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PRIVATE COMPANY ENTERPRISE VALUES SOARED TO RECORD HIGHS IN Q4, ERASING PANDEMIC LOSSES

Lincoln International's 14th edition of the Lincoln Middle Market Index (Lincoln MMI) reveals that in Q4 2020, middle market enterprise values increased 7.4%, compared to an 9.1% 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 generated similar growth in 2020. On top of increased LTM earnings in Q4 2020 for the first time since the onset of the pandemic, the Lincoln MMI's EBITDA multiples increased over 5% from the prior quarter, the fourth-largest single-quarter increase since inception of the Lincoln MMI. ("EV") is the sum of a company's equity value and debt.

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.

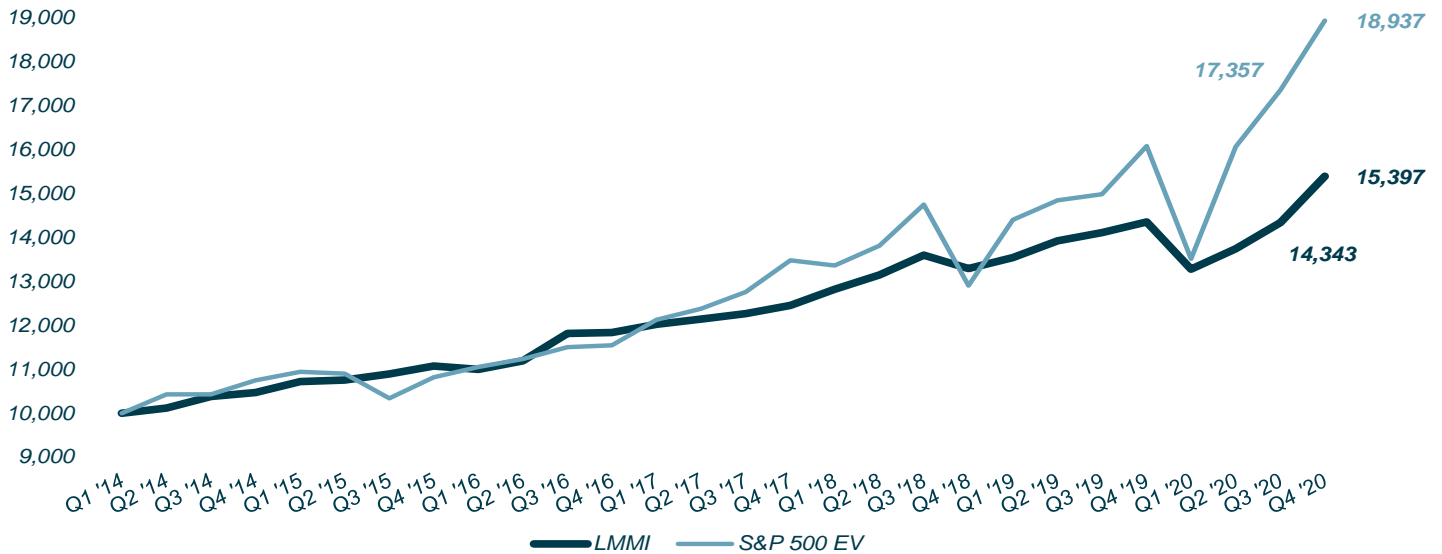
QUARTERLY OVERVIEW

- Fourteenth Edition: Covers Q4 2020
- Measures quarterly changes in the enterprise values of ~575 middle market companies, based on a population of approximately 2,400 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: Middle Market Valuations Grew at Record Pace

Q4

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)

	Q4	2020
Lincoln MMI	7.4%	7.3%
S&P 500 EV	9.1%	17.7%

Starting at a value of 10,000 as of March 31, 2014, the Lincoln MMI increased by 54.0% cumulatively to 15,397, as of December 31, 2020. The Lincoln MMI grew at a compound annual growth rate of 6.6% since inception as compared to 9.9% for the enterprise values of the S&P 500.

The Lincoln MMI rebounded quickly following the breakout of the COVID pandemic and ended 2020 up 7.3% driven by a record increase in Q4 2020. This compares to the S&P 500 excluding the “Big 5”, which increased 9.6% in 2020. 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.

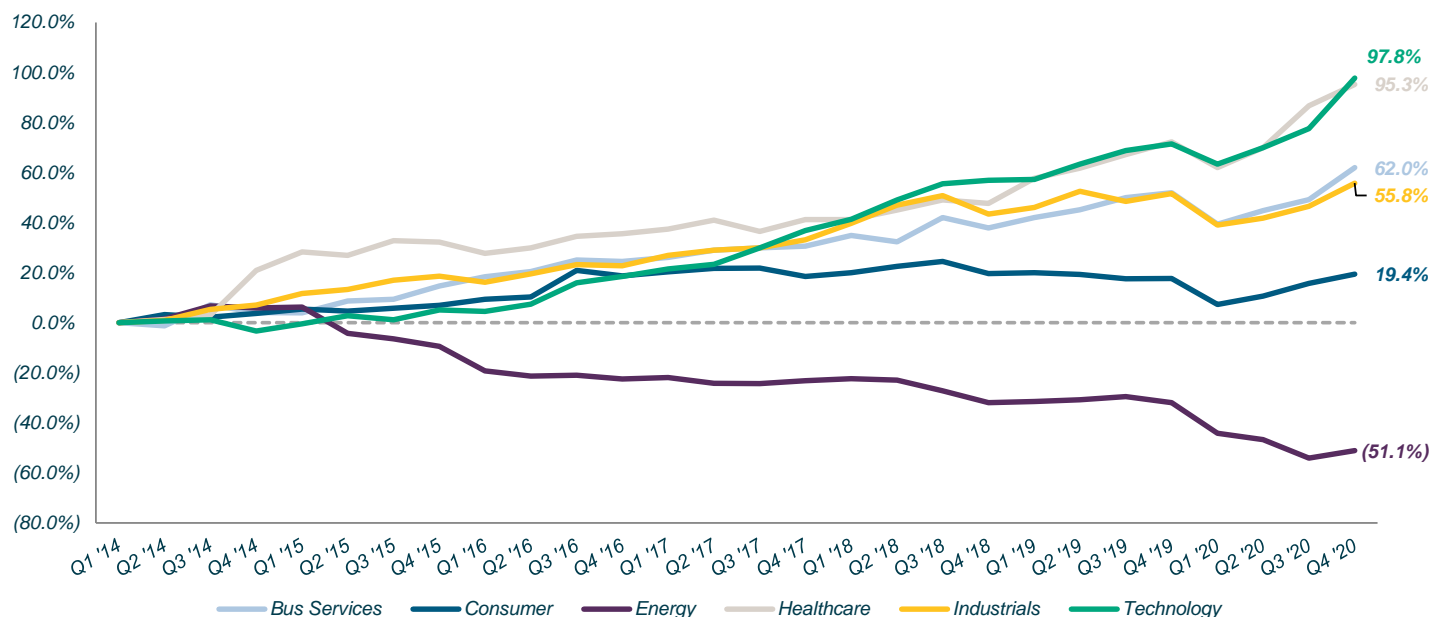
While both indexes since inception show relatively comparable growth in enterprise values, private equity owned companies traditionally have more leverage than public companies and, therefore, generate relatively greater equity gains.

SECTOR BREAKDOWN:

The recovery benefitted every industry except Energy

Q4

2020



Industries	Q4 2020	2020	Q4 2019 (Pre-COVID)	Q4 2020 (Post-COVID)
Bus Services	8.6%	6.6%	15,200	16,203
Consumer	3.2%	1.4%	11,774	11,942
Energy	6.6%	(28.1%)	6,806	4,890
Healthcare	4.6%	13.3%	17,230	19,528
Industrials	6.3%	2.8%	15,160	15,582
Technology	11.4%	15.4%	17,141	19,776

SECTOR BREAKDOWN:

The recovery benefitted every industry except Energy

Q4

2020

Healthcare and Technology businesses have generally been impacted the least by the pandemic and as a result those multiples have benefitted the most leading to the greatest overall valuation gains in 2020.

“The distribution of COVID-19 vaccines has put a light at the end of the tunnel, and the private market enterprise valuations are reacting accordingly” noted 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. Clearly every industry welcomed clarity into seeing the light at the end of the tunnel given the record increases across four of six industries.

Impacts from the pandemic remain bifurcated within industries however as hospitality and in-person retailers continued to face headwinds whereas e-retail and foodstuffs reaped benefits from various COVID impacts.

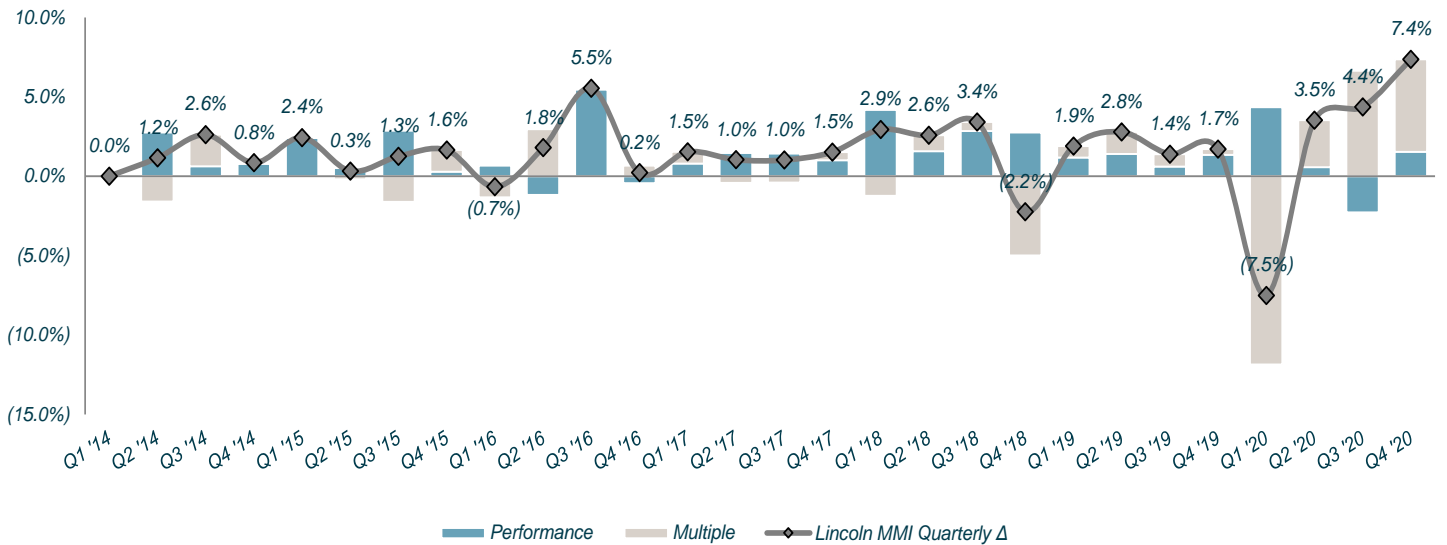


EXAMINING THE LINCOLN MMI:

Examining the Lincoln MMI - EBITDA Multiples versus Earnings

Q4

2020



40%+

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 ~40%+ since the inception of the Lincoln MMI in Q1 2014. The average enterprise valuation multiple of the Lincoln MMI exceeded pre-pandemic levels at ~11x LTM EBITDA, a record high. EBITDA multiples increased over 5% from the prior quarter, the fourth largest single-quarter increase since the inception of the Lincoln MMI.

The dramatic expansion of multiples in 2020 was in part a reflection of the expectation for disruption rather than destruction in relation to the pandemic but also the expectation for strong future growth. Looking ahead to 2021, the average expected revenue and EBITDA growth from FY 2020 is 11% and 10%, respectively, demonstrating that management teams view the disruptions in 2020 as temporary.

SUMMARY: The Lincoln MMI

Q4

2020

GENERAL OBSERVATIONS:

- Middle market enterprise values grew by a record amount in Q4 2020 as the LMMI increased 7.4%, ending 2020 up 7.3% despite pandemic-induced volatility in the first half of the year.
- 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, are the primary factor driving long term value creation despite multiples expanding dramatically in the second half of 2020.

ENTERPRISE VALUE RESULTS:

- The Lincoln MMI enterprise value index increased 7.4% in Q4 2020 versus 9.1% for the S&P 500 as multiples increased notably for both indices which compounded LTM EBITDA growth for the first time since the onset of the pandemic; the Lincoln MMI saw valuation multiples hit a record high driven by positive vaccine news and election clarity.
- 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.

INDUSTRY BREAKDOWN ON AN ENTERPRISE VALUE BASIS:

- Although COVID-19 created a tale of two cities depending on industry, Q4 2020 proved a rising tide floats all boats as every industry generated positive returns.
- There can be no doubt that healthcare (+13.3%) and technology (+15.4%) companies, as the most pandemic-resilient, experienced the greatest EV growth in 2020 driven by investors gravitating towards business with higher recurring revenue models.

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

Q4

2020

SOURCE OF DATA AND SAMPLE SIZE

On a quarterly basis, Lincoln determines the enterprise fair value of over 2,400 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/lincolnmimi

2,400+

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

Q4

2020

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 and an Associate Editor of the Journal of Financial Economics. 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 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 B.S. from the University of Illinois, where he graduated with Highest Honors.

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Consumer

Energy, Power & Infrastructure

Healthcare

Industrials

Technology, Media & Telecom

ADVISORY SERVICES

Mergers & Acquisitions

Capital Advisory

Joint Ventures & Partnering

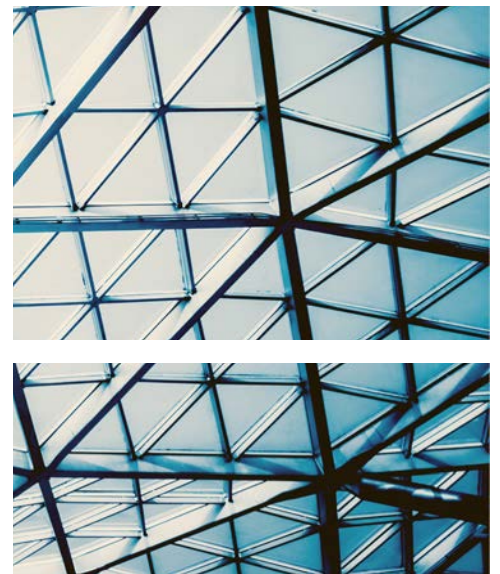
Valuations & Opinions

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.lincolnternational.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, solvency 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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