

#### **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



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

Lincoln International's 13th edition of the Lincoln Middle Market Index (Lincoln MMI) reveals that in Q3 2020, middle market enterprise values increased 4.4%, compared to an 8.0% increase for enterprise values of S&P 500 companies. Both the Lincoln MMI and S&P 500 excluding the "Big 5" tech companies of Apple, Amazon, Facebook, Microsoft, Google continued their post-COVID rebound and align with values as of year-end 2019. Although earnings declined, the Lincoln MMI's EBITDA multiples increased approximately 10% from the prior quarter, the largest single-quarter increase since inception of the Lincoln MMI.

### 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

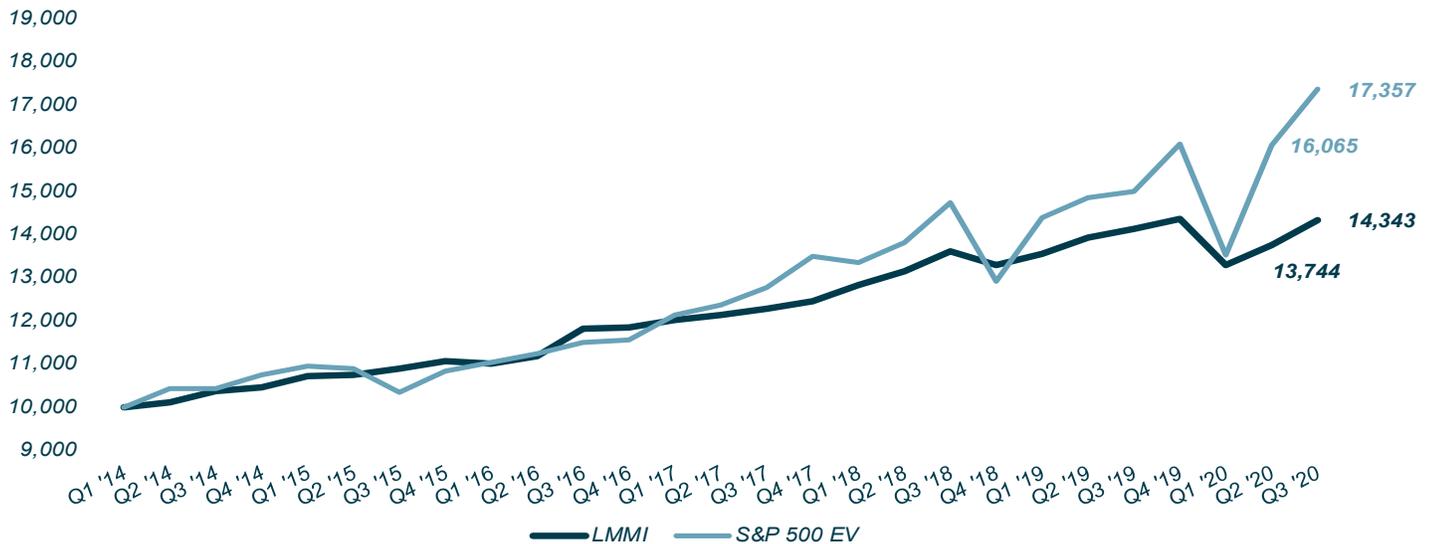
- Thirteenth Edition: Covers Q3 2020
- Measures quarterly changes in the enterprise values of over 500 middle market companies, based on a population of approximately 2,200 companies primarily owned by private equity firms with a median EBITDA of \$30 million.
- Analyzes the impact from the change in company earnings versus market valuation multiples
- Assess the change in value for six industry sectors

## RESULTS:

# Valuations increased and realigned with pre-COVID levels

Q3

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)

	Q3	YTD
Lincoln MMI	4.4%	(0.1%)
S&P 500 EV	8.0%	7.9%

Starting at a value of 10,000 as of March 31, 2014, the Lincoln MMI increased by 43.4% cumulatively to 14,343, as of September 30, 2020. The Lincoln MMI grew at a compound annual growth rate of 5.7% since inception as compared to 8.9% for the enterprise values of the S&P 500.

The Lincoln MMI has rebounded quickly following the breakout of the COVID pandemic and is within 0.1% of its pre-COVID (December 2019) value. This compares very similarly to the S&P 500 excluding the “Big 5”, which would be just 0.7% higher than its pre-COVID (December 2019) value. These five of Apple, Microsoft, Amazon, Google, and Facebook comprise nearly 25% of the S&P 500 but are generally not comparable to middle market businesses given their product offerings.

The Lincoln MMI shows that middle market, private company enterprise values remain less volatile than those of 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.

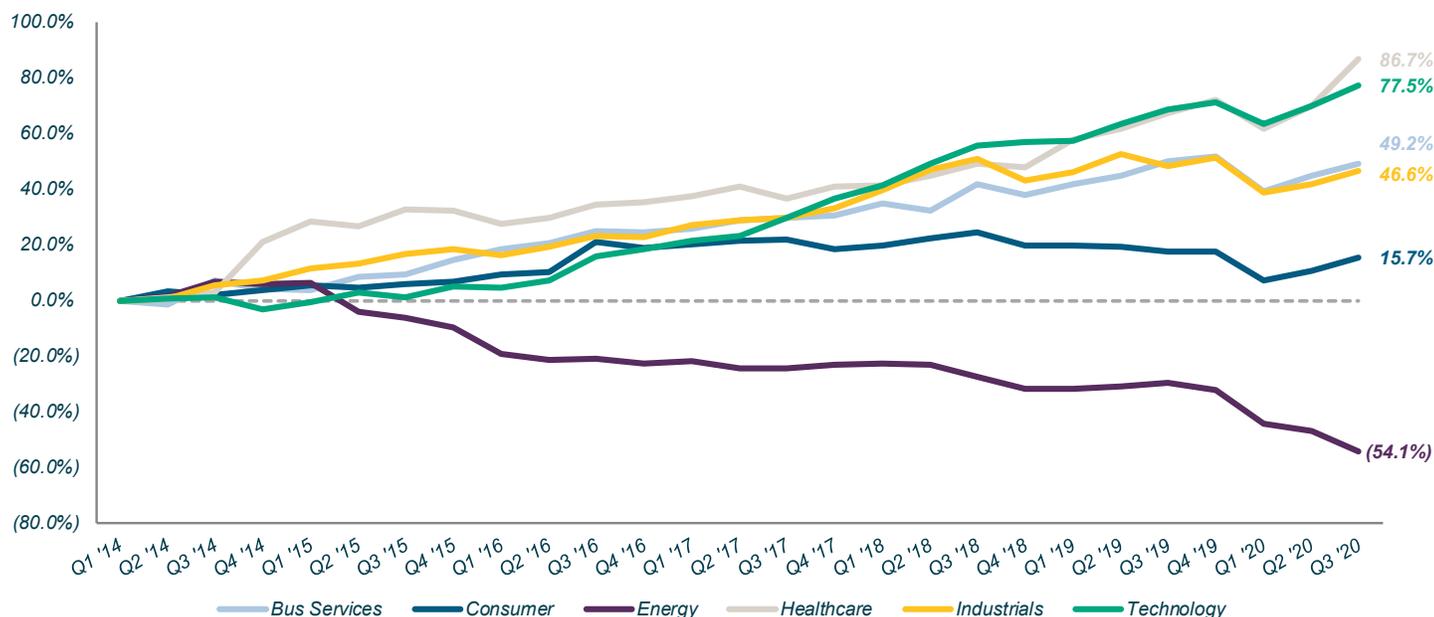
While both indexes since inception show relatively comparable growth in enterprise values, private equity owned companies traditionally have more leverage than public companies and, therefore, generate relatively greater equity gains.

## SECTOR BREAKDOWN:

# The recovery benefitted every industry except Energy

Q3

2020



	Q3	YTD	LTM
Bus Services	3.1%	(1.8%)	(0.5%)
Consumer	4.5%	(1.8%)	(1.6%)
Energy	(13.9%)	(32.6%)	(34.9%)
Healthcare	9.8%	8.4%	11.6%
Industrials	3.4%	(3.3%)	(1.3%)
Technology	4.4%	3.6%	5.1%

Healthcare and Technology businesses have generally been impacted the least by the pandemic and as a result those multiples have benefitted the most. As a result, these were the two industries with LTM valuation gains over the last twelve months. Conversely, Energy was the only industry to miss out on the Q3 recovery given its reliance on commodity price inputs.

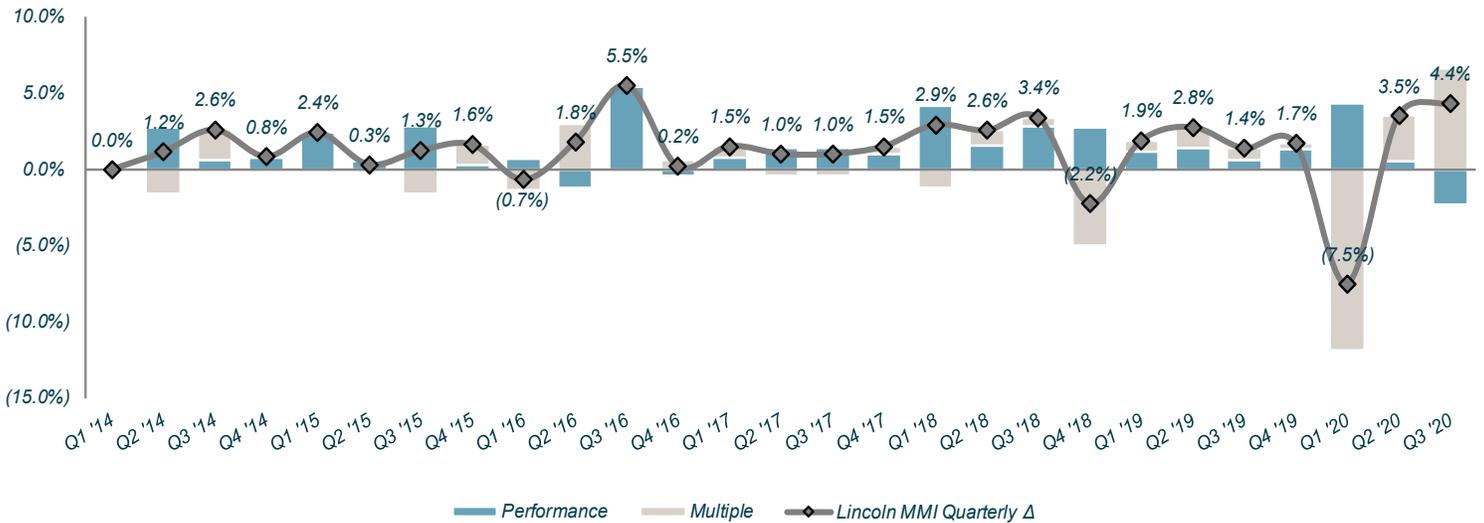
“While the bulk of businesses are recovering from the shock of shutdowns early in the pandemic, we see that the pandemic has delineated a stark bifurcation between the winners and losers in this unprecedented environment,” said Professor Steve Kaplan, Neubauer Distinguished Service Professor of Entrepreneurship and Finance at the University of Chicago Booth School of Business, who assists and advises Lincoln on the Lincoln MMI. “COVID-19 has magnified the discrepancies in industry performance. It’s a tale of two cities: the bad companies are falling further, the good have become shooting stars.”

The recoveries brought most industry indices back to where they were in Q4 2019, erasing the losses when the impact of the coronavirus was at its most uncertain.

# EXAMINING THE LINCOLN MMI: Examining the Lincoln MMI - EBITDA Multiples versus Earnings

Q3

2020



30%+

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 Q1 2020, middle market valuation multiples have increased by ~30%+ since the inception of the Lincoln MMI in Q1 2014. The average enterprise valuation multiple of the Lincoln MMI exceeded pre-pandemic levels at 10.4x LTM EBITDA, a record high. EBITDA multiples increased approximately 10% from the prior quarter, the largest single-quarter increase since the inception of the Lincoln MMI.

“When COVID-19 initially struck the market, portfolio companies’ management teams produced budgets that were extremely cautious, if not draconian,” explained Ron Kahn, Managing Director and Co-Head of Lincoln International’s Valuations & Opinions Group. “But by and large, month by month, portfolio companies have shown signs of a rebound—exceeding their budgets and adapting to what were once viewed as insurmountable circumstances.”

# SUMMARY: The Lincoln MMI

Q3

2020

## GENERAL OBSERVATIONS:

- Middle market enterprise values rebounded rapidly following volatility at the onset of the pandemic in Q1 2020 as the LMMI is within 0.1% of its year-end 2019 level.
- 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 declined this quarter for the first time in four years, are the primary factor driving long term value creation.

## ENTERPRISE VALUE RESULTS:

- The Lincoln MMI enterprise value index increased 4.4% in Q3 2020 versus 8.0% for the S&P 500 as multiples increased for both indices while performance declined, capturing the full impact of COVID for the first time; the Lincoln MMI saw valuation multiples hit a record high as companies have clearer paths to growth despite prior pandemic uncertainty.
- The Lincoln MMI's performance in 2020 compares very similarly to the S&P 500 after excluding the performance of the Big 5 (AAPL, MSFT, AMZN, GOOG, FB), which are generally not comparable to middle market businesses to that of the S&P 500.

## INDUSTRY BREAKDOWN ON AN ENTERPRISE VALUE BASIS:

- COVID-19 has magnified the discrepancies in industry performance as it became a tale of two cities: the bad companies are falling further, the good have become shooting stars.
- Recoveries in the Lincoln MMI were strongest for those industries that are least impacted by the coronavirus pandemic, specifically Technology (+4.4%) and Healthcare (+9.8%) as a number of these businesses have even benefitted from the effects of the pandemic.

## IN SUMMARY, WE BELIEVE 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: Source of Data and Sample Size

Q3

2020

### SOURCE OF DATA AND SAMPLE SIZE

On a quarterly basis, Lincoln determines the enterprise fair value of over 2,200 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)*

**2,200+**

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

Q3

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 schoolteachers 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

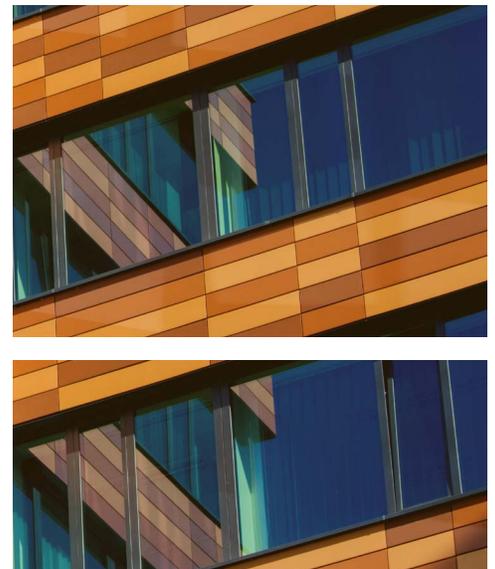
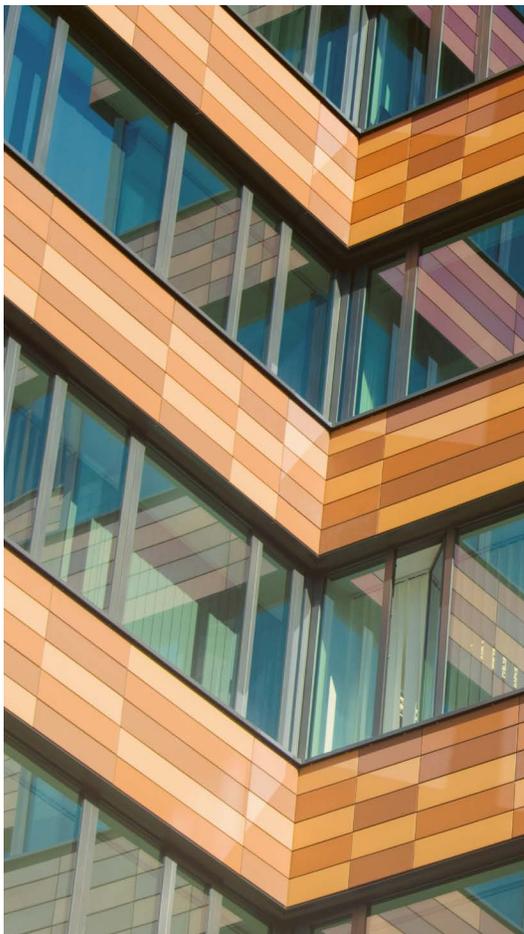
Mergers & Acquisitions  
Capital Advisory  
Joint Ventures & Partnering  
Valuations & Opinions

## 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, 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](http://www.lincolninternational.com).

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.



**IMPORTANT DISCLOSURE:** The Lincoln Middle Market Index is an informational indicator only, and does not constitute investment advice or an offer to sell or a solicitation to buy any security. It is not possible to directly invest in the Lincoln Middle Market Index. Some of the statements above contain opinions based upon certain assumptions regarding the data used to create the Lincoln Middle Market Index, and these opinions and assumptions may prove incorrect. Actual results could vary materially from those implied or expressed in such statements for any reason. The Lincoln Middle Market Index has been created on the basis of information provided by third-party sources that are believed to be reliable, but Lincoln International has not conducted an independent verification of such information. Lincoln International makes no warranty or representation as to the accuracy or completeness of such third-party information.