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LINCOLN PRIVATE MARKET INDEX GROWS MODESTLY IN Q1 2023 AS A RESULT OF RESILIENT PRIVATE COMPANY PERFORMANCE

The Lincoln Private Market Index (Lincoln PMI) reveals that in Q1 2023, private market enterprise values increased 1.5%. This quarter, the Lincoln PMI increased due to modest improvement in operating performance in the private markets while multiples were relatively stable. Whereas the Lincoln PMI increased 1.5%, the S&P 500 EV increased by 8.2%, reflecting the S&P 500's significantly more volatile enterprise value multiples; over the last 12 months, the Lincoln PMI outperformed the S&P 500 EVs. Although all other industries saw steady or strong enterprise value growth due primarily to EBITDA improvement, healthcare companies continued to experience cost pressures which resulted in flat enterprise values.

ABOUT THE LINCOLN PRIVATE MARKET INDEX

The Lincoln PMI is a first-of-its-kind index measuring changes in the enterprise values of private companies over time – and a barometer of the performance of private companies generally. The Lincoln PMI enables private equity firms and other investors to benchmark how private company investments are performing against peers, and how this performance correlates to the S&P 500.

Lincoln designed the Lincoln PMI to solve this problem by measuring the quarterly change in enterprise values for private companies primarily owned by private equity firms. Enterprise value (“EV”) is the sum of a company’s equity value and debt.

QUARTERLY OVERVIEW

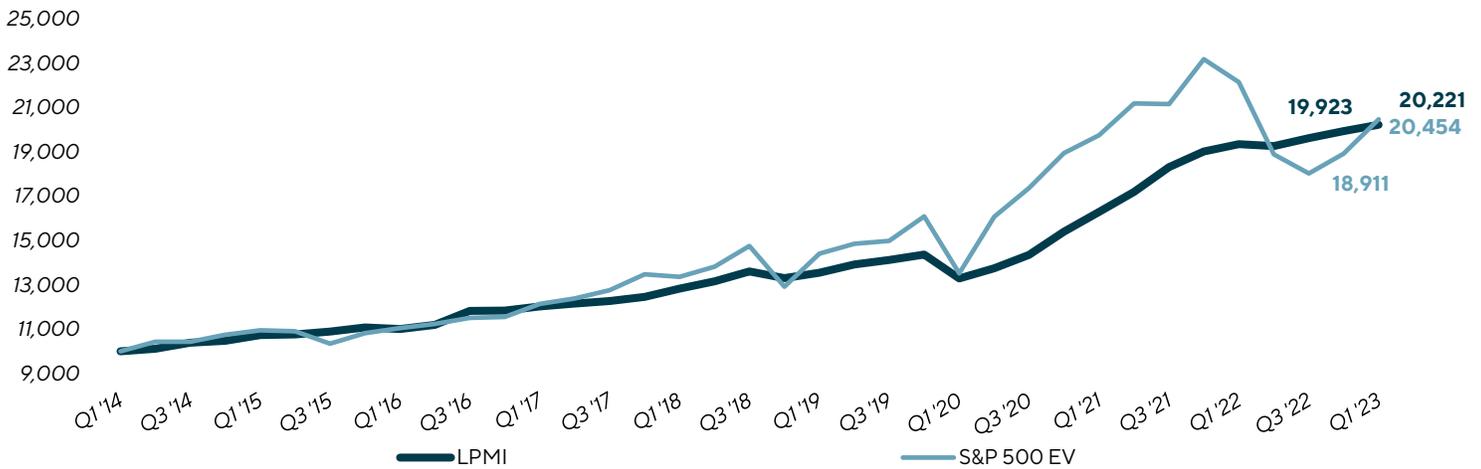
- Twenty-third Edition: Covers Q1 2023
- Measures quarterly changes in the enterprise values of ~825 private companies, based on a population of approximately 4,000 companies primarily owned by private equity firms with a median EBITDA of ~\$30-35 million
- Analyzes the impact from the change in company earnings versus market valuation multiples
- Assess the change in value for six industry sectors

RESULTS:

Private markets remain insulated amidst public market volatility

Q1

2023



(NOTE: Both the Lincoln PMI and S&P 500 EV returns above reflect enterprise values)

(S&P 500 EV excludes financial companies for which enterprise value is generally not meaningful; however, including such companies produces similar results)

	Q1 '23	LTM	CAGR since Inception
LPMI	1.5%	4.6%	8.1%
S&P 500 EV	8.2%	(7.6%)	8.3%

The Lincoln PMI grew at a compound annual growth rate of 8.1% since inception as compared to 8.3% for the enterprise values of the S&P 500. Further, since the start of the pandemic, private market enterprise values have just marginally outpaced S&P 500 enterprise values.

While the correlation between the two markets has diverged in recent years, the two indices reconverged in Q4 2022 and sat nearly on top of each other in Q1 2023. However, while the Lincoln PMI increase was driven by moderately improved operating results, the S&P increase was driven by the second quarter of multiple expansion, reflecting the greater volatility seen within the public market. "Fundamental performance, rather than multiple volatility, is the primary driver of value in the private markets, and private equity appears to have done a good job of navigating the current inflationary and recessionary pressures," said Steve Kaplan, Neubauer Distinguished Service Professor of Entrepreneurship and Finance at the University of Chicago Booth School of Business, who assists and advises Lincoln International on the Lincoln PMI.

The Lincoln PMI shows that private company enterprise values remain less volatile than those of the S&P 500; the Lincoln PMI's volatility is less than half that of the S&P 500 EV index as multiples have tended to be more stable than public company multiples. As a result, the Sharpe Ratio, which measures excess return per unit of risk, of the Lincoln PMI is superior to that of the S&P 500 EV index.

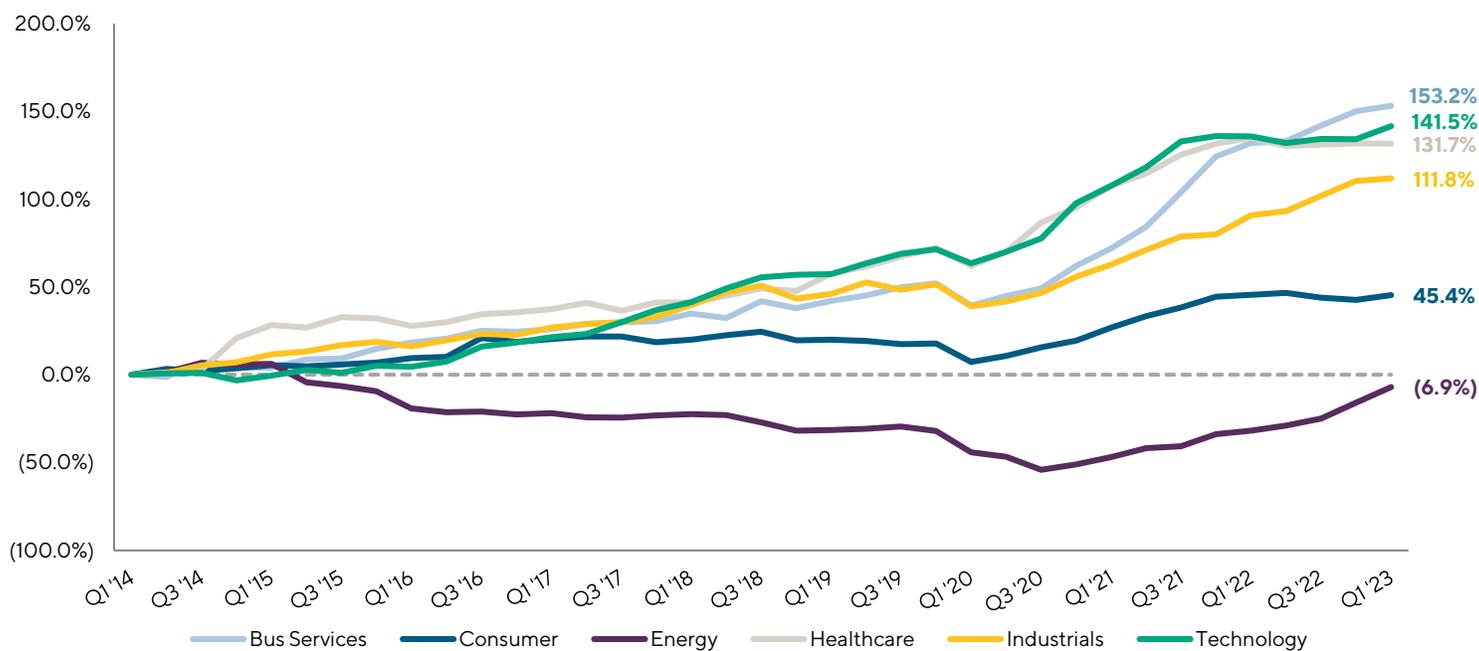
While the Lincoln PMI shows similar growth in enterprise value since inception as compared to the S&P 500, private equity owned companies traditionally have more leverage than public companies and, therefore, generate relatively greater equity gains.

SECTOR BREAKDOWN:

Healthcare valuations remained flat while other industries saw modest growth in Q1 2023

Q1

2023



Industry	Q1 '23	LTM
Bus Services	1.2%	9.1%
Consumer	1.9%	(0.1%)
Energy	10.8%	36.6%
Healthcare	(0.0%)	(1.4%)
Industrials	0.7%	11.0%
Technology	3.2%	2.5%

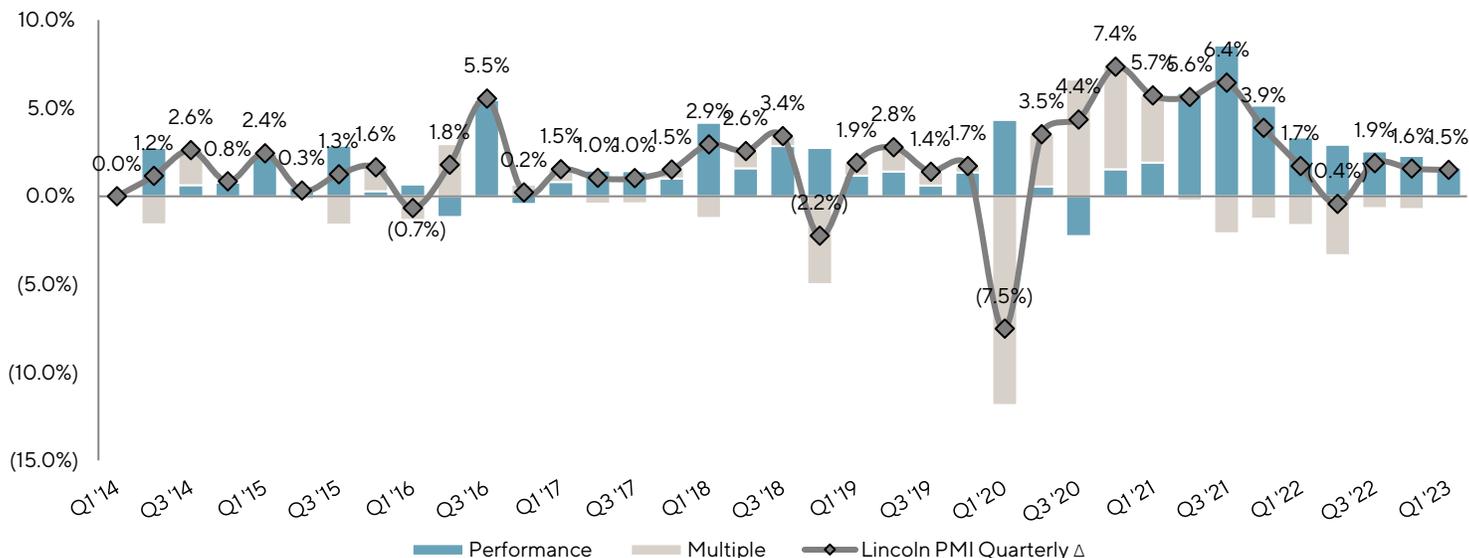
In Q1 2023, private company valuations further increased on the back of resilient operating performance with higher costs passed onto end customers via price increases while many companies also implemented cost cuts. Despite historically being viewed as a recession-resilient industry, healthcare was the only industry which did not experience enterprise value growth because of heightened labor costs and unfavorable reimbursement trends.

The consumer industry saw an increase in enterprise value for the first time since Q2 2022, despite having had the weakest recent performance with LTM revenue growing approximately 12% from the prior year and LTM EBITDA declining 2% over that same period. While the consumer industry experienced declining performance, the consumer staples subsector has seen performance trend positively year-over-year, in line with expectations moving into a recessionary environment. The S&P 500 Consumer Discretionary and Consumer Staples sub-indices similarly increased.

EXAMINING THE LINCOLN PMI: EBITDA Examining the Lincoln PMI - EBITDA Multiples versus Earnings

Q1

2023



~45%+

Expansion of Lincoln PMI valuation multiples since Q1 2014

The grey line in Graph 3 indicates the quarterly change in Lincoln PMI enterprise values; this change is based on changes in performance (i.e., EBITDA) combined with the change in EBITDA multiples.

The Lincoln PMI increased in Q1 2023 as the earnings growth more than offset multiple contraction. For the eighth consecutive quarter, enterprise value multiples contracted, albeit negligibly, in the Lincoln PMI, despite multiple expansion in the S&P 500 index for the second quarter, while private market M&A activity remained slow.

Q1 2023 represented another quarter of resilient performance by PE-backed portfolio companies despite inflationary pressures continuing to permeate the economy. However, Lincoln PMI earnings growth has slowed to the lowest levels since Q1 2021. Despite the slowed growth, on average, private companies are projecting revenue and EBITDA growth of 10% for the full year of 2023. Despite such consistently strong projections, since the inception of the Lincoln PMI, there has not been a year in which EBITDA growth in aggregate has reached double digits.

“Private companies have been able to largely handle the curveballs thrown at them in 2022 and, looking ahead, it appears as though portfolio companies and sponsors are expecting that growth to continue,” noted Ron Kahn, Managing Director and co-head of Lincoln’s Valuations & Opinions Group. “However, market participants remain cautious if this growth can be achieved and as a result, there has been a marked slowdown in M&A activity in the early innings of 2023.”

SUMMARY:

Q1 2023 Lincoln PMI

Q1

2023

GENERAL OBSERVATIONS:

- Private company enterprise values increased for the third consecutive quarter as the Lincoln PMI increased 1.5%. The index has increased 40.9% from pre-pandemic levels observed in Q4 2019 but growth has steadily slowed for over a year.
- Despite similar directional growth in 2021, the Lincoln PMI and S&P 500 EV experienced diverging performance in early 2022 before reconverging in Q1 2023. The differences were a result of more volatile multiples seen throughout 2022 in the S&P 500 EV relative to the Lincoln PMI.
- Since its inception in Q1 2014, the Lincoln PMI has shown that private company enterprise value multiples have been less volatile than public company multiples and that earnings are the primary factor driving long term value creation.

ENTERPRISE VALUE RESULTS:

- In Q1 2023, private market valuations continued to hinge on companies' ability to pass on price increases, cut costs, and/or handle the rising rate and inflationary environment. The outlook for the remainder of 2023 remained uncertain as the ability for companies to continue to grow performance and overcome persistent rising rates continued to be questioned.
- Direct lending remains in a period of price discovery. Investors have continued to remain selective and focused on recession-resilient companies in the first quarter of 2023, as evidenced by the reduced leverage of new deals. This selectiveness may lead to a buildup of dry powder in the back half of 2023. If investors look to deploy the built-up capital in the second half of 2023, the private market may be able to sustain the recent level of enterprise value multiples, which could stabilize enterprise values in 2023 should operating performance finally soften.
- In Q1 2023, both the Lincoln PMI and S&P 500 EV indices increased, although for different reasons. The Lincoln PMI benefitted from improved operating results, whereas the S&P 500 index benefitted from multiple expansion.

INDUSTRY BREAKDOWN ON AN ENTERPRISE VALUE BASIS:

- Despite lower earnings results year-over-year and lower discretionary spending entering a potential recessionary environment, consumer companies continued to recover and grew enterprise values at an above-market rate in Q1 2023.
- Healthcare, a former safe haven, was the only industry to see flat enterprise value in Q1 2023 as healthcare companies continued to face greater labor pressures and difficulties in increasing pricing

IN SUMMARY, WE BELIEVE THE LINCOLN PMI:

- Enables investors in private companies, including private equity firms, to benchmark their investments against their peers and the S&P 500 on both enterprise value and equity value bases;
- Demonstrates that private companies generate returns comparable to major public stock market indices with less volatility;
- Offers many unique valuation insights into the fair value of private companies for a wide array of stakeholders and investors; and
- Represents a significant enhancement to the information available to investors in private companies.

METHODOLOGY: Source of Data and Sample Size

Q1

2023

SOURCE OF DATA AND SAMPLE SIZE

On a quarterly basis, Lincoln determines the enterprise fair value of over 4,000 portfolio companies for over 140 sponsors (i.e., private equity groups and lenders to private equity groups). These portfolio companies report quarterly financial results to the sponsor or lender. Lincoln obtains this information and determines the appropriate enterprise value multiple so as to compute the enterprise value in accordance with the fair value measurement principles of generally accepted accounting principles. In assessing enterprise value, Lincoln relies on well accepted valuation methodologies such as the market approach and income approach considering each company's historical and projected performance and other qualitative and quantitative factors. Finally, each valuation is then vetted by auditors, company management, boards of directors and regulators. Upon concluding each quarterly valuation cycle, Lincoln aggregates the underlying financial performance and enterprise value data for analysis.

To construct the Lincoln PMI, Lincoln selects a subsection of the companies valued each quarter, including private companies each generating earnings before interest, taxes, depreciation and amortization of less than \$100.0 million, disregarding venture-stage businesses and non-operating entities, such as special purpose entities that own real estate and specialty finance assets.

For more information, visit www.lincolninternational.com/services/valuations-and-opinions/lincolnmpi

4,000

Portfolio companies are evaluated by Lincoln on a quarterly basis to determine their Enterprise Fair Value

140+

Sponsors participate in Lincoln PMI i.e. private equity groups & lenders to private equity groups

METHODOLOGY:

Academic Advisors



PROFESSOR STEVEN KAPLAN

Professor Steven Kaplan is a Senior Advisor to Lincoln's Valuations and Opinions Group. He is the Neubauer Family Distinguished Service Professor of Entrepreneurship and Finance and Kessenich E.P. Faculty Director at the Polsky Center for Entrepreneurship and Innovation at the University of Chicago Booth School of Business. Among other courses, Professor Kaplan teaches advanced Master of Business Administration and executive courses in entrepreneurial finance and PE, corporate finance, corporate governance and wealth management. Professor Kaplan conducts research on a wide array of issues in PE, venture capital, corporate governance, boards of directors, mergers and acquisitions and corporate finance. He has been a member of the Chicago Booth faculty since 1988.

Professor Kaplan serves on the board of Morningstar and several fund and company advisory boards. He is also a Research Associate at the National Bureau of Economic Research and an Associate Editor of the *Journal of Financial Economics*.

Professor Kaplan received a Bachelor of Arts, summa cum laude, in applied mathematics and economics from Harvard College and earned a Doctor of Philosophy in business economics from Harvard University.

PROFESSOR MICHAEL MINNIS

Professor Michael Minnis is a Senior Advisor to Lincoln's Valuations and Opinions Group. He is a Professor of Accounting at the University of Chicago Booth School of Business, where he researches the role of accounting information in allocating investment efficiently by both managers and capital providers. His recent research focuses on understanding the role of privately held companies in the U.S. economy and how these firms use financial reporting to access, deploy and manage capital. He particularly enjoys identifying unique data and methods to empirically examine issues in a novel way.

In January 2018, Professor Minnis became a member of the Private Company Council, the primary advisory council to the Financial Accounting Standards Board (FASB) on private company issues. Professor Minnis received his Ph.D. from the University of Michigan and his Bachelor of Science from the University of Illinois, where he graduated with highest honors.

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