

# M&A Market Newsletter

*Kansas City & Middle Market Focus*

Third Quarter 2016





# M&A Market Report

## U.S. Market Highlights

- In the first nine months of 2016, global merger and acquisition (M&A) volumes slipped 22% on-year to \$2.55 trillion, from \$3.27 trillion in the same period last year, Dealogic revealed in a new report on Tuesday. This ended a three-year streak of on-year increases. According to Dealogic, the Brexit vote in June, a turbulent election cycle in the U.S. and a slump in equity capital raising globally have shadowed opportunities for companies considering acquisitions in 2016. Domestic M&A volume tanked 38% to \$771.3 billion, with fewer mega-deals across sectors. [\(CNBC\)](#)
- Crude oil prices returned to the positive zone in early Asian trade Wednesday, but the growth momentum has slowed on heightened uncertainty over Russia's willingness to cut production even as global oil supplies increased last month. The increase in oil production comes at a time when oil producers inside the Organization of the Petroleum Exporting Countries are in discussions with Russia, a non-OPEC player, on ways to chip away the glut and pull prices up. Lack of clear commitment from Russia to slash production is exacerbating investors' doubts whether or not the preliminary agreement OPEC members reached in late September to cut production by between 200,000 to 700,000 barrels a day, will materialize. [\(MarketWatch\)](#)
- The matchup between Hillary Clinton and Donald Trump is the wackiest U.S. election of our lifetimes. It isn't helping the economy. "Ultimately, what will determine whether we have a recession next year is the comfort level Americans have with who occupies the White House in 2017," says Bernard Baumohl, chief global economist at The Economic Outlook Group. Nearly 20% of the S&P 500 companies mentioned the presidential election in their latest quarterly earnings call as a red flag. [\(CNNMoney\)](#)
- Minutes from the Federal Reserve's September meeting show the majority of policy-makers expect a rise in US interest rates by the end of the year. At its meeting, the Fed opted to hold rates between 0.25% and 0.5%. But three officials opposed the decision - the most dissents since December 2014. Policymakers have been divided when the next rate rise should be, with stock market volatility, China's slowing economy among its concerns. [\(Federal Reserve\)](#)



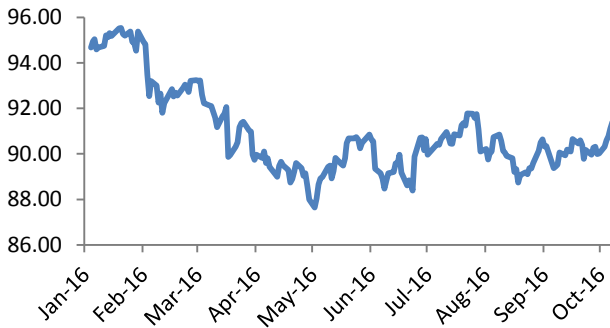
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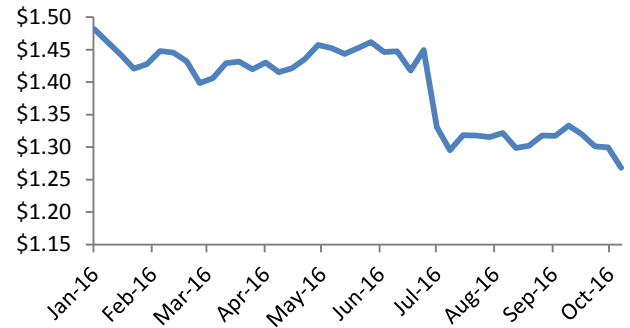
# Market Trends

- The U.S. dollar is moving toward its three-month high as strong economic data and optimistic comments from Federal Reserve officials have boosted expectations for higher interest rates this year. The Trade-Weighted U.S. Dollar Index, which tracks the domestic currency against a basket of major currencies, reached 91.38, its highest reading since early May, as recent economic data point to strength in the manufacturing and service sectors and increasing wages. In addition, commentary by Federal Reserve on a strengthening case for an interest rate hike in December has further supported the currency's recent upward trend. In contrast, the British pound continues its decline in the wake of the vote to leave the European Union in late June. Since then, the currency has fallen by 16% from 1.48 to 1.26 U.S. dollars.

### Trade-Weighted U.S. Dollar Index



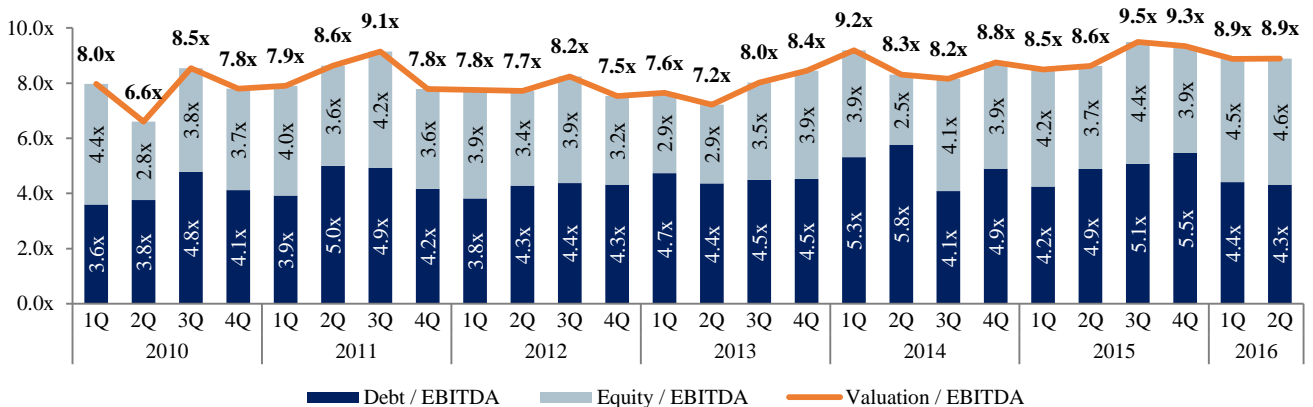
### GBP/USD Foreign Exchange Rate



Transaction multiples typically seen on larger deals are starting to move down to sub \$10 million EBITDA deals for companies with good EBITDA margins.

- Terry Christenberry, Managing Director

## Median EBITDA Multiples



Source: PitchBook

- Looking at deal structures, the debt component has continued to shrink, with the median debt percentage used in 2Q deals shrinking to 48.6%, the lowest number recorded since the first quarter of 2010, yet valuations have actually remained flat on a consecutive basis.
- While PE players rely heavily on leverage to close deals and amplify future returns, they too have been forced to exhibit more caution on this front to ensure they don't trap portfolio companies under a mountain of debt that can become increasingly challenging to service if global growth numbers continue on the path they recently have.

# Economic Snapshot

Note: Financial figures as of 10/7/2016

Economics	Current	3 Mo Ago	6 Mo Ago	Year Ago
Unemployment	4.9%	4.9%	5.0%	5.0%
Consumer Confidence	91.20	89.80	89.00	90.00
Housing Permits (millions)	1.14	1.21	1.17	1.06
S&P/Case-Shiller 20 City	190.91	190.91	186.63	182.83
CPI	1.27%	0.84%	1.54%	0.17%

- US unemployment rate increased to 5% in September 2016, compared to 4.9% in the previous month and missing market expectations of 4.9%. It was the highest jobless rate since April, as the number of unemployed persons increased by 90,000 to 7.9 million while the labor force participation rate increased by 0.1 percentage point to 62.9%.

Equity Market	Close	Week Ago	4 Weeks Ago	Year Ago
Dow Industrials	18,240.49	18,308.15	18,085.45	17,084.49
S&P 500	2,153.74	2,168.27	2,127.81	2,014.89
NASDAQ	5,292.40	5,312.00	4,095.52	4,095.52
Dow Utilities	643.46	668.13	656.19	583.36
VIX: S&P 500 Volatility	13.48	13.29	17.50	17.08
S&P 500 Earnings / Share Projection		TTM - E		
		2016	2017	
S&P	\$	90.65	\$ 100.99	\$ 121.41
P/E Ratio (Trailing & Forward)		23.76x	21.33x	17.74x

- While projected profit declines for the third quarter are slight enough to suggest that the season could be flat or even slightly up, Goldman Sachs said in a note distributed to media Monday, several factors point to a below-average number of companies likely to post earnings surprises, which they believe may result in another quarter of earnings declines for the S&P 500 index. Goldman Sachs expects S&P 500 earnings to decline 1% on a year-over-year basis.

Economics	Last Q	1 Q Ago	2 Q Ago	3 Q Ago
GDP Growth	1.4%	1.1%	1.4%	2.0%

- The second straight advance in consumer outlays suggests Americans have been undeterred by a slowdown in hiring and weaker U.S. growth in the first three months of the year. As a result, the economy is likely to expand close to 3% in the period running from April to June, far better than the 1.1% growth rate in the first quarter.

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





# Deals from July 2016

Announced	Target (Parent)	Buyer	Comments	Press Release
7/1/16	C&W Manufacturing & Sales Co. Alvarado, TX	B12 Capital Partners; Konza Valley Capital, Inc; Mid-States Capital; UMB Capital Corp. Kansas City, MO	B12 Capital Partners, MidStates Capital L.P., Konza Valley Capital, Inc. and UMB Capital Corporation acquired majority stake in C&W Manufacturing & Sales Co on July 1, 2016.	<a href="#">Link</a>
7/1/16	Dr. Annette Grundmeier Pediatric Practice Shawnee Mission, KS	Health Partnership Clinic, Inc. Olathe, KS	Health Partnership Clinic has acquired the long established Shawnee Mission, Kan. pediatric practice of Annette M. Grundmeier, M.D. Dr. Grundmeier retired June 30.	<a href="#">Link</a>
7/5/16	Presbyterian Manors of Mid-America Inc. Kansas City, KS	The Ensign Group, Inc. Mission Viejo, CA	The Ensign Group, Inc. agreed to acquire operations and assets of Kansas City Presbyterian Manor from Presbyterian Manors of Mid-America Inc. Kansas City Presbyterian Manor will now be called Riverbend Post-Acute Rehabilitation.	<a href="#">Link</a>
7/5/16	Athalye Consulting Engineering Services, Inc. Lake Forest, CA	TranSystems Corp Kansas City, MO	TranSystems Corporation acquired Athalye Consulting Engineering Services, Inc. on July 5, 2016.	<a href="#">Link</a>
7/5/16	D.K. Shifflet & Associates McLean, VA	MMGY Global Kansas City, MO	MMGY Global has acquired D.K. Shifflet & Associates (DKSA), a leading provider of syndicated research and insights for the travel and tourism industry.	<a href="#">Link</a>
7/5/16	Hostess Brands LLC Kansas City, MO	Gores Holdings, Inc. Beverly Hills, CA	Hostess Brands, LLC announced it has entered into a definitive agreement with Gores Holdings, Inc., a special purpose acquisition company sponsored by an affiliate of The Gores Group, LLC.	<a href="#">Link</a>
7/6/16	Executive AirShare Kansas City, MO	Curran Cos. LLC Kansas City, MO	Executive AirShare announced a majority recapitalization in partnership with a group led by Kansas City-based family investment firm, Curran Companies.	<a href="#">Link</a>
7/12/16	Ingenuity Consulting Partners, Inc. Lee's Summit, MO	Speridian Technologies, LLC Albuquerque, NM	Speridian Technologies, LLC acquired an unknown stake in Ingenuity Consulting Partners, Inc. on July 12, 2016.	<a href="#">Link</a>
7/12/16	Odeon & UCI Cinemas Group (Terral Firma) London, UK	AMC Entertainment Leawood, KS	AMC Theatres announced that it has entered into a definitive agreement to acquire the largest theatre exhibitor in Europe, London-based Odeon & UCI Cinemas Group from PE firm Terra Firma.	<a href="#">Link</a>

# Deals from July 2016 cont.

Announced	Target (Parent)	Buyer	Comments	Press Release
7/21/16	Cimmiron Insurance Agency Warrensburg, MO	Mike Keith Insurance Inc. Clinton, MO	Mike Keith Insurance Inc acquired Cimmiron Insurance on July 1, 2016. Leah Gardner, employee of Cimmiron will now be working for Mike Keith. The Cimmiron building has closed and Cimmiron's clients will be served by Mike Keith.	<a href="#">Link</a>
7/21/16	AV Plus Design Leawood, KS	The Sextant Group, Inc. Pittsburg, PA	The Sextant Group Inc., a Pittsburgh-based technology consulting firm, has acquired AV Plus Design, a single-person practice based in Leawood. AV Plus Design, founded in 2006, delivers acoustics, consulting, design, planning, project management and audiovisuals across the Midwest.	<a href="#">Link</a>
7/25/16	Virtuoso, LLC Leawood, KS	AMERI Holdings, Inc. Princeton, NJ	AMERI Holdings, Inc. acquired Virtuoso L.L.C. for \$1.3 million. Under the terms of deal, AMERI will pay \$0.68 million in cash and will issue 0.1 million shares as consideration. AMERI will also pay earn out amount in cash and stock in 2016, 2017 and 2018 depending upon revenue and gross margin of Virtuoso.	<a href="#">Link</a>
7/27/16	Epiq Systems, Inc. Kansas City, KS	OMERS Private Equity; Harvest Partners LP	Epiq Systems, Inc., a leading global provider of integrated technology and services for the legal profession, announced that its shareholders have approved the acquisition of Epiq by OMERS Private Equity.	<a href="#">Link</a>
7/29/16	The Capital Corp LLC Overland Park, KS	Country Club Bank Kansas City, MO	Country Club Bank has hired the Principals of The Capital Corp LLC which has advised 175 bank and branch sales in the past 10 years, transferring more than \$8 billion in assets.	<a href="#">Link</a>
7/29/16	Beyond the Scores LLC Kansas City, MO	SportsEngine Minneapolis, MN	SportsEngine acquired Beyond The Scores. The entire Beyond The Scores team immediately joins SportsEngine and will continue supporting their 1,500 gymnastics organization customers.	<a href="#">Link</a>
7/29/16	Shick Solutions Kansas City, MO	Breteche Industrie Group Saint Germain En Laye, France	Groupe BRETECHE INDUSTRIE acquired Shick Solutions from Joe, Mark and Matt Ungashick. Bretèche Industrie will finance the acquisition of Shick through \$22.2 million credit facility and group cash reserves. Shick reported sales of \$50 million last year.	<a href="#">Link</a>
7/29/16	Associated Wholesale Grocers, Inc. Kansas City, KS	Affiliated Foods Midwest Cooperative Norfolk, NE	In a combination of retailer-owned wholesale grocery co-operatives, Associated Wholesale Grocers and Affiliated Foods Midwest said they would merge their respective distribution businesses.	<a href="#">Link</a>

# Deals from August 2016

Announced	Target (Parent)	Buyer	Comments	Press Release
8/1/16	Stationary Power Business (Ash Battery Systems, Inc.) Shawnee Mission, KS	HM Cragg Company Edina, MN	H. M. Cragg Co. acquired the assets of Stationary Power business of Ash Battery Systems, Inc. Ash Battery's Stationary Power employees will continue to operate out of their current offices in Shawnee Mission, KS, and Omaha, NE.	<a href="#">Link</a>
8/3/16	InStore Design Display Kansas City, MO	Edge Capital Holdings, Inc. Kansas City, MO	InStore Design Display (formerly National Equipment Company) has been a national and international provider of store fixtures and retail displays for more than 100 years.	<a href="#">Link</a>
8/3/16	Clear Impact Acrylics Kansas City, MO	Edge Capital Holdings, Inc. Kansas City, MO	Clear Impact Acrylics was formed in 2004 to manufacture and assemble plastic display fixtures.	<a href="#">Link</a>
8/4/16	ROC Geotechnical Consulting Engineers Rochester, NY	Terracon Consultants, Inc. Olathe, KS	Terracon Consultants, Inc. acquired ROC Geotechnical Consulting Engineers, PLLC. Terracon retained all four ROC employees.	<a href="#">Link</a>
8/9/16	Mayes Testing Engineers, Inc. Lynnwood, WA	Terracon Consultants, Inc. Olathe, KS	Terracon Consultants, Inc. acquired Mayes Testing Engineers, Inc. Terracon is retaining all 115 Mayes employees.	<a href="#">Link</a>
8/9/16	Blackbird Design Studio Kansas City, MO	Helix Architecture + Design Kansas City, MO	The Helix Architecture + Design name will continue after a planned merger with Blackbird Design Studio. The two Kansas City-based firms will consolidate in the Helix headquarters on Walnut Street in the Crossroads Arts District.	<a href="#">Link</a>
8/11/16	Olin Miller Insurance, Inc. Platte City, MO	MB & Associates, LLC Cameron, MO	MB & Associates, LLC acquired Olin Miller Insurance in July, 2016. Olin Miller and Kathryn Miller will stay with the MB & Associates, LLC.	
8/15/16	Javelin SEF LLC New York, NY	BATS Global Markets Inc. Lenexa, KS	Bats says the deal will accelerate plans to offer trading of non-deliverable forwards for the foreign exchange market. Javelin currently offers trade execution for swaps through a combination of an anonymous Limit Order Book and a Request for Quote model.	<a href="#">Link</a>
8/16/16	Produquimica Industria e Comercio Sao Paulo, Brazil	Compass Minerals International, Inc. Overland Park, KS	Compass Minerals has signed a definitive agreement to purchase a 35% stake in Produquimica Industria e Comercio. The all-cash transaction valued at approximately \$120.7 million is subject to customary post-closing adjustments.	<a href="#">Link</a>

# Deals from August 2016 cont.

Announced	Target (Parent)	Buyer	Comments	Press Release
8/16/16	Cobalt Talon (Blue Cross & Blue Shield of KC; Cobalt Ventures) Kansas City, MO	Health Lumen, LLC Austin, TX	Health Lumen LLC acquired a majority stake in Cobalt Talon LLC from Blue Cross And Blue Shield Of Kansas City, Inc. and Cobalt Ventures, LLC.	<a href="#">Link</a>
8/18/16	eBizware, Inc. Overland Park, KS	57 Society International Limited Hong Kong, China	57 Society International Limited acquired 94.7% stake in eBizware, Inc from Mark W. DeFoor for \$0.32 million. As a part of the consideration, 57 Society acquired 5 million shares at \$0.0642 per share.	
8/18/16	Nextaff, LLC Overland Park, KS	Malone Workforce Solutions Louisville, KY	Malone Workforce Solutions acquired Nextaff, LLC. Nextaff will continue to operate under the current brand and the franchise business model as a division of Malone Workforce Solutions.	<a href="#">Link</a>
8/26/16	Renwood Mills, LLC (Rosewood Private Investments; Renovo Capital, LLC) Newton, NC	Plaza Belmont Management Group; The Mennel Milling Company Shawnee Mission, KS	The Mennel Milling Company and Plaza Belmont Management Group L.L.C. acquired Renwood Mills, LLC.	<a href="#">Link</a>



# Deals from September 2016

Announced	Target (Parent)	Buyer	Comments	Press Release
9/2/16	Texas Farm, LLC (NH Foods Limited) Osaka, Japan	Seaboard Foods, LLC Shawnee Mission, KS	Seaboard Foods LLC acquired Texas Farm, LLC from NH Foods Limited. Texas Farm will cease all business operations and commence an orderly liquidation process.	<a href="#">Link</a>
9/13/16	EyeVerify (Sprint Ventures, Inc; Wells Fargo Investment Arm; 360 Capital) Kansas City, MO	Ant Financial Services Group Hangzhou, China	Ant Financial Services Group acquired EyeVerify, Inc. from Wells Fargo Startup Accelerator LLC, Sprint Ventures, Inc., Wells Fargo & Company, Investment Arm, 360 Capital and others. EyeVerify will operate as a wholly-owned subsidiary of Ant Financial and continue to be based in Kansas City.	<a href="#">Link</a>
9/13/16	Erickson Scherff LLC Overland Park, KS	Joseph Hollander & Craft LLC Wichita, KS	Joseph Hollander has merged with Erickson Scherff LLC, expanding its office locations to four — Lawrence and Topeka are the others — and bolstering its staff to 18 lawyers and 16 staff members.	<a href="#">Link</a>
9/15/16	Eduventures, Inc. Boston, MA	The National Research Center for College & University Admissions, Inc. Lee's Summit, MO	The National Research Center for College & University Admissions, Inc. acquired Eduventures, LLC.	<a href="#">Link</a>
9/26/16	Bats Global Markets Inc. Lenexa, KS	CBOE Holdings, Inc. Chicago, IL	With its \$3.2 billion planned purchase of Bats Global Markets, CBOE Holdings Inc. is seeking to hurdle two of its biggest obstacles to growth: technology and geography.	<a href="#">Link</a>
9/27/16	Sharon Brooks & Associates, Inc. Richmond, VA	GlynnDevins Overland Park, KS	GlynnDevins, Inc. acquired SB&A Integrated Marketing on. The acquisition included Brooks Adams Research, subsidiary of SB&A.	<a href="#">Link</a>
9/27/16	Chanute Operations (Orizon Aerostructures) Wichita, KS	Spirit AeroSystems Holdings, Inc. Kansas City, MO	Orizon Aerostructures Inc. entered into an agreement to acquire Chanute Operations from Spirit AeroSystems Holdings, Inc. Chanute Operations will be renamed as Orizon Aerostructures - Chanute, Inc. after the completion of the transaction.	<a href="#">Link</a>
9/27/16	Crown Web (Crown Philanthropic Solutions, Inc.) Kansas City, MO	Envision Technology Advisors, LLC Pawtucket, RI	Envision Technology Advisors, LLC acquired Crown Web from Crown Philanthropic Solutions, LLC. Crown Web will join Envision's existing website design and online communications services through their newly created Digital Innovation & Design division.	<a href="#">Link</a>
9/30/16	Epiq Systems, Inc. (Consortium of Companies) Kansas City, KS	Document Technologies, LLC Atlanta, GA	DTI entered into agreement to acquire Epiq Systems, Inc. from St. Denis J. Villere & Co., LLC, P2 Capital Master Fund I, LP, P2 Capital Master Fund VI, LP, P2 Capital Master Fund IX, L.P. funds managed by P2 Capital Partners, LLC and others for approximately \$630 million.	<a href="#">Link</a>



## Valuation Drivers

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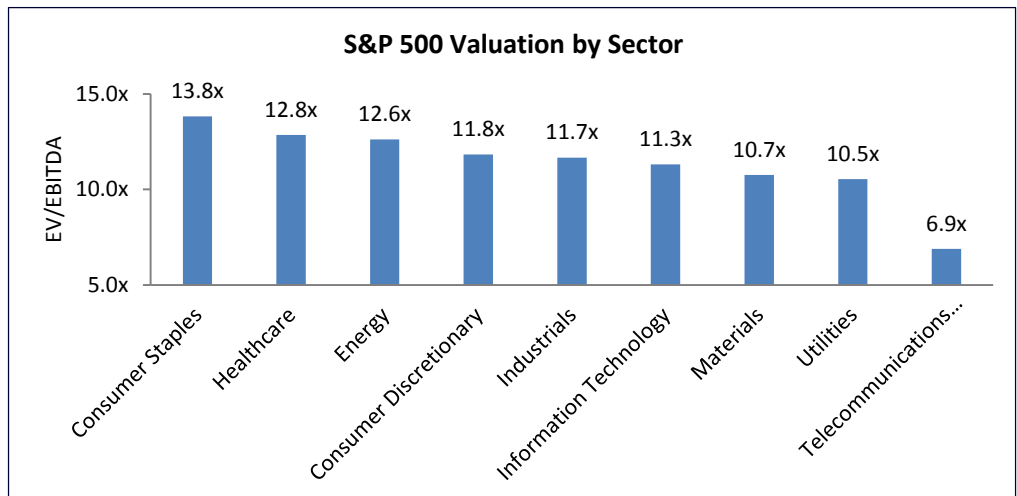
A question that private business owners often ask is, “What Enterprise Value to EBITDA multiple would apply to my company in the event of a sale?” To answer that question, without soliciting buyers, there are several considerations to take into account.

### Industry

In general, we expect that companies within one industry have comparable profitability, capital requirements and growth prospects. As an example, it should come as no surprise that a biotech company would likely be more valuable than a steelmaker of equal size. Biotech companies demonstrate high profitability, low capital requirements, high growth and are secular in relation to economic cycles. On the flip side, steelmakers generally have low profitability, high capital requirements, low growth prospects and are cyclical with the economy. If a company exhibits the characteristics of its industry as a whole, it can be easily compared to the values of publicly traded stocks within the same industry. A comparison of EBITDA multiples by sector for companies included in the S&P 500 is below.

### Size

A smaller M&A transaction often requires just as much, if not more, effort to complete than a larger deal. For middle market deals, we often see a larger buyer universe for a company with at least \$3M of EBITDA than one with less than \$3M EBITDA.



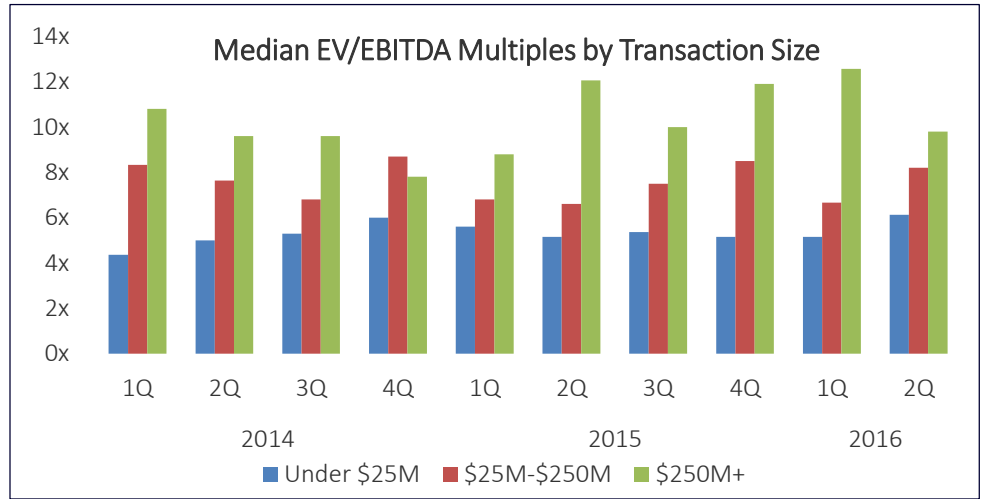
Source: CCCA Research

The number of potential buyers increase more at the \$5M EBITDA threshold and still more at the \$10M mark. Financial buyers have stated criteria to meet investment objectives, which typically includes a minimum size threshold. Likewise, strategic buyers understand that the execution and integration of acquisitions can be time intensive and costly so preference is often given to larger targets that will maximize potential synergies and return on investment.

# Valuation Drivers

By: Stephanie Siders

The chart to the right illustrates the impact of transaction size on valuation multiples. The median EBITDA multiple over the last 18 quarters is 5.2x for transactions valued less than \$25M; 7.6x for transactions with values between \$25M and \$250M; and 9.9x for transactions valued over \$250M.

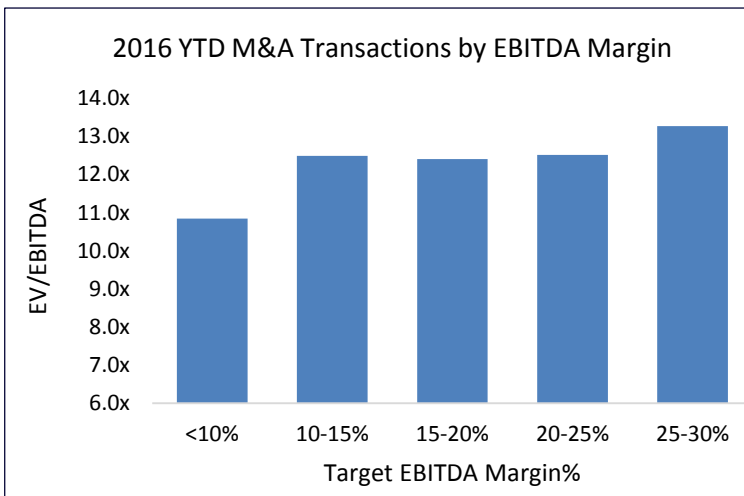


Source: Pitchbook

## Profitability & Cash Flow

One of the best value indicators for a potential buyer evaluating a target company is profitability and cash flow conversion. A company with a 25% EBITDA Margin (EBITDA/Revenue) will be valued at a premium to a similar company with a 10% EBITDA Margin. EBITDA is used as a proxy for cash flow to a buyer, so higher margins generally indicate higher cash flow.

However, to get a better indication of a company's ability to convert revenue to cash, capital requirements must be considered as well. For example, a company with \$20M of revenue and \$4M of EBITDA has a strong EBITDA Margin of 20%; however, if the company requires \$4M of investment in machinery, equipment and working capital each year to maintain growth, then the owner is not receiving much, if any, free cash flow.



## Other factors

Some valuation drivers are less quantifiable from an overall valuation approach. These may include a high-caliber management team, advanced technological capabilities, intellectual property, or a premium customer base, any of which may drive a company's performance and future prospects and generate a premium in a sale process.



**John  
Hense**

**Stephanie  
Siders**

**Julian  
Buegers**

**Mike  
Lierz**

**Terry  
Christenberry**

**Bill  
Conway**

**Chris  
Brito**

**Jill  
Mortensen**

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### RECENT NEWS:



The Principals of The Capital Corporation LLC have joined Country Club Bank, expanding the bank's current merger and acquisition group, CC Capital Advisors. The Capital Corporation specializes in the merger and acquisition of financial institutions and is the leading bank M&A consulting firm in the central United States. The combined business of The Capital Corporation and CCCA will result in an overall M&A lineup of eleven professionals with, collectively, nearly 300 transactions consummated.

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