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## PRIVATE COMPANY ENTERPRISE VALUES INCREASED AGAIN TO NEW RECORD HIGHS IN Q2

Lincoln International's 20th edition of the Lincoln Private Market Index (Lincoln PMI) reveals that in Q2 2022, private market enterprise values decreased 0.4%. This quarter, strong fundamental performance was unable to offset the fifth straight quarter of multiple contraction, resulting in the first quarterly decline in the index since Q1 2020. Whereas the Lincoln PMI decreased 0.4%, the S&P 500 EV declined by 14.7% during Q2, reflecting the S&P 500's significantly more volatile enterprise value multiples. While most industries in the Lincoln PMI were relatively stable in the current quarter, the volatility of public healthcare and technology companies began to impact the valuations of the private healthcare and technology companies as the two industries experienced the largest declines in Q2 2022.

### 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.

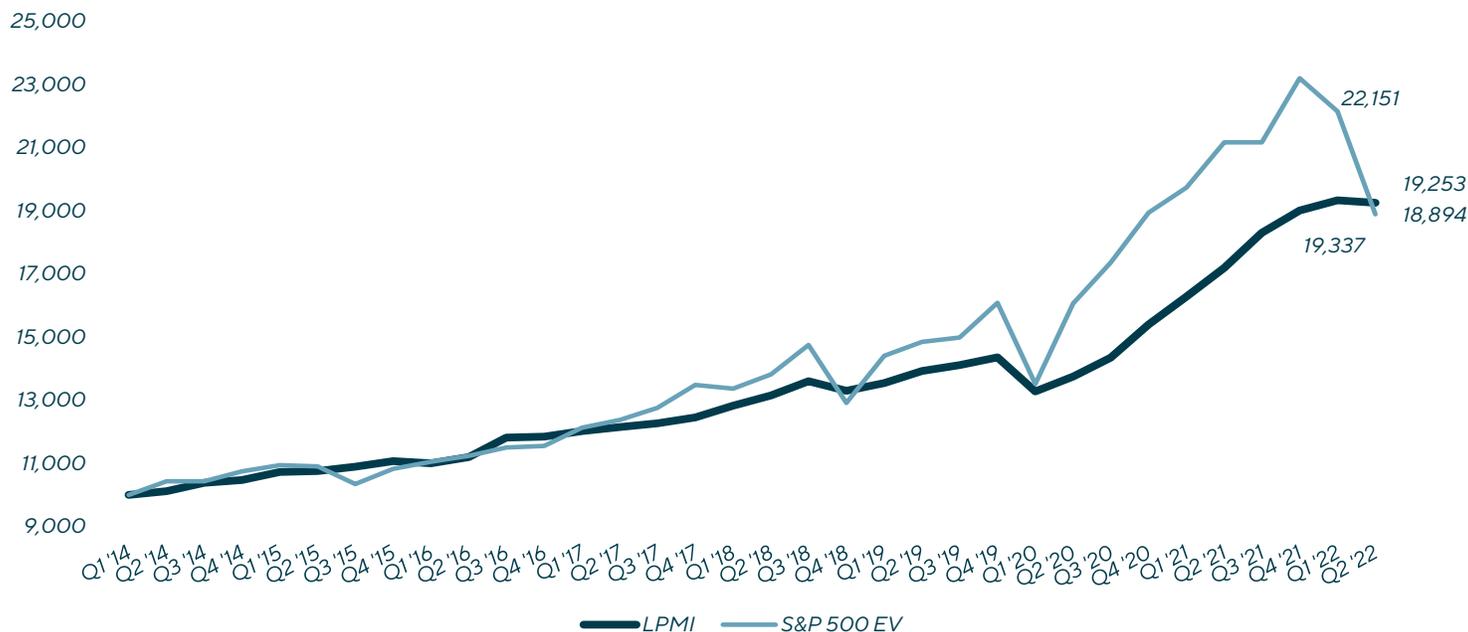
### QUARTERLY OVERVIEW

- 20th Edition: Covers Q2 2022
- Measures quarterly changes in the enterprise values of approximately 700 private companies, based on a population of approximately 3,800 companies primarily owned by private equity firms with a median EBITDA of approximately \$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 Remain Insulated Amidst Public Market Volatility

Q2

2022



(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 '22	YTD	LTM
Lincoln PMI	<b>(0.4%)</b>	<b>1.3%</b>	<b>12.0%</b>
S&P 500 EV	<b>(14.7%)</b>	<b>(18.5%)</b>	<b>10.8%</b>

Starting at a value of 10,000 as of March 31, 2014, the Lincoln PMI has increased 92.5% cumulatively to 19,253, as of June 30, 2022. The Lincoln PMI grew at a compound annual growth rate of 8.3% since inception as compared to 8.0% for the enterprise values of the S&P 500.

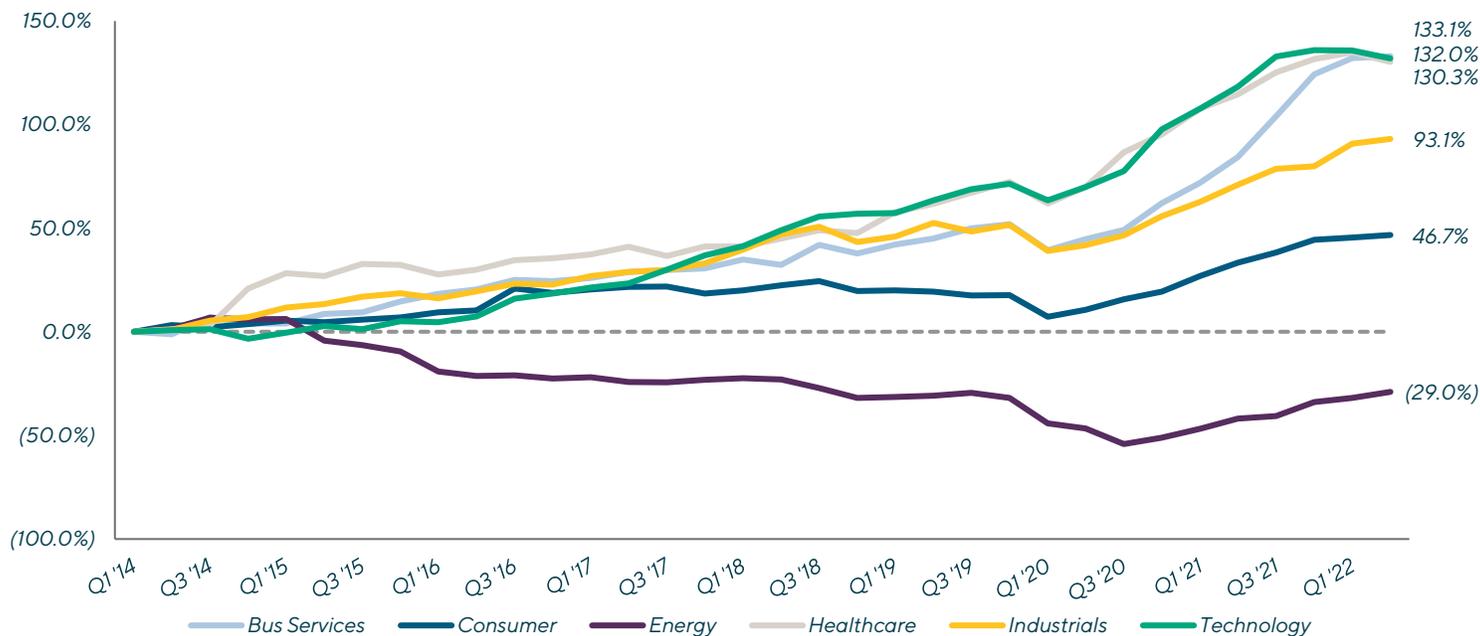
- The private markets continued to outperform the public markets to start 2022 as, despite the public markets entering “correction” territory, the private markets remained comparatively insulated. However, according to a recent live survey of approximately 100 alternative asset investment professionals conducted by Lincoln International, nearly 100.0% of respondents believed that private company enterprise values will decline by the end of 2022.
- 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:

# Formerly Safe Spaces of Healthcare and Technology Declined the most

Q2

2022



Industry	Q2 2022	YTD	LTM
Bus Services	<b>0.4%</b>	<b>3.9%</b>	<b>26.4%</b>
Consumer	<b>0.8%</b>	<b>1.5%</b>	<b>9.9%</b>
Energy	<b>4.2%</b>	<b>7.4%</b>	<b>22.1%</b>
Healthcare	<b>(2.0%)</b>	<b>(0.6%)</b>	<b>7.3%</b>
Industrials	<b>1.2%</b>	<b>7.3%</b>	<b>12.9%</b>
Technology	<b>(1.6%)</b>	<b>(1.7%)</b>	<b>6.3%</b>

The volatility of the public healthcare and technology markets adversely impacted the private markets as enterprise values saw sharp declines in Q2 2022, despite generally being perceived as a safer space. Technology's decline this quarter was only the third quarter in the last five years when the technology industry experienced a decline in enterprise value.

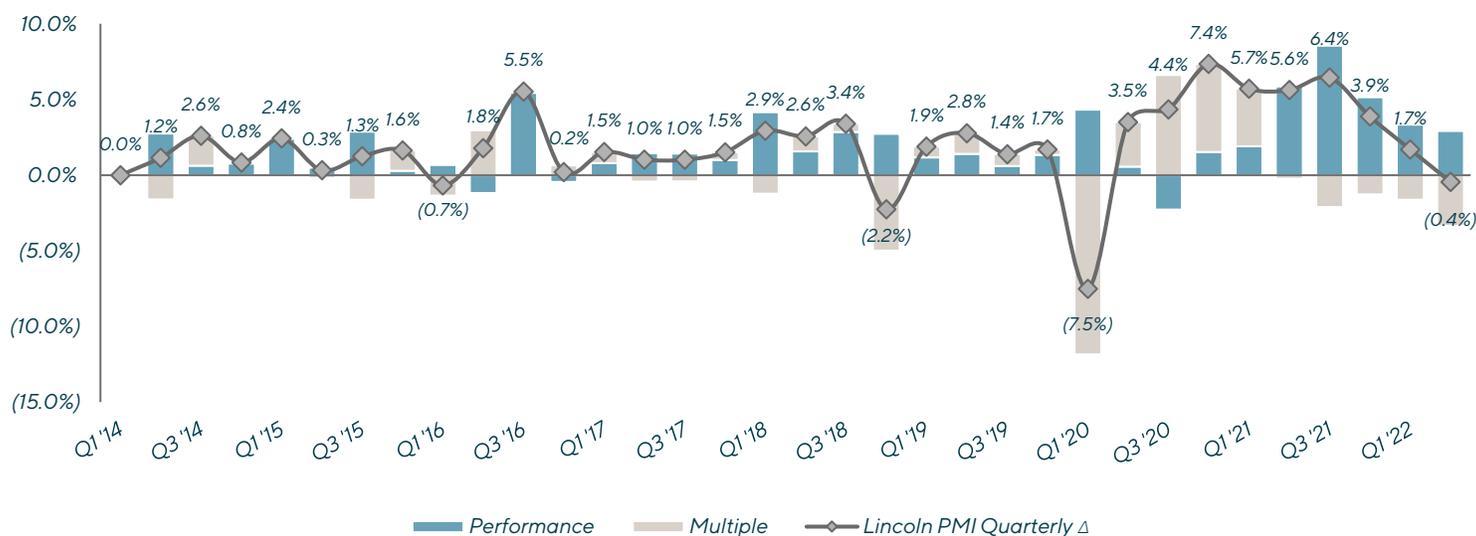
Enterprise value in the private markets for business services consumer and industrials industries was largely flat as these companies were most directly impacted by persistent supply chain headwinds, labor shortages and inflationary pressures. Increasing costs largely offset price increases for companies in these industries in Q2 2022. The same trend was true for public markets in the current quarter.

Conversely, energy continued to see accelerated growth in Q2 2022. The energy segment has been the beneficiary of some of these inflationary pressures as energy prices remain elevated; this references not just oil and gas prices, but other commodities too.

# EXAMINING THE LINCOLN PMI: EBITDA Multiples Versus Earnings

Q2

2022



~35%+

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.

Despite earnings growth, the Lincoln PMI declined in Q2 2022 as the earnings growth was finally insufficient to offset multiple contraction. For the fifth consecutive quarter, enterprise value multiples contracted, though this was the largest multiple contraction since the onset of the pandemic and third largest quarterly contraction since 2014. The significant amount of dry powder and longer investment horizons in the private markets have helped stabilize multiples relative to the public market volatility.

“As we have historically observed, portfolio companies in the private markets are not insulated from trends in the public markets and recessionary fears,” marked Steve Kaplan, Neubauer Distinguished Service Professor of Entrepreneurship and Finance at the University of Chicago Booth School of Business, who assists and advises on the Lincoln PMI. “However, the Lincoln PMI continued to exhibit resilience compared to the S&P 500 driven primarily by strong fundamental performance by the majority of portfolio companies.”

# SUMMARY: The Lincoln PMI

Q2

2022

## GENERAL OBSERVATIONS:

- Private company enterprise values decreased in Q2 2022 from record levels in Q1 2022 as the Lincoln PMI decreased 0.4%. The index has increased 34.1% from pre-pandemic levels observed in Q4 2019 but growth has slowed for over a year.
- Despite fairly similar growth in 2021, the Lincoln PMI and S&P 500 EV experienced diverging performance in 2022 as multiple contraction in the public markets drove a much greater decline in the S&P 500 EV relative to the Lincoln PMI.
- 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.

## ENTERPRISE VALUE RESULTS:

- In Q2 2022, private market valuations continued to hinge on whether companies can execute on projected growth while also mitigating recessionary pressures caused by supply chain issues, labor shortages and inflationary pressures; however, these headwinds are posing greater and greater risks to growth initiatives.
- In Q2 2022, both the Lincoln PMI and S&P 500 EV indices benefited from improved operating results; however, multiple contraction was significantly more material in the public markets.
- Fundamental performance remains the primary driver of long-term enterprise value growth in the Lincoln PMI, as demonstrated by the stronger earnings results and more stable multiples in the private markets to start 2022.

## INDUSTRY BREAKDOWN ON AN ENTERPRISE VALUE BASIS:

- Despite being the strongest performers and viewed as the safest industries over the last two years, healthcare and technology experienced the largest declines of the quarter and some of their largest declines since the inception of the Lincoln PMI.
- Although growth slowed across most industries, energy continued to rebound at an accelerated rate given heightened demand relative and supply chain pressures resulting in part from the conflict in Ukraine, which drove an increase in oil and gas prices.

### 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

2022

### SOURCE OF DATA AND SAMPLE SIZE

On a quarterly basis, Lincoln determines the enterprise fair value of over 3,800 portfolio companies for over 125 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 \$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/lincolnpmi](http://www.lincolninternational.com/services/valuations-and-opinions/lincolnpmi)

3,800

Portfolio companies are evaluated by Lincoln on a quarterly basis to determine their Enterprise Fair Value

125+

Sponsors participate in Lincoln PMI i.e. private equity groups & lenders to private equity groups

## METHODOLOGY: Academic Advisors

Q2

2022

### 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 Bachelor of Science from the University of Illinois, where he graduated with highest honors.



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We are trusted investment banking advisors to business owners and senior executives of leading private equity firms and their portfolio companies and to public and privately held companies around the world. Our services include mergers and acquisitions advisory, private funds and capital markets advisory, and valuations and fairness opinions. As one tightly integrated team of more than 800 professionals in more than 20 offices in 15 countries, we offer an unobstructed perspective on the global private capital markets, 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](http://www.lincolnternational.com).

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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