Recent Volatility & Impact on Value of Private Equity and Private Credit

Lincoln's Valuations & Opinions Group (VOG) has been monitoring global market volatility and its impact on the private markets real-time. We believe the guidance in IFRS 13 and ASC 820 provides important perspective for valuing illiquid financial instruments in volatile markets. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-specific measurement. Daily since April 2nd, we have been collecting and reconciling a significant amount of market participant sentiment and information from our global client base, enabling us to establish debt and equity valuation assumptions which are congruent with IFRS and ASC's definition of fair value. While a 90 day pause on most tariffs was announced on April 9th, Lincoln expects there will be continued uncertainty and volatility in the days and weeks ahead as tariff negotiations between the U.S. and its trading partners continue to unfold and the impact on the broader economy begins to materialize.

Private Market Update

While the themes from our April 10th market update (next page) are still true, since then to May 5, 2025 Lincoln has been able to communicate with an array of market participants, and review information from – the few – deals that have closed. In addition, we have been able to compile the results of the 2,000 portfolio company valuations performed for the month ending April 30, 2025. As a result, we believe we have real-time information as to the performance of the US private credit market in the days and weeks immediately following Liberation Day.

	March 31, 2025	April 30, 2025
Lincoln US Senior Debt Index – equal weighted	**98.5%**	**97.9%** 60 bps decrease
Enterprise Value (EV) to LTM EBITDA and EV % Change	**12.5x**	**12.3x** EV change of -1.1%

Note: Lincoln began to reduce enterprise values and enterprise value multiples beginning in February 2025 as the public equity markets began their downward trend

One Month Results Ending April 30, 2025

Financial sponsors are still actively looking to deploy capital and competition for high quality assets remains high. As a result, while at reduced levels, there has been deal activity for high quality assets that have limited exposure to tariffs. In fact, A+ deals may not be impacted at all from spread widening or enterprise value declines. In contrast we have observed for the month ending April 30, 2025:

- one-third of the nearly 2,000 private companies valued by Lincoln for the month ending April 30, 2025 experienced either no change in fair value or increases in fair value;
- no-impact to low-impacted businesses experienced spread widening ranging from 0 to 15 bps given increased macro-economic risk and uncertainty in the market;
- medium-impacted to high-impacted experienced higher spread increases of 25 bps and higher;
- relatively more widening (25 to 50 bps) for smaller companies;
- less widening (0 to 25 bps) for larger borrowers, as market participants have indicated that this is where the highest quality and most competitive deals remain; and,
- several public BDC earning releases wherein market participants have stated spreads are 25-50 bps wider.

The other word frequently used is "price discovery" which really means that, at this moment in time, the private markets are dynamic as new information and market sentiment impacts the willingness of buyers and sellers to transact at current prices. Therefore, we expect further adjustments in the coming weeks as the market continues to evolve and more macro-economic information is known.

Private Market Update

Global M&A Environment

The key theme emerging in our conversations with market participants is that most deals have gone "on hold" and we have entered a "risk-off" environment, particularly for industries most likely impacted by tariffs or recessionary pressures. Industries with more global supply chains and exposure such as chemicals, consumer, retail, automotive/transportation and logistics are expected to be the hardest hit. However, it is not a "one-size-fits-all" market. For industries that are less likely to be impacted such as certain sub-segments of business services, healthcare, energy, software, utilities, and industries that generally have high demand elasticity, recurring revenue or are considered mission critical, causing their businesses to be less impacted, we have seen these M&A processes continue to move forward. The current sentiment is, while there will be a significant reduction in deal activity, certain deals will get done. The question no one can answer at this moment is how long the pause will last.

Global Private Credit Environment

Like the M&A market, "risk-off" is the general theme for lenders until portfolio company future cash flows become more certain. However, private credit lenders are honoring commitments and closing deals that were far along in the process and have limited tariff exposure. In many cases, it is the private equity buyer who is also going "pencils down" rather than the lenders alone halting deals in process. Similar to the early part of COVID, when managers evaluated their portfolio companies for COVID exposure, managers are evaluating the potential impact of tariffs on a company-by-company basis and rating their portfolio companies high, medium or low tariff risk.

Fundamentals Update

For the quarter ended March 31, 2025, our data was already telling us "cracks" were forming as we observed revenue and EBITDA growth declining and default rates ticked up for the first time in over a year. The tariff announcements on April 2nd introduced a whole new level of risk and potential for further disruptions in company fundamental performance. Managers are getting their arms around this via their analysis and assessment of tariff risk across their portfolios. While there are no data points yet due to the broad pause on new deal activity, current market sentiment is credit spreads will be widening and equity values declining. However, subsequent to April 2nd we have incorporated the following assumption changes into our valuation models:

Credit Spreads

> In the broadly syndicated ("BSL") market, we have seen this widening already evident in secondary market spreads and have implemented 40-60 bps increases into our valuations for daily clients. We continue to monitor this market on a daily basis and make adjustments as appropriate.

> Given the large number of daily and weekly clients we provide valuation services we need to evaluate spread changes real-time. In the US and European private credit market we have not yet made any adjustments. It is likely we will make some adjustment to widen spreads, however, we are trying to balance two currents running through the market. One argues for wider spreads based on the increased level of risk and uncertainty in the market, general market sentiment and the widening of spreads in other markets such as the BSL. The other argues for stability of spreads based on the continued supply/demand imbalance of capital in private credit and the dynamic that, with even fewer new deals coming to market, lenders will continue to have to compete aggressively for a smaller set of opportunities. Add to that, deals that get through underwriting and investment committee approval will likely be for larger, high quality businesses with limited tariff exposure and conservative capital structures So, on one end of the spectrum, we could see spreads maintained, while on the other end, we may see spreads increase 100bps or more for smaller companies and companies with more tariff exposure.

Private Equity and Enterprise Values

On a portfolio company by portfolio company basis, we have been evaluating changes in guideline public company enterprise value and equity value multiples based on valuation changes within each relevant peer group. We directionally move portfolio company multiples consistent with the movement of public company peer multiples but most of the time not to the same magnitude to reflect private company multiples are not as volatile as their public company peers.

From a DCF perspective, it is premature to have received new projections from portfolio companies.

- We have observed an increase in the 20-year US Treasury rate since April 2nd which, all else equal, will result in a decline in enterprise value.
- We also realize that adjusting equity risk premiums, whether historical based or implied based on current stock prices, is difficult and speculative based on one or a few weeks of stock market volatility information.

We have observed enterprise value and equity value volatility and declines since April 2nd, in some cases materially, depending on industry sector and correlation to guideline public companies where their valuation changes have been significant. That would also include larger companies where the correlation to public markets frequently increases.

- It is important to note that, as a rule of thumb, we do not believe private company enterprise values are as volatile as public companies. As an example, if the public company peer group enterprise values decline 10% from December 31, 2024, to today, it is likely (but not impossible) we would reduce the portfolio company's enterprise value by less than 10%. Of course, everything is specific to facts and circumstances.

Correlation

Evidenced by the Lincoln Private Market Index and Lincoln Senor Debt Index over a 10-year period, the private markets are less volatile than the public markets. This information is readily accessible on our website.

Conclusion

We recognize that in times of heightened market volatility, accurately valuing illiquid assets remains a significant challenge. VOG's valuation infrastructure is designed to operate effectively across various economic cycles, ensuring timely and reliable valuations tailored to our clients' diverse needs. An important component of our process is that we communicate, real-time, with a broad spectrum of market participants to gain market insights and process this information.

We are evaluating both credit and equity assumptions real-time and based upon our observations will continue to modify our assumptions as quickly as the information permits us to. Additional near-term communication will come on April 15th, when an updated version of our Private Market Snapshot will be published in LevFin, and on April 21st, when we will issue our regular monthly spread guidance to our global client base.

Of course, we are available to speak in greater detail if we can be helpful.