

# Current Hot Topics in Mergers & Acquisition



September 2019



A low-angle, black and white photograph of several modern skyscrapers reaching towards a bright sky. The perspective creates a sense of height and architectural grandeur. The buildings are composed of glass and steel, with their facades reflecting the sky.

# Wipfli Corporate Finance Advisors Overview



# WCF Advisors LLC: Part of the Wipfli LLP Umbrella

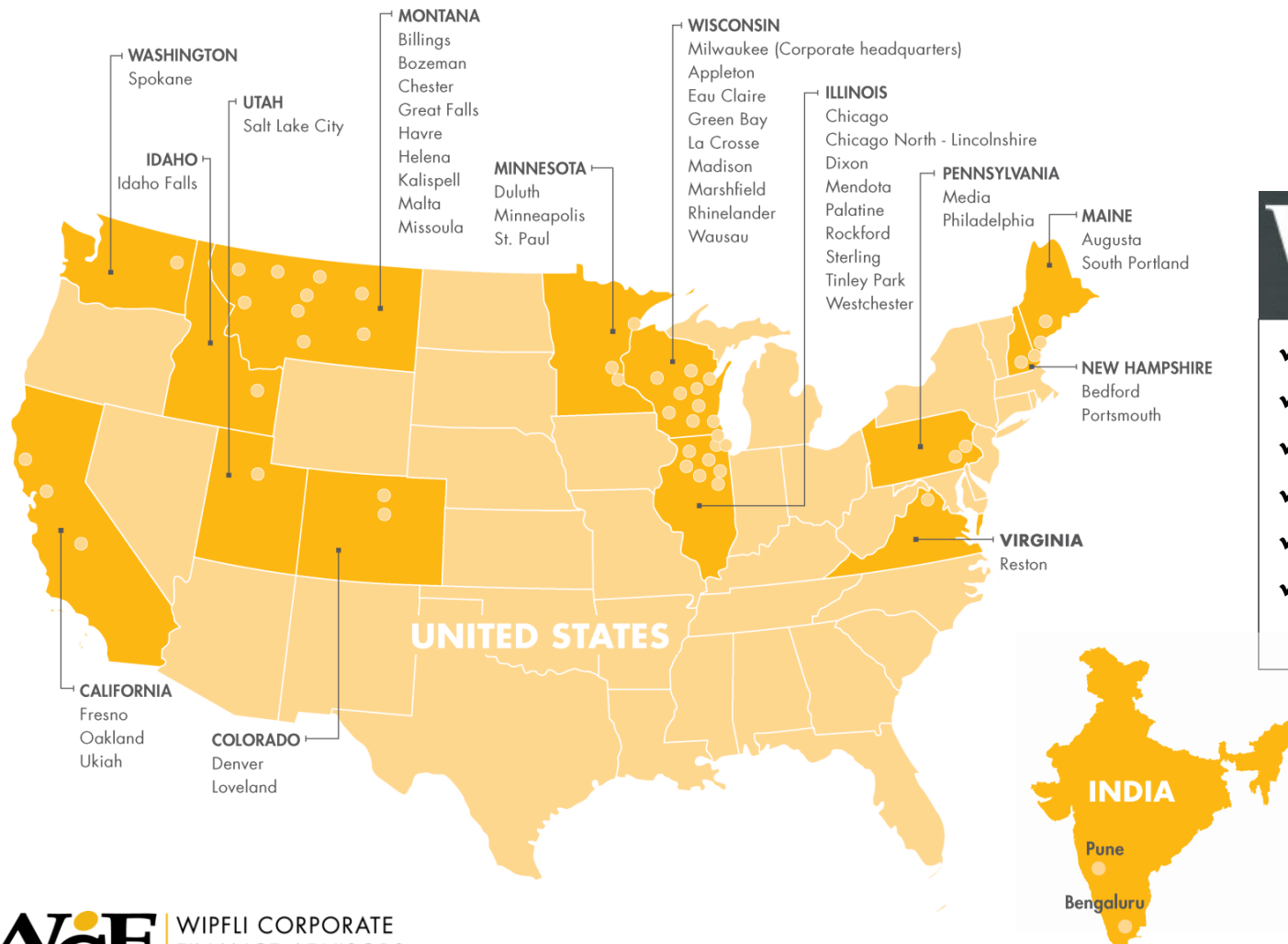
***WCF Advisors LLC (“WCF”) is the Investment Banking and Corporate Finance arm of Wipfli LLP, an 80 year-old CPA and Consulting firm based in the upper Midwest.***

- \$375+ million of revenue and over 60,000 clients
- 200+ partners across six industry groups and ten service lines

<b>Audit &amp; Accounting</b> Audit, review & compilation Financial reporting & cost accounting systems Internal audits	<b>Tax</b> Full suite of planning, compliance & audit assistance Specific tax incentives: R&D credit, Cost segregation, etc.	<b>WCF Advisors LLC</b> M&A advisory services Capital raising services Financial advisory services	<b>Valuation, Forensic &amp; Litigation Services</b> Transaction support / due diligence Fraud, forensic & litigation support Financial reporting valuations Projections & forecasts	<b>Wealth Management</b> Personal and private tax and financial planning for individuals Professional fee-only advisor
<b>Risk Management</b> Business continuity planning Construction & contract audit WipfliWatch line Risk assessment Compliance consulting SAS 70 Other	<b>Business Advisory Services</b> Strategy & growth consulting Operations & organization consulting Start-up business services Outsourced accounting personnel Other	<b>HR Consulting</b> Human resource review Personnel selection Compensation system design Retirement and benefits planning Management development Other	<b>IT Consulting</b> Industry ERP Solutions CRM, Workflow, Collaboration, Analytics Custom Applications and Web Development Technology Management and Support	<b>Employee Benefit Services</b> Record keeping IRS and DOL compliance Plan audit services Investment advisory Plan design & documents Other



# Wipfli LLP: Extensive Reach



**WIPFLI** LLP  
CPAs and Consultants

- ✓ 228 Partners
- ✓ 2,000+ associates
- ✓ 45 U.S. offices
- ✓ 2 India offices
- ✓ 60,000+ clients
- ✓ \$375+ million revenue



# WCF Overview

***We offer a full suite of transaction and advisory services to middle market companies and capital providers***

## Target Market

Profitable middle market companies

- \$10 - \$500 million in revenue
- Cash flow positive (\$1 million of EBITDA or greater)

Primarily core sectors (manufacturing, distribution, business services, etc.)

## Corporate Finance Services

### Merger & Acquisition:

**\$10-\$500 million EV**

Business unit and company sales

Acquisitions - searches,  
structuring, due diligence

Mergers

Management buyouts

### Capital Raising:

**\$5-\$150 million TV**

Senior debt

Sub/Mezzanine debt

Equity

### Financial Advisory Services:

Strategic M&A Planning for  
Sellers & Buyers

Optimal Capital Structure  
Analysis

Strategic Funding Plans

Business Valuation Services

Transition Planning

Strategic Business Planning



# The WCF Team

## Leadership Team

Robert Meyer  
*Managing Director,  
Investment Banking*

*Chicago, IL*

*312-801-5318 office  
312-489-3030 mobile*

Karen Monfre  
*Managing Director*

*Green Bay, WI  
Industry Generalist*

*920-662-2802 office  
920-609-3657 mobile*

Kevin Janke  
*Managing Director*

*Wausau, WI  
FI Specialty*

*715-845-3111 office  
715-571-1340 mobile*

## Supporting Team

Paul Ouweneel  
*Vice President*

*Milwaukee, WI*

*414-431-9387 office  
262-894-5855 mobile*

Zach Masserant  
*Associate*

*Chicago, IL*

*312-205-0948 office  
248-946-1407 mobile*

Cameron Karlen  
*Associate*

*Milwaukee, WI*

*414-431-9381 office  
920-422-0951 mobile*

Holly Kuffel  
*Associate*

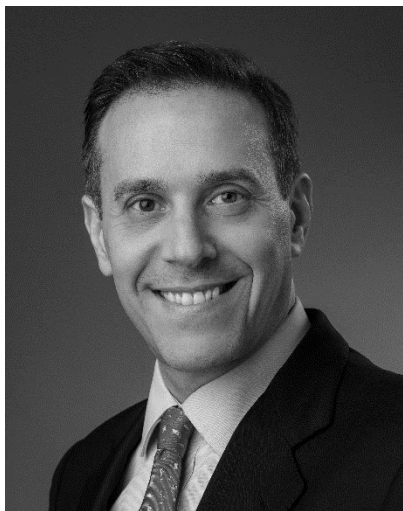
*Milwaukee, WI*

*414-290-8042 office  
920-615-5696 mobile*



# Robert Meyer

## *Managing Director*



### ***Senior Investment Banking Professional with capital raising and M&A experience across all phases of a company's lifecycle***

Leveraging over 20 years of experience in investment banking, Robert has advised on numerous M&A and financing transactions across many industry verticals with entities of all sizes. Robert is sought after for his vast experience in many aspects of corporate finance including mergers and acquisitions, private equity, commercial lending, corporate development, and internal finance. He has served as a CFO, which enables him to have a thorough understanding of a client's most important considerations

#### **Areas of Focus:**

- Merger and Acquisition Advisory (Sell side)
- Merger and Acquisition Advisory (Buy side)
- Equity capital raising
- Debt capital raising

#### **University of Chicago, Booth School of Business**

- Master of Business Administration (MBA) degree - Graduated with honors

#### **University of Michigan, Ross School of Business**

- Bachelor of Business Administration (BBA) degree – Graduated with distinction



# Karen Monfre

## *Managing Director*



### ***Senior Corporate Finance Professional with over 30 years of transactional experience.***

- Over past 30 years advised on numerous transactions across multiple sectors with a concentration in manufacturing and distribution.
- Highly sought after consultant and advisor with a loyal client following in the Midwest
- Designations:
  - FINRA Series 63 and Series 79 license holder
  - Certified Public Accountant
  - Certified financial planner (inactive)
  - Accredited by the American Society of Appraisers as a senior appraiser

#### **University of Wisconsin-Madison**

- Bachelor of Business Administration (MBA) degree – Accounting and Computer Information Systems



# Paul Ouweneel

## *Vice President*



### ***Investment banking professional with over 13 years of M&A and related experience.***

Paul has spent over 13 years assisting clients in selling their privately owned business or helping them expand through acquisition. Paul's time is spent exclusively executing sell-side merger and acquisition advisory, buy-side merger and acquisition advisory, valuation, and related engagements. Paul is highly sought after for his intense client focus and technical skills.

- Designations:
  - FINRA Series 63 and Series 79 license holder
  - Chartered Financial Analyst (CFA)
  - Certified Public Accountant (CPA)
  - Certified Financial Planner™ Professional

#### **University of Wisconsin-Whitewater**

- Master of Professional Accountancy – Emphasis in Finance
- Bachelor of Business Administration (BBA) degree – Accounting





# M&A Update



# M&A Update

***Valuations remain near all time highs, with significant demand for quality businesses.***

## Significant Capital Looking for Deals

- Over \$1.77 trillion of cash on corporate balance sheets
- Private equity fundraising remains robust with over \$190 billion raised last year
- Proliferation of roll up strategies – looking deeper for opportunities

## Stable Macroeconomic Conditions

- Public markets continue to show resiliency into Q3 2019
- Private market sentiment generally less volatile than public markets, but correlated
- Optimistic middle market business growth forecasts for 2019

## Relatively Strong Debt Markets

- Banks are still aggressive, but beginning to scrutinize deals more closely
- Rates remain near historic lows
- Proliferation of non-bank lenders
- Subordinate debt aggressively looking to be deployed

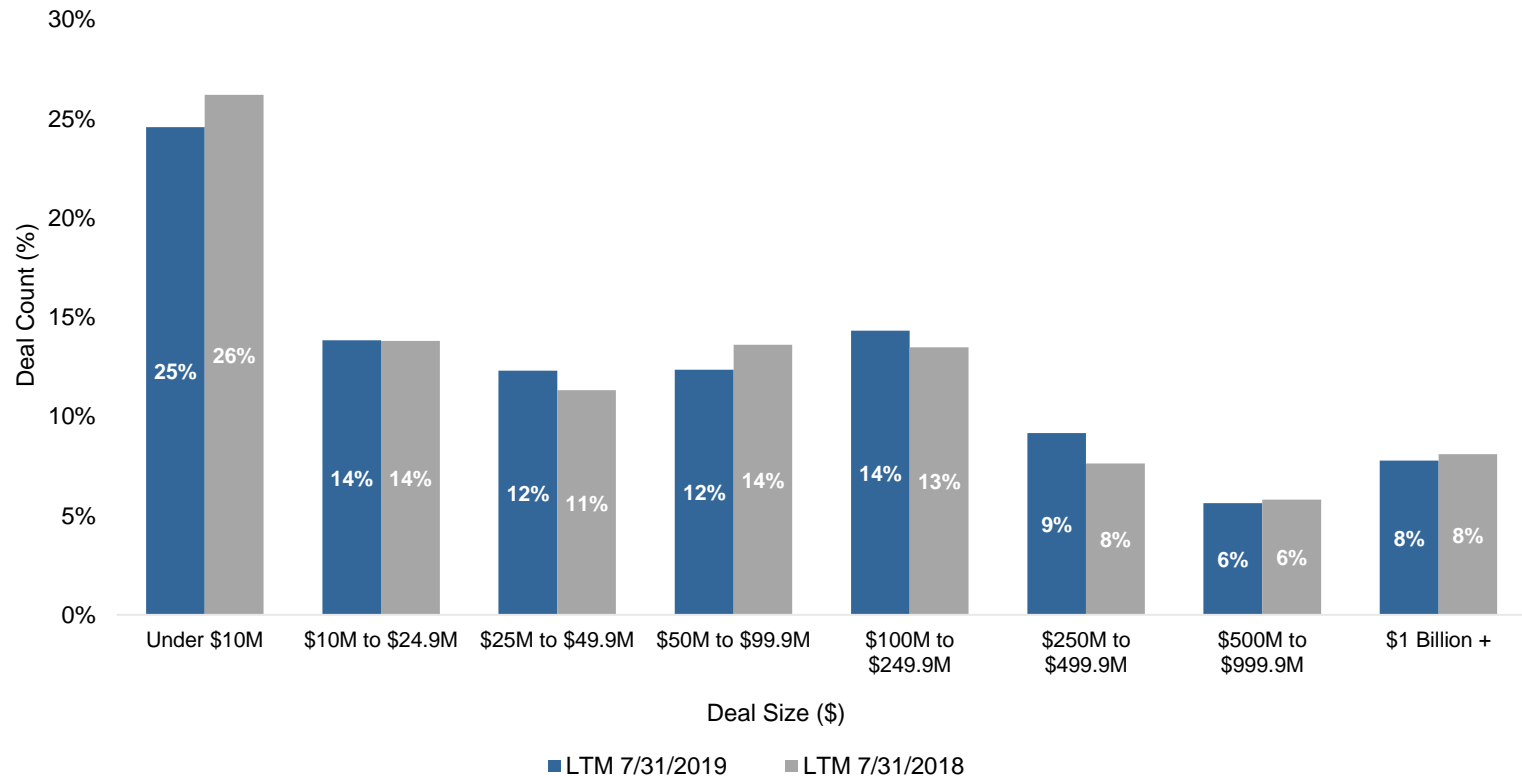
## Multiples are High

- Multiples are near historical highs for the middle market
- Strong demand for companies with above average financial performance and quality management teams
- Sellers are getting more comfortable going to market



# M&A Update

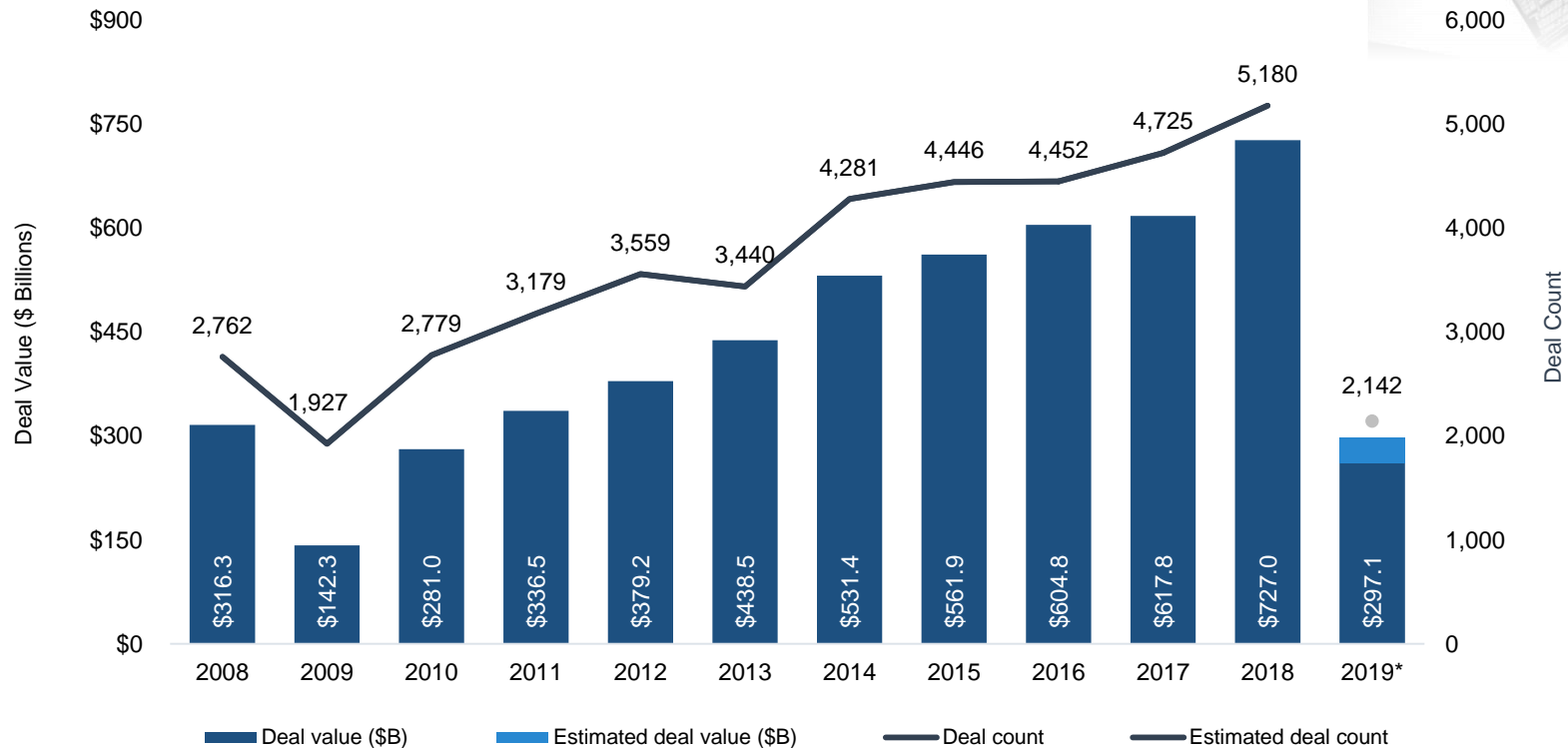
***Strategic acquirers continue to exhibit a strong appetite for deals below \$25 million.***





# M&A Update

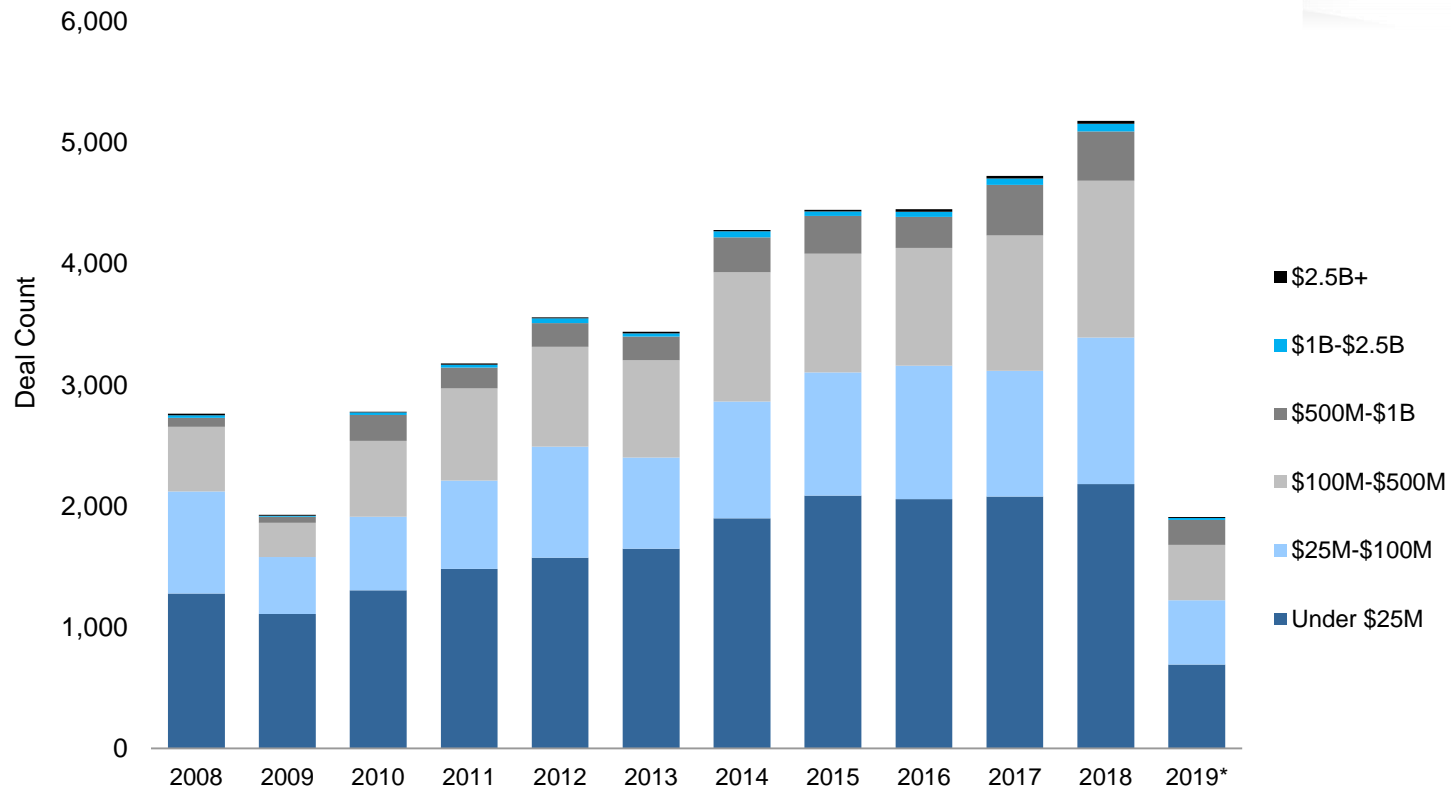
*Private equity deal activity continues to remain at cycle highs.*





# M&A Update

***The ability to earn higher risk-adjusted returns has resulted in increased private equity deal activity for companies with enterprises values under \$25 million.***





# M&A Update

*Enterprise value multiples remain resilient, near cycle highs across all deal sizes.*

TEV	2003 - 2014	2015	2016	2017	2018	YTD 2019	Total	N =
10-25	5.5	5.9	5.8	6.3	5.9	6.4	5.7	1,272
25-50	6.2	6.6	6.4	6.6	6.9	7.1	6.3	964
50-100	6.7	7.8	7.2	8.2	8.9	7.2	7.2	664
100-250	7.3	9	8.9	9.1	8.8	9.3	8.0	331
Total	6.1	6.7	6.7	7.3	7.3	7.2	6.4	
N =	2,111	245	235	253	261	126		3,231



# M&A Update

*Buyers are willing to pay up for above-average<sup>(1)</sup> performing companies.*

## TEV/EBITDA - Buyouts with Above-Average Financial Characteristics

	2003 -					YTD		
TEV	2014	2015	2016	2017	2018	2019	Total	N =
10-25	5.5	6.1	5.8	6.7	6.3	7.0	5.8	577
25-50	6.3	7.0	6.7	7.0	7.4	7.3	6.5	476
50-100	6.8	8.6	7.7	8.6	9.7	7.5	7.5	344
100-250	7.7	10.0	9.7	9.7	8.9	9.8	8.7	170
Total	6.2	7.3	7.2	7.8	7.9	7.6	6.7	
N =	996	122	116	130	140	63		1,567

(1) Above averaged defined by GF Data as companies have both revenue growth rates and TTM EBITDA margins above 10% or one above 12% and the other metric above 8%.



# M&A Update



***Industry will affect multiple with less-cyclical and/or higher growth industries commanding a premium.***

## TEV/EBITDA - By Industry Category

Industry	2003 -					YTD	Total	N =
	2014	2015	2016	2017	2018	2019		
Manufacturing	5.9	6.6	6.1	6.8	7.0	6.7	6.1	1,372
Business Services	6.1	6.4	7.3	7.5	7.1	7.5	6.5	632
Health Care Services	6.8	7.7	7.6	8.1	7.8	7.6	7.2	308
Retail	6.4	5.5	7.0	7.6	7.0	9.2	6.6	99
Distribution	6.1	6.7	7.5	7.7	7.1	7.0	6.5	323
Media & Telecom	7.2	6.4	6.6	8.2	8.6	NA	7.2	50
Technology	6.8	8.0	7.4	10.2	9.6	10.8	7.8	105
Other	5.8	5.6	6.9	6.5	7.1	6.1	6.1	342

N =

3,231





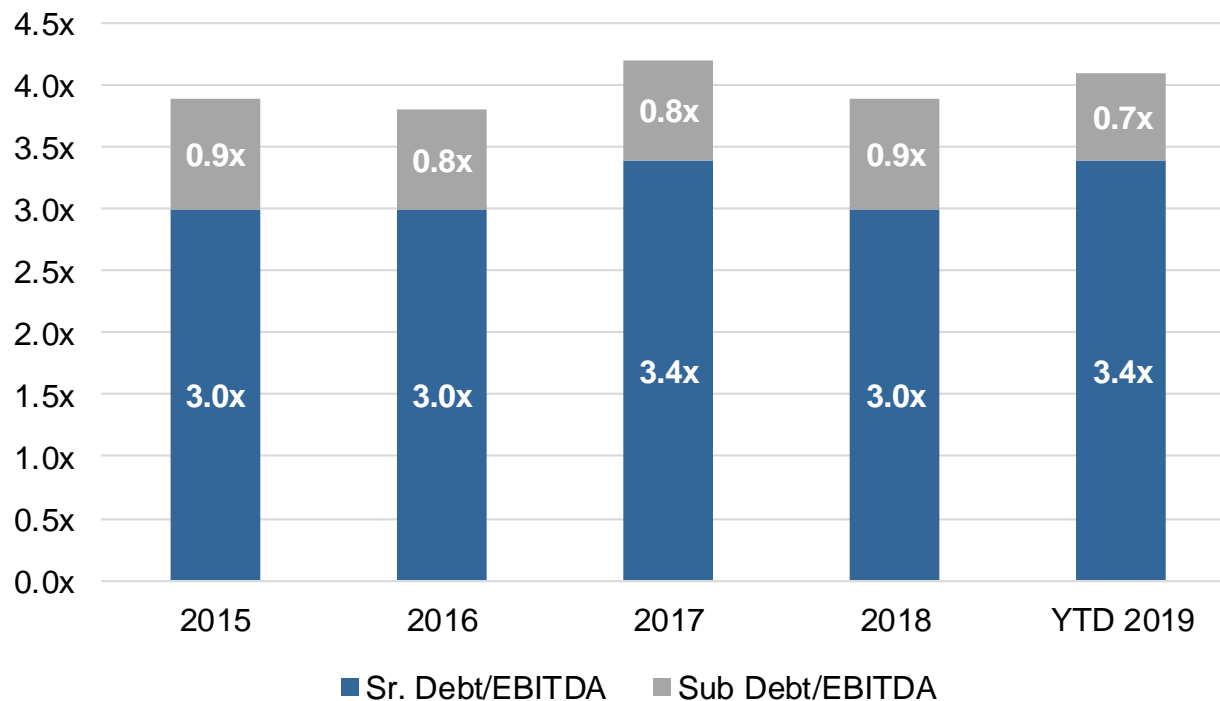
# Leverage Update



# Leverage Update

*Strong appetite on the part of lenders continues to support leverage multiples.*

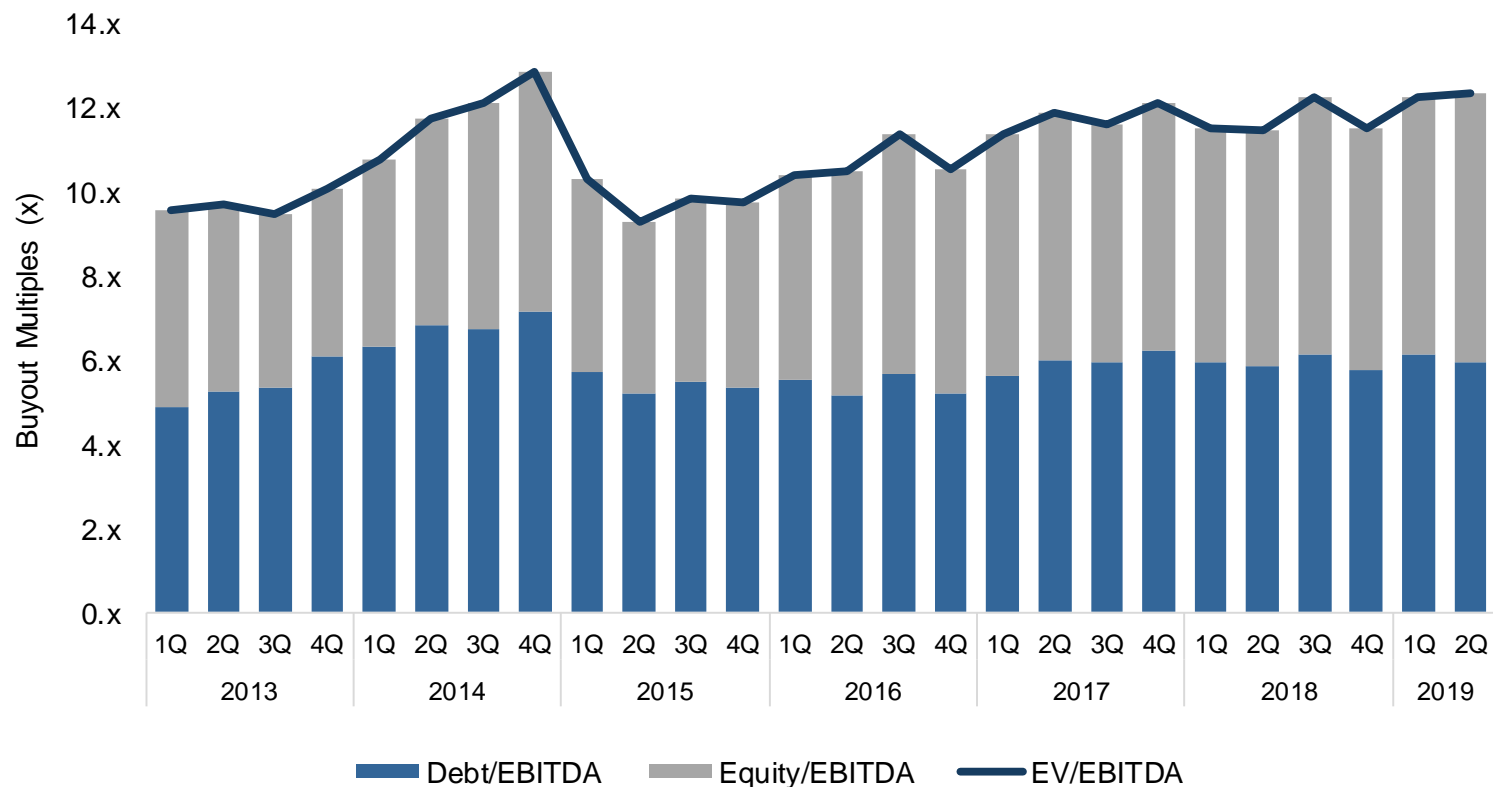
Debt Multiples





# Leverage Update

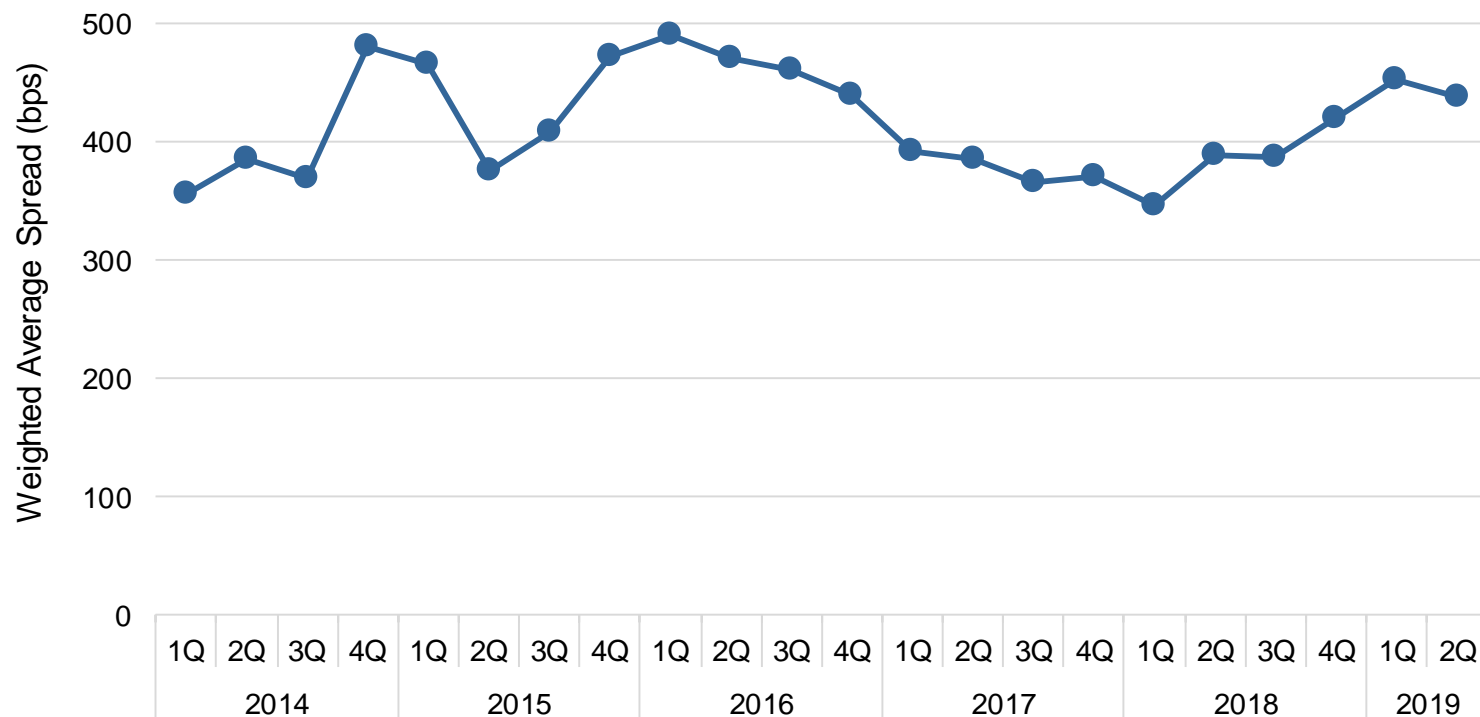
**Leveraged lending markets have sparked deal activity and supported equity contributions of just over 50% for PE backed deals in 2019.**





# Leverage Update

***Steady demand for the loan asset class has pushed pricing lower in the second quarter of 2019, though spreads remained well above year-ago levels.***







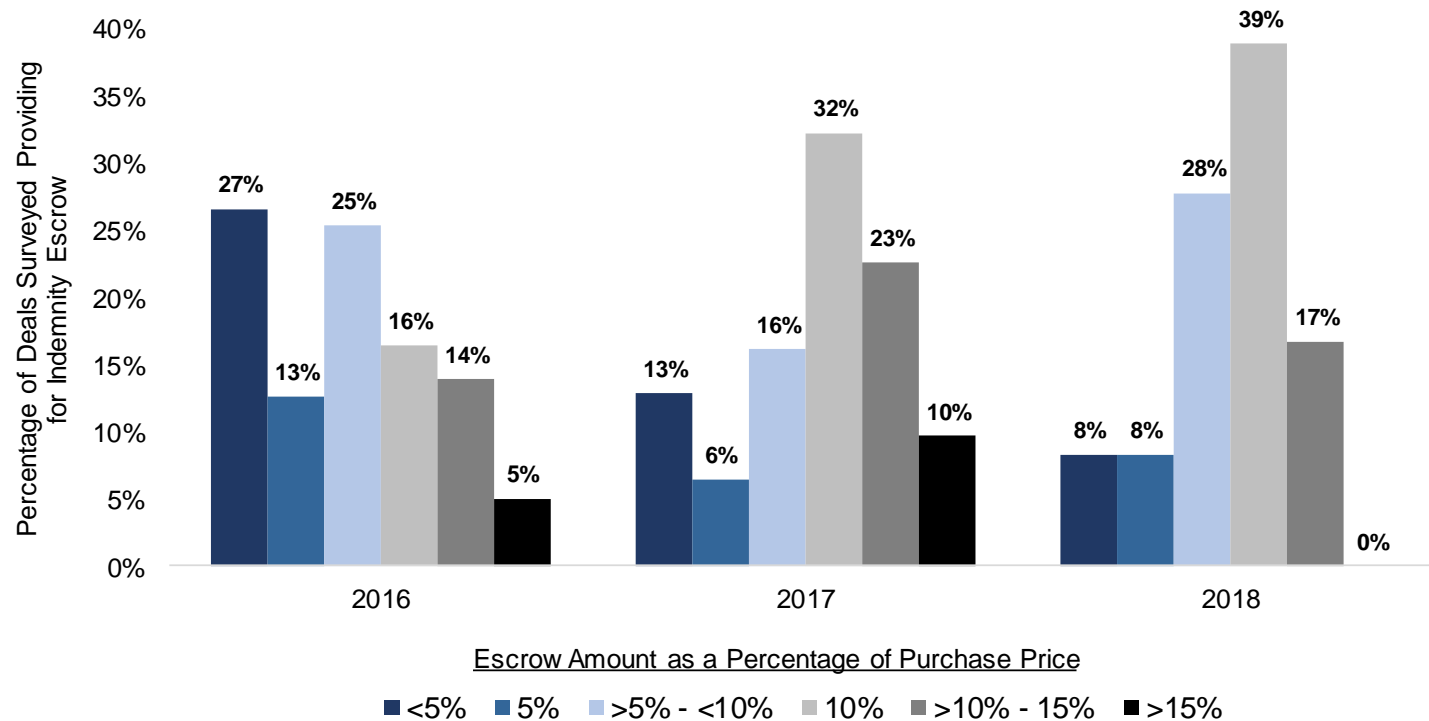
# Deal Terms Update



# Deal Terms Update

*Buyers are negotiating higher levels of escrow, driven by concerns about the age of the current M&A cycle.*

Indemnity Escrow Amount

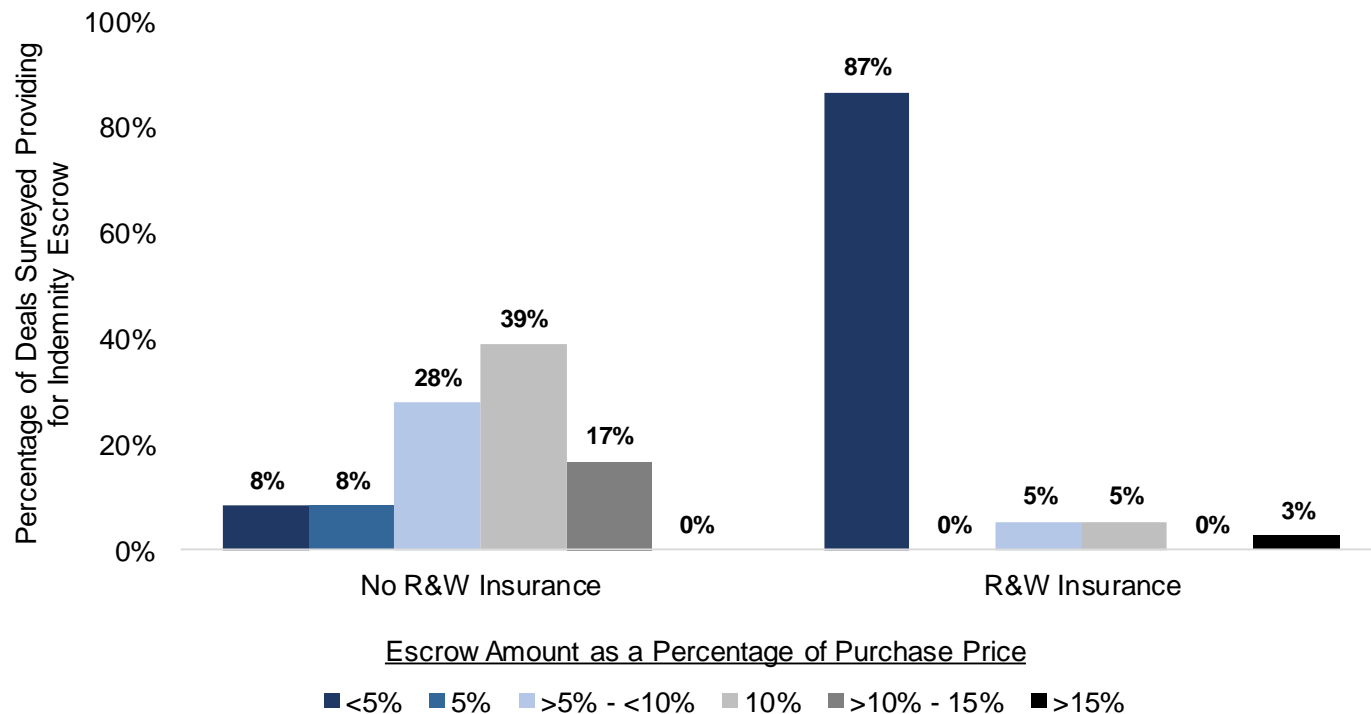




# Deal Terms Update

*Rep & warranty insurance continues to gain traction in the M&A community, usually resulting in lower negotiated escrows.*

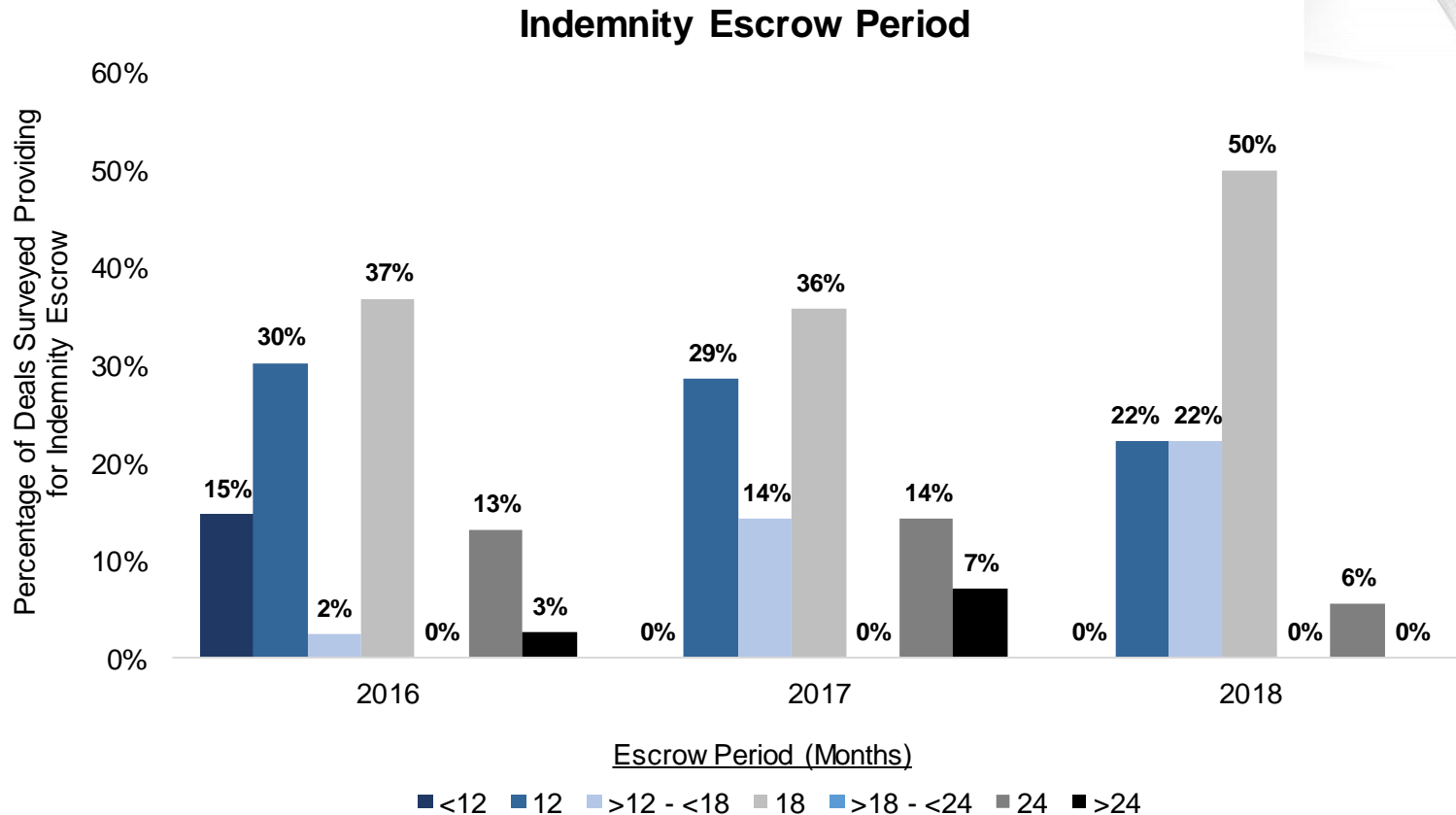
2018 Indemnity Escrow Amounts





# Deal Terms Update

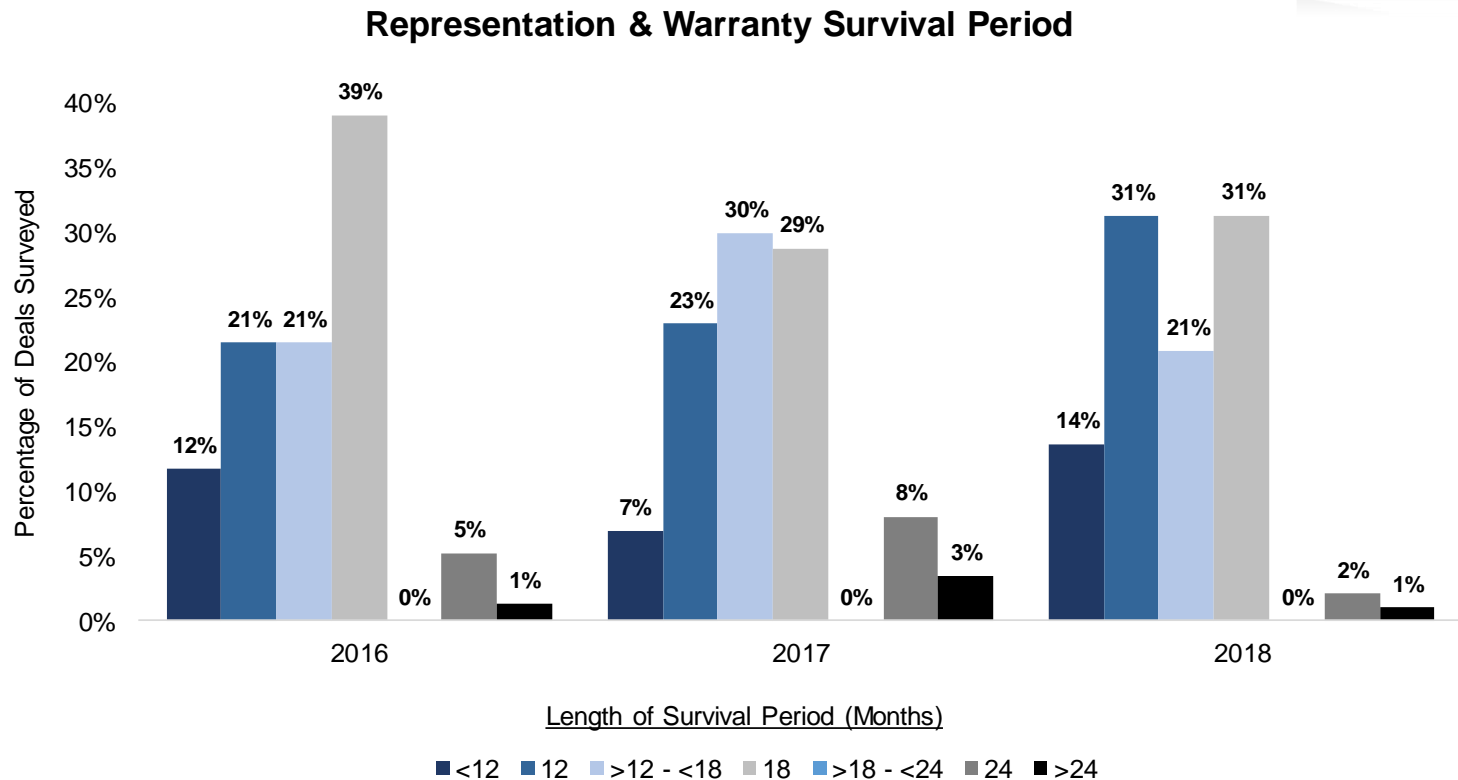
*As the current M&A cycle matures, negotiated escrow periods have increased.*





# Deal Terms Update

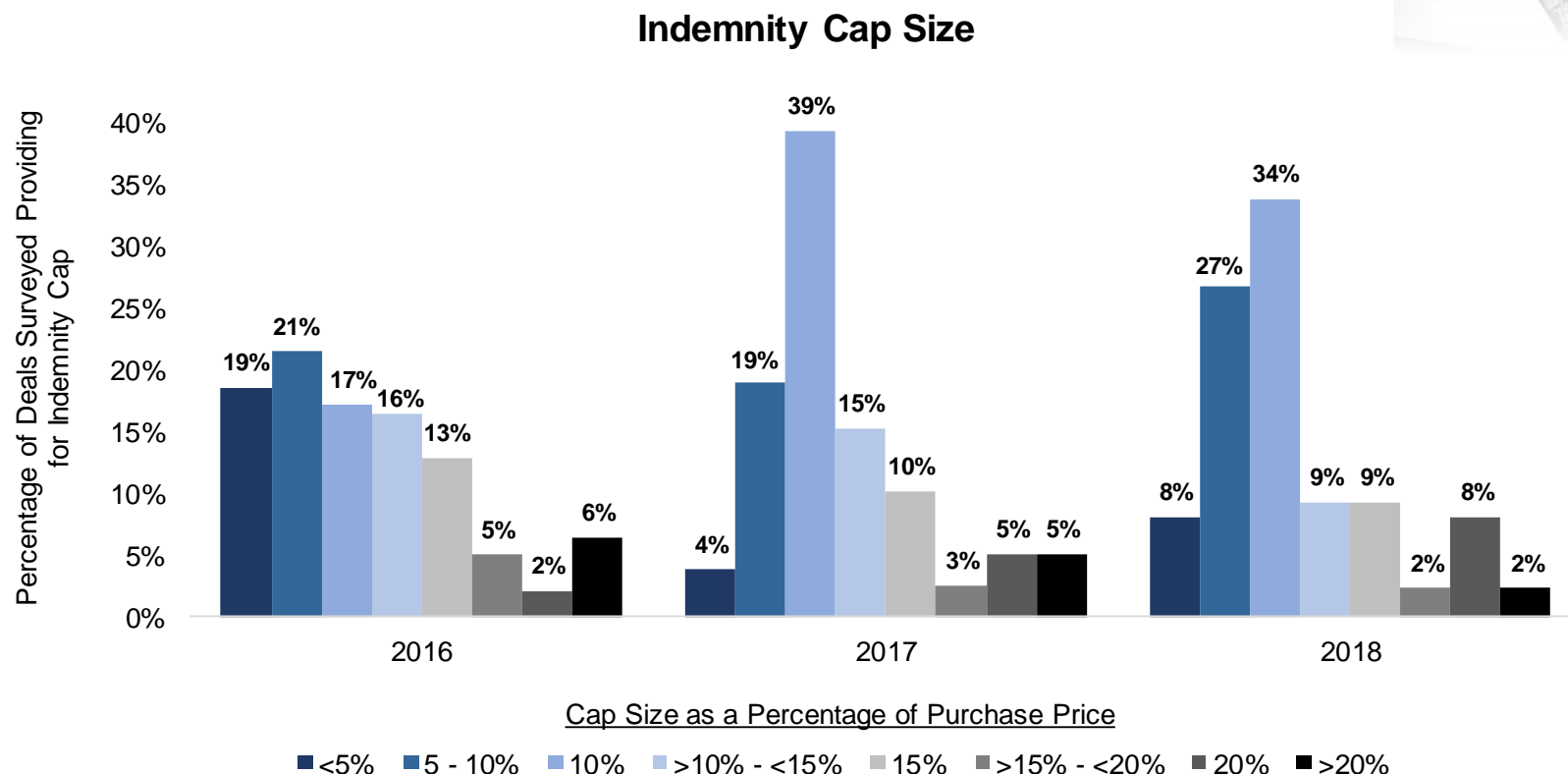
*As escrow percentages have increased in recent years, rep & warranty survival periods have actually declined.*





# Deal Terms Update

*Overall, observed indemnity cap percentages have declined during the past few years.*







# Current Buyer Hot Button Issues



# Current Buyer Hot Buttons



## ✓ Value Drivers

- Size
- Growth
- Margin

## ✓ Cycle Risk

- ✓ Performance during last downturn
- ✓ Management Continuity
- ✓ Quality of Earnings



# War Stories

## M&A Company Sales



has been acquired by



The undersigned acted as Financial Advisor to Product Support Solutions, Inc. in connection with this transaction



- Limited financial buyer interest
- Declining market share and business performance



has been acquired by



The undersigned acted as Financial Advisor to Product Support Solutions, Inc. in connection with this transaction



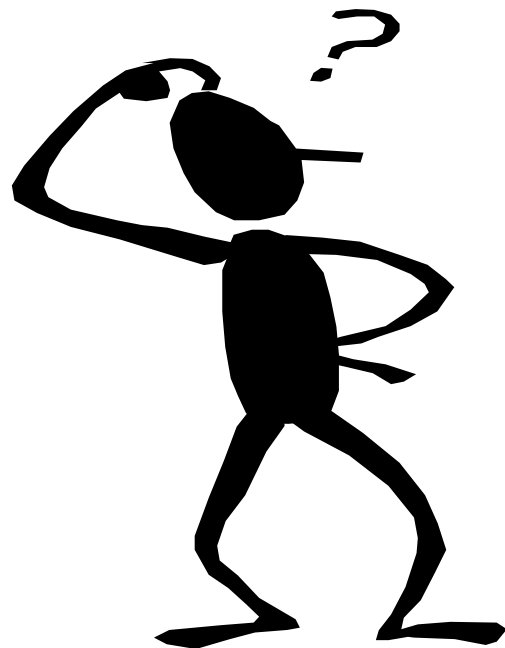
- Industry being rolled-up
- Above average margin
- Attractive revenue mix

## In Market

- **Project Bolt**
  - Family dynamics
  - Lumpy revenue
  - Construction exposure
- **Project Snap**
  - Blue-chip industry
  - Large market size
  - Tariffs
  - Domestic manufacturing
- **Project Medinah**
  - Disparate business lines
  - Tariffs
  - Supplier risk
  - Cycle risk



# Questions?      Comments . . .







[www.wcfadvisors.com](http://www.wcfadvisors.com)

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