

# M&A Market Newsletter

*Kansas City & Middle Market Focus*

November – December 2015





# M&A Market Report

## U.S. Market Highlights

- A Citizens Commercial Banking study shows more than half of mid-sized U.S. companies are looking to use M&A to help them boost revenues in the stabilized, but slow-growing economy. Among the larger companies surveyed, with annual revenue between \$25 million and \$2 billion, 59% say they are looking for transformative deals. More than half of smaller firms surveyed, with annual revenue of \$5 million to \$25 million, also are looking for deals, with 53% saying they are on the hunt. As many firms have already reduced costs after the Great Recession, business executives are looking now to grow revenues, which many believe is best accomplished through larger, more transformative acquisitions. ([ABLAdvisor](#))
- 2015 was a banner year for corporate deal-making, as global merger and acquisition activity reached an all-time high, exceeding the previous high-water mark set in 2007. Many factors contributing to the M&A boom in 2015 are still present as we kick off the New Year, including increasing corporate executive confidence, cheap debt financing, pressure to grow revenue in a slow-growth economy and pressure to compete with consolidating rivals. In addition, private equity firms are sitting on a record \$1.3 trillion of dry powder and the pent up demand for private equity deals should boost M&A in 2016. ([Forbes](#))
- Dealmaking in 2016 could surpass this year's record-breaking levels as acquisitions of distressed assets and companies accelerate, particularly in the energy sector. Dealmaking in the energy sector slowed to a trickle in 2015 as financial markets remained wide open to struggling drillers at the start of the year, helping them to weather a downturn that has cut the price of oil by two-thirds. At the same time potential sellers have been reluctant to offload assets at fire sale prices in the hopes that prices will recover. But despite a few brief periods of reprieve, the collapse has only accelerated, threatening to plunge U.S. crude below \$30 a barrel. 2016 may yield some 'shotgun wedding' situations and some merge-to-survive transactions, especially in the oil space. ([CNBC](#))
- The S&P 500's market valuation has plunged by \$1.04 trillion since the end of 2015, according to S&P Dow Jones Indices. The eye-popping losses highlight the deep fears that has gripped financial markets over China's economic slowdown and crashing oil prices. Cheap oil prices are a big driver of shrinking profits as well as the recent slump in the stock market. Still, some think the early 2016 market worries have been overstated. Morgan Stanley thinks the recovery from the Great Recession could actually last until 2020, making it the largest expansion in post-World War II history. ([CNN](#))



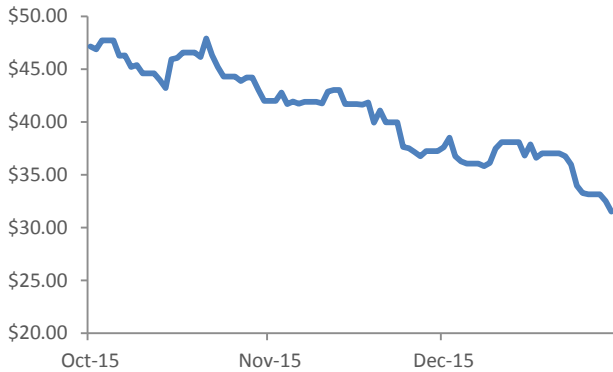
### IN THIS ISSUE

Market Highlights.....	2
Market Trends.....	3
Economic Snapshot.....	4
Kansas City M&A Review.....	5
Feature Article.....	9
CC Capital Update.....	11

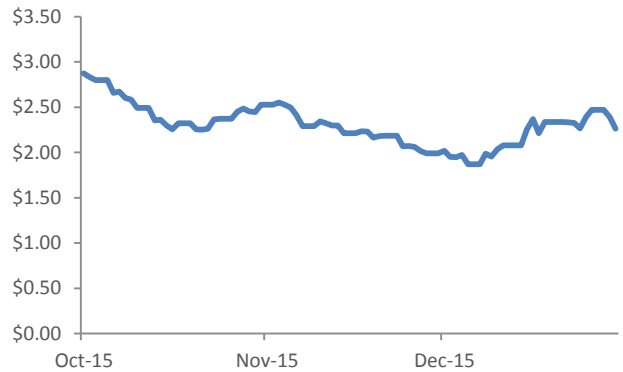
# Market Trends

- Due to unusually warm winter temperatures, natural gas stockpiles remain well above average levels. Updated weather forecasts show an ongoing cold spell and spike in heating demand could be shorter than expected. Consequently, experts anticipate the price of natural gas to weaken in the short term.
- The current oversupply of oil, driven by record-high production in the United States, Saudi Arabia and Russia, continues to put pressure on oil prices. Although WTI and Brent crude oil prices receded to their 12-year lows, experts believe prices could stay at or below these levels for the foreseeable future.

## Crude Oil Prices

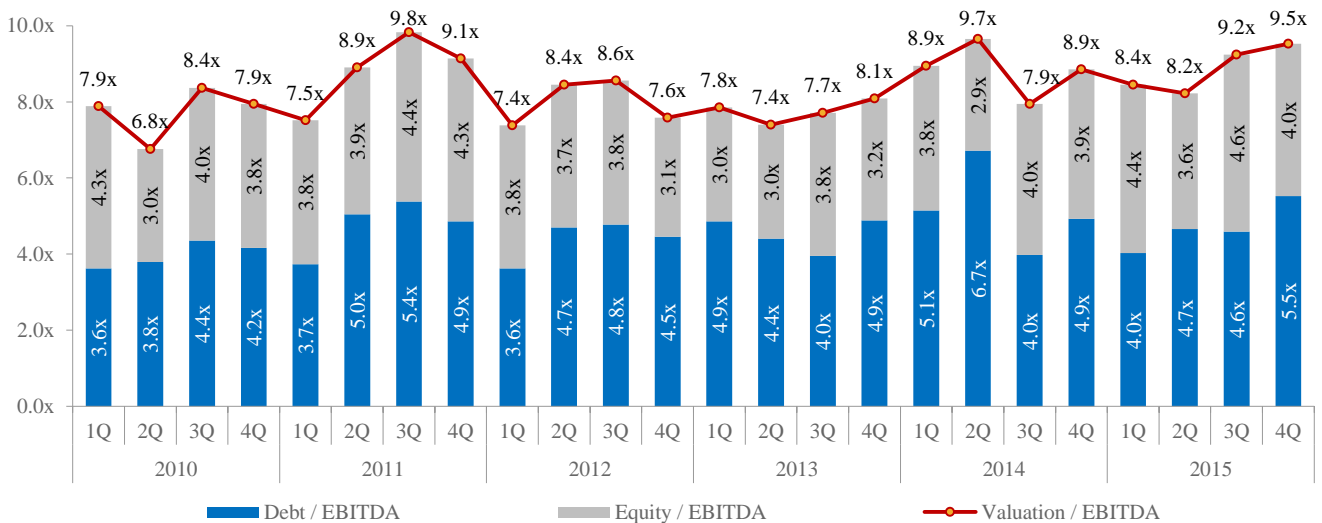


## Natural Gas Prices



*Considering hindsight is 20/20, did we take advantage of the low cost funds to improve our future?*

*- Bill Conway, Managing Director*



- Transaction multiples continued to expand in the fourth quarter. After a marginal decrease from 8.4x to 8.2x over the first two quarters of the year, transaction multiples reached 9.5x in the fourth quarter. This spike in transaction multiples not only evidences substantial transaction multiple expansion in 2015, but also approaches previously set high water marks of 9.8x and 9.7x in 2011 and 2014, respectively.
- The fourth quarter generated just over \$471 billion in completed M&A transaction value across 4,099 deals, a drop from the \$554 billion invested across more than 5,300 closings in the first quarter. The future still looks promising for M&A. Dealmakers have reported a huge jump in leads for new deals, especially in the lower-middle market.

# Economic Snapshot

Note: Financial figures as of 1/22/2016

Economics	Current	3 Mo Ago	6 Mo Ago	Year Ago
Unemployment	5.0%	5.0%	5.3%	5.7%
Consumer Confidence	93.30	90.00	93.10	98.10
Housing Permits (millions)	1.15	1.06	1.21	1.08
S&P/Case-Shiller 20 City	182.86	182.83	181.81	172.94
CPI	1.55%	0.17%	0.17%	-0.09%

- Unemployment in the US remained steady at 5.0% for the third month in a row while total nonfarm payroll employment increased by a higher-than-expected 292,000 in December. Job gains occurred in professional and business services, construction, health care, retail trade, leisure and hospitality, transportation, and warehousing.

Equity Market	Close	Week Ago	4 Weeks Ago	Year Ago
Dow Industrials	16,093.51	15,988.08	17,552.17	17,672.60
S&P 500	1,906.90	1,880.33	2,060.99	2,051.82
NASDAQ	4,591.18	4,488.42	4,095.52	4,095.52
Dow Utilities	589.14	582.79	581.02	647.78
VIX: S&P 500 Volatility	22.34	27.02	15.74	16.66
S&P 500 Earnings / Share Projection		TTM - E	2016	2017
S&P		\$ 94.86	\$ 121.88	\$ 129.91
P/E Ratio (Trailing & Forward)		20.10x	15.65x	14.68x

- Citing considerable improvement in the labor market and higher expected inflation, the Federal Reserve raised the federal funds rate to 0.25% to 0.50% in December. This marked the first interest rate hike in nearly a decade. Over 65% of economists believe the Fed will make its second increase in the federal funds rate in the first quarter of 2016, according to a poll by the Wall Street Journal.

Economics	Last Q	1 Q Ago	2 Q Ago	3 Q Ago
GDP Growth	2.0%	3.9%	3.7%	0.2%

- Growth in the US economy slowed sharply in the third quarter, but American consumers continued to spend at a robust pace, suggesting the expansion remains on track. Economists expect modest GDP growth for the fourth and first quarter of 2015 and 2016, respectively.

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



# Deals from November 2015

Announced	Target (Parent)	Buyer	Comments	PR
11/2/15	Bolton Aerospace Manchester, CT	PAS Technologies, Inc. North Kansas City, MO	PAS Technologies Inc. acquired Bolton Aerospace on November 2, 2015.	<a href="#">Link</a>
11/2/15	Remtec, Inc. Tigard, OR	Legacy Technologies, Inc. Mission, KS	Legacy Technologies, Inc. acquired Remtec, Inc. To fund the transaction, Legacy Technologies invested from its cash reserves, along with capital from its investment partners Konza Valley Capital, Inc., MidStates Capital Fund II, LP and Capital for Business.	<a href="#">Link</a>
11/2/15	Cloudapps, LLC Shawnee Hills, KS	Tricension, Inc. Kansas City, MO	Tricension acquired Cloudapps, LLC. Cloudapps' leadership team and employees will begin transitioning into Tricension's current office.	<a href="#">Link</a>
11/3/15	Arch Trailer Sales, Inc. St. Louis, MO	American Trailer & Storage Kansas City, MO	American Trailer & Storage, Inc. acquired Arch Trailer Sales, Inc. on November 3, 2015.	<a href="#">Link</a>
11/5/15	GlobalHealth Education & Training LLC West Palm Beach, FL	Keypath Education, Inc. Lenexa, KS	Under the new company structure, GlobalHealth will be rebranded and enhance Keypath's leadership in delivering online degrees in the fast-growing global healthcare vertical.	<a href="#">Link</a>
11/6/15	The Mutual Fund Store (Warburg Pincus LLC) Overland Park, KS	Financial Engines, Inc. Palo Alto, CA	Financial Engines is paying \$560M in cash and stock to acquire The Mutual Fund Store, a registered investment advisory firm with \$9.8B in assets under management.	<a href="#">Link</a>
11/9/15	Flaspohler Research Group, Inc. Overland Park, KS	NMG Consulting Limited OCBC Centre, Singapore	NMG Consulting Limited acquired Flaspohler Research Group, Inc.	<a href="#">Link</a>
11/10/15	HRI (Goldner Hawn Johnson & Morrison) Leawood, KS	York Capital Management New York, NY	HRI announced that York Capital Management has signed a definitive agreement to acquire HRI, a leading, diversified restaurant company focused on polished casual dining and fine dining.	<a href="#">Link</a>
11/11/15	Broker's Gin Ltd. Shepperton, Surrey, UK	McCormick Distilling Co. Weston, MO	McCormick Distilling Co., Inc. acquired Broker's Gin Ltd on November 11, 2015.	<a href="#">Link</a>
11/16/15	Marsh & CO. Overland Park, KS	MarksNelson Inc. Kansas City, MO	Kansas City-based accounting firm MarksNelson LLC has acquired Marsh & Co. in Overland Park for an undisclosed amount.	<a href="#">Link</a>
11/17/15	Kansas City Vascular North Kansas City, MO	Vascular Surgery Assoc. Liberty, MO	The two physician groups will combine to create the Midwest Aortic & Vascular Institute PC.	<a href="#">Link</a>

# Deals from November 2015 (cont.)

Announced	Target (Parent)	Buyer	Comments	PR
11/18/15	AxelaCare Health Solutions, LLC (Harvest Partners, LP) Lenexa, KS	OptumRx Irvine, CA	OptumRx, Inc. acquired AxelaCare Health Solutions, LLC from Harvest Partners, LP and other shareholders on November 17, 2015.	<a href="#">Link</a>
11/19/15	Heartland Geriatrics Overland Park, KS	IPC Healthcare, Inc. North Hollywood, CA	IPC Healthcare, Inc. acquired Heartland Geriatrics, LLC on November 19, 2015.	<a href="#">Link</a>
11/20/15	Town & Country Disposal Harrisonville, MO	Waste Corporation of America Houston, TX	WCA Waste Corporation, a vertically integrated, non-hazardous solid-waste services company announced it completed the acquisition of Town and Country Disposal, a substantial Kansas City collection, transfer and materials recycling company.	<a href="#">Link</a>
11/25/15	Inverness Hotel & Conference Center Englewood, CO	Silverwest Hotels LLC Leawood, KS	Silverwest Hotel Fund I-A LLC managed by Silverwest Hotels LLC acquired Inverness Hotel & Conference Center on November 25, 2015.	<a href="#">Link</a>

# Deals from December 2015

Announced	Target (Parent)	Buyer	Comments	PR
12/1/15	Allshore Virtual Staffing Norman, OK	Condad Group, Inc. Kansas City, MO	Kansas City-based software development and consulting firm, Condad Group, acquired Allshore Virtual Staffing of Norman, Okla., a software development staffing firm with 100 employees.	<a href="#">Link</a>
12/1/15	MotoFuze LLC Raytown, MO	AutoAlert LLC Irvine, CA	AutoAlert, Inc. acquired MotoFuze LLC. The deal was a consolidation transaction for HGGC, LLC.	<a href="#">Link</a>
12/3/15	The Cottonwood Group, Inc. Overland Park, KS	CBIZ, Inc. Cleveland, OH	Founded in 2006, The Cottonwood Group provided pension plan consulting, actuarial and investment services for institutional pension plans, retirement funds, endowments and foundations.	<a href="#">Link</a>
12/8/15	MBT Bancshares Kansas City, MO	BOK Financial Corp. Tulsa, OK	BOK Financial Corporation announced the signing of a definitive purchase agreement with MBT Bancshares. MBT is headquartered in Kansas City, Mo. and is the parent company of Missouri Bank and Trust of Kansas City.	<a href="#">Link</a>
12/8/15	Legends 14 Theatre (Unified Government of Wyandotte County) Kansas City, KS	Legacy Development Kansas City, MO	The owners of Legends Outlets Kansas City have purchased the center's 14-screen theater and are converting it to an AMC Theatre.	<a href="#">Link</a>
12/8/15	Tier3 Solutions Group Olathe, KS	MDL Technology LLC Kansas City, MO	MDL Technology LLC acquired Tier3 Solutions Group, LLC for \$0.21 million. MDL gained two employees with the acquisition.	<a href="#">Link</a>
12/9/15	CMA Supply Co., Inc. Indianapolis, IN	Carter-Waters LLC Kansas City, MO	Carter-Waters LLC acquired CMA Supply Co., Inc. on December 9, 2015.	<a href="#">Link</a>
12/11/15	Lansing Trade Group Minority Interest Overland Park, KS	New Hope Liuhe CO. Sichuan, China	Lansing Trade Group, LLC has sold equity to New Hope Liuhe Investment (USA), Inc., a U.S. subsidiary of Chinese company, New Hope Liuhe Co. Ltd. New Hope paid \$127,500,000 in cash for a 20% equity interest in Lansing.	<a href="#">Link</a>
12/16/15	Central Piedmont Surgery Center (Asheboro Medical Properties) Charlotte, NC	Flagship Capital Partners Leawood, KS	Flagship Capital Partners, LLC along with Broyhill Asheboro ASC LLC acquired Central Piedmont Surgery Center in Asheboro from Asheboro Medical Properties and others for \$3.3M. Broyhill shall own 65% interest in the property.	<a href="#">Link</a>

# Deals from December 2015 (cont.)

Announced	Target (Parent)	Buyer	Comments	PR
12/17/15	Agspring, LLC (NGP Energy Capital Management) Leawood, KS	American Infrastructure MLP Funds Foster City, CA	American Infrastructure MLP Funds along with management of Agspring, LLC and others acquired Agspring, LLC from NGP Global Agribusiness Partners managed by NGP Energy Capital Management and other sellers in a recapitalization transaction.	<a href="#">Link</a>
12/17/15	Produquímica Industria e Comercio Sao Paulo, Brazil	Compass Minerals International Inc. Overland Park, KS	Compass Minerals completed its purchase of a 35% stake in Produquímica Industria e Comercio S.A. (Produquímica), one of Brazil's leading manufacturers and distributors of specialty plant nutrients.	<a href="#">Link</a>
12/18/15	Gasco Energy Supply, LLC Eldon, MO	Ferrellgas Partners LP Overland Park, KS	Ferrellgas Partners LP FGP announced the acquisition of propane retailer Gasco Energy Supply. Gasco is a supplier of fuel for residential, commercial and agricultural uses in the Ozark region.	<a href="#">Link</a>
12/21/15	American Century Investments Minority Interest Kansas City, MO	Nomura Holdings, Inc. Tokyo, Japan	Nomura Holdings Inc. agreed to buy a 41% stake in American Century Investments for around \$1 billion, giving Japan's top brokerage partial ownership of one of the most well-known U.S. mutual-fund managers.	<a href="#">Link</a>
12/28/15	Fitness First Inc. Kansas City, MO	Combat Brands LLC Lenexa, KS	Combat Brands, LLC acquired Fitness First Inc. from Cory Jackson. Fitness First will be consolidated into Combat Brands' location at 15850 W. 108th St, but will operate under the name Fitness First.	<a href="#">Link</a>
12/28/15	Financial Security Advisors Prairie Village, KS	Petrovic Financial Services Kansas City, MO	Alex Petrovic III acquired Financial Security Advisors and merged the company with his father's firm, Petrovic Financial Services, to form a new entity called Petrovic Weaver Financial Services.	<a href="#">Link</a>
12/29/15	Kaufman Rossin Fund Services, LLC Denver, CO	ALPS (DST Systems, Inc.) Kansas City, MO	ALPS, a subsidiary of DST Systems, Inc. and Kaufman Rossin Fund Services, LLC ("KRFS"), an independent, full-service provider of specialized administration services to the global financial community, announced they have entered into an agreement for ALPS to acquire KRFS.	<a href="#">Link</a>
12/30/15	Manitex Load King, Inc. (Manitex International Inc.) Bridgeview, IL	Utility Once Source Kansas City, MO	Utility One Source acquired Manitex Load King, Inc. from Manitex International, Inc. for \$6.5 million in cash. Trailing 12 months revenue for Load King was approximately \$18.5 million and EBITDA was \$0.8 Million.	<a href="#">Link</a>
12/30/15	Brown Industries, Inc. (B12 Capital Partners) Lawrence, KS	Various PE firms; B12 Transportation Group	B12 Capital Partners, LLC, a private equity firm based in Kansas City, MO, has sold Brown Industries to a consortium of private equity funds.	<a href="#">Link</a>



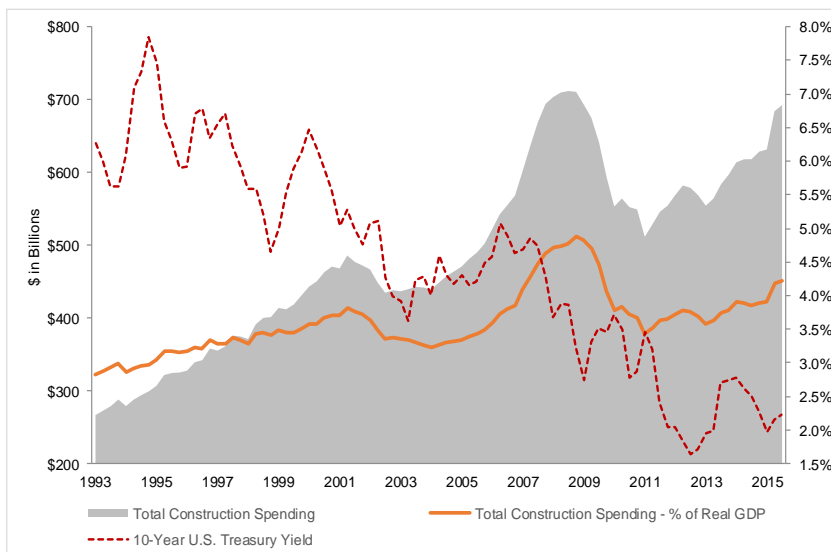


## Will We Miss the Era of Cheap Money? What Has Been the Cost of being on the Sidelines?

*Bill Conway, Managing Director  
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Without question all borrowers will miss the low interest rate environment of the past decade. However, considering hindsight is 20/20, did we take advantage of the low cost funds to improve our future? With the mounting need to replace aging infrastructure and construct new infrastructure, investment in technology and the development of human assets, an argument can be made that we have missed the opportunity to borrow at unprecedented low interest rates to improve our existence and contribute confidence on our economic standing. Politics naturally played a role in the delay or lack of infrastructure funding and the continued desire to grow Public Private Partnerships and tax incentives opportunities have not yielded all the desired results. All the while, the infrastructure continues to crumble, the cost to repair or replace roads, bridges, and citizen owned utility infrastructure is rising and the cost of inefficiencies is escalating.

It is much easier to track and quantify what has been spent on infrastructure historically than it is to determine what should have been spent. In order to quantify the infrastructure “funding gap”, we have compared the infrastructure dollars spent on a historical basis as a percentage of real GDP. As the graph below indicates, construction spending, defined as the monthly estimated total dollar value of construction work done on new structures or improvements to existing structures for non-residential private and public sectors in the United States, has risen steadily at a compounded annual growth rate of 4.3% from \$266.8 billion in 1993 to \$692.5 billion in 2015. Considering the low interest rate environment and the massive government incentive programs and grants that were allocated to all infrastructure build during the great recession, one would have expected this level of growth since 2009.



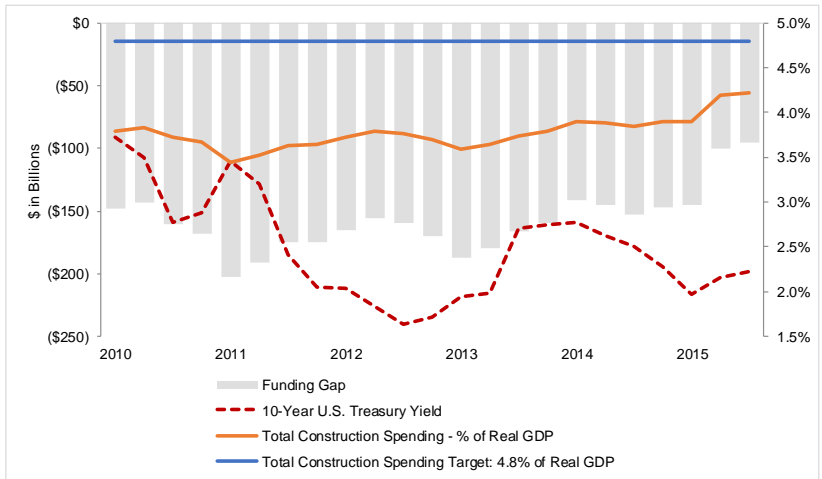
Interestingly, total construction spending hit 4.8% of real GDP in 2008 to 2009 and has been below this level each year since, despite the fact that real GDP has grown at a sluggish average of 2.1% over this period. This phenomenon has created a backlog in the need to fund infrastructure projects. The steady declining yield on the ten year Treasury note, pro-growth environment and the broad desire to grow or maintain employment levels, indicates we have missed a real opportunity to fortify our infrastructure into the future.

# Will We Miss the Era of Cheap Money? What Has Been the Cost of being on the Sidelines?

By: *Bill Conway*

The reality of missing any opportunity typically results in higher costs. In an attempt to quantify the missed opportunity, we set infrastructure spending at 4.8% of real GDP (consistent with the 2009), and determined \$3.6 trillion additional dollars could have been invested on infrastructure projects from 2010 through 2015. This would have positioned the public sector as a leader in a challenging economic period and not put us in a “hole” from which to address aging infrastructure. This funding gap exists despite estimates of \$1.5 to \$2.1 trillion of cash on corporate balance sheets.

In addition to quantifying the funding gap, we estimated the incremental interest expense to be incurred in a rising interest rate environment. If the funding gap was spread equally over the six years from 2010 to 2015, an estimated \$600 billion would be needed annually. The incremental interest expense of a 25 basis point interest rate expansion results in additional cost of over



\$28 million or nearly \$170 million over the six year period. This amount is insignificant compared to the total funding gap, but certainly a significant cost for not being proactive.

While the public sector is the most visible reminder of the impact of higher interest rates, the same principles apply to the private sector. Stagnant or low capital expenditure spending by corporations has created inefficiencies, labor challenges and a generally less competitive global position for US goods and services. Financial theory suggests low interest rates should induce companies to borrow to invest in equipment, technology and human assets, creating efficiencies to generate higher profits and competitive market strength.

The availability of financing has been and continues to be abundant. Some companies have used leverage to make acquisitions as one means of improving productivity and creating efficiencies. However, there is a natural ceiling on the productivity gains to be achieved in an acquisition, leaving the long term impact of not investing in technology and other productivity measures, to be played out over the next several years.

The window of cheap money is slowly closing and is certain to leave both public and private entities to contend with the fact they have been on the sidelines but need to get into the game before time expires.

<sup>1</sup> Source: Wall Street Journal, FactSet



John  
Hense

Stephanie  
Siders

Julian  
Buegers

Mike  
Lierz

Terry  
Christenberry

Bill  
Conway

Chris  
Brito

Jill  
Mortensen

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### RECENT TRANSACTION:



B12 Capital Partners, LLC, a private equity firm based in Kansas City, MO, has sold Brown Industries to a consortium of private equity funds. CC Capital Advisors advised B12 Capital Partners on the sale.

Brown Industries designs and manufactures cargo truck bodies and maintenance-of-way railroad equipment. The company is headquartered in Lawrence, KS with an additional manufacturing facility in Denver, CO.

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