



Opus Connect

MIDWEST DEAL MARKET REPORT

2020

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INTRODUCTION

M&A professionals in the United State Midwest region provide valuable insights into the current state of the market and the deal pipeline during the challenges of 2020 and the COVID-19 pandemic.

Our findings in this report seek to illuminate the challenges faced by the middle market M&A professionals in the Midwest as they continue to make deals, conduct due diligence, and adapt to a changed landscape after a pause during the global economic slowdown. The inherent variety within the M&A market led to a diversity of responses within participants' responses regarding their deal pipelines, virtual business activities, client acquisition strategies, future deal opportunities, and more.

Opus Connect's goal is to be a resource to the M&A deal community, conducting this research with the goal of providing a window into the current state of the middle-market M&A deal pipeline in the U.S. Midwest region. A tool for future success, the information gathered aims to promote awareness of current practices as well as the speed and growth potential for deals going forward. Business development strategies are continually changing and growing alongside an industry that is now seeing greater utilization of digital resources and new technologies as some – but not all – parts of the deal process transition to virtual interactions and events. As the global scenario changes, business processes adapt alongside it.

Thank you to our esteemed survey respondents in the Midwestern region for sharing their timely experiences and discussing the impact of COVID-19 with us as we all cope with the curveballs of 2020 and the unexpected issues that arise from shifting the ways in which we do business during a global pandemic.

METHODOLOGY

This survey, conducted via one-on-one interviews by Opus Connect CEO [Lou Sokolovskiy](#) in December 2020, reports the views of U.S. Midwestern middle-market M&A professionals. These views encompass industry outlook, the state of ongoing deals and deals closed during the COVID-19 pandemic, challenges faced in performing due diligence, the quality and quantity of new deals, the state of the debt market, and more.

DEMOGRAPHIC

Our survey respondents are at firms that have been in existence for anywhere from two to twenty years, showcasing a wide range of experience in the industry. This survey had 24 total respondents providing a range of answers that allow us to provide a snapshot of the middle market in the Midwestern region.

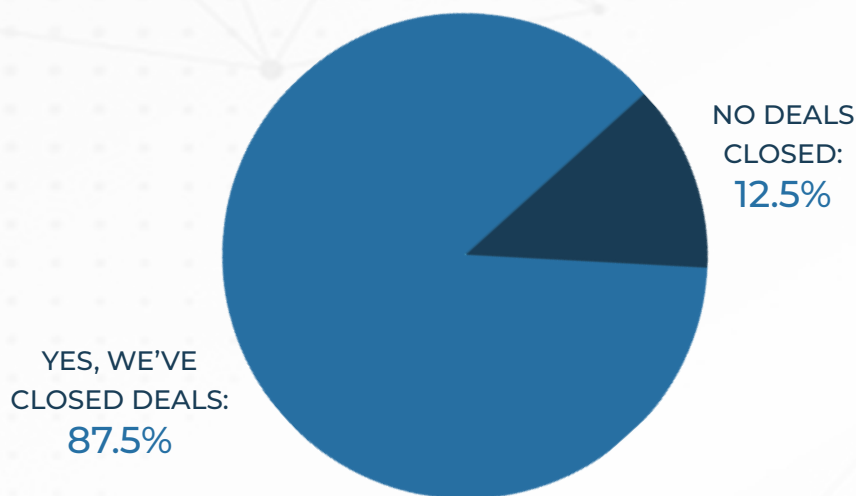
RESEARCH QUESTIONS & RESPONSES

The goal of this section is to provide insight into whether Midwestern middle-market M&A professionals have been able to close deals during COVID-19, and whether those deals were done on a virtual or in-person capacity, and whether business-related air travel has resumed for this region.

A. IMPACT OF COVID-19

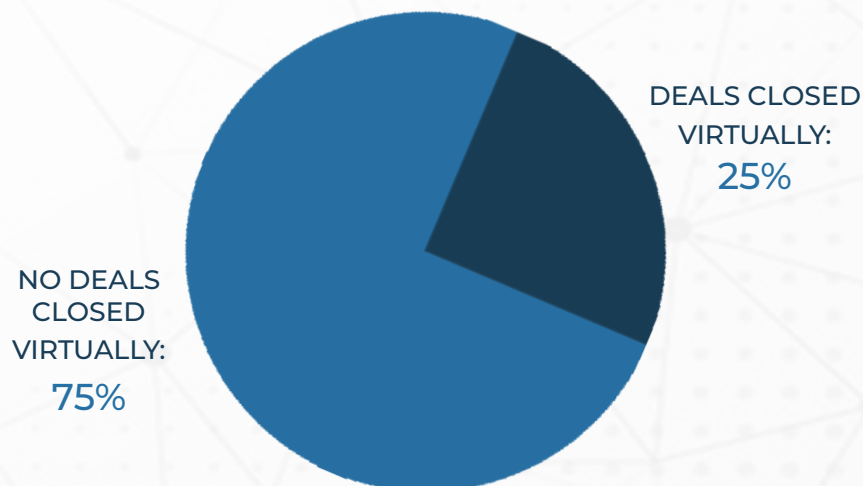
Question 1.1: Have you closed any deals since COVID-19?

A large percentage of respondents have closed deals since the start of the COVID-19 pandemic, with 21 out of 24 professionals surveyed (87.5%) stating that they have closed deals or are about to close deals. Only 3 of the respondents, or 12.5%, have not closed a deal since the COVID-19 pandemic began in March 2020.



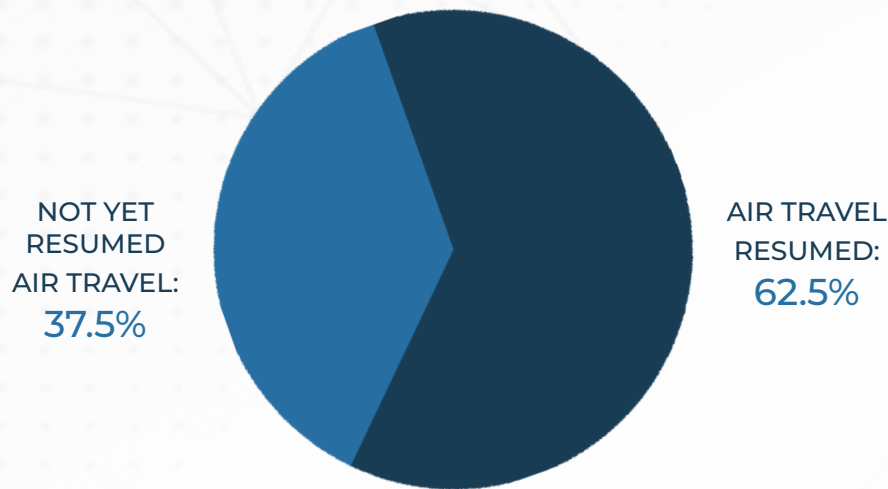
Question 1.2: Have you done any of your deal(s) remotely or virtually?

Conducting business in an entirely virtual manner has increased, but the majority of respondents have not closed any deals in an all-virtual and remote setting. 75% of those surveyed did not close virtually, versus the 25% that were able to move a deal through the pipeline using remote tools.



Question 1.3: Have you resumed air business travel?

Meeting prospective buyers and sellers in the M&A middle market is an essential part of the deal process, and with the halt in air travel to prevent the spread of COVID-19, our respondents were mixed on the question of business travel. 62.5% of respondents, or 15 professionals, have already resumed business-related air travel. The remaining 9 (or 37.5%) have not, preferring to wait until health statistics for the U.S. show a slowdown of virus transmission.



B. NEW TOOLS & STRATEGIES

Question 2: What new tools are you using to close deals today?

Universally, Zoom is the tool of the moment, with all of the respondents mentioning it in as an essential tool of business in 2020. Other mentioned services include great utilization of Microsoft Teams, videoconferencing platforms, and Google Meet. No surprises here, and it seems that M&A professionals will continue to spend their days on Zoom calls into 2021.

Question 3: How are you pitching new clients and building new relationships?

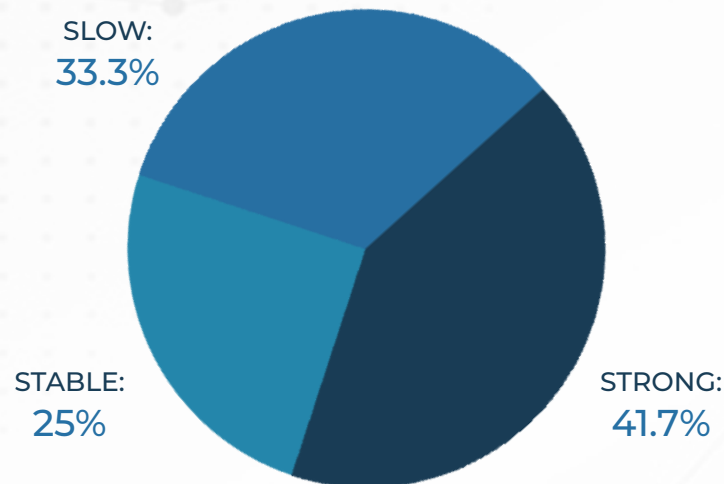
The top responses to this question regarding new clients include referrals and word-of-mouth, with Gary Grote noting that he utilizes “personal communication to build a chain of trust” with current and potential clients. Checking in via phone calls and some in-person meetings is favored by a number of respondents; Pete Peterson assets that “constant communication through video conferencing” is a preferred method to build client relationships.

Zach Wiersma provides the following insight: “one thing that really helps is a long-standing referral, relationships through relationships with attorneys, accountants, private wealth folks, and generally the relationships that we have that have been built, recovered, and sustained through COVID-19.” Another approach includes building one’s social media, with Joseph Valentic stating that he is “updating and informing my clients based on what activity I do in my career. Being active on social media so they know where I’m at” as a strategy for engaging with new and potential clients.

C. ECONOMY & DEALS

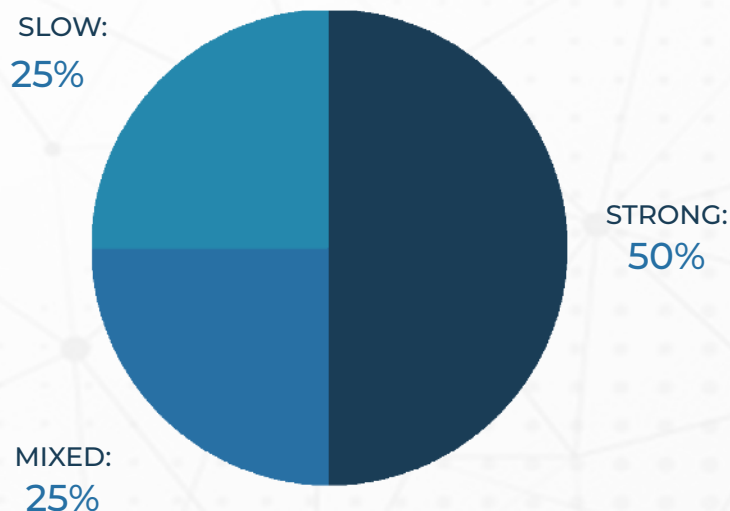
Question 4: What is the state of the Midwestern economy?

The response to this query were decidedly mixed, with 25% of the respondent base asserting that the Midwestern economy was stable and 41.7% (10 respondents) referring to it as strong. Despite this optimistic majority, 33.3% (8 respondents) felt that the current status of the Midwestern economy was “shaky” or had shrunk in size in 2020. Industry or sector surely plays the biggest role in terms of how each individual regards the state of the economy as we end 4Q20 and head into the new year.



Question 5: What is the state of the Midwest deal market?

The overall deal market for middle-market M&A professionals in the Midwest appears to be trending upward, as 50% of the respondents (or 12 people) characterized it as strong. Mike Palm noted that the market is “busy right now; for our firm, we have a bigger pipeline. It could be a pretty interesting 2021.” The other 12 respondents were evenly split, with 6 characterizing the Midwest deal market as mixed and 6 considering it to be slower.



Question 6: What is the state of companies bringing their business operations back onshore to the Midwest region?

This question did not apply to some of the subjects interviewed, but a few had interesting observations on the status of onshoring business operations as we move into 2021. Brian Berent states that “interestingly enough, over the last two days I’ve had two meetings with companies that are looking to raise capital to establish manufacturing facilities back here in the Midwest.” Robert Griggs notes that IT services firms could be looking to move from Eastern Europe.

Sima Griffith provided the following insight: “For the manufacturing sector, we are seeing a definitive uptick in customers and orders from companies that want domestic suppliers now. I am seeing an uptick in the number of companies that want us to supply pricing and give us the business, versus an overseas precision manufacturer.”

D. LOOKING FORWARD & THE STATE OF NEW DEALS

Question 7: What are the biggest deal opportunities in 2021?

Many respondents favored similar answers, with many mentioning that the biggest deal opportunities will be had in technology/IT services, healthcare, and supply chain needs. New technologies equal new opportunities in 2021, which is not surprising as industrial IOT and manufacturing technology present favorable circumstances in the M&A deal market. Other opportunities noted by respondents include consolidation, infrastructure, aerospace, and industrial manufacturing.

Justin Pinto sees an opportunity in “the need for flexibility in the M&A industry. Well-performing businesses that were positioned relatively strongly throughout COVID-19 will be on the track with assets going forward to a lot of private equity groups.” Joseph Valentic reiterated the technology boom, stating that “the speed of technology is evolving and will continue to bring new opportunities.”

Question 8: Why would the owner of a healthy company sell now?

Quite a few respondents thought along similar lines on why someone with a successful business during COVID-19 would want to sell now. Primarily, respondents’ reasoning included valuation, diversifying, and taxes as top reasons to sell, as well as Baby Boomer owners who were reaching retirement. Nick Good summed it up well by stating that “if you have a business that has been pretty steady all throughout COVID-19 and things are still going well for you, that is a selling point in terms of just proving the validity of business.” Eager buyers are looking to purchase in a safe way, meaning that if you have a company that did well pre-COVID and kept steady or even thrived during COVID, that is a highly attractive purchase for a potential buyer, and this could be a great time to sell for a higher multiple from a flight-to-quality perspective.

RESULTS ANALYSIS

While middle market M&A has seen many challenges and issues from the COVID-19 pandemic, such as slowed deal flows and less deals overall in 2020, there is an uptick in certain areas of the deal pipeline. Management teams are scheduling more in-person meetings as travel resumes, deal professionals are growing a bit more comfortable with virtual environments, and deals are happening with greater regularity as 2020 winds down. However, professionals in this sector are still almost entirely wary of conducting business solely with virtual tools, preferring to meet in person despite less airline travel overall.

Many professionals in this region seem to have an optimistic outlook about the state of the economy at the present moment and going forward into 2021, with technology and healthcare as the unsurprising leaders across the market. Depending on sector, selling a business now could be a very smart move, if valuation is high and sellers are seeking to diversify during this time. Onshoring might be a small trend but it should be seen as a trend that can see much growth as we witnessed a major supply chain disruption in 2020.

Client relationships are still being cultivated and maintained through frequent communication, with greater utilization of video conferencing in our COVID-forced virtual interactions. Everyone is looking forward to a reinvigorated deal pipeline in 2021, seeking to build on any progress that was made throughout 2020 and bounce back to a place of greater confidence after a vaccine becomes widely distributed across the U.S.

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