.5%	1.4%

- The US economy expanded an annualized 1.4% on quarter in the first three months of 2017, better than 1.2% in the second estimate, as consumer spending and exports increased more than previously anticipated.

Sources: WSJ, US Treasury, Bloomberg, Yahoo Finance, Oanda.com, CME, Bureau of Labor Statistics, Bureau of Economic Analysis



Deals from April 2017

Announced	Target (Parent)	Buyer	Comments	Press Release
4/6/17	Zhou Nutrition (Branson Books) Kansas City, MO	Nutraceutical International Corp Park City, UT	Zhou Nutrition, a subsidiary of Branson Books was acquired by Nutraceutical International Corporation for \$19.7 million on April 6, 2017.	Link
4/12/17	Phoenix Office Products Kansas City, MO	Office Products Alliance Kansas City, MO	Kansas City's largest independent officer supplier has acquired another local company: Phoenix Office Products. During the past decade, Office Products Alliance has acquired six dealers in the Kansas City area.	Link
4/12/17	Gateway Financial; Pegasus Capital Management; Summit Wealth Advisors; Trinity Planning Group	Infinitas Overland Park, KS	Gateway Financial, Pegasus Capital Management, Summit Wealth Advisors and Trinity Planning Group all formally merged to create Infinitas. The combined entity has 14 advisers, 35 associates and about \$1.47 billion in assets under advisement.	Link
4/13/17	We Do Commerce Pittsburg, PA	DEG Kansas City, MO	DEG, a full-service digital agency, has acquired Pittsburgh-based ecommerce firm We Do Commerce, expanding its expertise in the ecommerce space and within the Salesforce ecosystem.	Link
4/14/17	Ascend Learning Leawood, KS	The Blackstone Group; Canada Pension Plan Investment Board Burlington, MA	The company has entered into a definitive agreement to be acquired by The Blackstone Group and Canada Pension Plan Investment Board through a \$2 billion LBO.	Link
4/20/17	Scout Investments (UMB Bank) Kansas City, MO	Carillon Tower Advisers St. Petersburg, FL	The company reached a definitive agreement to be acquired by Carillon Tower Advisers, a subsidiary of Raymond James for \$172.5 million.	Link
4/20/17	Echo Cloud Solutions (News-Press & Gazette) St. Joseph, MO	Online Tech Ann Arbor, MI	The company, a subsidiary of News-Press & Gazette, was acquired by Online Tech for an undisclosed amount on April 20, 2017. The acquisition will expand Online Tech's product line and geographic reach to the Kansas City and Missouri markets.	Link
4/21/17	Transportation Certification Services Overland Park, KS	Halcon Lenexa, KS	The company was acquired by Halcon, via its financial sponsors Novacap, BMO Capital Markets, Investor Financial and Export Development Canada, through an LBO for an undisclosed sum.	Link
4/24/17	Moberly, MO Branch (Citizens Bank & Trust) Kansas City, MO	County Bank Brunswick, MO		
4/28/17	Community Bancshares of Kansas, Inc.; Merit Bank Overland Park, KS	Dickinson Financial Corporation Kansas City, MO	Dickinson Financial has agreed to buy Community Bancshares of Overland Park, Kansas. The \$104 million Community Bancshares of Kansas' subsidiary Merit Bank has three locations in Overland Park, Goff and Olathe, Kan. The branches will join Dickinson's \$1 billion Academy Bank.	Link

Deals from May 2017

Announced	Target (Parent)	Buyer	Comments	Press Release
5/3/17	Enterprise Software Operation (Lexmark International) Lenexa, KS	Thoma Bravo Chicago, IL	Thoma Bravo, a leading private equity firm, announced it has entered into a definitive agreement with Lexmark International Inc. to acquire Lexmark's Enterprise Software business, which is made up of three primary businesses: Kofax, ReadSoft and Perceptive Software.	Link
5/3/17	Avatar Engineering Lenexa, KS	Pivot International Lenexa, KS	Pivot International, with global headquarters in Lenexa and offices in Europe and Asia, announces that it has acquired Avatar Engineering an expert in technology design and manufacturing based in Lenexa.	Link
5/3/17	Premier Knowledge Solutions St. Louis, MO	Centriq Training Leawood, KS	Centriq Training, Kansas City area's largest information technology training company, announced that it acquired St. Louis-based Premier Knowledge Solutions. The combined firms create the largest IT training company in the Midwest.	Link
5/4/17	Paragon Customer Communications (DST Systems) Kansas City, MO	Paragon Group UK Gateshead, United Kingdom	DST Systems, Inc. announced that it has completed the sale of its UK Customer Communications (CCUK) business to Paragon Group Limited. Paragon is one of Europe's leading providers of Customer Communications and Identification services.	Link
5/9/17	Hillyard St. Joseph, MO	Benefitfocus Daniel Island, SC	Benefitfocus, Inc., a leading provider of cloud-based benefits management software, announced it has expanded its client base in the manufacturing sector, adding several new companies to its growing list of manufacturers including Hillyard, Inc.	Link
5/18/17	85 KFC & Taco Bell Restaurants	KBP Foods LLC Overland Park, KS	KBP closed the deal which includes 85 KFC and Taco Bell restaurants in Louisiana, Oklahoma, Arkansas, Alabama, Tennessee and Ohio. The move will bring nearly \$100 million in additional revenue and brings KBP's employee count into the 9,200 range.	Link
5/18/17	Merit Packaging Inc. Kansas City, MO	R.V. Evans Co. Decatur, IL	Merit Packaging is the sixth acquisition for R.V. Evans since 1998. The last acquisition prior to Merit Packaging was a specialty marking and coding division of Indianapolis-based Linc Systems in 2014.	Link
5/26/17	SightDeck (iMatte Inc.) Chatsworth, CA	Digital Ally Inc. Lenexa, KS	Lenexa-based Digital Ally said Thursday that it has signed a letter of intent to buy SightDeck technology from iMatte Inc. The SightDeck technology was developed to produce theater-quality special effects where real-time integration of graphics and images are needed.	Link

Deals from June 2017

Announced	Target (Parent)	Buyer	Comments	Press Release
6/2/17	Earth Exploration Inc. Indianapolis, IN	Terracon Consultants, Inc. Olathe, KS	Terracon acquired Earth Exploration Inc. significantly enhancing Terracon's presence in the Upper Midwest by establishing offices in Indiana and Michigan.	Link
6/6/17	140 Wendy's Restaurants (The Wendy's Co.) Dublin, OH	NPC International, Inc. Overland Park, KS	The franchisee acquired 140 restaurants — primarily in the Baltimore, Virginia and Washington, D.C., markets — from a subsidiary of The Wendy's Co. Those units generated about \$215 million in net product sales during the fiscal year that ended in February.	Link
6/13/17	RPA CPAs LLC RPA Consulting Inc. Kansas City, MO	The Whitlock Co Springfield, MO	The Whitlock Co. provides accounting and consulting services to the Kansas City , Southwest Missouri, Southeast Kansas and Northeast Oklahoma. The company entered the Kansas City market in November 2015.	Link
6/14/17	Captify Health Lenexa, KS	Continuum Health Alliance Marlton, NJ	Continuum Health Alliance, a South Jersey physician practice management services company, has acquired a controlling interest in Captify Health in a move to enhance its offerings to specialists.	Link
6/21/17	Grain & Feed Ingredient Trading Business (Interstate Commodities) Newark, NJ	Lansing Trade Group LLC Overland Park, KS	Overland Park-based Lansing Trade Group LLC reached an agreement to acquire materially all of the grain and feed ingredient trading business from Interstate Commodities.	Link
6/26/17	Manchester Bag Company Kansas City, MO	Material Motion Decatur, GA		
6/26/17	People's National Bank (Peoples Inc.) Lawrence, KS	National Bank Holdings Corp. Kansas City, MO	National Bank Holdings Corp. reached an agreement to acquire Peoples Inc. for \$143 million in cash and stock. Lawrence-based Peoples Inc. is the holding company for Peoples Bank in Kansas and People's National Bank.	Link
6/28/17	Assets (Lawing Financial) Overland Park, KS	Prime Capital Investment Advisors Overland Park, KS	Lawing Financial CEO and founder Kerry Lawing and his minority investors sold the company's assets to an employee group that will reorganize and launch as a new firm. It ranked No. 9 on the <i>Kansas City Business Journal's</i> most recent list of top fee-based investment advisers, with \$2.88 billion in local assets under management.	Link
6/30/17	Technology Solutions Group (TeleTech Holdings Inc.) Lombard, IL	SKC Communications Shawnee, KS	The acquisition brings additional expertise in voice networks and cloud and managed services for enterprise businesses. It adds 20 employees who will be working at SKC Communications' new Chicago office, which opened in May.	Link
6/30/17	Carter-Waters (Aiglon Capital Management; Merit Capital Partners) Overland Park, KS	Construction Supply Holdings Olathe, KS	The Sterling Group announced that its portfolio company, Construction Supply Group, has completed the acquisition of Carter Waters. CSG is a leader in the distribution of construction materials and accessories and tools, primarily for professional concrete and masonry contractors in the US and Canada.	Link

10 Factors That Make a Company More Valuable

John Hense

Managing Director

The valuation metrics of a company are generally determined by the industry in which it participates. However, even among businesses in the same industry, there can still exist major variations in valuation. Accordingly, it is important for every business owner to understand several of the drivers that buyers consider as part of the valuation exercise.

Growth

In this age of low GDP growth, buyers are looking for ways to fuel their top line revenue, and will pay a premium for businesses that are growing faster, and more profitably, than the industry and overall economy.

Margin

Companies with higher than average profit margins are highly desired, especially if the margins are sustainable, as this generally implies a competitive advantage and defensible market position.

Recurrence

The more revenue a company derives from automatically recurring contracts or subscriptions, the more valuable the business will be to a buyer. Even if recurring contracts are not the industry norm, their presence will make a company more valuable than its competitors, as it provides predictability to the company's future performance.

Management

Companies with a strong quality and depth in management are more valuable than businesses where all the power and knowledge are concentrated in the hands of the owner.

Customers

The strength and longevity of existing client relationships will make a business more valuable than industry peers that have high customer turnover. A company's ability to attract and retain clients is a testament to business performance and a key indicator of future success.

Uniqueness

Buyers desire to acquire what they cannot easily replicate on their own, which means businesses with a unique product or service that is difficult for a competitor to copy are more valuable than a company that sells the same commodity as everyone else in its industry.

Brand

A company's image and reputation in the marketplace are critical components for success. A strong brand name that is highly regarded and recognizable signifies an entrenched market position and is a key determinant for future growth.



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Managing Director



Diversity

Acquirers look for companies that can hedge the loss of a single customer. A company in which no single customer amounts to more than 10 percent of revenue will be more valuable than an industry peer with just a few big customers.

Intangibles

Sustained competitive advantages such as intellectual property, innovative technology, exclusive rights, and strong customer contracts are value enhancers for a company. Investing in intangible assets can create long-term benefits.

Books

Companies that are willing to invest in annual audits will have financials that are generally viewed by acquirers as having less risk of error therefore are worth more. Quality of earnings is a key component in any due diligence exercise.

Although the type of industry and size of the company still dictate a large portion of implied value, where a company falls in the range often comes down to factors that have nothing to do with what it does, but instead, how it is done.





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ABOUT CC CAPITAL ADVISORS

Our Kansas City based team of professionals has earned the reputation for successfully initiating, structuring, negotiating and closing corporate transactions. More importantly, we approach each client relationship with the highest ethical standards. Entrepreneurial in attitude and accomplished in performance, CC Capital Advisors stand ready to deliver the expert advice you need with the personal attention and integrity you deserve. Leveraging the ironclad local reputation of Country Club Bank with global capabilities, as an investment bank, CC Capital Advisors provides companies a full range of advisory services including mergers and acquisitions, capital raising and other corporate finance alternatives.

Country Club Financial Services, Inc., dba CC Capital Advisors, Member FINRA, SIPC

RECENT CCCA NEWS:

CC Capital Advisors has a new home. As of June 19, 2017, our office is now housed at Country Club Financial's corporate headquarters.

Our new address:
1 Ward Parkway
Kansas City, MO 64112



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