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LINCOLN PMI GROWS MODESTLY IN Q4 2022 AMID PUBLIC MARKET VOLATILITY

Lincoln International's 22nd edition of the Lincoln PMI (LPMI) reveals that in Q4 2022, private market enterprise values (EVs) increased 1.6%. This quarter, the LPMI increased due to modest improvement in fundamental performance in the private markets, partially offset by the seventh straight quarter of multiple contraction, albeit a negligible amount this period. Whereas the LPMI increased 1.6%, the S&P 500 EV increased by 4.8%, reflecting the S&P 500's significantly more volatile EV multiples. While most industries in the LPMI were flat-to-slightly-up this quarter, consumer valuations decreased, as consumer discretionary companies would likely be most directly impacted by a recessionary environment.

ABOUT THE LINCOLN PMI

The LPMI is a first-of-its-kind index measuring changes in the EVs of private companies over time - and a barometer of the performance of private companies generally. The LPMI enables private equity (PE) 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 LPMI to solve this problem by measuring the quarterly change in EVs for private companies primarily owned by PE firms. EV is the sum of a company's equity value and debt.

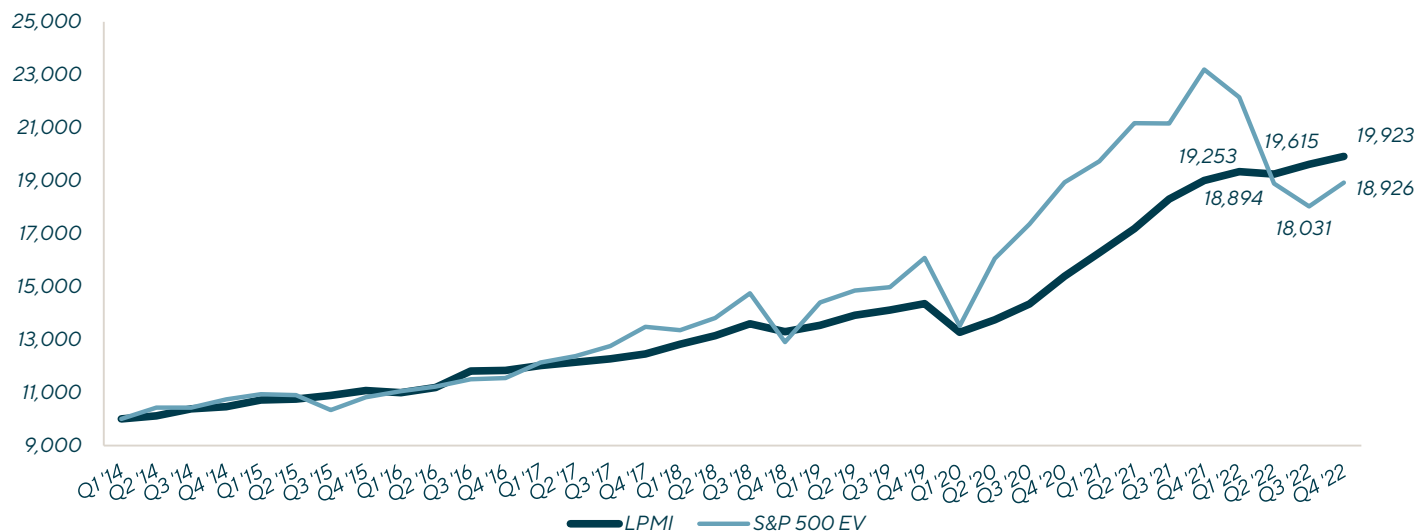
QUARTERLY OVERVIEW

- 22nd Edition: Covers Q4 2022
- Measures quarterly changes in the enterprise values of approximately 800 private companies, based on a population of approximately 4,000 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

Q4

2022



(NOTE: Both the LPMI 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)

	Q4 '22	2022
LPMI	1.6%	4.8%
S&P 500 EV	5.0%	(18.4%)
LPMI Equity	2.8%	6.4%
S&P 500	7.1%	(19.4%)

Starting at a value of 10,000 as of March 31, 2014, the LPMI has increased 99.2% cumulatively to 19,923, as of December 31, 2022. The LPMI grew at a compound annual growth rate of 8.2% since inception as compared to 7.6% for the EVs of the S&P 500.

While the correlation between the two markets has diverged in recent years, the two indices reconverged in the current period. However, while the LPMI increase was driven by improved operating results, the S&P increase was driven by multiple expansion, reflecting the greater volatility seen within the public market. However, uncertainty looms in 2023 with the sustained higher interest rate and higher cost environment pressuring liquidity and margins. In a recent Lincoln survey of asset management professionals, two-thirds of respondents believed EVs would decrease between zero to 15% in 2023.

The LPMI shows that private company EVs remain less volatile than those of the S&P 500; the LPMI'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 LPMI is superior to that of the S&P 500 EV index.

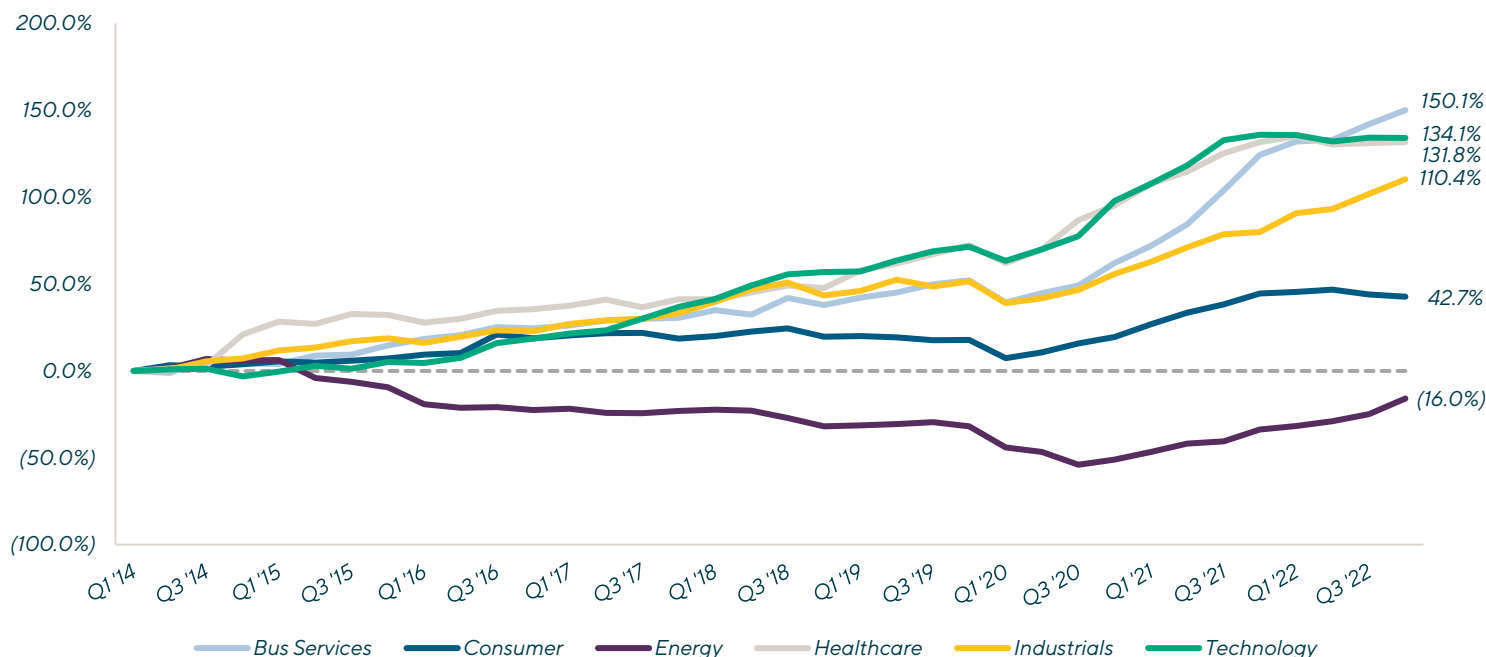
While the LPMI shows similar growth in enterprise value since inception as compared to the S&P 500, PE-owned companies traditionally have more leverage than public companies and, therefore, generate relatively greater equity gains.

SECTOR BREAKDOWN:

Consumer Valuations Declined While Other Industries Saw Flat-to-Modest Growth

Q4

2022



Industry	Q4 '22	2022
Bus Services	3.3%	11.5%
Consumer	(0.9%)	(1.2%)
Energy	12.0%	27.1%
Healthcare	0.3%	0.0%
Industrials	4.2%	16.9%
Technology	(0.1%)	(0.8%)

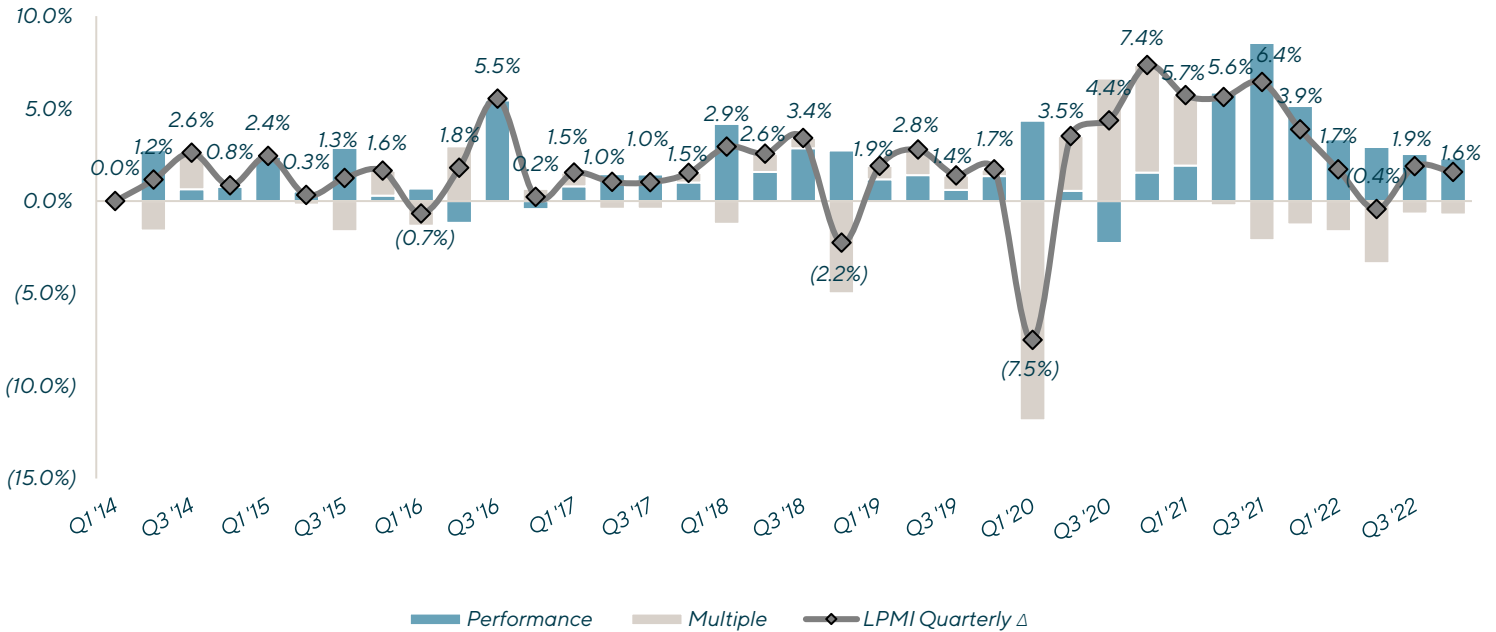
In Q4 2022, private company valuations increased on the back of resilient operating performance which included strong product demand and higher costs passed onto end customers via price increases, through 2022. Business services and industrial companies have been to-date the most successful in passing along rising costs resulting in the 3-4% growth noted above while energy continued to benefit from the commodity pricing environment, whereas other industries saw moderate increases.

Consumer companies were the only ones to experience EV declines given the inability to fully pass on increased costs given lower consumer spending entering a potential recessionary environment. While the consumer sector as a whole saw a decline, the consumer service subsector trended positively. Specifically, fitness centers have seen performance return to pre-pandemic levels.

EXAMINING THE LINCOLN PMI: EBITDA Multiples Versus Earnings

Q4

2022



~35%+

Expansion of LPMI valuation multiples since Q1 2014

The grey line in the above graph indicates the quarterly change in LPMI EVs; this change is based on changes in performance (i.e., EBITDA) combined with the change in EBITDA multiples.

The LPMI increased in Q4 2022 as the earnings growth more than offset multiple contraction. For the seventh consecutive quarter, EV multiples contracted, albeit negligibly, in the LPMI, despite multiple expansion in the S&P 500 index.

“EBITDA growth for private companies has been solid this quarter and this year. Despite the decline in multiples over the year, the LPMI has increased both this quarter and this year. This difference from the decline in the S&P 500 reflects a different mix of industries and different firm performance for the private companies,” said 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 LPMI. “The year provides good example of how PE can provide diversification from public markets while generating solid returns.”

SUMMARY: The Lincoln PMI

Q4

2022

GENERAL OBSERVATIONS:

- Private company EVs increased for the second consecutive quarter as the LPMI increased 1.6%. The index has increased 38.8% from pre-pandemic levels observed in Q4 2019 but growth has slowed for over a year.
- Despite similar directional growth in 2021, the LPMI and S&P 500 EV experienced diverging performance in early 2022 before reconverging in Q4 2022. The differences were a result of more volatile multiples seen throughout 2022 in the S&P 500 EV relative to the LPMI.
- Since its inception in Q1 2014, the LPMI has shown that private company EV 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 Q4 2022, private market valuations continued to hinge on companies' ability to pass on price increases or find alternative ways to mitigate cost increases; while the story of 2022 was one of margin declines, EBITDA still grew approximately 9% year-over-year.
- Investors are expected to remain selective and focused recession-resilient companies in 2023, which may lead to a buildup of deployable capital in the back half of 2023. If investors look to deploy the built up capital in the second half of 2023, the private market may be able to sustain the recent level of EV multiples, which could stabilize EV in 2023 should operating performance finally soften.
- In Q4 2022, both the LPMI and S&P 500 EV indices increased, although for different reasons. The LPMI benefitted from improved operating results, whereas the S&P 500 index benefitted from multiple expansion.

INDUSTRY BREAKDOWN ON AN ENTERPRISE VALUE BASIS:

- Despite ongoing volatility and multiple compression in the public markets, the consumer industry was the only industry within the LPMI to undergo a notable decline in the current quarter, which was a result of the inability to fully pass on price increases and concerns on the duration of the ongoing headwinds.
- In the current quarter, private company valuations for business services and industrials industries continued to increase, given the greater ability to pass on price increases to customers.

IN SUMMARY, WE BELIEVE THE LINCOLN PMI:

- Enables investors in private companies, including PE firms, to benchmark their investments against their peers and the S&P 500 on both EV 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

Q4

2022

SOURCE OF DATA AND SAMPLE SIZE

On a quarterly basis, Lincoln determines the enterprise fair value of over 4,000 portfolio companies for over 125 sponsors (i.e., PE groups and lenders to PE groups). These portfolio companies report quarterly financial results to the sponsor or lender. Lincoln obtains this information and determines the appropriate EV multiple so as to compute the EV in accordance with the fair value measurement principles of generally accepted accounting principles. In assessing EV, 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 EV data for analysis.

To construct the LPMI, 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

4,000

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

125+

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

METHODOLOGY: Academic Advisors

Q4

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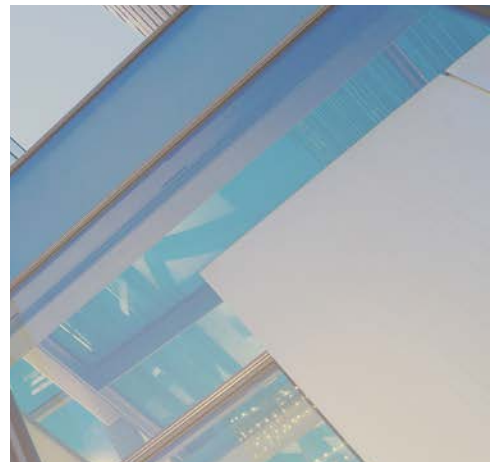
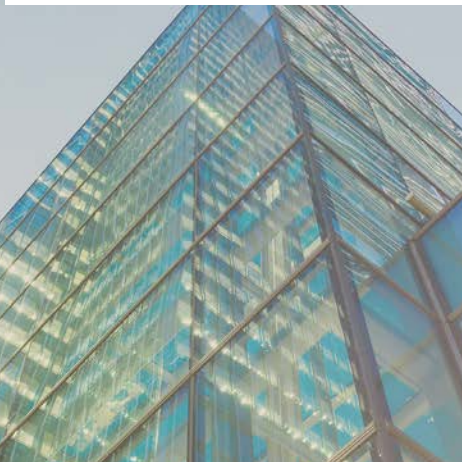
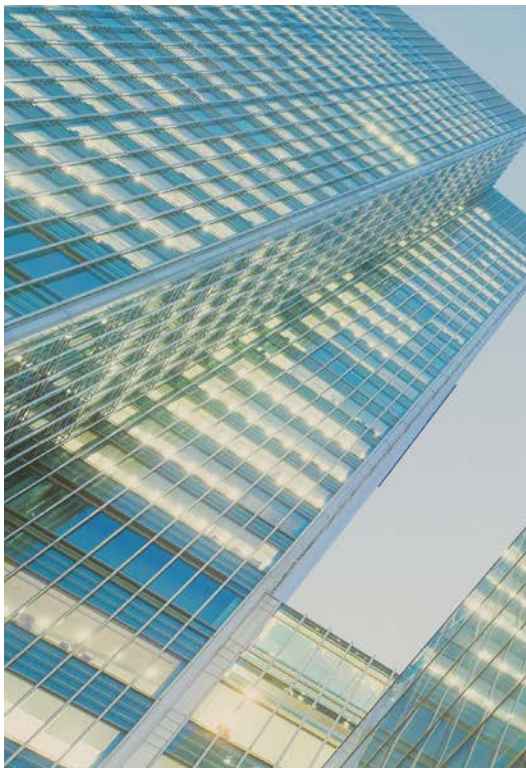
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