

# Midwest M&A Quarterly Update

*Second Quarter 2016*

# Midwest M&A Quarterly Update

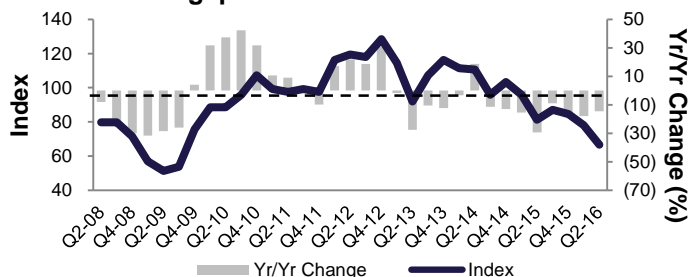
## Bridgepoint Midwest M&A Index

### Midwest M&A: Limited Supply of Good Deals, Valuations Still High

**Index Summary:** The Bridgepoint Midwest M&A Index, a measure of corporate merger and acquisition activity in the U.S. Midwest region, decreased by 14.5% in Q2-16 after having decreased 7.8% in Q1-16. On a year-over-year basis, the index decreased 14.6% from Q2-15. On a quarter-to-quarter absolute basis, the index fell to 66.7 from 78.0 in Q1-16 (Q3-06=100), its lowest level since Q4-09

**Perspective / Key Drivers:** In the latest quarter, the index dropped 11.3 points below its Q1-16 level. Despite the decline, valuations remain strong and have continued to improve from record levels set in several sectors in 2015. While 2015 was a record year for M&A, 2016 is shaping up to be one of the worst years in terms of Midwest transaction volume since 2008. Q2-16 transaction volume was in line with Midwest middle market deal making in Q1-16. Some surmise that this overall decline in volume may be due to the high valuations – creating a valuation gap between sellers and prudent buyers. Others say that this is the result of the current market volatility and

Bridgepoint Midwest M&A Index<sup>(a)</sup>



uncertainty caused by the amount of broken deals this year and recent events like Britain voting to leave European Union and the US election...

Despite the ongoing uncertainty and recent market conditions, we expect the rest of 2016 middle market M&A deal flow to remain relatively strong and have seen a recent uptrend in activity. The availability of low-cost capital to finance acquisitions and healthy corporate balance sheets will help support a healthy M&A environment.

## Conversations with the Buy-side

*"The buy side remains a bit challenging of late with lots of capital in the market helping to push valuations ever higher...it's a good time to be a seller. We anticipated the market to normalize a bit with the middle market debt markets tightening a bit, but as of yet that has not occurred. We are still seeing high valuations in industrial sectors that historically were selling in the 4 to 5x EBITDA. They now trade in the upper 6s and 7s as a multiple of EBITDA, with a few even approaching 8 times.*

*Part of the flood of capital into the US market is directly attributable to the instability occurring in the rest of the world. We are competing directly in some cases with capital groups from China and Eastern Europe looking for safe havens in US manufacturing businesses. They are often willing to over pay in these type of transactions.*

*There are lots of broken transaction processes of late. Many firms bid for assets at multiples at which a year or even 6 months ago they would not have had issues with debt support. As their offers are accepted and they move through the due diligence and debt support process, there are many instances where the debt providers are changing their terms/support rather aggressively and at the last minute. This often leaves some GP's in situations where they would need to put too much of their own equity at risk and as such they end up breaking the closing process."*

Dan Needham  
Wynchurch Capital  
Chicago, IL

### Index Definition

(a) Q3-06 = 100. As defined by Bridgepoint Merchant Banking, the Bridgepoint Midwest M&A Index is assembled by summing the number of transactions (for transactions that meet the Transaction Requirements below, as sorted by announced date) announced over the latest two quarters. Year-over-year and quarter-over-quarter percent change is calculated and then applied to the index number for the previous applicable period.

### Transaction Requirements

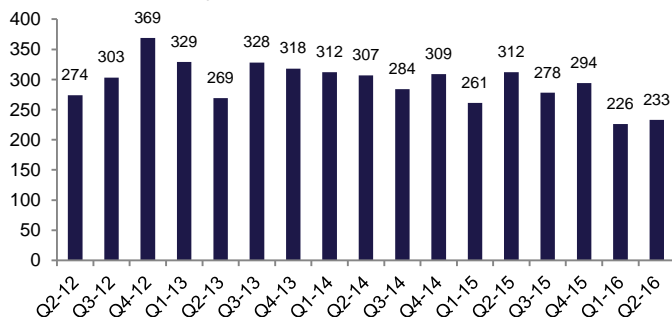
Buyer, target and/or seller must be located in the Midwest, and the Midwest participant must have purchased or sold majority control. Total Enterprise Value must be \$10mm or greater. Midwest defined as Iowa, Kansas, Missouri, Nebraska, North Dakota, Oklahoma, and South Dakota.

Source: Bridgepoint Merchant Banking, Capital IQ (7/19/2016), PitchBook

# Midwest M&A Quarterly Update

## Selected Midwest Q2-16 M&A Transaction Statistics<sup>(b)</sup>

Quarterly Midwest M&A Transaction Volume



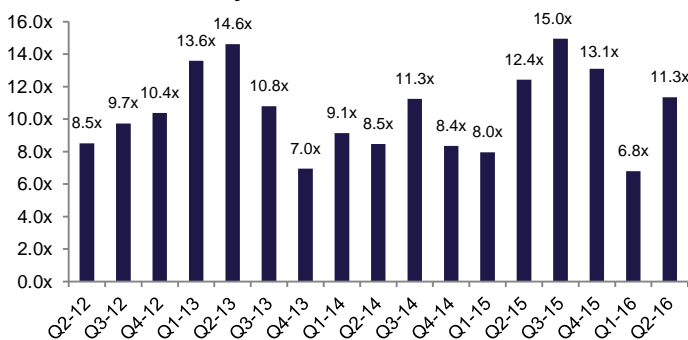
- Quarterly Midwest M&A volume increased by 3.1% from 226 transactions in Q1-16 to 233 transactions in Q2-16. On a year-over-year basis, quarterly Midwest M&A volume decreased by 25.3% from Q2-15. Despite the slight increase, quarterly transaction volumes in 2016 remain near levels unseen since Q1-10
- M&A demand persists but remains inhibited by a quality supply base, similar to characteristics observed in Q1-16

Quarterly Midwest M&A Median Deal Size



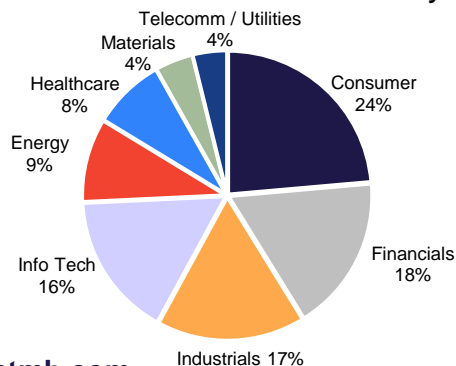
- Of the Midwest M&A transactions with transaction values, quarterly median deal size increased from \$30.2mm in Q1-16 to \$36.8mm in Q2-16
- Despite low YTD transaction volumes, median transaction values remain strong, increasing in Q2-16 and exceeding Q3-15 highs. Buyers remain patient; willing to pay premium valuations given the right opportunity
- Deal sizes remain elevated compared to historical periods and consistent with the recent trends in the overall deal market

Quarterly Midwest M&A Median Valuation



- On a TEV/EBITDA basis, median Midwest M&A valuations increased from 6.8x in Q1-16 to 11.3x in Q2-16. The decline in Q1-16 can partially be attributed to a lack of reported data for the quarter. We believe Q2-16 multiples are more representative of transaction multiples observed in the broader market
- Lower middle market multiples in the Midwest remain above historical average figures of approximately 7.0x – 8.5x EBITDA, but lower than recent highs in late 2015

Q2-16 Midwest M&A Transaction Volume by Sector



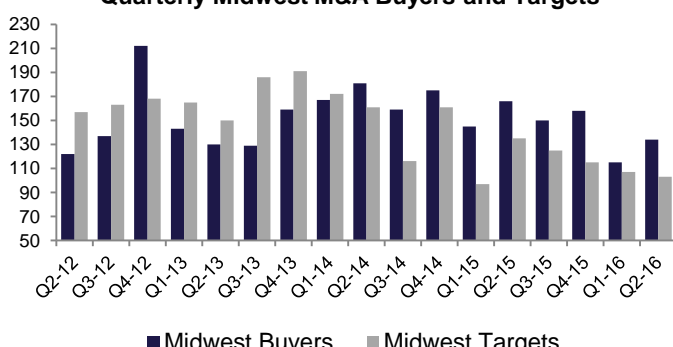
- Consumer Products & Services, Financial Services, and Industrials accounted for 59% of total Midwest M&A transaction volume in Q2-16
- Transaction volume share by sector in Q2-16 was moderately unchanged relative to Q1-16. The Info Tech sector saw the biggest increase in Q2-16, up 8.8% from Q1-16. The Financials sector saw the biggest decrease, down 6.3%



# Midwest M&A Quarterly Update

## Selected Midwest Q2-16 M&A Transaction Statistics (Continued)<sup>(b)</sup>

Quarterly Midwest M&A Buyers and Targets



- Transactions with Midwest buyers increased 15.6% from 115 in Q1-16 to 133 in Q2-16, the lowest level since Q2-12
- Transactions with Midwest targets decreased 4.7% from 107 in Q1-16 to 102 in Q2-16
- Targets decreased only slightly while volatility forced buyers to show more discretion in their acquisition selections. Midwest buyers continue to outpace available targets regionally, a trend persistent since Q1-14

## Selected Midwest Q2-16 M&A Transactions<sup>(b)</sup>

Announced	Target	Target Location	Buyer	Buyer Location	Target Sector	TEV (\$mm)
06/28/2016	Dakota Prairie Refining, LLC	ND	WBI Energy, Inc.	ND	Energy	\$28.5
06/20/2016	PayRock Energy, LLC	OK	Marathon Oil Corporation (NYSE:MRO)	TX	Energy	888.0
06/14/2016	DST Systems Inc., NA Customer Communications Business	MO	Broadridge Investor Communications Corporation; Broadridge Output Solutions, Inc.	NJ	Industrials	410.0
06/12/2016	Abengoa Bioenergy of Nebraska, LLC	NE	KAAPA Ethanol Holdings LLC	NE	Energy	115.0
06/12/2016	Abengoa Bioenergy Company, LLC, Ethanol Production Facility	MO	BioUrja Trading LLC	TX	Materials	45.0
06/06/2016	Whale Interests LLC, Data Center	DC	QTS Realty Trust, Inc. (NYSE:QTS)	KS	Info Tech	125.0
05/31/2016	Westar Energy, Inc. (NYSE:WR)	KS	Great Plains Energy Incorporated (NYSE:GXP)	MO	Utilities	12,193.8
05/23/2016	Conagra Foods Food Ingredients Company, Inc.	NE	Givaudan SA (SWX:GIVN)	Switzerland	Consumer	340.0
05/23/2016	Community State Bank	IA	QCR Holdings Inc. (NasdaqGM:QCRH)	IL	Financials	80.0
05/18/2016	Monsanto Company (NYSE:MON)	MO	Bayer AG (DB:BAYN)	Germany	Materials	65,135.6
05/17/2016	Herndon Aerospace & Defense Company	MO	KLX Inc. (NasdaqGS:KLXI)	FL	Industrials	210.0
05/13/2016	Great Plains Manufacturing, Incorporated	KS	Kubota U.S.A. Inc.	IA	Industrials	430.0
05/12/2016	The Climate Control Group, Inc.	OK	NIBE Energy Systems Inc.	Sweden	Industrials	364.0
05/05/2016	Chesapeake Energy Corporation, Certain Assets	OK	Newfield Exploration Co. (NYSE:NFX)	TX	Energy	470.0
05/05/2016	EdenIQ Inc.	NE	Aemetis, Inc. (NasdaqGM:AMTX)	CA	Energy	22.8
05/03/2016	Heartland Telecommunications Company Of Iowa Inc.	IA	Winnebago Cooperative Telecom Association	IA	Telecom. Services	22.5
04/28/2016	Store Financial Services, LLC	KS	Emerchants Limited (ASX:EML)	Australia	Info Tech	37.0
04/27/2016	Advanced Processing & Imaging, Inc.	FL	Marex Group, Inc.	NE	Info Tech	4.8
04/26/2016	EnergySouth, Inc.	AL	Spire Inc. (NYSE:SR)	MO	Utilities	390.0
04/19/2016	Sheehan Pipe Line Construction Company	OK	Ritchie Bros. Auctioneers (America), Inc.	Canada	Industrials	29.5
04/04/2016	Aurionpro Solutions, Inc., IT Services Business in USA	CA	Saicon Consultants, Inc.	KS	Info Tech	10.0

(b) Midwest defined as Iowa, Kansas, Missouri, Nebraska, North Dakota, Oklahoma and South Dakota. Either buyer, target, or seller must be located in the Midwest, and the Midwest participant must have purchased or sold majority control.

Source: Bridgepoint Merchant Banking, Capital IQ

# Midwest M&A Quarterly Update

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## About Bridgepoint Merchant Banking

Bridgepoint Merchant Banking, a Division of Bridgepoint Holdings, LLC, is a lower and middle market investment banking firm that serves clients throughout the corporate lifecycle by providing merger and acquisition and corporate finance advisory services.

With more than 94+ years of cumulative experience, Bridgepoint Merchant Banking professionals have completed over \$110 billion of merger and acquisition and capital raising transactions across a wide range of industries.

When considering a sale of your business, the acquisition of a business, and/or raising capital for a business or transaction, the Principals of Bridgepoint Merchant Banking, through our broker dealer relationship, can help you to achieve your personal and business goals. Our specialized expertise helps our clients achieve better value, identify better transaction partners, reach smarter decisions and negotiate more favorable outcomes. Please reach out to us at the contact information above to discuss how we can help you.

## Selected Bridgepoint Merchant Banking Transactions

<p><b>USD1.9 million</b> Convertible Debt and Preferred Equity Placement</p> <p>Sole Financial Advisor</p>	<p><b>NOT DISCLOSED</b> Buy-side advisory on its potential acquisition of publicly traded technology services company and related acquisition financing</p> <p>Sole Financial Advisor</p>	<p><b>NOT DISCLOSED</b> Sell-side Advisor and Buy-side acquisition financing</p> <p>Sole Financial Advisor</p>	<p><b>USD1.0 million</b> Follow-on equity offering</p> <p>Senior Co-Manager</p>	<p><b>USD300 million</b> Joint Bookrunner and Joint Arranger for new revolving credit facility and senior note offering</p> <p>Bookrunner</p>	<p><b>USD200 million</b> Exit financing facilities</p> <p>Joint Bookrunner</p>	<p><b>USD3.0 billion</b> Joint Bookrunner on senior notes offering</p> <p>Joint Bookrunner</p>	<p><b>USD300 million</b> Secondary equity offering</p> <p>Joint Lead Bookrunner</p>	<p><b>USD200 million</b> Bridgepoint Monroe Capital Investors, LLLP</p> <p>Lead Bookrunner &amp; Sole Financial Advisor</p>
<p><b>GOOD YEAR</b></p> <p><b>USD1.9 billion</b> Senior secured credit facilities</p> <p>Joint Bookrunner</p>	<p><b>THE CORPUS GROUP</b></p> <p><b>USD1.17 billion</b> Buy-side Advisor to private equity consortium on its acquisition Coogen Standard Automotive</p> <p>Sole Financial Advisor</p>	<p><b>INTEGRITY'S</b></p> <p><b>Not Disclosed</b> Buy-side advisory and acquisition financing for management buyout</p> <p>Sole Financial Advisor</p>	<p><b>VALUE PLACE</b></p> <p><b>USD5.1 million</b> Secured Promissory offering</p> <p>Lead Bookrunner</p>	<p><b>H&amp;H AUTOMOTIVE</b></p> <p><b>Not Disclosed</b> Buy-side advisory on acquisition of selected Auto Dealerships</p> <p>Sole Financial Advisor</p>	<p><b>USDCOMMERCE</b></p> <p><b>USD10 million+</b> Preferred stock offering</p> <p>Joint Bookrunner</p>	<p><b>KOCH INDUSTRIES INC</b></p> <p><b>USD20 billion</b> Joint Lead Arranger for the financing supporting Koch's acquisition of Georgia Pacific</p> <p>Joint Lead Arranger</p>	<p><b>Constar's redbox</b></p> <p><b>USD200 million</b> Convertible notes offering</p> <p>Joint Bookrunner</p>	
<p><b>SARI TEC</b></p> <p><b>SD1.2 billion</b> Buy-side Advisor to Asahi Tec (Chinese automotive supplier) on its acquisition of N.A. automotive supplier</p> <p>Financial Advisor</p>	<p><b>LKQ</b></p> <p><b>USD765 million</b> Senior secured credit facilities (financing for LKQ's acquisition of top competitor)</p> <p>Joint Bookrunner</p>	<p><b>BirdDog</b></p> <p><b>Not Disclosed</b> Equity Capital Raise</p> <p>Sole Bookrunner June 2014</p>	<p><b>T-STONE</b></p> <p><b>USD10 million</b> Senior on senior</p> <p>Joint Bookrunner</p>	<p><b>METLCAST PRODUCTS, INC.</b></p> <p><b>Not Disclosed</b> Buy-side advisory and financing on acquisition of metal foundry</p> <p>Sole Financial Advisor &amp; Sole Financing Arranger</p>	<p><b>Powderhook</b></p> <p><b>Not Disclosed</b> Unsecured Promissory Note</p> <p>Financial Advisory</p>	<p><b>ScanMed</b></p> <p><b>Not Disclosed</b> M&amp;A advisory</p> <p>Sole Financial Advisor</p>		
<b>WCC</b>	<b>YORK LABEL</b>	<b>Hertz</b>	<b>Wantowoc</b>	<b>IWCODIRECT</b>	<b>SOHO DEVELOPMENT</b>	<b>ACCURIDE</b>	<b>KamDham</b>	<b>NAVTEQ</b>

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