



LINCOLN MMI

2018 Q1 RESULTS | 2018 OUTLOOK

LINCOLN MIDDLE MARKET INDEX



THE LINCOLN MIDDLE MARKET INDEX SHOWS STRONG MOMENTUM IN 2018

Lincoln International's third issue of the Lincoln Middle Market Index (MMI) reveals that, in Q1 2018, middle market enterprise values increased 2.9% compared to a decrease of 0.9% for enterprise values of S&P 500 companies.

About the Lincoln Middle Market Index

QUARTERLY OVERVIEW

- > Third Issue: Covers Q1 2018
- > Measures quarterly changes in enterprise value of approximately 360 middle market companies based on a population of over 1,300 companies primarily owned by private equity firms
- > Analyzes the impact from the change in company earnings versus market valuation multiples

The Lincoln MMI is a first-of-its-kind index to offer a comprehensive, detailed and useful measurement of private middle-market company performance and values.

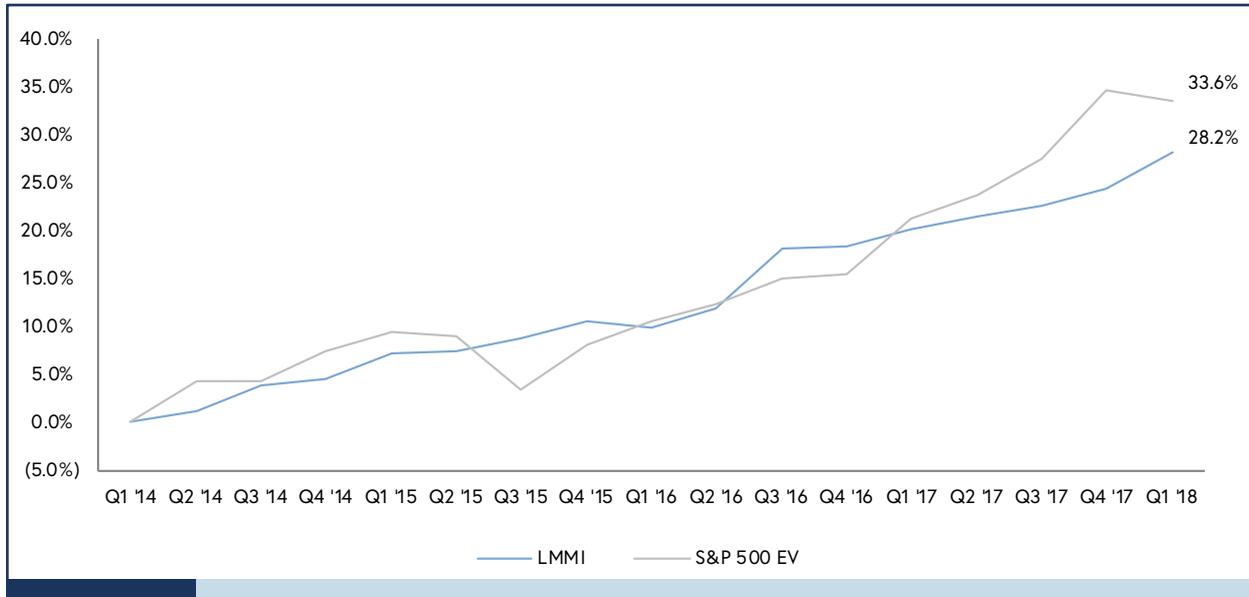
What has been missing from the privately held company marketplace is a means to identify how its value:

- 1) Changes over time
- 2) Correlates to the public stock market

Lincoln designed the Lincoln MMI to solve this problem by measuring the quarterly change in enterprise value for middle market companies primarily owned by private equity firms. Enterprise value ("EV") is the sum of a company's equity value and net debt.

A significant difference between the Lincoln MMI and S&P 500 is that the Lincoln MMI is comprised of smaller, private companies whereas the S&P 500 is comprised of public companies.

RESULTS: Middle Market Companies Outpaced the S&P 500 in Q1 2018



Note: Both the Lincoln MMI 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; including such companies produces qualitatively similar results

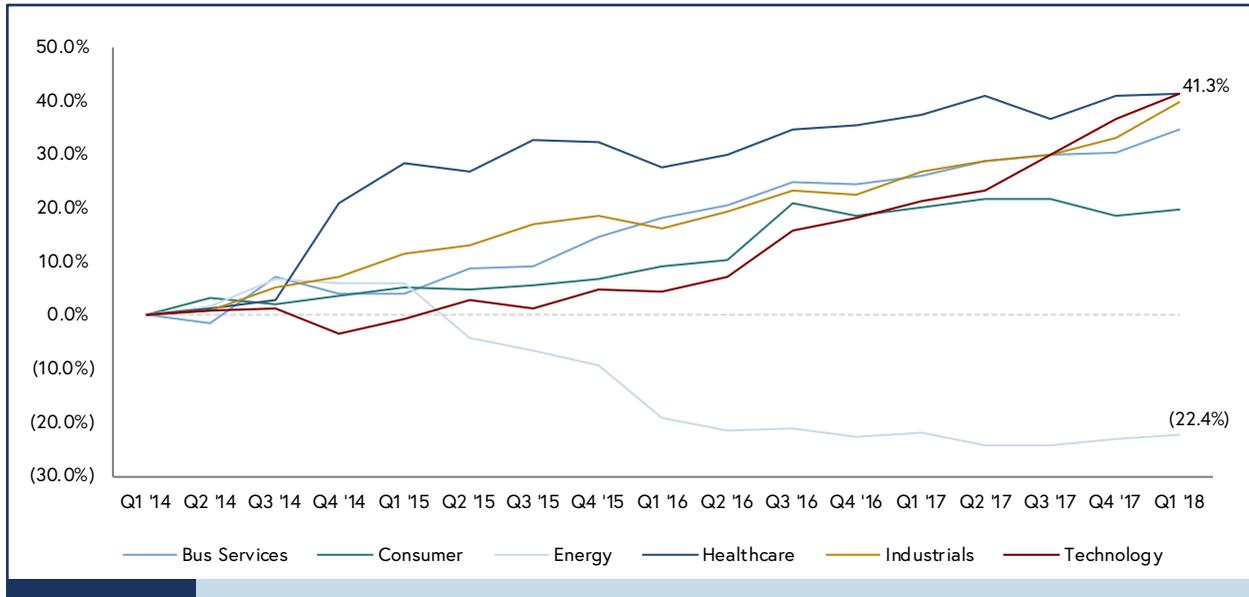
LINCOLN MMI
COMPOUND ANNUAL
GROWTH RATE OF
6.4%
SINCE Q1 2014

Starting at a value of 10,000 as of March 31, 2014, the Lincoln MMI increased by 28.2% cumulatively to 12,821, as of March 31, 2018.

- > The Lincoln MMI grew at a compound annual growth rate of 6.4% since inception as compared to 7.5% for the enterprise values of the S&P 500.
- > Over the past year, the Lincoln MMI and S&P 500 enterprise values grew 6.7% and 10.1%, respectively. However, over the last quarter, the Lincoln MMI grew 2.9% while the S&P 500 enterprise values declined 0.9%.

SECTOR BREAKDOWN:

Middle Market Performance by Industry

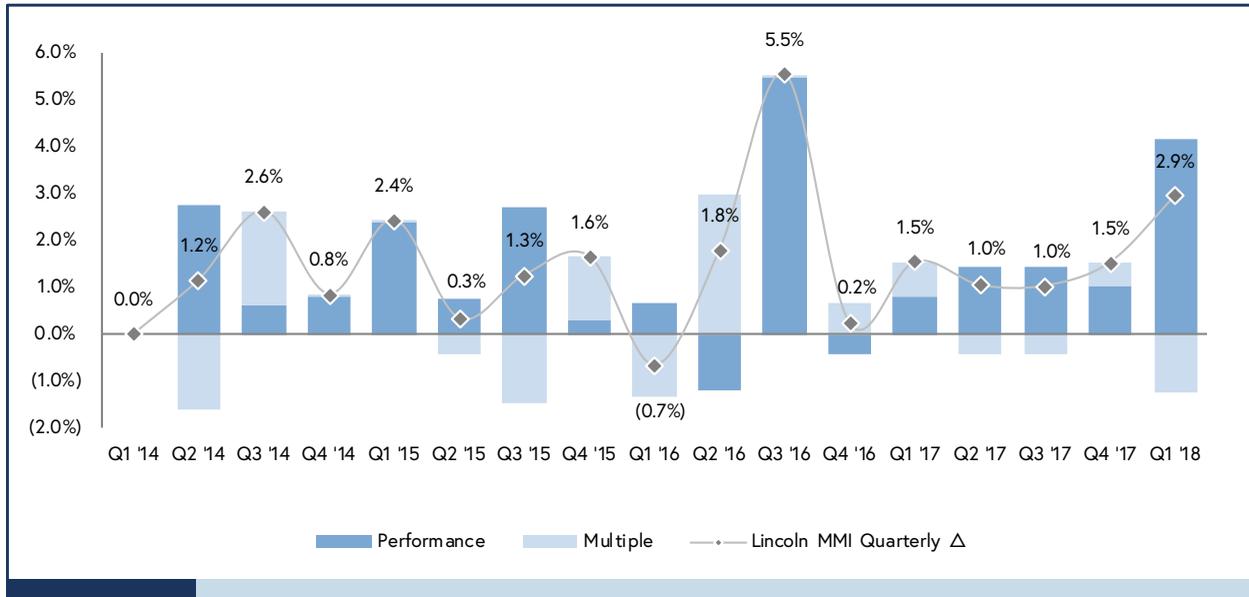


LINCOLN MMI
TECHNOLOGY
INCREASED BY
16.4%
SINCE Q1 2017

The technology segment remains the top performing segment over the last year, increasing by 16.4% which is over 60% higher than the second-best performing segment, industrials, which grew by 10%.

Q1 2018 was only the second time since Q1 2014 during which the enterprise values for every industry improved. Despite the middle market's overall growth this quarter, enterprise values of consumer and energy companies declined over the past year as restaurants and retailers dragged down consumer performance and energy service companies are slower to benefit from rising commodity prices.

EXAMINING THE LINCOLN MMI: EBITDA Multiples Versus Earnings



10%
EXPANSION OF
LINCOLN MMI
VALUATION MULTIPLES
SINCE Q1 2014

The grey line in this graph indicates the quarterly change in the Lincoln MMI. This change is based on changes in performance (i.e., EBITDA) combined with the change in EBITDA multiples.

Since the inception of the Lincoln MMI in Q1 2014, middle market valuation multiples expanded approximately 10%. Multiple expansion slowed modestly over the last four quarters. Earnings growth remains the more meaningful driver in long-term middle market enterprise value growth.

SUMMARY: THE LINCOLN MMI

MARKET OBSERVATIONS:

- > While enterprise values for the S&P 500 experienced their first quarterly decline since Q3 2015, middle market enterprise values continued to increase.
- > Driven by strong and steady earnings growth, middle market companies experienced their second strongest quarterly enterprise value growth since the inception of the Lincoln MMI in Q1 2014.
- > Despite multiple contraction in the middle market, the Lincoln MMI continues to demonstrate that valuations of U.S. middle market companies are less volatile and more heavily driven by earnings – versus enterprise value multiples – than enterprise values of the S&P 500.

INDUSTRY OBSERVATIONS:

- > All six industry sectors experienced enterprise value growth in Q1 2018.
- > Middle market technology companies outperformed all other industries over the past year and maintained this strong, steady growth in Q1 2018.
- > Middle market industrial companies experienced their strongest quarterly enterprise value growth since Q1 2014.
- > Although the Lincoln MMI increased each quarter over the past year, middle market companies in the consumer and energy sectors showed enterprise values lower than a year ago reflecting continued pressures on the retail and energy industries, respectively.

IN SUMMARY, WE BELIEVE THE LINCOLN MMI:

- > Enables investors in private companies and private equity firms the ability to compare or benchmark their investments against an index comprised of hundreds of privately held companies.
- > Demonstrates middle market private companies generate returns comparable to major public stock market indices while also being reflective of the United States private equity backed middle market.
- > 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: DATA COLLECTION

SOURCE OF DATA AND SAMPLE SIZE

On a quarterly basis, Lincoln determines the enterprise fair value of over 1,300 portfolio companies for approximately 100 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 computes 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 MMI, Lincoln selects a subsection of the companies valued each quarter, including companies each generating earnings before interest, taxes, depreciation and amortization of less than \$100 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/lincolnmimi

LINCOLN DETERMINES
ENTERPRISE FAIR VALUE FOR

1,300+

PORTFOLIO COMPANIES
ON A QUARTERLY BASIS

NEARLY
100

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IN LINCOLN MMI

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METHODOLOGY: ACADEMIC ADVISORS

PROFESSOR STEVEN KAPLAN

Professor Steven Kaplan is the Neubauer Distinguished Service Professor of Entrepreneurship and Finance at the University of Chicago Booth School of Business. Professor Kaplan conducts research on issues in private equity, venture capital, entrepreneurial finance, corporate governance and corporate finance. He has published papers in a number of academic and business journals. Kaplan is a research associate at the National Bureau of Economic Research and an associate editor of the Journal of Financial Economics. Kaplan teaches advanced MBA and executive courses in entrepreneurial finance and private equity, corporate finance, corporate governance, and wealth management. BusinessWeek named him one of the top 12 business school teachers in the country. Kaplan serves on the boards of Morningstar, Zayo Group and the Illinois Venture Capital Association. He has been a member of the faculty since 1988.

Professor Kaplan received his A.B., summa cum laude, in Applied Mathematics and Economics from Harvard College and earned a Ph.D. in Business Economics from Harvard University.

PROFESSOR MICHAEL MINNIS

Professor Michael Minnis is an Associate Professor of Accounting at the University of Chicago Booth School of Business. Professor Minnis studies the role of accounting information in allocating investment efficiently by both management and capital providers, the use of financial reporting in mitigating information opacity issues of privately-held firms, and the interplay within management in the production and use of financial information. His research includes identifying unique data and methods to empirically examine issues in a novel way.

Professor Minnis received his Ph.D. from the University of Michigan and his B.S. from the University of Illinois, where he graduated with Highest Honors.

LINCOLN INTERNATIONAL'S GLOBAL VALUATIONS & OPINIONS GROUP

Lincoln International's Valuation & Opinions Group (VOG) is a leading independent valuation advisor to managers of illiquid assets and lenders to alternative assets funds. The team specializes in the valuation of illiquid debt, equity and derivative securities. Additionally, they provide independent fairness and other transaction opinions for a variety of corporate transactions for both public and private companies.

Lincoln International's highly skilled professionals have extensive experience in determining and supporting fair value measurements for traditional and complex securities. They are widely recognized for leveraging Lincoln International's "real world" transaction experience from its M&A and debt advisory practices to assist its clients in the determination of fair value.

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ABOUT LINCOLN INTERNATIONAL

Lincoln International specializes in merger and acquisition advisory services, debt advisory services, private capital raising and restructuring advice on mid-market transactions. Lincoln International also provides fairness opinions, valuations and joint ventures and advisory services on a wide range of transaction sizes. With twenty offices in the Americas, Asia and Europe, Lincoln International has strong local knowledge and contacts in key global economies. The firm provides clients with senior-level attention, in-depth industry expertise and integrated resources. By being focused and independent, Lincoln International serves its clients without conflicts of interest. More information about Lincoln International can be obtained at www.lincolninternational.com.

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