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LINCOLN PRIVATE MARKET INDEX GAINS GROUND AMIDST STEADY PRIVATE COMPANY GROWTH

The Lincoln Private Market Index (Lincoln PMI) reveals that in Q2 2023, private market enterprise values increased 2.3%. This quarter, the Lincoln PMI increased due to steady improvement in earnings in the private markets, partially offset by the ninth consecutive quarter of multiple contraction, albeit a negligible amount this period. Whereas the Lincoln PMI increased 2.3%, the S&P 500 EV increased by 8.0%, although half of the growth in the S&P 500 was driven by the five largest public companies. For the first time since in a year and a half, all industries experienced enterprise value growth as all industries grew by over 1.0%.

ABOUT THE LINCOLN PRIVATE MARKET INDEX

The Lincoln PMI is a first-of-its-kind index measuring changes in the enterprise values (EVs) 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 is the sum of a company's equity value and debt.

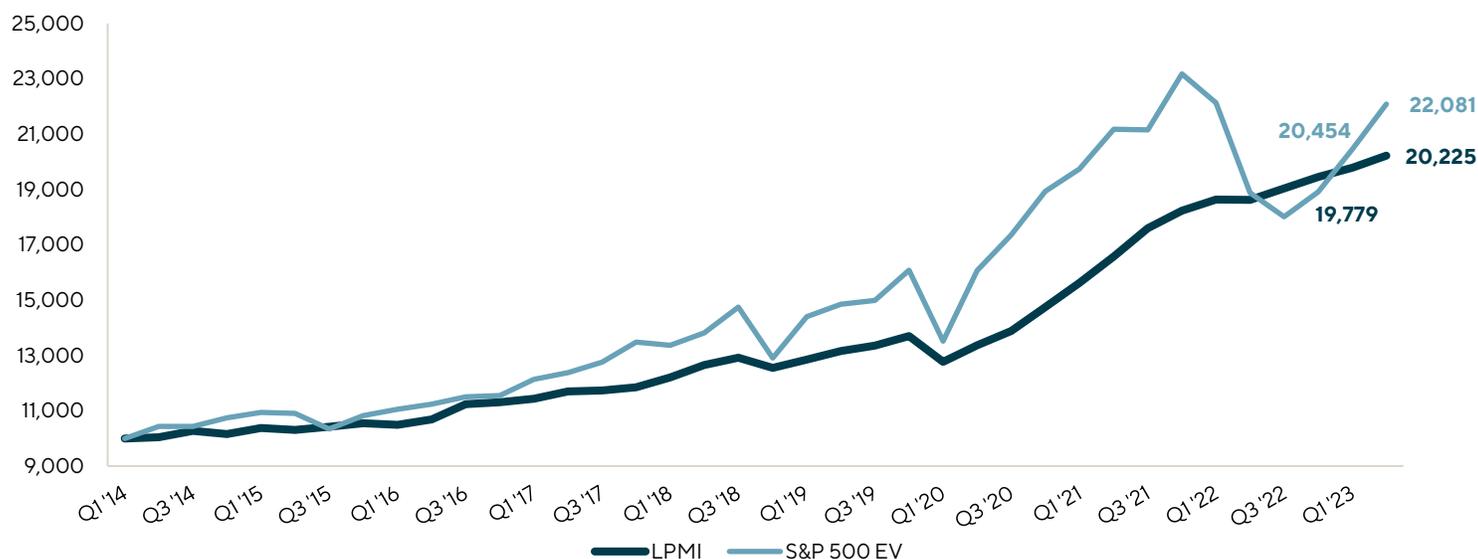
QUARTERLY OVERVIEW

- 24th Edition: Covers Q2 2023
- Measures quarterly changes in the enterprise values of ~1,400 private companies, based on a population of ~ 4,750 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 Continue Steady Enterprise Value Growth

Q2

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)

	Q2 '23	YTD	LTM
LPMI	2.3%	4.0%	8.6%
S&P 500 EV	8.0%	16.8%	17.0%

The Lincoln PMI grew at a compound annual growth rate of 7.9% since inception as compared to 8.9% for the enterprise values of the S&P 500. Further, since the start of the pandemic, private market enterprise values have actually outpaced S&P 500 enterprise values.

The correlation between the two markets has diverged somewhat amidst public market volatility in recent years, largely due to the performance of the five largest companies in the S&P 500 which benefited from multiple expansion and contributed over half of the S&P 500's growth to-date in 2023. These trillion-dollar businesses are largely incomparable to businesses in the private markets given their dramatically greater scale, highly diversified product / service offerings and significant bargaining power in negotiations.

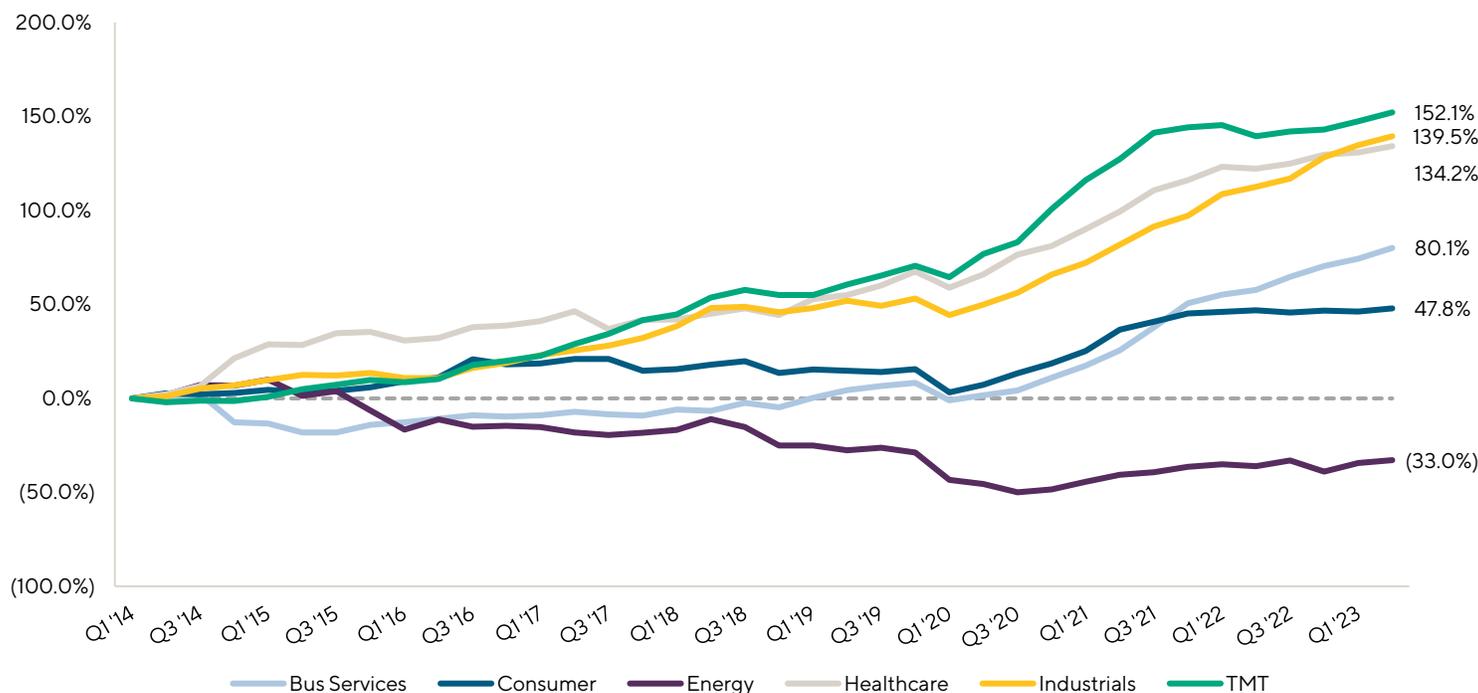
The Lincoln PMI shows that private company enterprise values remain less volatile than those of the S&P 500; the Lincoln PMI's volatility is less than half that of the S&P 500 EV index as multiples have tended to be more stable than public company multiples. As a result, the Sharpe Ratio, which measures 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: All Industries Grew Enterprise Values in Q2 2023

Q2

2023



Industry	Q2 '23	YTD	LTM
Bus Services	3.4%	5.8%	14.2%
Consumer	1.1%	0.8%	0.7%
Energy	2.2%	10.1%	5.0%
Healthcare	1.5%	1.9%	5.4%
Industrials	2.0%	4.9%	12.7%
TMT	1.9%	3.7%	5.3%

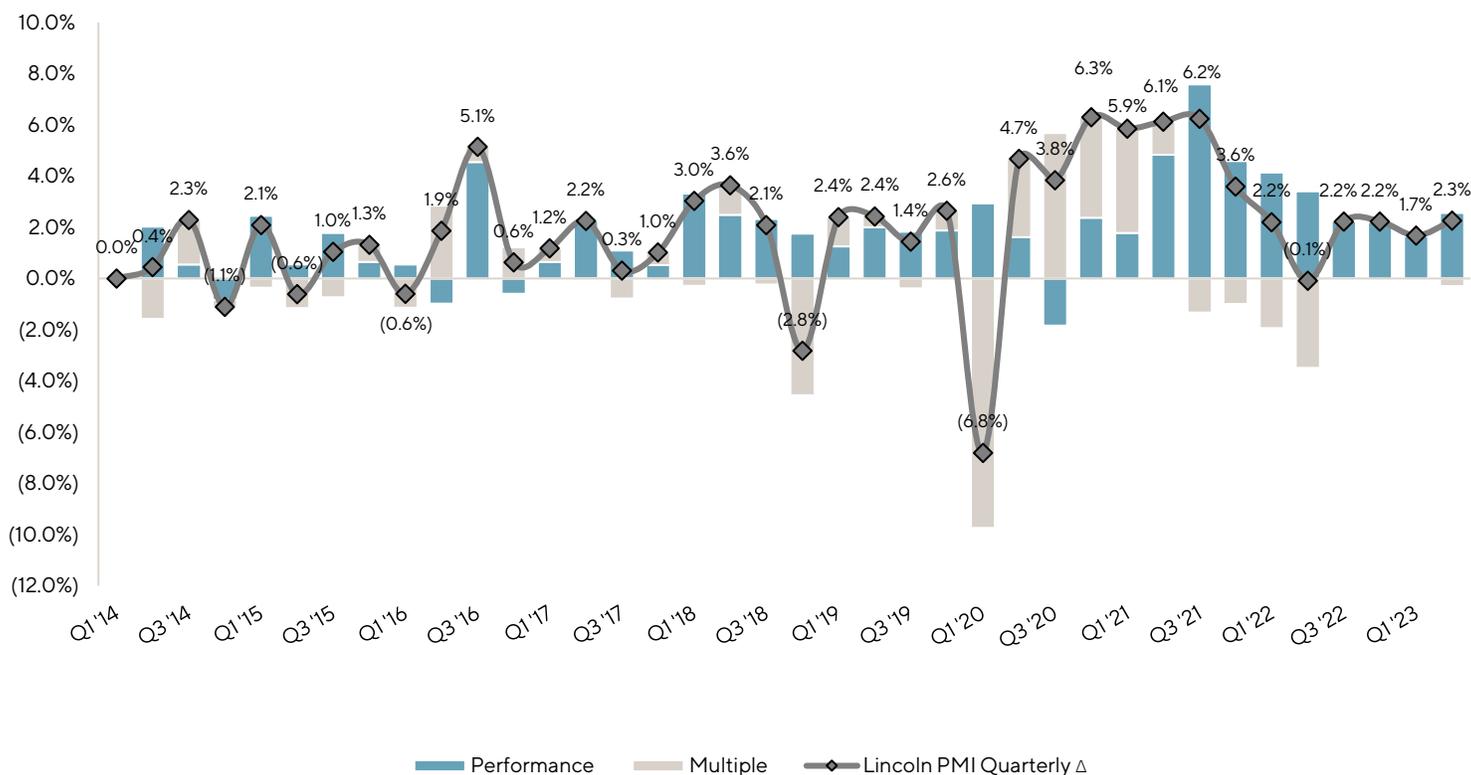
In Q2 2023, for the first time in a year-and-a-half, all industries experienced enterprise value growth. Not just that, but every industry grew by more than 1.0%. Given the persistent, recessionary macroeconomic environment, consumer companies remain the most impacted and had the slowest enterprise value growth this quarter. Similar to recent quarters, consumer staple companies continued to perform better than consumer discretionary companies.

Interestingly, despite being commonly viewed as a defensive or recession-resistant, healthcare companies continue to perform below the rest of the industries, having grown the least over both the last 12 months as well as just year-to-date as healthcare companies have been increasingly burdened by rising costs and challenging reimbursement rates.

EXAMINING THE LINCOLN PMI: EBITDA Multiples versus Earnings

Q2

2023



~45%+

Expansion of Lincoln PMI valuation multiples since Q1 2014

The grey line in the above graph 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.

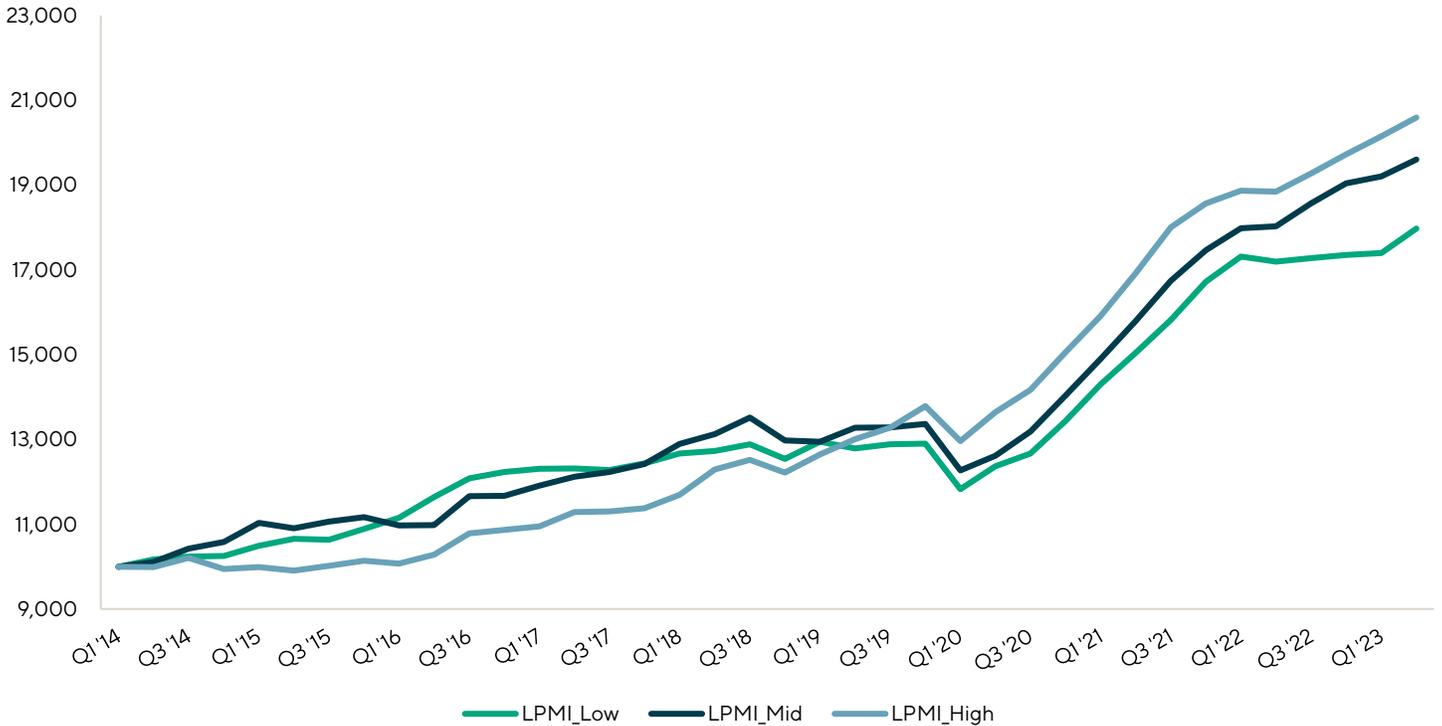
For the fourth consecutive quarter, earnings improved for private market companies while multiples were relatively unchanged. Whilst nearly three-quarters of companies grew revenue, only approximately 60% of companies grew EBITDA and actually companies outperformed year-to-date budgets by 2.5% providing some optimism for 2023 results.

“The private markets are beginning to change course,” said Ron Kahn, Managing Director and co-head of Lincoln’s Valuations & Opinions Group. “Private market participants have reaped the benefits of double-digit revenue growth for nearly two years, even while being impacted by margin compression. It now appears that revenue gains may have reached their peak, albeit earnings growth is still healthy.”

EXAMINING THE LINCOLN PMI: : Comparing Enterprise Value Growth by EBITDA Size

Q2

2023



(Low includes companies with LTM EBITDA <\$20 million, Mid includes companies with LTM EBITDA of \$20 million to \$50 million and High includes companies with \$50 million to \$250 million)

Beginning in Q2 2023, Lincoln also analyzed the private market based on size, defining size based on the amount of LTM EBITDA. While there have been times historically when enterprise values of smaller companies grew more quickly than larger companies, larger companies have outperformed smaller companies more recently. In fact, larger companies have both grown earnings at a faster rate than smaller companies and benefited from valuation multiple increases over the last four quarters. The increase in valuation multiples of late for larger companies likely results from the persistent, recessionary environment when they have lower likelihoods of customer concentration, better ability to pass along rising costs and broader product / service offering diversification.

Prior to the pandemic, however, this trend was the opposite as smaller companies grew at a faster rate than larger companies for the first five years after the inception of the index. "In both certain and uncertain times, fundamental performance of private businesses continues to be the beacon for private market valuations," 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 on the LPMI. "Whether big or small, earnings growth has been the primary driver of performance, but it is interesting how larger companies have behaved more similarly to those in the public markets and more impacted by multiple movement."

SUMMARY:

Q2 2023 Lincoln PMI

Q2

2023

Q2 2023 LINCOLN PMI: GENERAL OBSERVATIONS

- Private company enterprise values increased for the fourth consecutive quarter as the Lincoln PMI increased 2.3%, similar to the approximately 2% of the last three preceding quarters.
- Whilst both the Lincoln PMI and S&P 500 EV grew in both Q1 and Q2 of 2023, the S&P 500 EV grew more quickly; however, over half of the S&P 500 EV's strong year-to-date performance was driven by the five trillion-plus dollar public companies.
- 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.

Q2 2023 LINCOLN PMI: ENTERPRISE VALUE RESULTS

- With such steady revenue growth over the last couple years, private companies have been able to steadily grow earnings and have actually outperformed year-to-date budgets, thus enabling private companies to grow enterprise value despite pressures on valuation multiples.
- Investors remained selective and focused on recession-resilient companies, as evidenced by the reduced leverage of new deals and above-average required equity cushions; if investors look to deploy the built-up capital in the second half of 2023, the private market may yet again see rising enterprise value multiples for the first time in two years.
- Although in aggregate private company multiples have been stable, larger companies experienced rising multiples whereas smaller companies experienced multiple contraction in Q2 2023 and over the last year which helped larger companies continue to outperform smaller companies since the onset of the pandemic.

Q2 2023 LINCOLN PMI: INDUSTRY BREAKDOWN ON AN ENTERPRISE VALUE BASIS

- For the first time in a year-and-a-half, all industries experienced enterprise value growth, though consumer companies continue to lag the rest of the private markets given the persistent, recessionary pressures.
- Industrials and business services have notably outperformed the other industries over the last year thanks in large part to steady growth whereas certain other industries experienced notably greater volatility.

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

Q2

2023

SOURCE OF DATA AND SAMPLE SIZE

On a quarterly basis, Lincoln determines the enterprise fair value of over 4,750 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 \$250.0 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/lincolnpmi

4,750+

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 private equity, corporate finance, corporate governance and wealth management. Professor Kaplan conducts research on a wide array of issues in private equity, 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.

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 the Charles E. Merrill Faculty Scholar and 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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Energy, Power & Infrastructure

Financial Institutions

Healthcare

Industrials

Technology, Media & Telecom

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Mergers & Acquisitions

Capital Advisory

Private Funds Advisory

Valuations & Opinions

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

Lincoln's Valuations & Opinions Group 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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