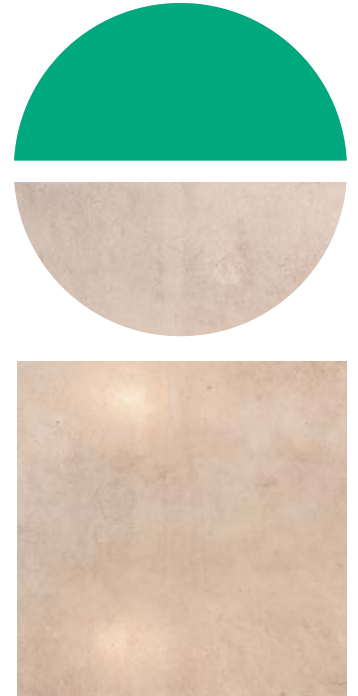




#### **INSIDE THIS ISSUE**

- Quarterly Overview
- Private Middle Market Company Value Results
- Performance by Industry: Sector Breakdown
- Examining the Lincoln MMI: EBITDA Multiples vs. Earnings
- Summary of the Lincoln MMI
- Methodology: Data Collection and Academic Advisors



## THE LINCOLN MIDDLE MARKET INDEX EXHIBITS STRONG REBOUND IN Q1 2019 WITH PERSISTENT EARNINGS GROWTH

Lincoln International's seventh edition of the Lincoln Middle Market Index (Lincoln MMI) reveals that in Q1 2019, middle market enterprise values increased 1.9%, compared to an 11.6% increase for enterprise values of S&P 500 companies, effectively offsetting each respective decline in Q4 2018. The index values for the Lincoln MMI and S&P 500 were -0.4% and -2.3% lower as of March 31, 2019 versus September 30, 2018.

### 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

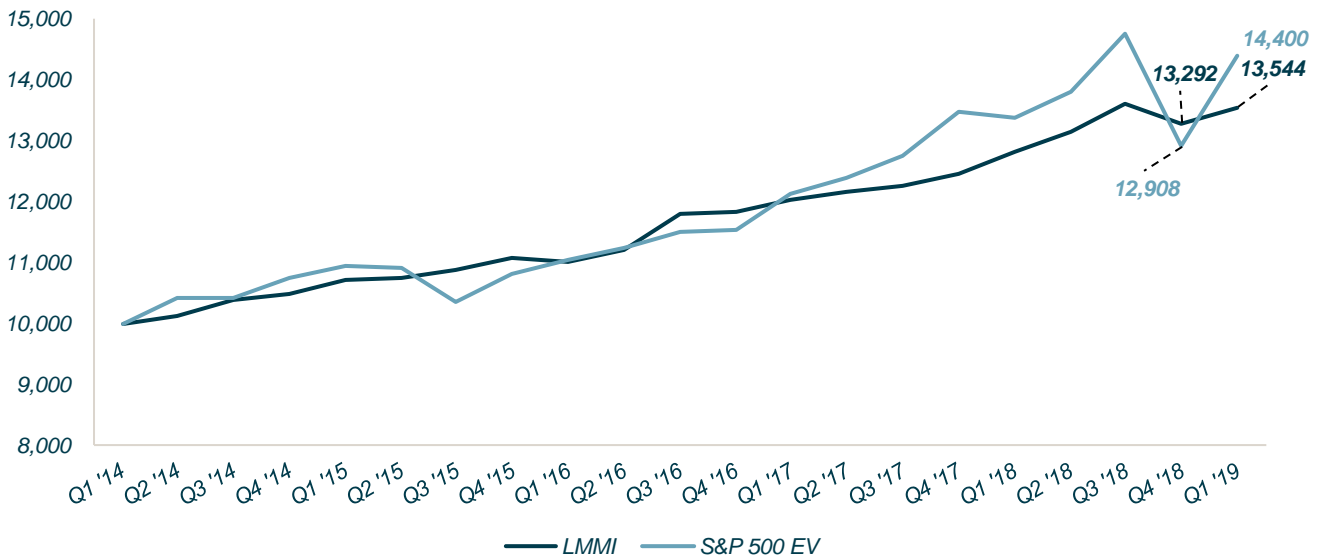
- Seventh Edition: Covers Q1 2019
- Measures quarterly changes in the enterprise values of approximately 450 middle market companies, based on a population of over 1,400 companies primarily owned by private equity firms
- Analyzes the impact from the change in company earnings versus market valuation multiples
- Assess the change in value for six industry sectors

RESULTS:

# Lincoln Middle Market Index Exhibits Strong Rebound In Q1 2019

Q1

2019



**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)

	QoQ	YoY
Lincoln MMI	1.9%	5.6%
S&P 500 EV	11.6%	7.8%

Starting at a value of 10,000 as of March 31, 2014, the Lincoln MMI increased by 35.4% cumulatively to 13,544, as of March 31, 2019.

- The Lincoln MMI grew at a compound annual growth rate of 6.3% since inception as compared to 7.6% for the enterprise values of the S&P 500.
- Over the past year, the Lincoln MMI increased by 5.6% whereas enterprise values of the S&P 500 increased by 7.8% as both indices effectively erased Q4 2018 losses with positive performance in Q1 2019.
- Interestingly, while both indexes since inception show comparable growth in enterprise values, private equity owned companies traditionally have more leverage than public companies and, therefore, generate relatively greater equity gains. The Lincoln MMI also showed that while private company values are correlated to the public markets, private company values exhibit much less volatility in valuations than public companies.

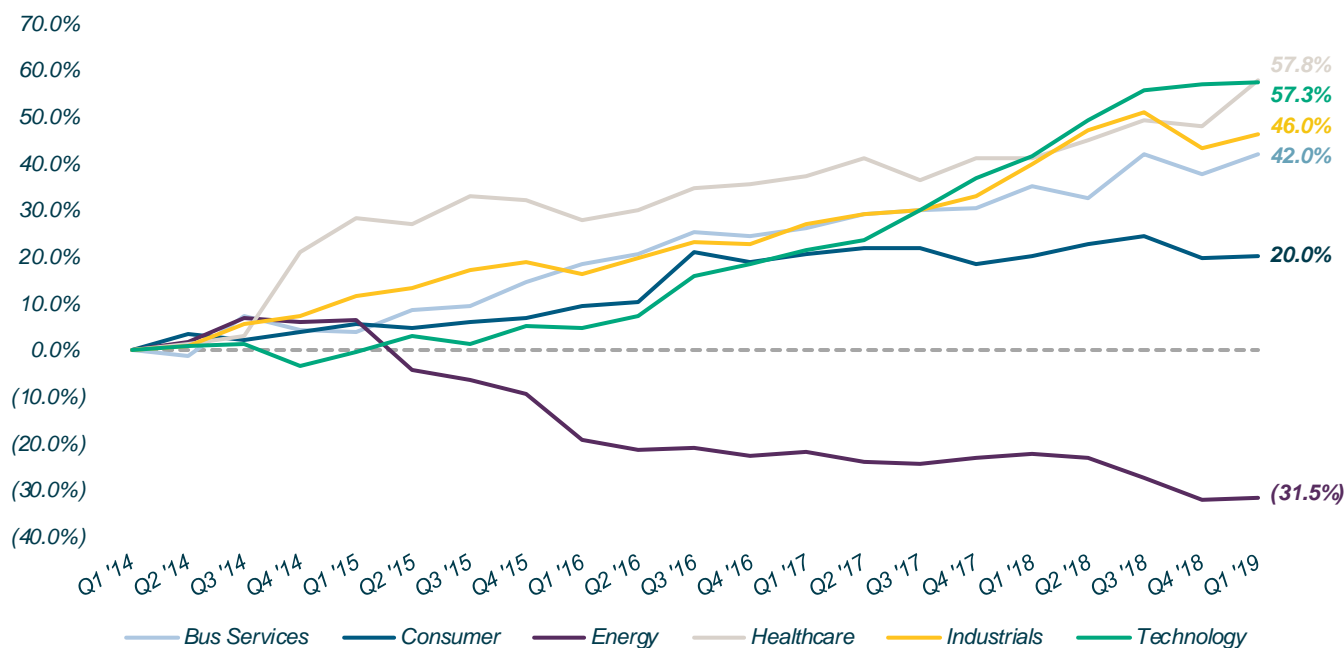


## SECTOR BREAKDOWN:

# All Industry Sectors Increased In Value This Quarter For Just The Fourth Time

Q1

2019



	QoQ	YoY
Bus Services	<b>3.0%</b>	<b>5.3%</b>
Consumer	<b>0.2%</b>	<b>0.0%</b>
Energy	<b>0.6%</b>	<b>(11.7%)</b>
Healthcare	<b>6.8%</b>	<b>11.7%</b>
Industrials	<b>1.8%</b>	<b>4.5%</b>
Technology	<b>0.2%</b>	<b>11.3%</b>

Although technology remains one of the top performing segments within the Lincoln MMI, growth in the technology segment has slowed over the past year and the technology sector's enterprise value quarterly growth lagged behind the middle market for the first time in over three years (0.2% vs 1.9%).

The enterprise values of energy companies increased for the first time in a year, though the industry remains the worst performing industry over the last four quarters. It is important to note that middle market energy companies include alternative energies, oil and gas service companies, and other related companies that may not be directly influenced by oil and gas price variations.

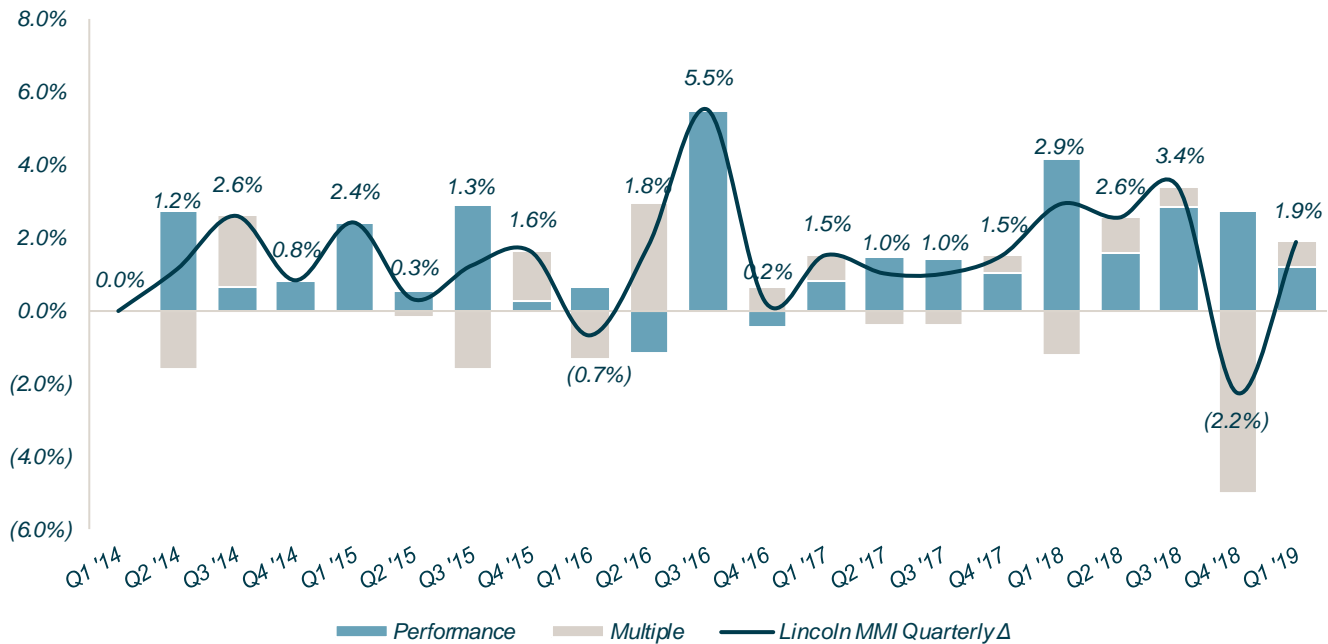
The consumer sector lagged the middle market as a whole for the seventh consecutive quarter as only approximately one third of consumer companies were able to improve LTM EBITDA over the past quarter. Persistent softness in retail as well as tariff concerns and weak restaurant sales have contributed to the lagging performance of consumer companies. The results to-date do not account for the tariff changes announced May 2019.

## EXAMINING THE LINCOLN MMI:

# Examining the Lincoln MMI - EBITDA Multiples versus Earnings

Q1

2019



# 10%

Expansion of  
Lincoln MMI valuation  
multiples since Q1 2014

The grey line in Graph 3 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 Q4 2018, middle market valuation multiples increased by approximately 10% since the inception of the Lincoln MMI in Q1 2014. For the quarter ending March 31, 2019, both Lincoln MMI and S&P 500 valuation multiples and earnings increased. As a result, the index values reversed all of 2018 Q4 declines. As of March 31, 2019, both the Lincoln MMI and S&P 500 indexes approximated September 30, 2018 values.

In Q1 2019, enterprise value multiples increased for companies in both the Lincoln MMI and the S&P 500 in aggregate, though multiple expansion was far greater in the public markets. Lincoln noted that despite volatile multiples, earnings remain the more meaningful driver in long term middle market enterprise value growth.

# SUMMARY: The Lincoln MMI

Q1

2019

## INDUSTRY BREAKDOWN ON AN ENTERPRISE VALUE BASIS:

- Healthcare was the best performing sector within the Lincoln MMI in Q1 2019, as healthcare enterprise values increased by 6.8% and nearly two-thirds of healthcare companies grew LTM EBITDA.
- Although enterprise values of middle market energy companies increased just 0.6%, it was the first time in a year the energy industry experienced enterprise value growth.
- All industry sectors of the Lincoln MMI increased in enterprise value in Q1 2019 demonstrating the pervasiveness and distribution of positive returns across the economy; this is only the fourth time since the inception of the index where all six industries increased in value in a given quarter.
- The last three instances of all industries increasing in enterprise value also occurred in the first quarters of the last three years reflecting improved budgets and strong future growth expectations in each year.

## OBSERVATIONS:

- 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.
- Despite volatility in public markets, the middle market remains highly correlated as both the Lincoln MMI and S&P 500 rebounded strongly with record or near-record growth in Q1 2019 following record declines in Q4 2018.

## ENTERPRISE VALUE RESULTS :

- The Lincoln MMI enterprise value index increased 1.9% for Q1 2019 versus 11.6% for the S&P 500 EV as both indices effectively erased Q4 2018 losses. Over the last year, the Lincoln MMI increased by 5.6% while the S&P 500 EV increased by 7.3%.
- Although both valuation multiples and earnings increased for both the Lincoln MMI as well as the S&P 500 EV, it was persistent earnings growth that drove the recovery of the Lincoln MMI whereas it was increased valuation multiples that drove the recovery of the S&P 500 EV.
- Data from the entire population of companies valued by Lincoln in the first quarter of 2019 indicated that approximately half of companies grew LTM EBITDA from the prior quarter; though, the average quarterly increase in LTM EBITDA has slowed over the last few quarters.

## THE LINCOLN MMI:

- 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 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: Data Collection

Q1

2019

### SOURCE OF DATA AND SAMPLE SIZE

On a quarterly basis, Lincoln determines the enterprise fair value of over 1,400 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/lincolnmmi](http://www.lincolninternational.com/services/valuations-and-opinions/lincolnmmi)*

1,400+

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

2019

### 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.



## GLOBAL INDUSTRY GROUPS

Business Services

Consumer

Energy, Power & Infrastructure

Healthcare

Industrials

Technology, Media & Telecom

## ADVISORY SERVICES

Mergers & Acquisitions

Capital Advisory

Joint Ventures & Partnering

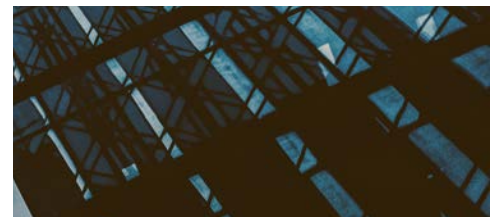
Valuations & Opinions

## 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 and capital markets advisory for the mid-market. We also provide valuations and fairness opinions and joint ventures advisory services. As one tightly integrated team of more than 500 professionals across 15 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](http://www.lincolninternational.com).

Our Valuations & Opinions Group is a leading independent valuation advisor to managers of illiquid assets and lenders to alternative assets funds. Our Valuations & Opinions Group 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.

Our 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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