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AS COMPANIES NAVIGATE COVID-19, THE MIDDLE MARKET PROVES ITS RESILIENCY

Lincoln International's 11th edition of the Lincoln Middle Market Index (Lincoln MMI) reveals that in Q1 2020, middle market enterprise values decreased just 7.5%, compared to a 16.0% decrease for enterprise values of S&P 500 companies. Although earnings improved for both sets of companies, S&P 500 valuation multiples decreased far more materially whereas the decrease in middle market valuation multiples was less pronounced, similar to historical trends but of a notable magnitude. Although enterprise value growth was highly dependent on industry selection in 2019, there was no safe space in Q1 2020 as every industry declined in value following the coronavirus pandemic.

About the Lincoln Middle Market Index

The Lincoln MMI is a first-of-its-kind index measuring changes in the enterprise values of private middle market companies over time - and a barometer of the performance of private middle market companies generally. The Lincoln MMI 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 MMI to solve this problem by measuring the quarterly change in enterprise values for private middle market companies primarily owned by private equity firms. Enterprise value ("EV") is the sum of a company's equity value and debt.

QUARTERLY OVERVIEW

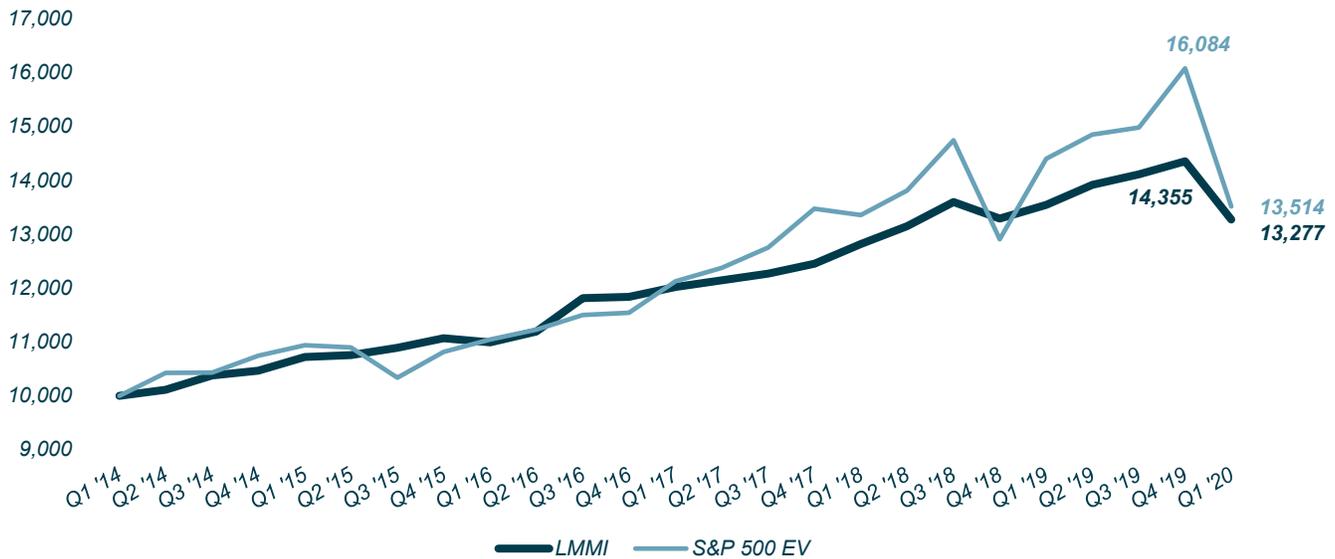
- Eleventh Edition: Covers Q1 2020
- Measures quarterly changes in the enterprise values of over 500 middle market companies, based on a population of approximately 2,000 companies primarily owned by private equity firms
- Analyzes the impact from the change in company earnings versus market valuation multiples
- Assess the change in value for six industry sectors

RESULTS:

Valuations declined in Q1 but the Lincoln Middle Market Index was less volatile

Q1

2020



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 similar results)

	QoQ	YoY
Lincoln MMI	(7.5%)	(2.0%)
S&P 500 EV	(16.0%)	(6.2%)

Starting at a value of 10,000 as of March 31, 2014, the Lincoln MMI increased by 32.8% cumulatively to 13,277, as of March 31, 2020. The Lincoln MMI grew at a compound annual growth rate of 4.8% since inception as compared to 5.1% for the enterprise values of the S&P 500.

The uncertainty stemming from the rapid expansion of the coronavirus pandemic in March 2020 led to significant declines across public and private markets. As a result, the Lincoln MMI experienced its first-ever decline over a 12-month period, but this decline was just 2.0%. However, this was the third time since 2014 that enterprise values of S&P 500 companies declined over a 12-month period and this 6.2% decline was the largest of the three.

The Lincoln MMI shows that middle market, private company enterprise values remain less volatile than those of its public market equivalent, the S&P 500; the Lincoln MMI'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 MMI is superior to that of the S&P 500 EV index.

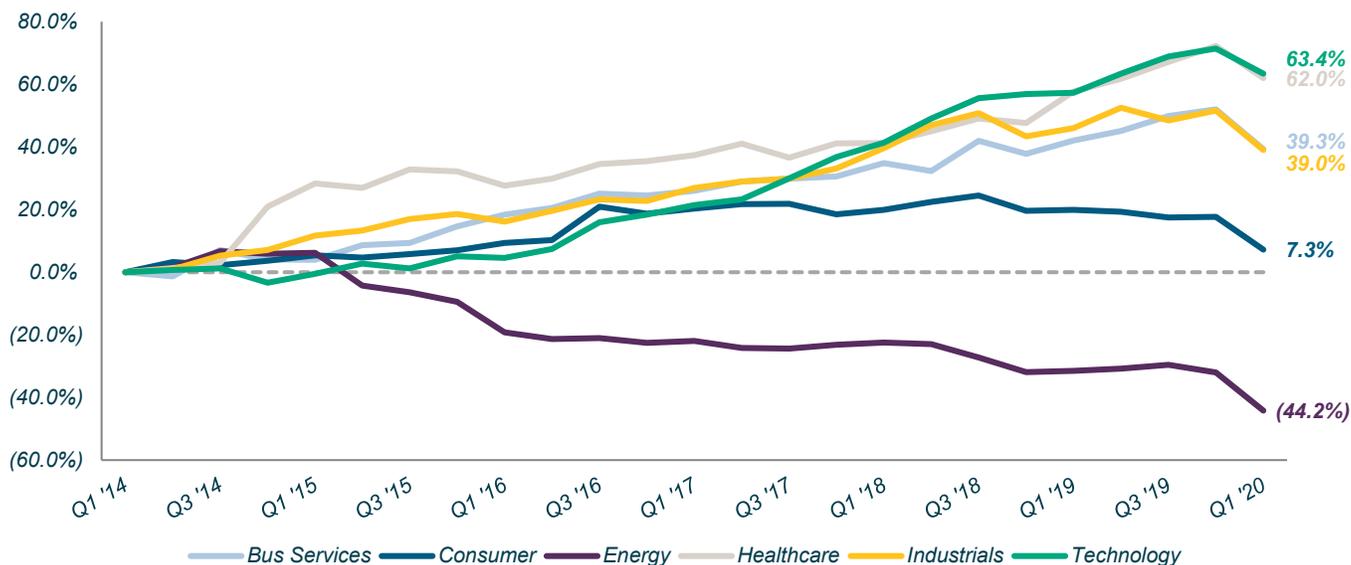
While both indexes since inception show relatively comparable growth in enterprise values, private equity owned companies traditionally have more leverage than public companies and, therefore, generate relatively greater equity gains.

SECTOR BREAKDOWN:

Every industry declined in value in Q1 2020, but magnitude varied

Q1

2020



	QoQ	YoY
Bus Services	(8.3%)	(1.9%)
Consumer	(8.9%)	(10.6%)
Energy	(18.0%)	(18.5%)
Healthcare	(6.0%)	2.7%
Industrials	(8.3%)	(4.8%)
Technology	(4.7%)	3.9%

Although the market as a whole declined year-over-year and while every industry declined in Q1 2020, healthcare and technology businesses still grew over the past twelve months. This speaks to the resiliency of these businesses and the demand for businesses less exposed to cyclicity and the impacts stemming from the coronavirus pandemic.

The outsized decline in value of energy companies as compared to other industries reflects the prior difficulties facing the industry compounded by the significant decline in commodity prices in the first quarter. This considers not just excess oil supply driving down oil prices but also lower natural gas, coal, and electricity prices.

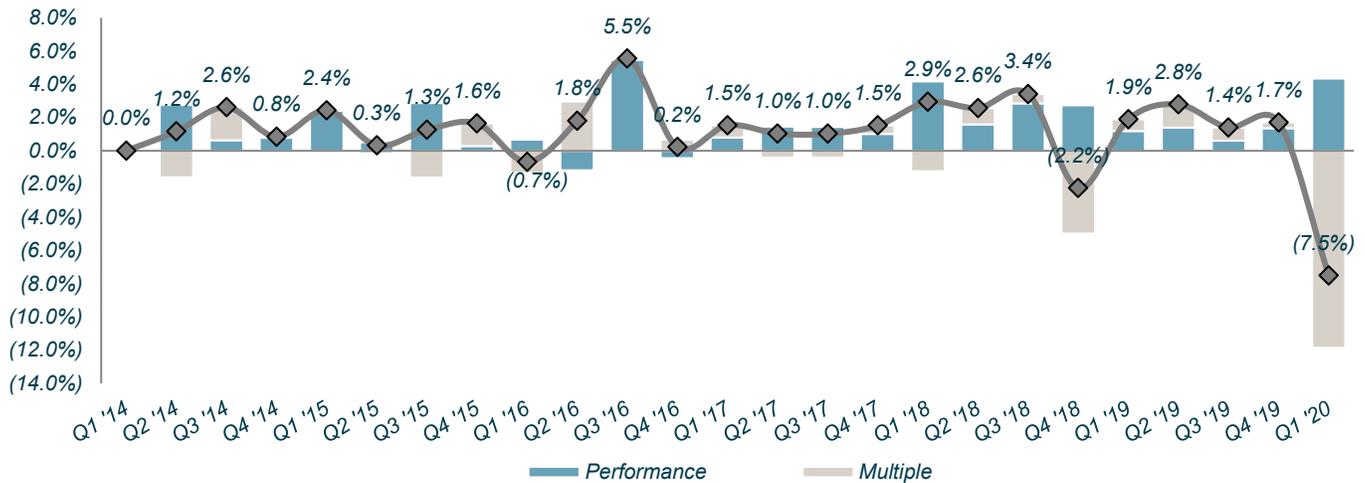
Although the declines in Q1 2020 were dramatic, the declines in most industries served primarily as a correction, erasing the gains from the last ~15 months. The greatest declines were in industries most heavily impacted by the uncertainty stemming from the coronavirus.

EXAMINING THE LINCOLN MMI:

Examining the Lincoln MMI - EBITDA Multiples versus Earnings

Q1

2020



15%+

Expansion of
Lincoln MMI valuation
multiples since Q1 2014

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

Despite notable multiple contraction in Q1 2020, middle market valuation multiples have increased by ~15%+ since the inception of the Lincoln MMI in Q1 2014. The material declines in valuation multiples stemming from anticipated earnings declines due to the coronavirus pandemic was partially offset by strong fundamental performance. However, it's important to note that the LTM EBITDA metrics underpinning the above chart primarily exclude the financial impact of the coronavirus pandemic. As part of its valuations, Lincoln discussed with deal teams and when available reviewed forecasts that do account for the impact.

“Over the past few quarters, we believed we were in the later innings of the ballgame. Still few, if any, could have anticipated such a rapid correction. Of importance, however, is that the COVID-19 impact on the middle market is not yet fully felt and will not be until companies’ performance subsequent to the start of COVID-19 is disclosed,” stated Ron Kahn, Managing Director and Co-Head of Lincoln International’s Valuations and Opinions Group. “As a result, until there is more visibility on the future performance of these companies, private equity groups and lenders will be cautious before deploying capital.”

SUMMARY:

The Lincoln MMI

Q1

2020

INDUSTRY BREAKDOWN ON AN ENTERPRISE VALUE BASIS:

- Decreases in the Lincoln MMI were most severe for COVID-19-impacted industries including Industrials and Consumer with an average decline of 8.6%, while lower energy prices drove an 18.0% decline in the Energy industry, the largest decline by industry. Technology and Healthcare were also impacted, down an average of 5.3%, given their stable earnings.
- Although there was no safe space as all industries experienced lower valuations in Q1 2020, for most industries the recent results were a correction, erasing gains from the last ~15 months as evidenced by year-over-year increases in value for Technology and Healthcare and only negligible declines in Industrials and Business Services.

OBSERVATIONS:

- Despite robust performance growth during the first two months of the year, the global economy reached its crescendo after more than a decade of positive performance, as enterprise values declined on the back of uncertainty over the coronavirus pandemic.
- Since its inception in Q1 2014, the Lincoln MMI has shown that middle market enterprise value multiples have been less volatile than public company multiples and that earnings, which have grown for both public and private companies in every quarter since early 2017, are the primary factor driving long term value creation.
- The Q1 decline resulted in the first and only decline in the Lincoln MMI over a 12-month period exemplifying the middle market's comparative stability and long-term investment horizons.

ENTERPRISE VALUE RESULTS :

- The Lincoln MMI enterprise value index decreased 7.5% for Q1 2020 versus 16.0% for the S&P 500. Over the last year, although both the LMMI and S&P EV decreased, the LMMI decline of 2.0% was less than the S&P EV decline of 6.2%.
- Enterprise value declines were a result of notably lower multiples reflecting concerns around the extent to which the coronavirus will impact future financial performance as historical performance does not yet incorporate the financial results of coronavirus.

THE LINCOLN MMI:

- Enables investors to 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 middle market 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

2020

SOURCE OF DATA AND SAMPLE SIZE

On a quarterly basis, Lincoln determines the enterprise fair value of over 2,000 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 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 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 \$100.0 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/lincolnmml

2,000+

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

~100

Sponsors participate in Lincoln MMI i.e. Private Equity Groups & lenders to Private Equity Groups

METHODOLOGY:

Academic Advisors

Q1

2020

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.

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ABOUT LINCOLN INTERNATIONAL

We are trusted investment banking advisors to business owners and senior executives of leading private equity firms and public and privately held companies around the world. Our advisory services include mergers and acquisitions, debt advisory, growth equity and restructuring for the mid-market. We also provide valuations and fairness opinions and joint ventures advisory services. As one tightly integrated team of more than 600 professionals across 16 countries, we offer an unobstructed perspective, backed by superb execution and a deep commitment to client success. With extensive industry knowledge and relationships, timely market intelligence and strategic insights, we forge deep, productive client relationships that endure for decades. Connect with us to learn more at www.lincolninternational.com.

Lincoln's Valuations & Opinions Group ("VOG") is a leading independent valuation advisor to managers of illiquid assets and lenders to alternative assets funds. VOG 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.

VOG is 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. Lincoln International's highly skilled professionals have extensive experience in determining and supporting fair value measurements for traditional and complex securities.



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