Capital Markets and Investment Banking
Market Update
NOVEMBER 2018

# Technology Mergers and Acquisitions Providing a Competitive Edge

As industries continue to be transformed by technology, it has become more evident to companies that technologically well-equipped competitors are achieving their winning edge through the successful execution of mergers and acquisitions ("M&A"). Supplied with historically high and ever-increasing cash reserves, corporations still report that M&A is the primary intended use for available cash, and that the acquisition of technology assets and the building out of digital strategies are the primary goals of those pursuits.[1] According to Accenture, more than half of U.S. companies participating in M&A characterized their transactions as largely for the purposes of acquiring technology companies or assets.[2]

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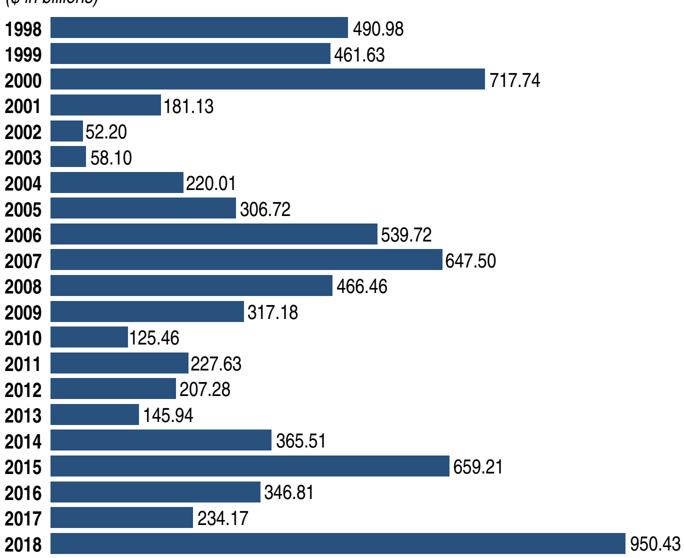
CHART 1 | **The Rising Threat from Tech Continues to Drive Big Mergers**

The total value of **deals of $10 billion or more** has surged in 2018.
*($ in billions)*




Note: Data as of June 30, 2018.
By the New York Times. Source: Thomson Reuters.

A surge of mega deals from U.S. media and telecom companies drove worldwide deal volume to a 65% increase year-over-year since H1 2017.[3] Of the more than $2.5 trillion in global mergers announced in the first half of 2018, four of the 10 biggest deals were pursued in part to mitigate competition from the largest technology companies.[4] With tech companies pushing into new industries, such as Amazon moving into health care and grocery, consolidations have been spurred throughout the industry to improve strategic positions and market share.

Further, as the speed of technological change continues to increase and companies reduce their research and development budgets, acquiring new technology can be a more efficient solution than developing it in-house. This was evident earlier this year when Nordstrom acquired two digital retail start-ups in an effort to improve their online sales.[5] Technology companies have also continued to drive M&A activity with more traditional horizontal acquisitions. For example, Salesforce purchased MuleSoft, a widely used integration platform for $5.9 billion and Microsoft acquired GitHub, the code-sharing platform for $7.5 billion.[6]

As of September 2018, several of the year's top deals were in technology-related fields, such as Broadcom, Inc's. acquisition of CA, Inc. for $18.2 billion. In addition, two of the five largest deals announced in September included Adobe

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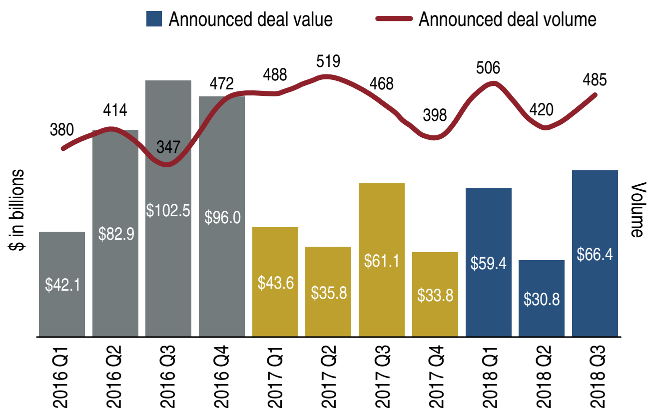
Systems, Inc.'s acquisition of Marketo, Inc. for $4.75 billion and Sirius XM Holdings, Inc.'s agreement to acquire Pandora Media, Inc. for $2.75 billion.[7]

Overall, technology deal activity has rebounded since its dip in Q2 2018 and outperformed Q3 2017. Smaller transactions are dominating the rise in volume with 50% of disclosed deal values being in the sub-$100 million range and an additional 23% valued between $100 million to $500 million.[8]

CHART 2 | **Technology Deal Value and Volume**




Source: PWC.

Closer to home, the Midwest has contributed in a more modest way to the rise in technology buyouts over the past five years, with Chicago leading the charge. Chicago generated nearly $14.9 billion of total deal value when eight companies exited for more than $1 billion each, including GrubHub, Coyote Logistics and Naurex.[9]

CHART 3 | **Top 10 Exits in Chicago Over the Last 5 Years**

| Deals | Dollars ($MM USD) |
|---|---|
| Grubhub | $2,040 |
| Coyote Logistics | $1,829 |
| Orbitz | $1,800 |
| Naurex | $1,720 |
| Vivid Seats | $1,500 |
| Gogo | $1,440 |
| ExteNet | $1,400 |
| Cleversafe | $1,300 |
| Fieldglass | $975 |
| Trustwave | $850 |
| | **$14,854** |

Source: Venture Beat.

Notably, Chicago has seen five technology exits worth $50 million or more through the first six months of 2018. Three of those deals were worth more than $150 million, with one worth a potential $700 million.[10] Those noteworthy transactions are as follows:

- **Maestro Health**, which provides a technology service platform that streamlines benefits enrollment, was acquired by Paris-based insurance company AXA Group in January for $155 million.[11]
- **Cars.com** acquired Dealer Inspire and Launch Digital Marketing, two companies that provide marketing and advertising for car dealerships, for $165 million in February. If performance incentives are met over the next three years, the deal could be worth an additional $40 million.[11]
- **Nice**, an Israeli software company, announced in April that it had acquired Mattersight, a provider of behavioral analytics software, for $90 million.[11]
- **Home Chef** announced its sale to Kroger in May in a deal valued at up to $700 million.[11]

In addition to the deals outlined above, G2 Crowd, another notable start-up from Chicago, has built a platform that crowdsources enterprise software reviews to educate individuals on what to use and buy. The platform has successfully raised over $45 million in funding.[12]

In our current, technology-propelled society, it has become a necessity for companies to further their tech capabilities to stay relevant, irrespective of their industry. In this context, companies are turning to M&A as a key supplier of this much-needed asset. For the foreseeable future, we expect technology-driven acquisitions to continue to drive M&A volume and value as companies consolidate to stay ahead in a quickly changing business landscape.

1 "The state of the deal M&A trends 2018" Deloitte.
2 "Technology in M&A: Catalyst or enabler of change?" Accenture.
3 "Global dealmaking reaches $2.5tn as US megadeals lift volumes" Financial Times.
4 "A Record $2.5 Trillion in Mergers Were Announced in the First Half of 2018" The New York Times.
5 "Nordstrom acquires 2 digital retail start-ups" CNBC.
6 "Navigating change: US M&A H1 2018" White & Case.
7 "US M&A News and Trends" FACTSET FLASHWIRE US MONTHLY.
8 "US Technology Deals Insights Q3 2018" PWC.
9 "How Chicago's startup exits stack up against 4 other major cities" VentureBeat.
10 "Exit strategy: These 5 Chicago tech acquisitions have brought in $50M or More" builtinchicago.
11 "Kroger bites into meal kits with Home Chef acquisition" SUPERMARKET NEWS.
12 "Welcome to the Crowd" TechCrunch.

# Market Snapshot: Middle-Market Mergers & Acquisitions

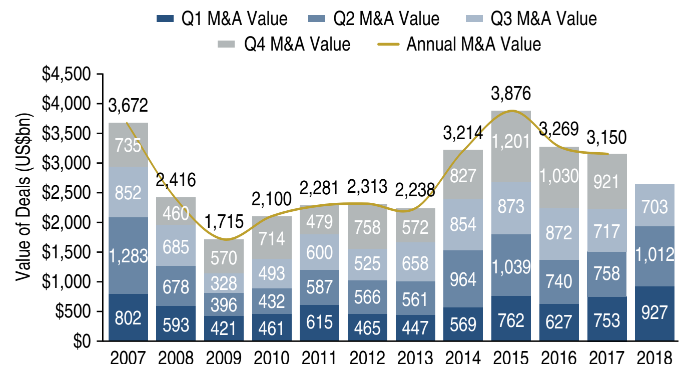
## Q3 2018 M&A Recap

- Following a frenetic first half of the year, Q3 saw subdued M&A activity as growing geopolitical tensions, trade wars and protectionism dampened spirits and caused strategic acquirers to pause over the summer.
- In Q3 2018, there were four mega deals that breached the $10 billion mark, after 28 such deals were announced in H1 2018.
- Despite the quarterly drop in activity, 2018 has registered the second-highest value on record behind 2007, with $2.72 trillion across 13,575 deals announced YTD.

## Outlook

- Strong backlogs will drive continued consolidation.
- Cross-border activity will remain strong as dealmakers pursue strategies to spread risk geographically.
- Despite recent softness, valuation levels remain elevated, supporting continued M&A activity.

**Quarterly Global M&A Comparison**

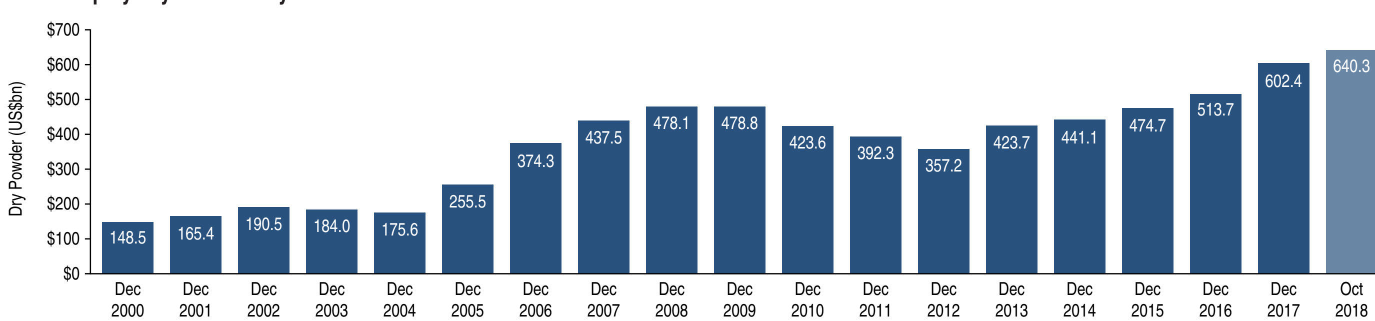



Source: MergerMarket.

## Significant Opportunities Exist to Capitalize on the Favorable Financing Environment

- The levels of dry powder held by U.S. private equity buyout funds rose to $417 billion as of March 2018 from $300 billion at the end of March 2017.
- Dry powder levels have continued to increase, reaching a record high of $640.3 billion as of October 2018.
- Buyout funds account for the majority (56%) of dry powder, while growth funds have seen the largest year-on-year increase (+64%) from December 2016 to December 2017.
- As private equity firms continue to sit on record levels of dry powder, we can expect buyout transaction activity to increase as these funds are put to use.

**Private Equity Dry Powder Buyout Funds**




Source: Preqin.

# Market Snapshot: Municipal Bonds

## Municipal Bond Fund Flows and Municipal Market Data (MMD)

The Federal Reserve increased the federal funds rate 25 basis points to 2.25% on September 26 and projected one more increase in 2018, followed by three in 2019. In addition, the Fed removed "accommodative" language from their statement.

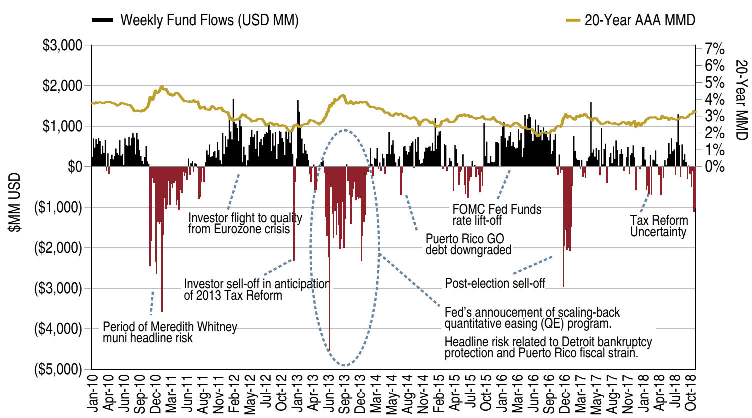
The rate hike coupled with inflation concerns prompted sizable municipal bond fund outflows in the most recent period. Weekly municipal fund flows were negative for the fifth consecutive week through October 17, 2018. The October 10 and October 17 outflows of over $1 billion are the greatest since the 2016 presidential election. The Bloomberg Barclays Municipal Bond Index Total Return Index Value dropped twenty basis points in the same two-week period.

The 30-year municipal-treasury ratio reached 103% for the first time since May 2017 as a result of the municipal market underperforming treasuries over the last few weeks. Municipal buyers receive the tax-exempt preference at no cost when the ratios are above 100%.

Investment-grade spreads remain compressed while high-yield spreads have risen. Through October 11, the spread on the MMD BBB index was 28 basis points lower than average, ranging 80-84 basis points since the beginning of the year. High-yield spreads, measured by the Bloomberg Barclays Muni High-Yield YTW, are still relatively tight at 252 basis points but have widened 15 basis points over the past month.

Issuance remains subdued, trailing last year by 10.9%.

**Municipal Bond Fund Flows and 20-Year MMD**




As of the weekly reporting date of 10/17/2018.
Source: EPFR Global Fund Flows and Allocations Data – All Muni Funds (Retail and Institutional Funds).

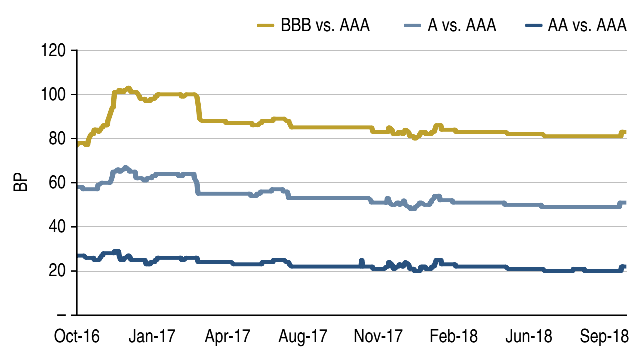
**Trailing 16-Week Data**

| Muni Fund Reporting Date | Weekly Fund Flow ($MM USD) | 20-Yr AAA MMD (%) |
|---|---|---|
| 7/5/2018 | (191.36) | 2.80 |
| 7/11/2018 | 604.39 | 2.79 |
| 7/18/2018 | 1,293.73 | 2.81 |
| 7/25/2018 | 533.94 | 2.87 |
| 8/1/2018 | (245.94) | 2.94 |
| 8/8/2018 | 551.46 | 2.97 |
| 8/15/2018 | 174.99 | 2.90 |
| 8/22/2018 | 308.03 | 2.89 |
| 8/29/2018 | 117.48 | 2.91 |
| 9/5/2018 | (305.60) | 2.93 |
| 9/12/2018 | 32.19 | 3.02 |
| 9/19/2018 | (172.19) | 3.11 |
| 9/26/2018 | (487.91) | 3.14 |
| 10/3/2018 | (107.31) | 3.15 |
| 10/10/2018 | (1,110.08) | 3.31 |
| 10/17/2018 | (1,011.30) | 3.25 |

## Credit Spreads

- We continue to follow the strong performance of California General Obligation ("GO") Bonds, which are now trading at essentially Triple-A levels. We note that California has both the most volatile and highly concentrated general fund revenue stream of any state, but at current levels, is priced by the market at near perfection. At the other end of the spectrum, the sovereign state of Illinois has traded at least 180 basis points cheaper than the Triple-A curve.
- Value investors who do not require California tax-exempt income might consider the richness of California GO bonds and the width of this spread versus other states' GOs, with Illinois being the most dramatic comparison.

**30-Year Credit Spreads**



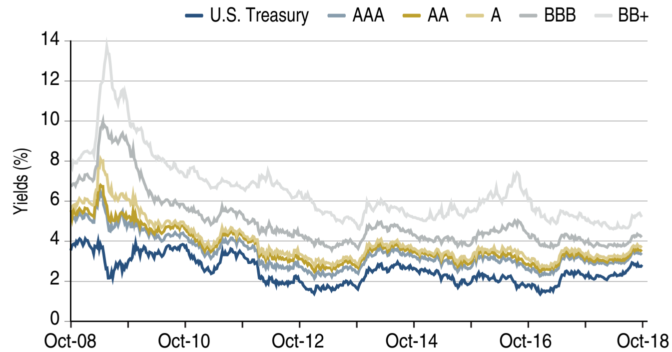

Source: The Municipal Market Monitor (TM3).

# Market Snapshot: Corporate Debt and Infrastructure Finance

## Corporate Debt Spreads – Finance Market Summary

- Yields on U.S. 10-year Treasuries hovered under the 3% threshold at the beginning of the third quarter. In September, 10-year Treasury rates exceeded that threshold and reached approximately 3.25% in early October, the highest point since early 2011. Treasuries could continue to increase as the Federal Reserve contemplates further rate increases in the coming year.
- Corporate spreads have widened only slightly across investment grade credit categories since the beginning of the year. Year-over-year, 10-year Treasuries are up over 80 basis points, while 10-year corporate spreads are largely unchanged, particularly for high-quality credits like Apple, Amazon, Johnson & Johnson, Microsoft and Exxon Mobile. Some auto names, Ford and General Motors, have seen spreads widen by approximately 120 basis points on 10-year bonds since the beginning of the year. Spreads have also widened on new issuances by companies post mergers and buyouts, for example, Anheuser-Busch, Comcast, CVS, United Technologies and United Health.
- Total corporate issuances in 2018 after three quarters were $1,109.5 billion, approximately 15% lower than issuances in the first three quarters of 2017. September showed the highest amount of monthly issuance by volume for the year with $161 million.[1]

**Historical Corporate Bond Yields – 10-Year Maturity**

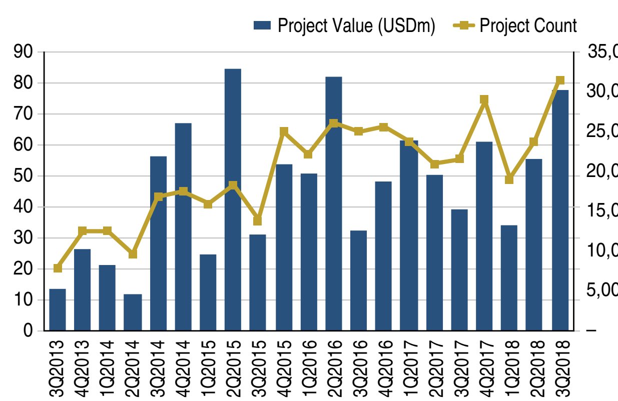



Data as of October 17, 2018.
Source: S&P Global Fixed Income Research.

## U.S. Infrastructure – Market Update

- The three quarters of 2018 showed strong U.S. project finance activity with roughly $65+ billion in infrastructure transactions reaching financial close, exceeding the first three quarters of 2017 in terms of aggregate transaction size. Most transactions were in the power and renewable energy sectors, which is consistent with prior periods.[2]
- The Howard County Courthouse reached financial close in October. It is the second courthouse P3 to be delivered under a design-build-finance-operate-maintain availability payment model in the U.S. In the third quarter, a preferred bidder was named for the Purdue University student housing project and the Gordie Howe International Bridge P3, connecting Detroit to Windsor, reached financial close. Activity also increased in Puerto Rico in the third quarter with the government releasing the shortlists for three projects currently under procurement.
- The I-75 Modernization Project in Michigan will reach financial close in the fourth quarter. The project is a roughly $1.4 billion design-build-finance-maintain ("DBFM") initiative that will rebuild and modernize 18 miles of I-75. The private sector team will be responsible for the cost of designing, constructing and maintaining the road. According to the Michigan Department of Transportation, the project will break ground about a decade sooner than originally scheduled thanks to innovative contracting achieved through the DBFM model.

**Deals Reaching Financial Close by Quarter from 3Q2013–3Q2018**




Graph includes Greenfield, Brownfield and Refinancing transactions.
Source: Inframation.

1 SIFMA.
2 Inframation.

# Featured Mesirow Financial Deals

**$119,000,000+**
Permanent Financing

Distribution Centers
(Tenant)

## Sherwin-Williams Distribution Centers – Three Locations

Mesirow Financial successfully structured and arranged three permanent investor acquisition credit tenant lease (CTL) financing packages totaling more than $119 million for three Sherwin-Williams Company distribution centers located throughout the country. The three properties total over 2 million square feet of improvements and sit on a total of +172.19 acres of land. Each of the three distribution centers is vital in Sherwin-Williams' distribution process, and two are regional distribution centers – each serving approximately 25% of the country. Most unique about the financing of these assets is that, despite their extremely similar construct, Mesirow Financial individualized each financing structure to fit the specific needs of each property and its respective lenders, resulting in the lowest cost of capital and optimal terms. One facility was financed with a single senior secured CTL note with an approximate 36% balloon due at maturity, rated by an NAIC Credit Rating Provider ("CRP") with no residual value insurance ("RVI"). Another was structured as two pari-passu rated notes: a single CTL note with no balloon (Series A1) and an interest-only note with the principal balance due at maturity (Series A2). The third was structured as a single CTL note with an approximate 30% balloon due at maturity, rated by a CRP but structured with RVI. These three financings demonstrate the depth of the "residual" market in the CTL space, showing structural flexibility depending on investor demand metrics at any given moment.

*a division of*

has been acquired by

— Sell-side Advisor —

## M&A Sell-side Advisor to Midtronics, Inc.

Mesirow Financial acted as the exclusive financial advisor to Midtronics, Inc. ("Midtronics") on the divestiture of its Stationary Power Division ("SPD" or the "Division") to Franklin Electric Co., Inc. (NASDAQ: FELE). Midtronics SPD's products will now be sold through Franklin Grid Solutions, LLC, a wholly owned subsidiary of Franklin Electric. SPD is a market-leading provider of industrial battery testing and remote monitoring equipment, software and services for mission-critical applications. The Division's solutions provide critical power reliability, compliance, operating efficiency and business intelligence to its and business intelligence to its customers operating in telecom, data center and electric utility markets. The transaction represents another successful assignment completed by Mesirow Financial's Investment Banking group and highlights the firm's expertise within the Industrial Technology sector.

Governors State University
**$13,550,000**
Certificates of Participation,
Series 2018

— Sole Manager —

## Sole Manager for Governors State University

Mesirow Financial served as sole managing underwriter for the $13,550,000 Certificates of Participation, Series 2018 on behalf of Governors State University ("GSU"). Mesirow Financial was awarded the transaction through a request for proposal process. The Series 2018 Certificates were issued to pay for deferred maintenance projects. Like several other Illinois-based public universities, GSU has been significantly impacted by recent State of Illinois budget impasses and underfunding. Given significant deferred maintenance needs, GSU decided to tap the capital markets to raise approximately $13 million by leveraging a newly enacted student facility fee. Mesirow Financial was able to work with the financial advisor and Build America Mutual over the course of three months to ultimately procure bond insurance. With the use of bond insurance, GSU was able to sell the certificates with no underlying ratings. Mesirow Financial's exceptional sales efforts garnered an overwhelming response from the investor community and GSU's transaction was well-received. During final pricing, credit spreads were tightened on all maturities and the final pricing of the transaction was significantly tighter than originally proposed during the RFP process.

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