



Webinar: Q2 2023

Private Market Insights

1 June 2023

Today's Valuations & Opinions Group (VOG) Speakers

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Discussion Agenda

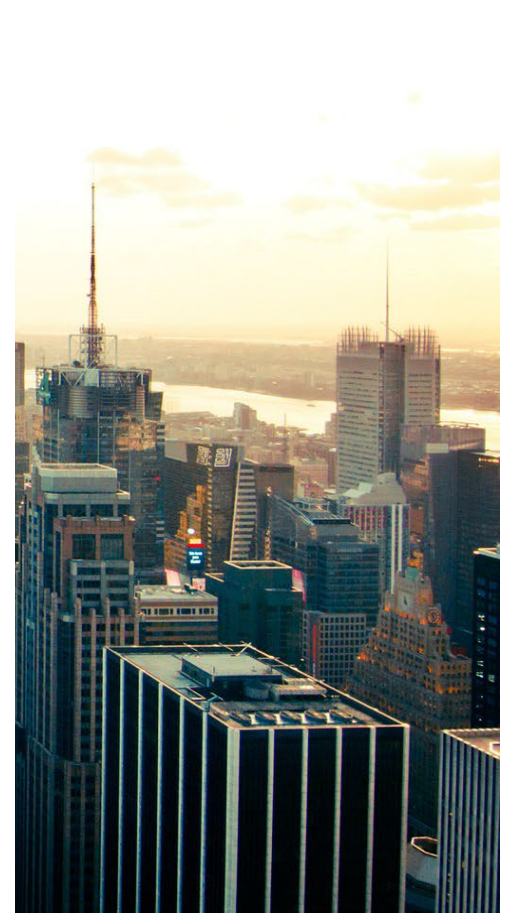
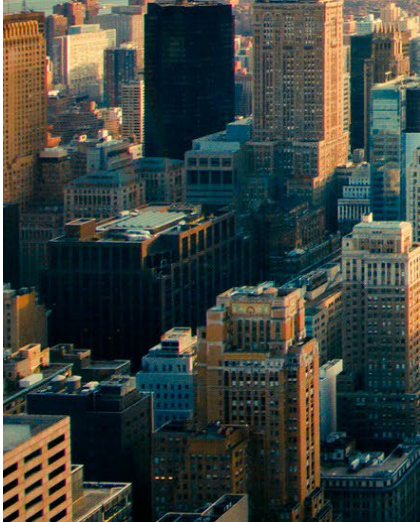
- **State of the Markets**
 - **Public vs. Private Market Enterprise Value Observations**
 - **Macroeconomic & Transaction Trends**
 - **Company Fundamental Performance**
- **Credit Market Observations**
 - **Trends in Private Markets**
 - **BSL and Direct Lending Market**
 - **Portfolio Company Monitoring**

During the course of the discussion, we will have various polling questions. These questions are anonymous, and no information will be collected.

All slides will be distributed shortly after the Webinar.

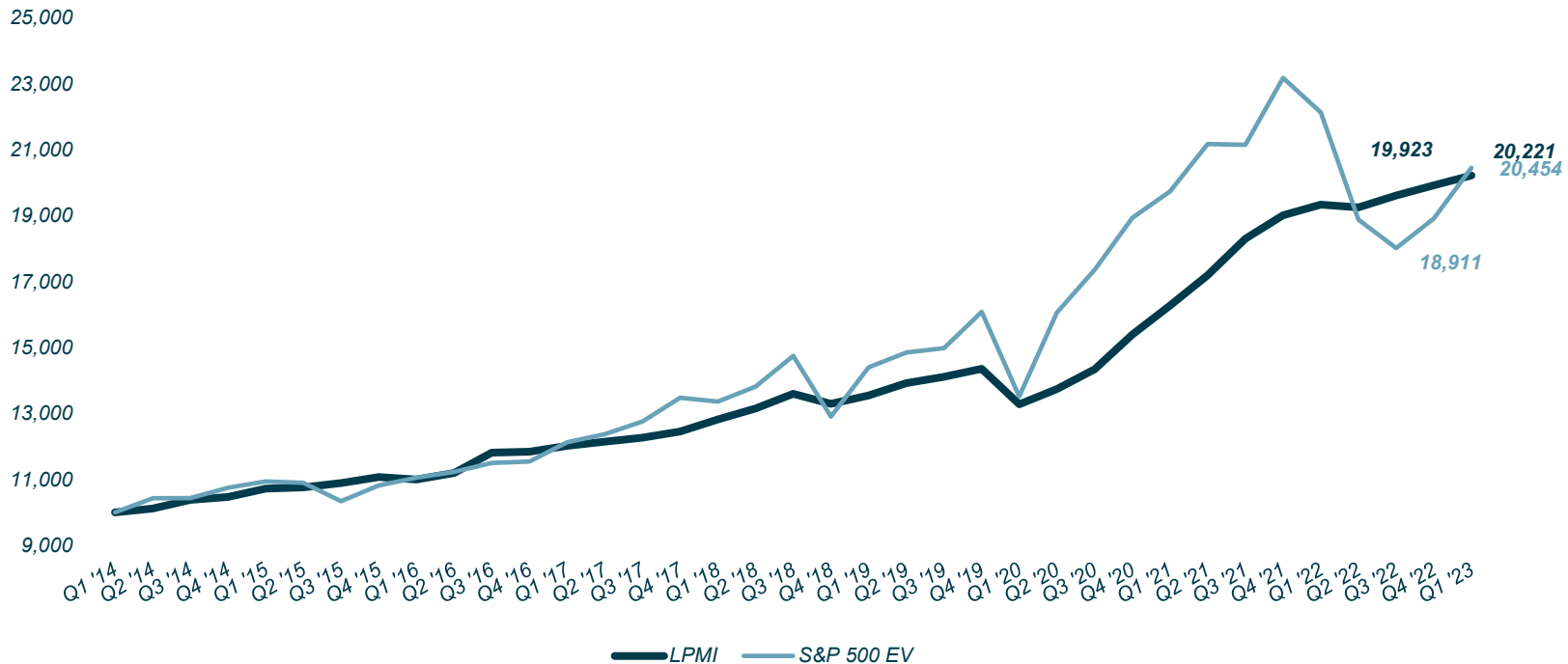
Current Market Conditions

Section 1



Lincoln Private Market Index

Index vs. S&P 500 Enterprise Values

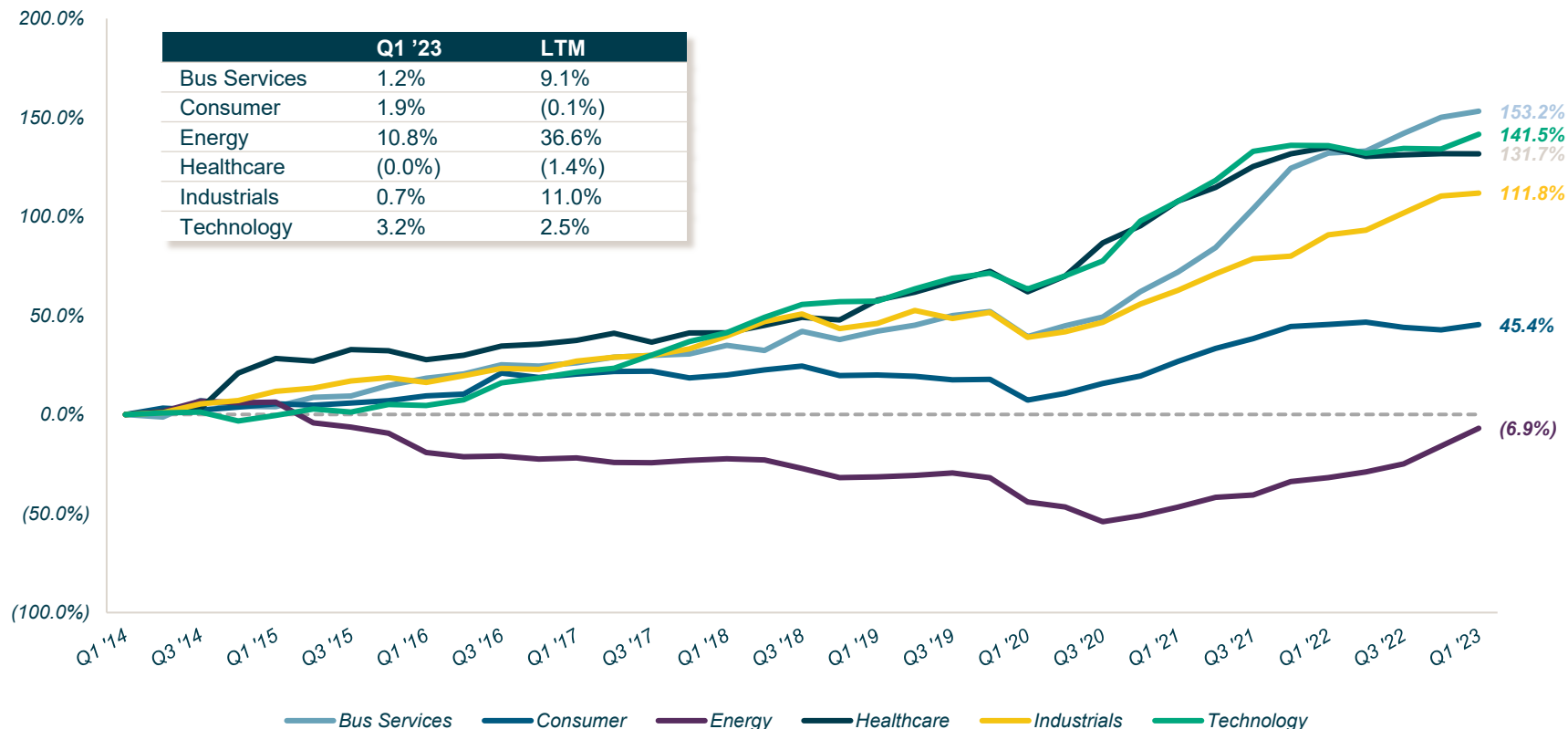


	Q2 '22	Q3 '22	Q4 '22	Q1 '23	LTM
LPMI	(0.4%)	1.9%	1.6%	1.5%	4.6%
S&P 500 EV	(14.7%)	(4.6%)	5.0%	8.2%	(7.6%)

LPMI increased in the current period driven by resilient fundamental performance, whereas the S&P 500 saw an increase based on multiple expansion

Lincoln Private Market Index

Industry Performance – Enterprise Value

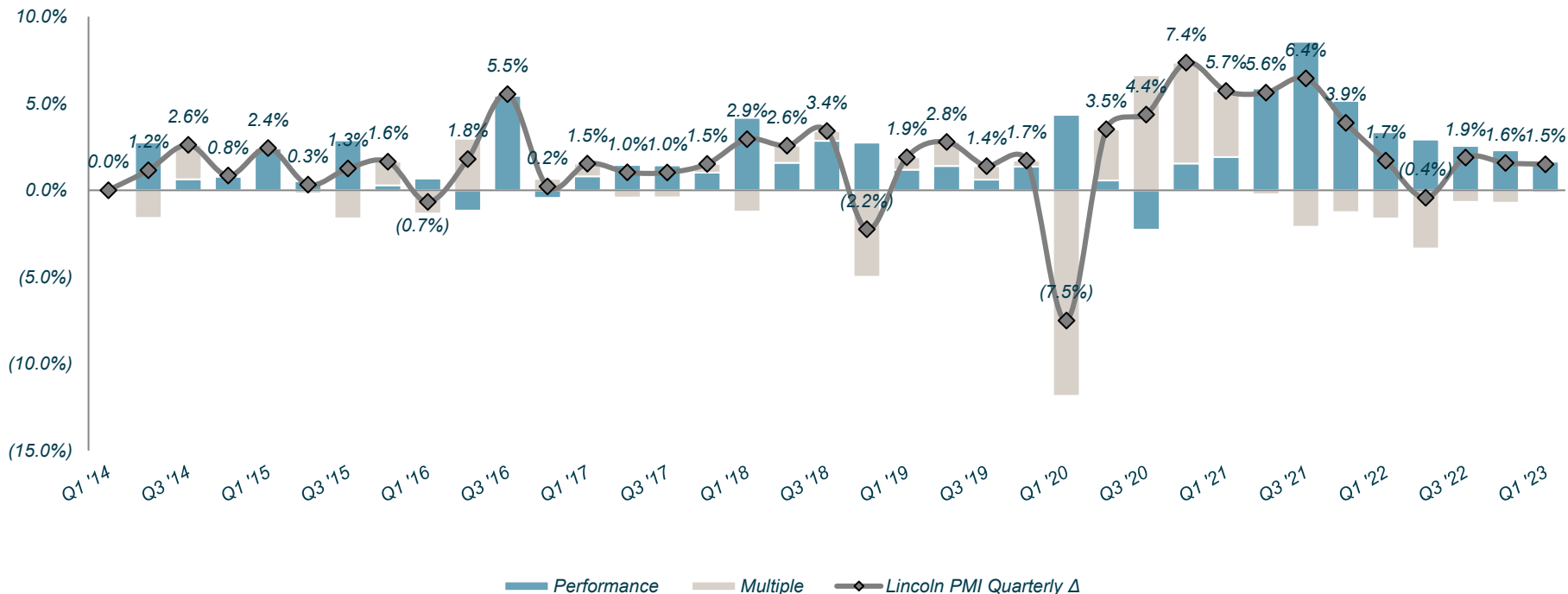


One industry's underperformance that may have come as a surprise is Healthcare. The underperformance also led to Healthcare being the weakest performer in the LPMI in Q1 2023

Despite declining LTM EBITDA performance and continued headwinds in the Consumer industry, enterprise values increased for the first time since Q2 2022

Lincoln Private Market Index

Index Drivers: Multiples vs Earnings



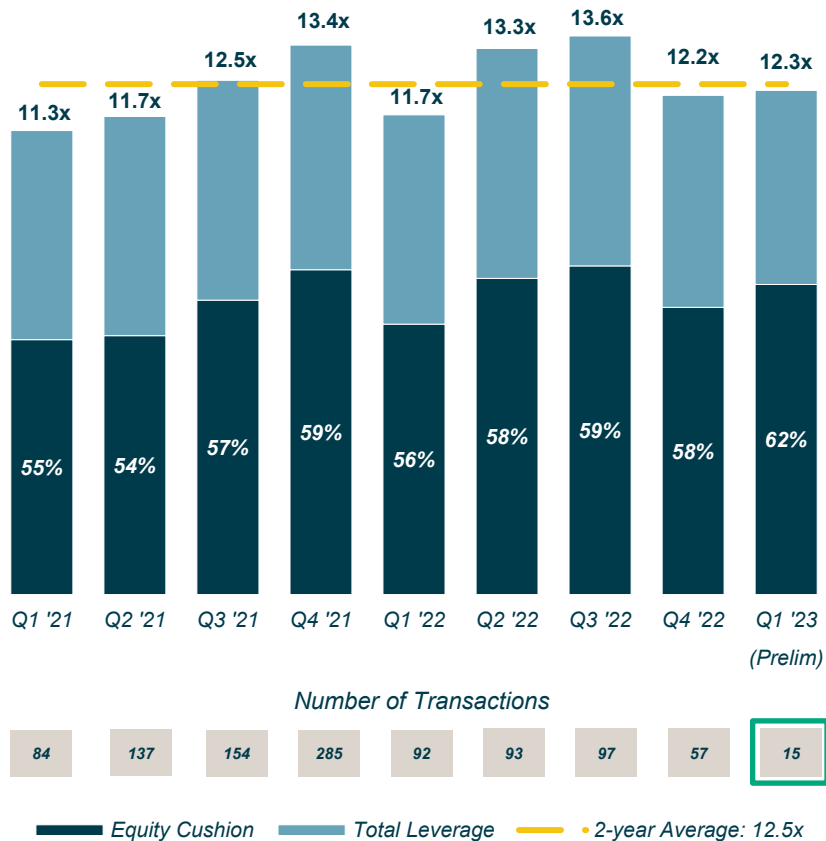
	EBITDA Performance				EBITDA Multiples				EV Growth			
	Q2 '22	Q3 '22	Q4 '22	Q1 '23	Q2 '22	Q3 '22	Q4 '22	Q1 '23	Q2 '22	Q3 '22	Q4 '22	Q1 '23
LPMI	2.9%	2.6%	2.3%	1.6%	(3.4%)	(0.7%)	(0.7%)	(0.1%)	(0.4%)	1.9%	1.6%	1.5%
S&P 500	1.3%	2.3%	0.8%	0.8%	(16.0%)	(6.8%)	4.2%	7.3%	(14.7%)	(4.6%)	5.0%	8.2%

Private market enterprise values increased on the back of modest fundamental performance growth

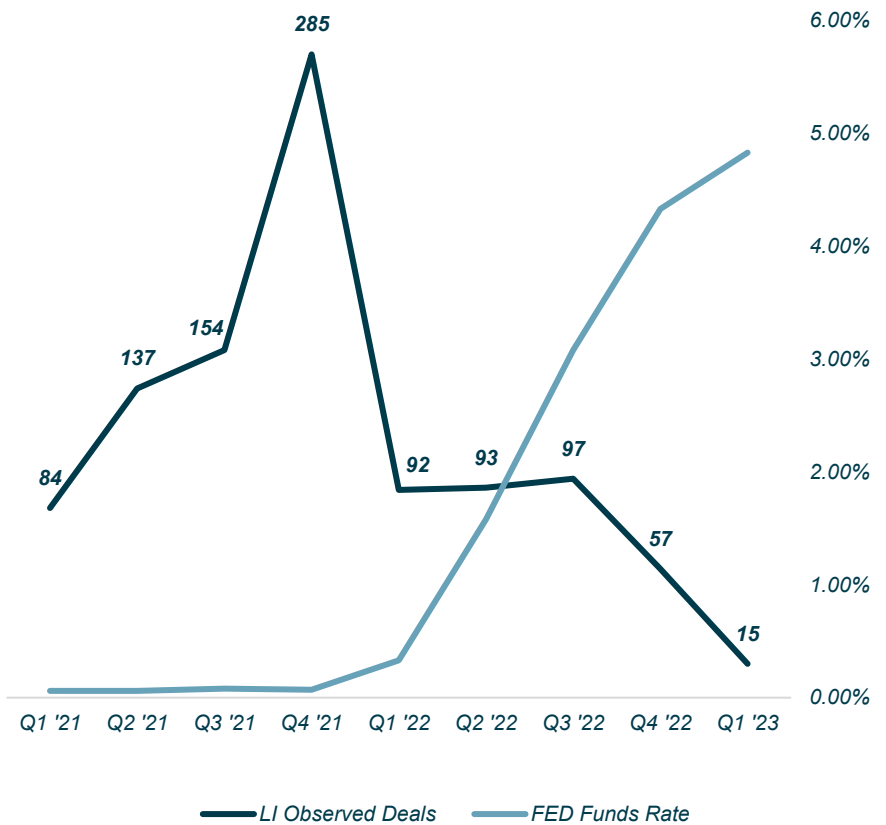
M&A Environment vs. Fed Funds Rate

M&A activity declined in Q1 2023, with deals completed having higher-than-average equity cushions

EV / LTM EBITDA Transaction Multiples



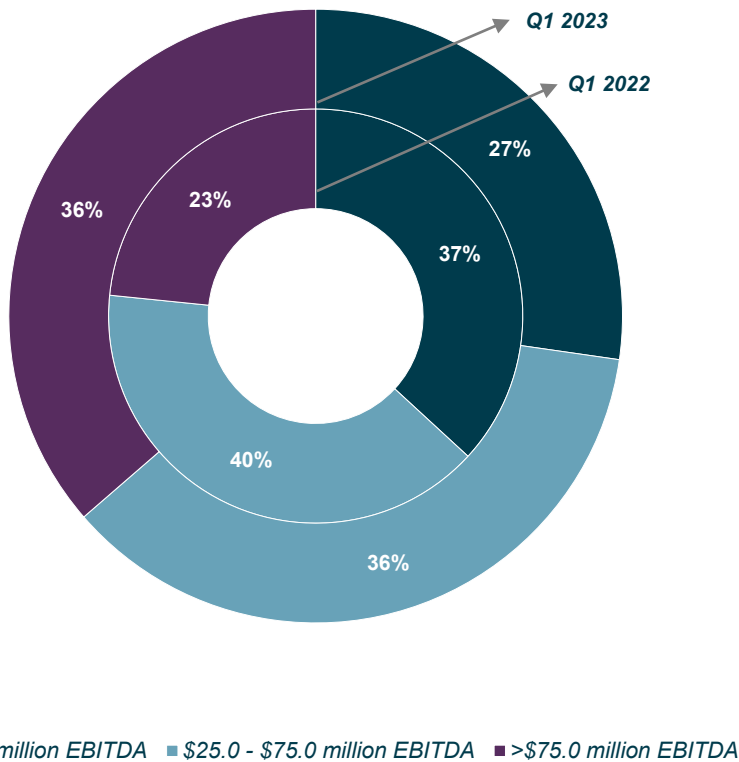
FED Funds Rate & LI Observed Deal Activity



Source: Lincoln Valuations and Opinions Group Proprietary Database.

Breakout of Lincoln Observed Third-Party Transactions

Q1 2023 transactions were generally larger than transactions a year ago, with most deals requiring at least a 50% equity cushion



55% ↑ 93%

**Q1 2022 vs Q1 2023
Acquisitions with
Equity Cushion >50%**

19% ↑ 33%

**Q1 2022 vs Q1 2023
Acquisitions with Enterprise
Value >\$1B**

Source: Lincoln Valuations and Opinions Group Proprietary Database.

Poll Question

By end of 2023, do you expect enterprise values for private companies to:

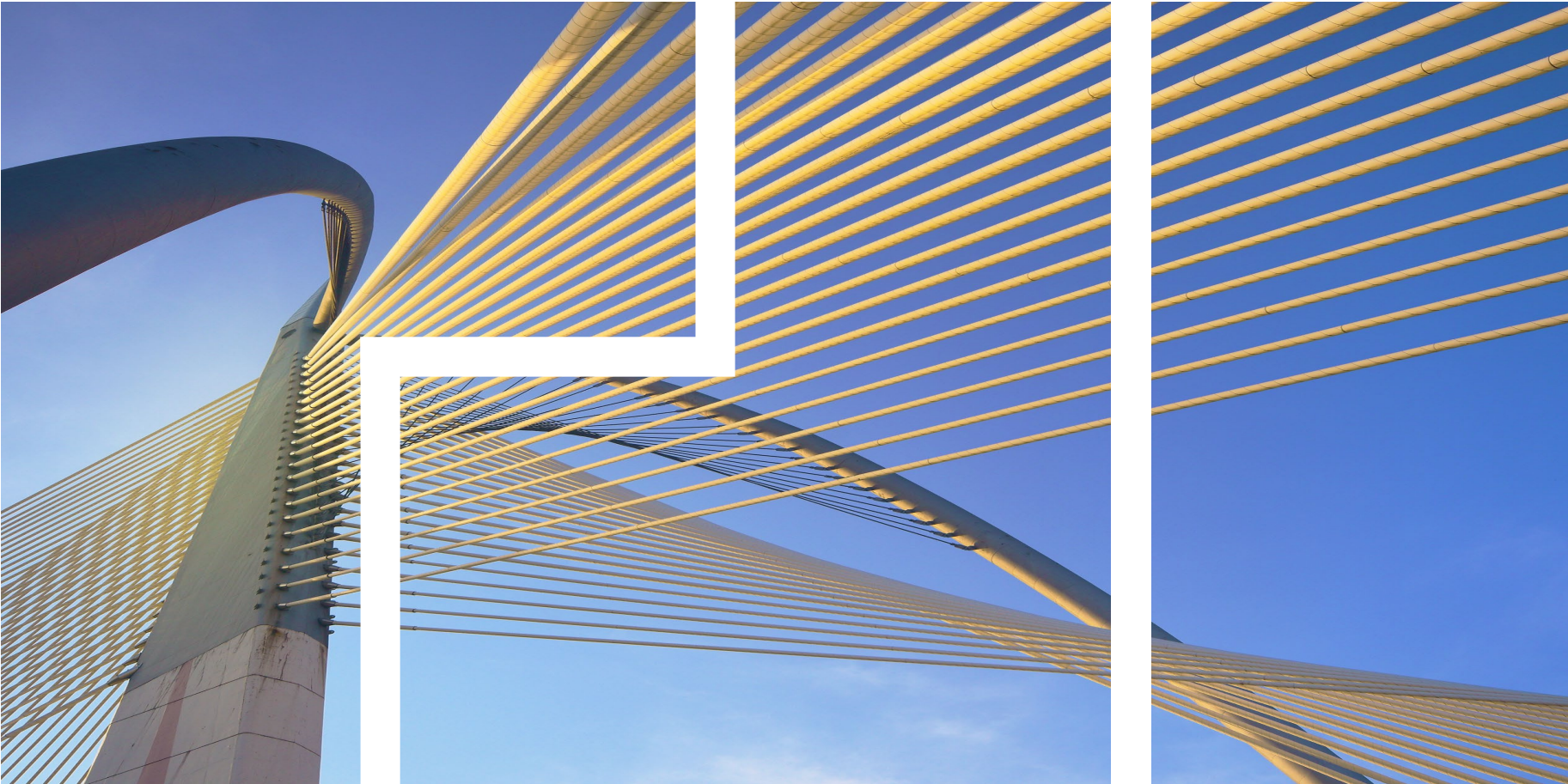
- Increase
- Decrease
- Remain Stable

When do you expect transaction activity to return?

- Q3 2023
- Q4 2023
- 1H 2024
- 2H 2024 or beyond

Company Performance Trends

Section 2



Poll Question

On average, how much are you expecting revenue to grow in 2023 for your portfolio?

- <0%
- Flat
- 1% - 5%
- 6% - 10%
- 10%+

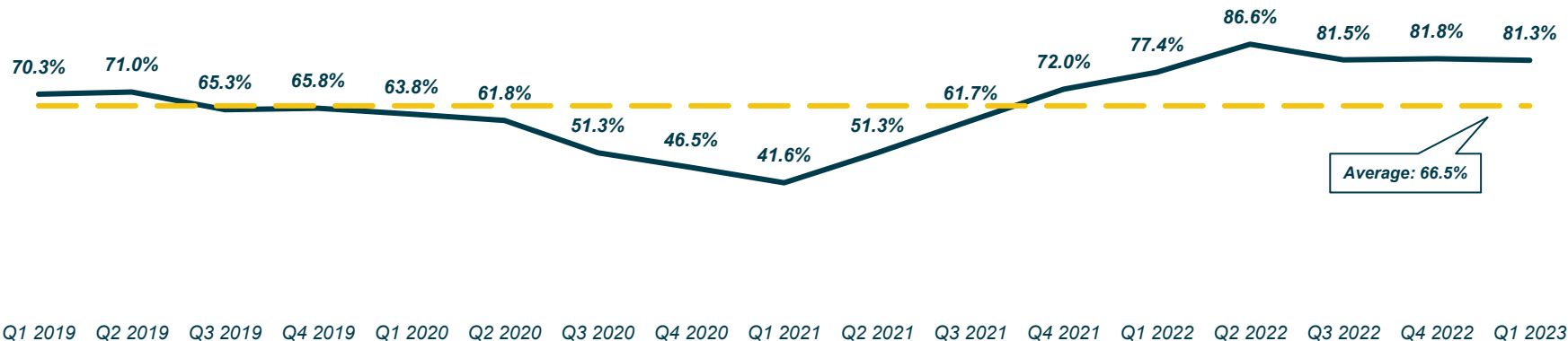
On average, how much are you expecting EBITDA to grow in 2023 for your portfolio?

- <0%
- Flat
- 1% - 5%
- 6% - 10%
- 10%+

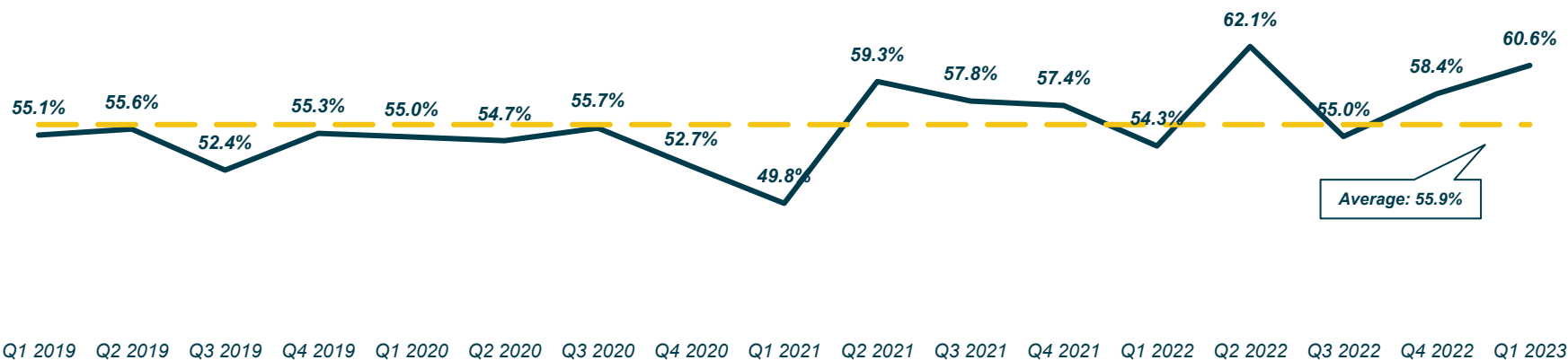
Portfolio Company Gainers and Decliners

Companies continued to show strong fundamental performance in Q1 2023, as more companies reported YoY growth. However, companies reporting YoY LTM EBITDA growth continued to lag companies reporting YoY LTM Revenue growth

Percentage of Companies Reporting YoY LTM Revenue Growth



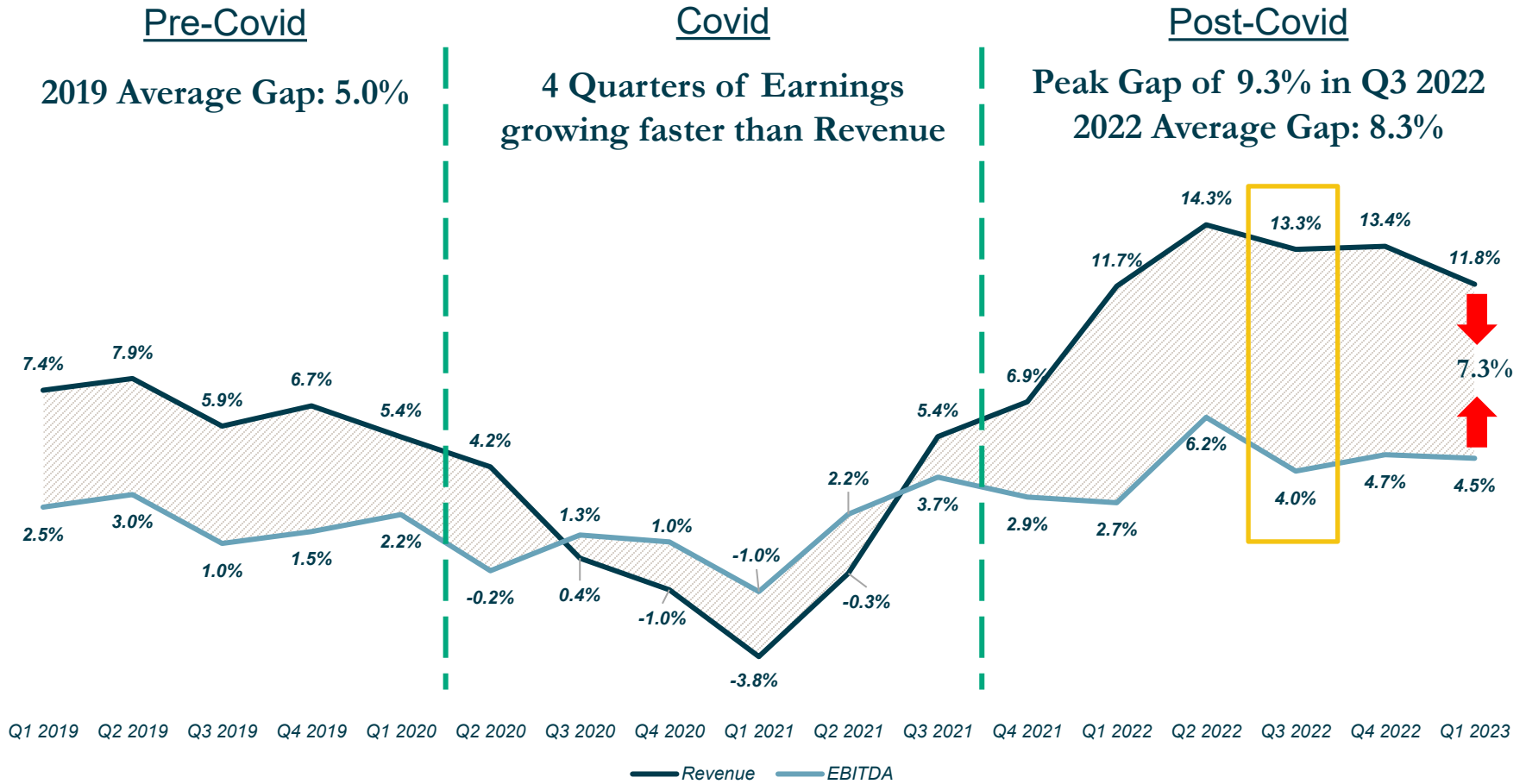
Percentage of Companies Reporting YoY LTM EBITDA Growth



Source: Lincoln Valuations and Opinions Group Proprietary Database.

YoY LTM Revenue & EBITDA Growth Magnitude

YoY LTM Revenue & EBITDA Growth & Gap in Growth

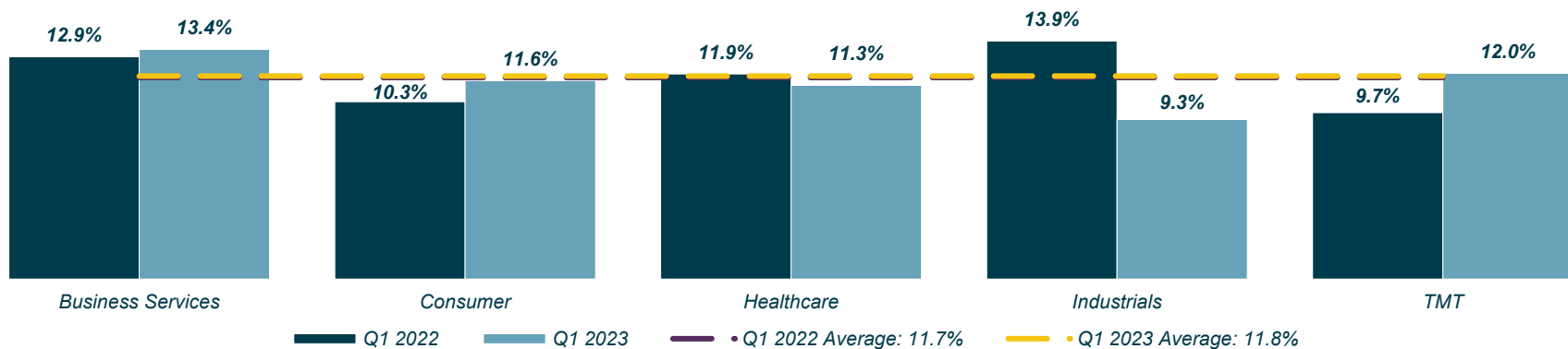


Source: Lincoln Valuations and Opinions Group Proprietary Database.

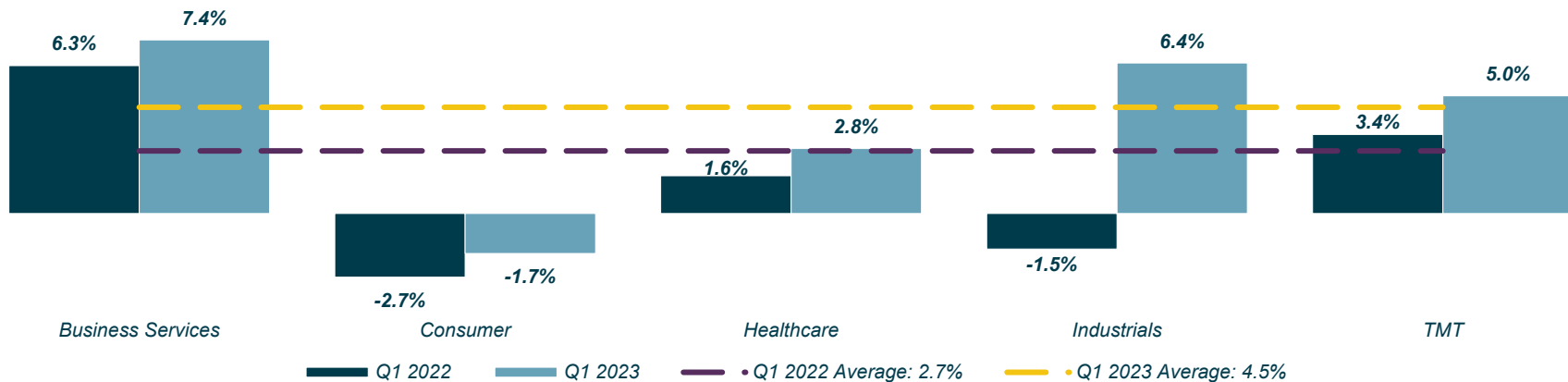
YoY LTM Revenue & EBITDA Growth Magnitude by Industry

Revenue growth continued to remain strong in Q1 2023, albeit stable year-over-year, and exceeded EBITDA growth as a result of rising input costs given inflationary pressures

YoY LTM Revenue Growth



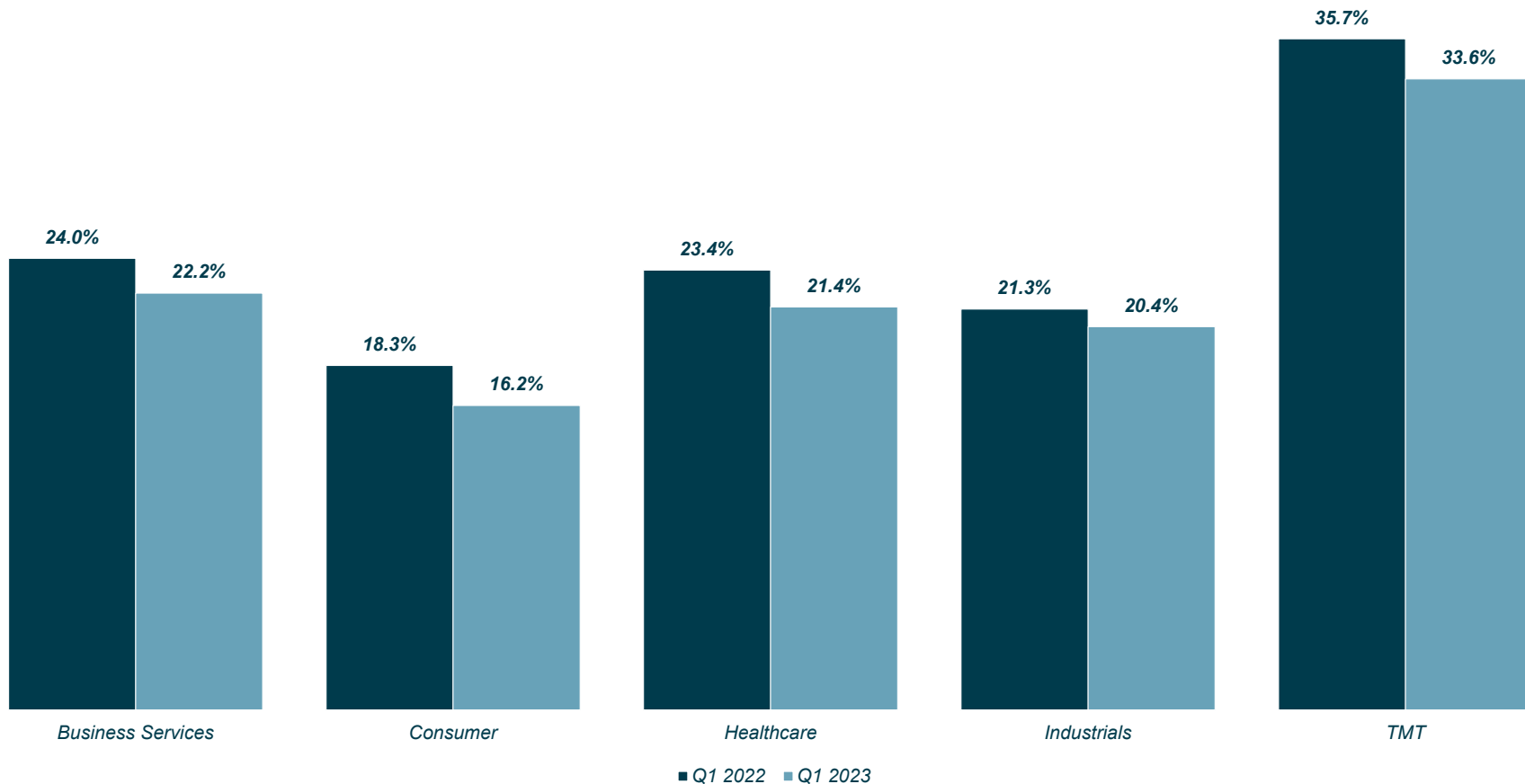
YoY LTM EBITDA Growth



Source: Lincoln Valuations and Opinions Group Proprietary Database.

LTM EBITDA Margins

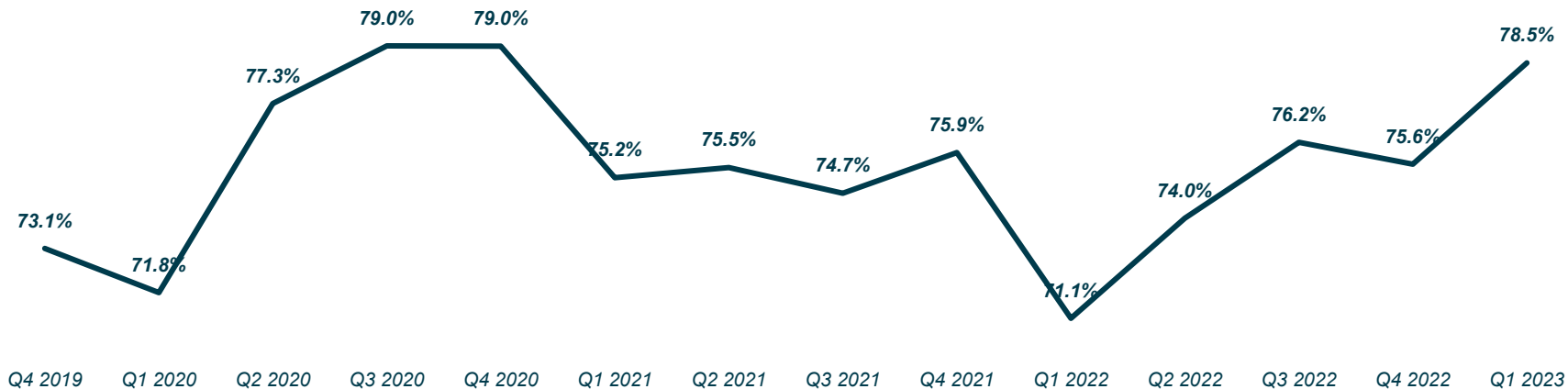
Margins contracted **~2%** on average indicating that more recent company performance is trending negatively compared to the prior year



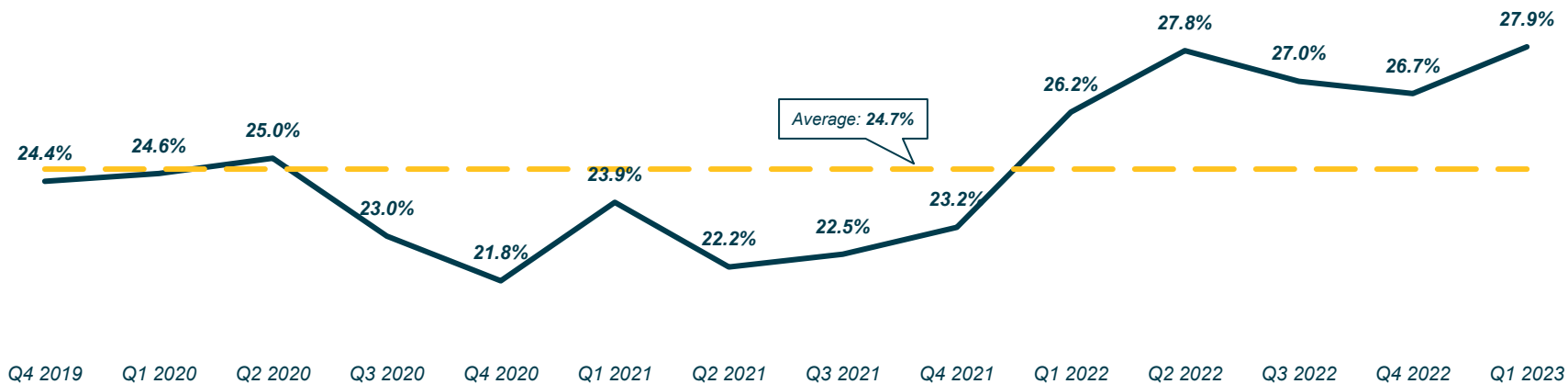
Source: Lincoln Valuations and Opinions Group Proprietary Database.

LTM EBITDA Adjustments

Percentage of Companies Reporting LTM EBITDA Adjustments



Magnitude of LTM EBITDA Adjustments as a % of Adj. LTM EBITDA

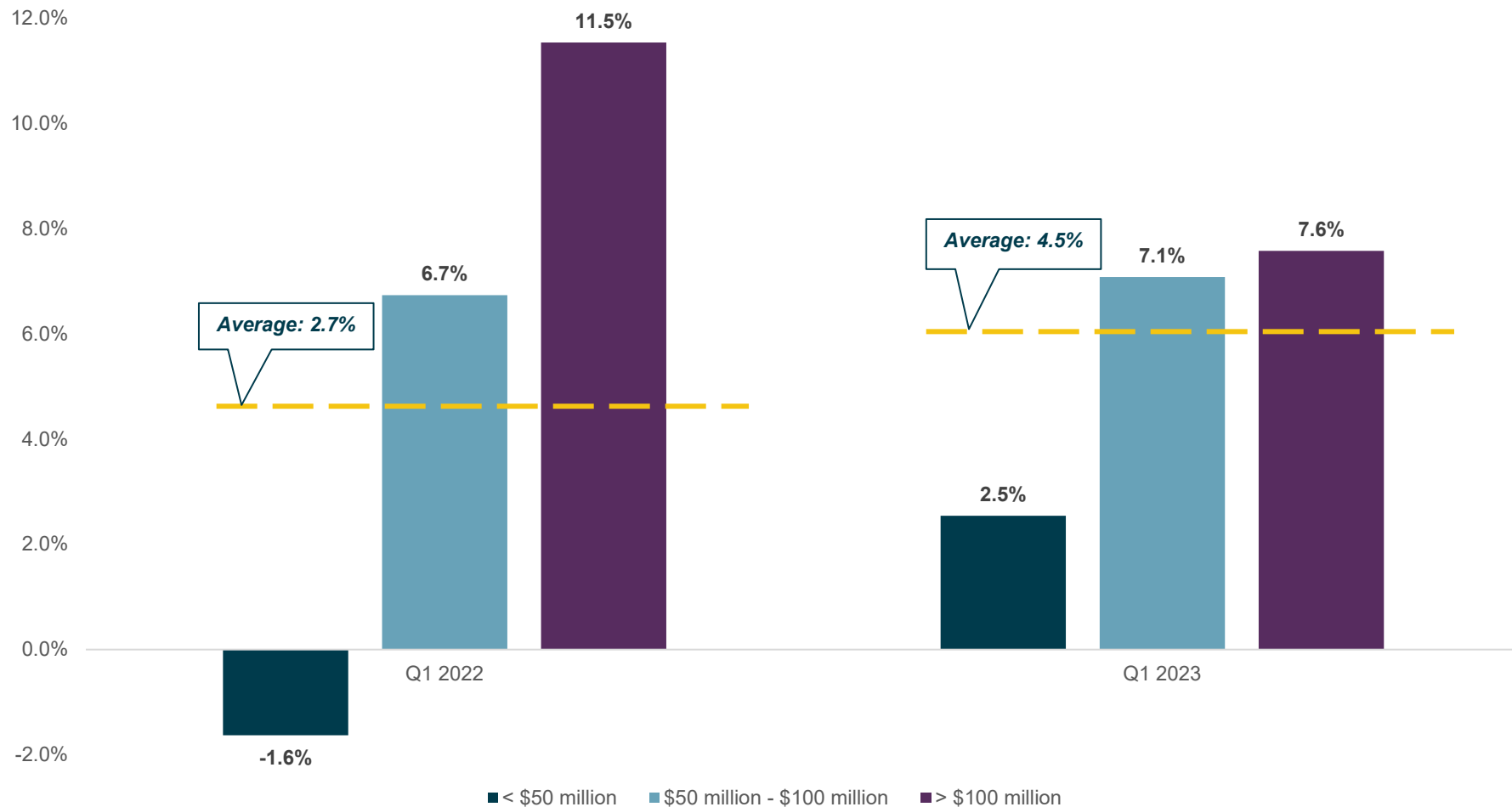


Source: Lincoln Valuations and Opinions Group Proprietary Database.

Note: Adjustments to EBITDA as a percentage of Adj. EBITDA were calculated by dividing EBITDA adjustments by the concluded Adj. EBITDA as used for valuation purposes. Adjusted EBITDA was defined as EBITDA accepted via a covenant compliance document.

YoY LTM EBITDA Growth Magnitude by Size

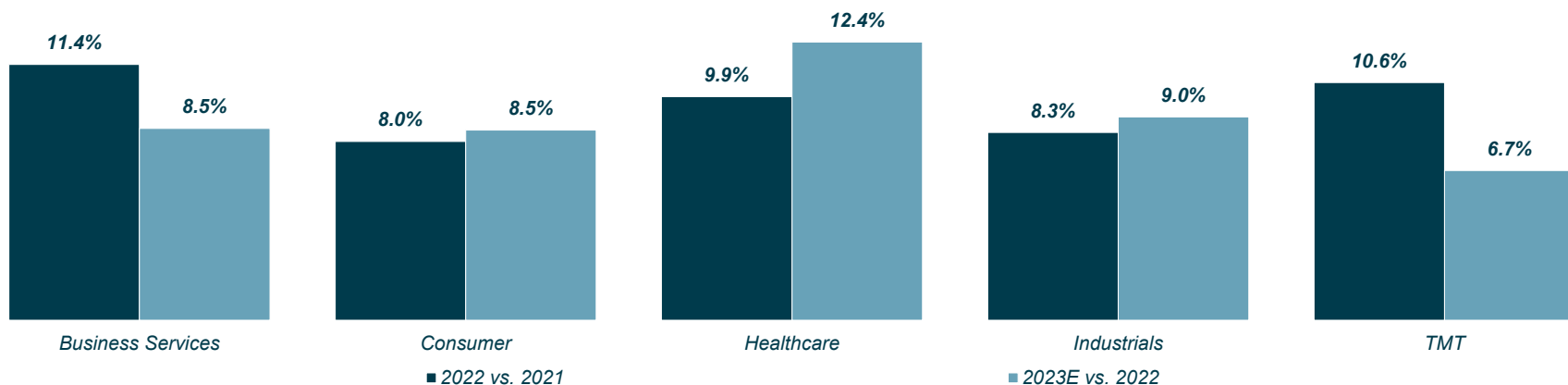
Smaller EBITDA size companies continue to be more impacted by rising costs and inflationary pressures than larger EBITDA size companies



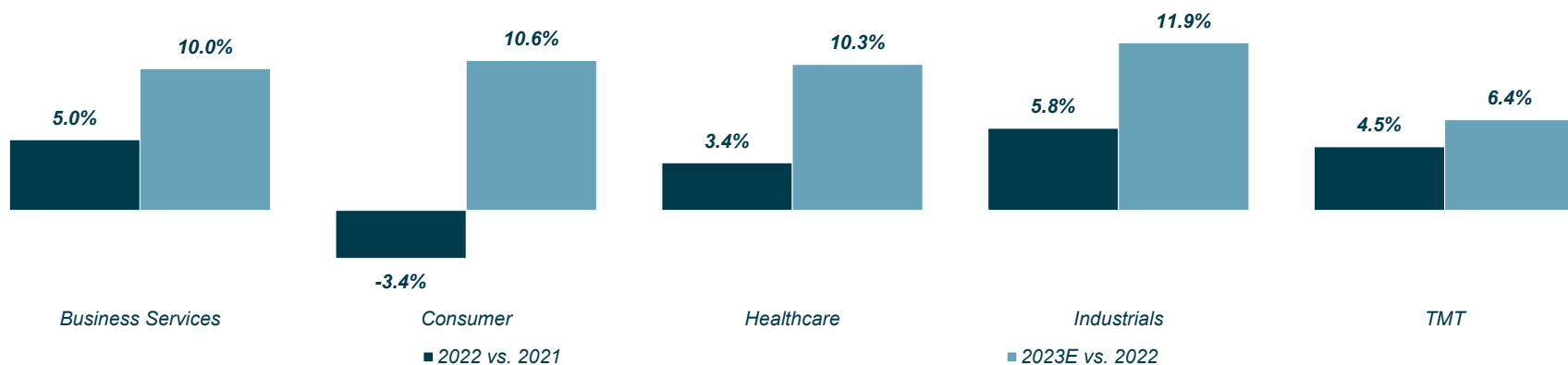
FY 2022 Results vs. FY 2023 Budget

While most companies are expecting lower revenue growth in 2023 relative to 2022, they are expecting significant margin expansion across all industries

Revenue Change FY 2021 – FY 2022 vs. Budget Revenue Change FY 2022 – FY 2023E



EBITDA Change FY 2021 – FY 2022 vs. Budget EBITDA Change FY 2022 – FY 2023E



Source: Lincoln Valuations and Opinions Group Proprietary Database.

YoY Budget vs. Actual Growth

Revenue

2022

12.1% → **9.8%**
Budget Actual

2023

8.9%
Budget

Adj. EBITDA

2022

11.0% → **3.2%**
Budget Actual

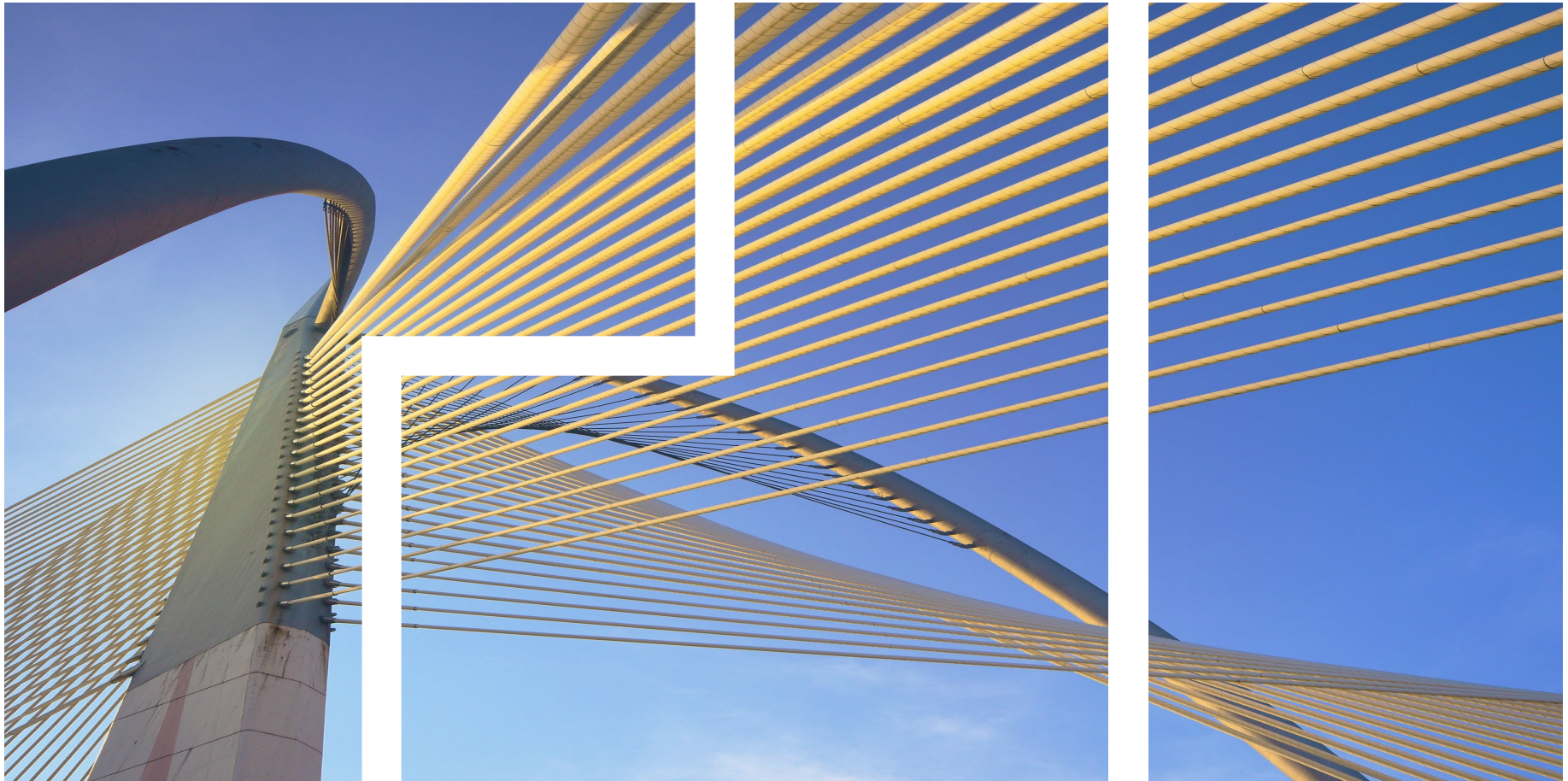
2023

9.8%
Budget

Source: Lincoln Valuations and Opinions Group Proprietary Database.

Current State of the Private Capital Markets

Section 3



Poll Question

Do you expect covenant default rates on private market loans to continue to increase throughout 2023?

- Yes
- No

Which types of amendments are you expecting to see most frequently in 2023? Choose all that apply:

- Covenant Relief
- Maturity Extensions
- Sponsor Infusions
- Pricing Changes

Private Credit Market Snapshot (New Transactions)

New deals have been underwritten with higher equity cushions, increased pricing, and higher closing fees than in recent years

Equity Cushion

50%+

Required Equity Cushion

1L / Unitranche Pricing

75-125 bps

Increase in spread since 2021

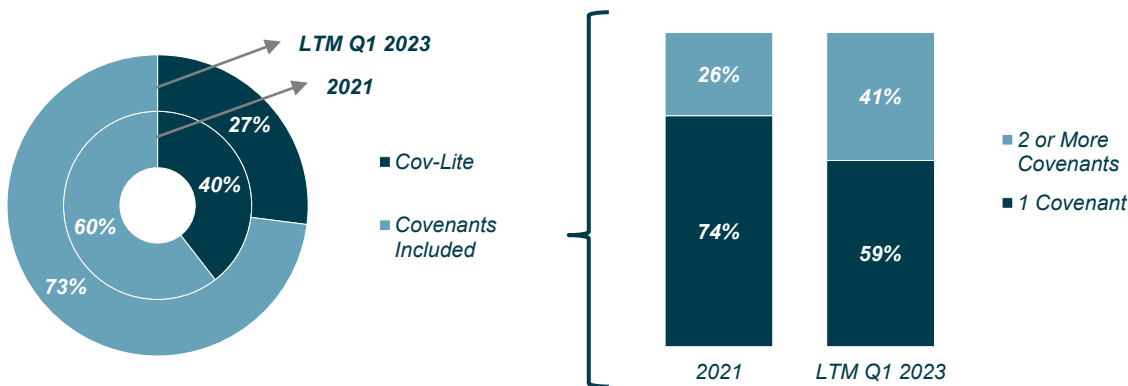
OID

~97%

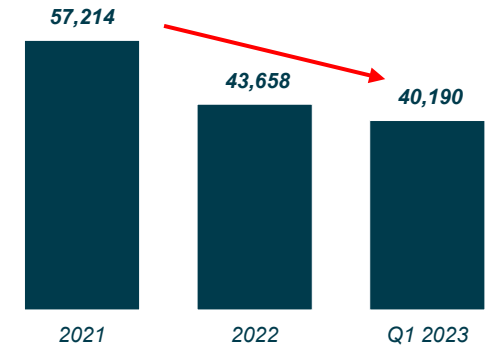
Average issuance price in Q1 2023

Lenders have been increasing the required number of covenants and decreasing their average hold sizes for new transactions as there has been increased lender scrutiny when underwriting deals

New Transactions - Covenants



Average Lender Hold Size

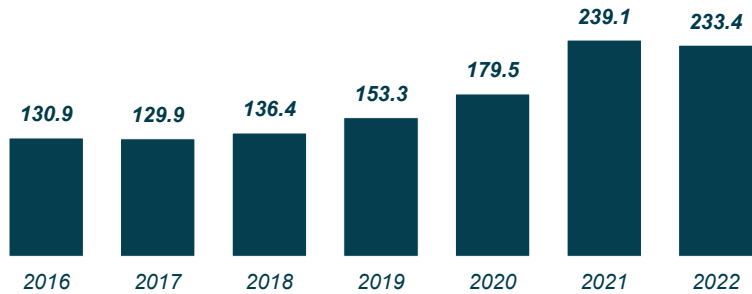


Source: Lincoln Valuations and Opinions Group Proprietary Database.

Private Capital Market Fundraising Trends

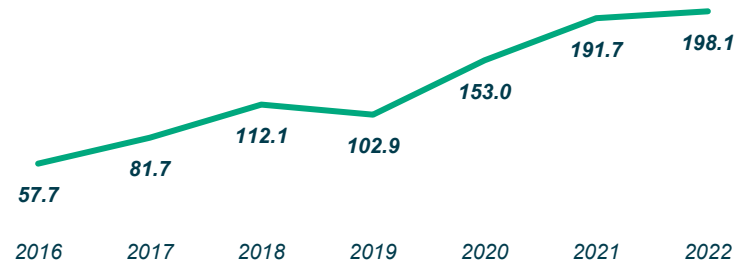
2022 Private Equity & Private Credit Fundraising

Global Private Direct Lending Fundraising (\$ in billions)

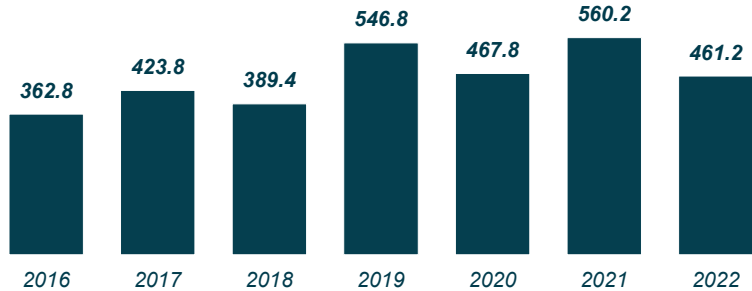


2022 Private Equity & Private Credit Dry Powder

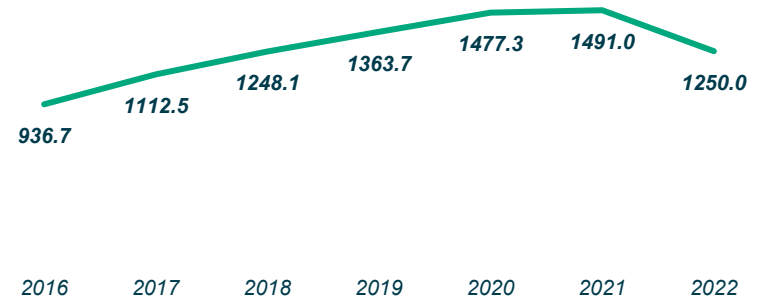
Dry Powder for Direct Lending Funds (\$ in billions)



Global Private Equity Fundraising (\$ in billions)



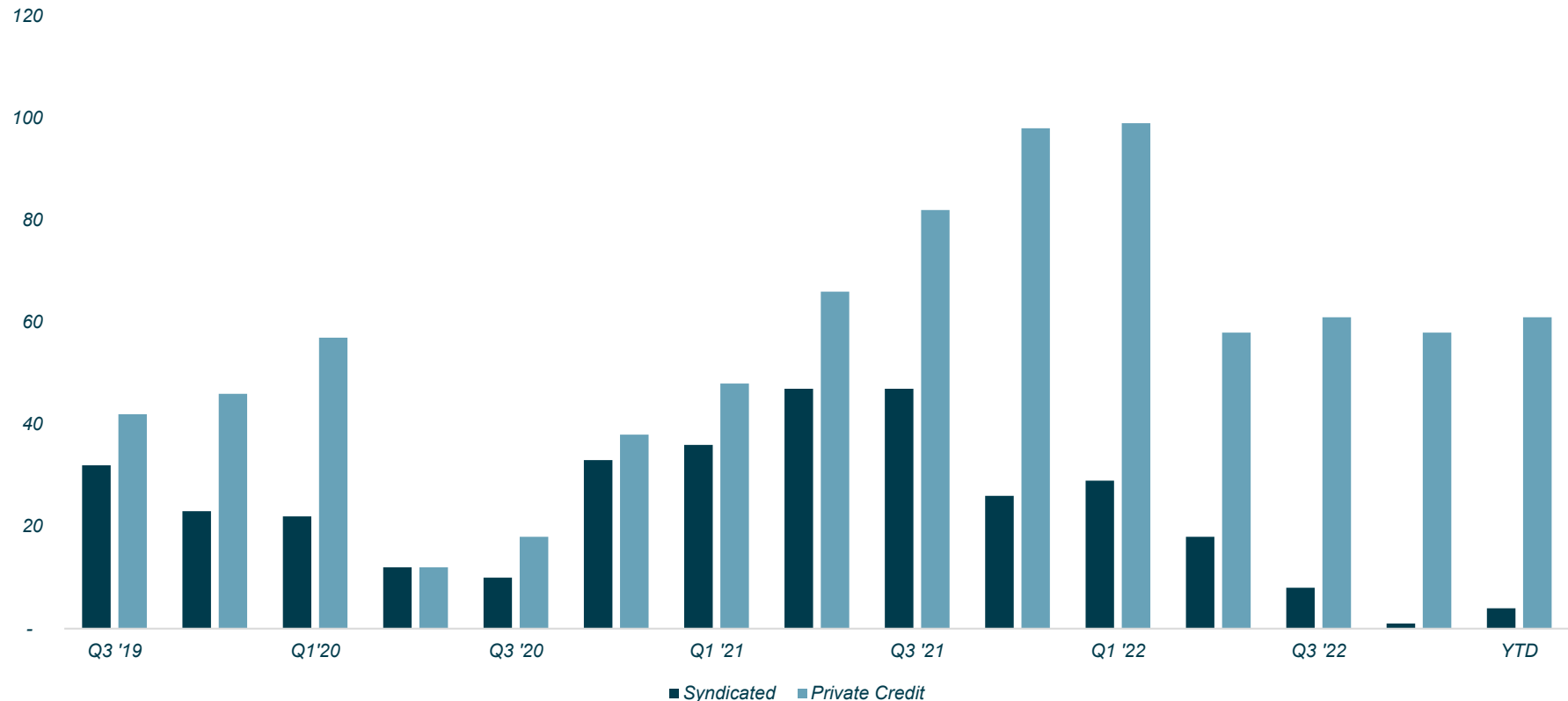
Dry Powder Private Equity Funds (\$ in billions)



Source: Preqin and Pitchbook

Private Credit Continues to Gain Market Share Over the BSL

Count of LBOs Financed in BSL vs. Private Credit Markets



Banks have been overshadowed by private credit funds, and it is now feasible for large deals to consider private credit as an option, with several recent deals surpassing \$1B

Source: LCD; Bloomberg; LevFin Insights

Lincoln's Private Credit Market Overview – June 2023

EBITDA Security Type	<\$15mm of EBITDA		\$15mm to \$40mm of EBITDA		\$40-100mm of EBITDA		>\$100mm of EBITDA	
	Pricing	EBITDA Multiples	Pricing	EBITDA Multiples	Pricing	EBITDA Multiples	Pricing	EBITDA Multiples
Asset Based Senior	S + 200 - 300 bps	N / A	S + 150 - 250 bps	N / A	S + 150 - 250 bps	N / A	S + 150 - 250 bps	N / A
Cash Flow Senior	S + 500 - 600 bps	2.50x - 3.50x	S + 475 - 575 bps	3.00x - 4.00x	S + 475 - 550 bps	3.50x - 4.50x	S + 475 - 550 bps	3.50x - 4.50x
Senior Stretch	S + 550 - 650 bps	3.00x - 4.00x	S + 525 - 625 bps	3.50x - 4.50x	S + 500 - 600 bps	4.00x - 5.00x	S + 500 - 600 bps	4.00x - 5.00x
Unitranche	S + 625 - 725 bps	4.00x - 5.00x	S + 625 - 700 bps	4.50x - 5.50x	S + 600 - 700 bps	5.00x - 6.00x	S + 600 - 700 bps	5.00x - 6.00x
2nd Lien Loans	N / A	N / A	S + 850 - 975 bps	4.50x - 5.50x	S + 850 - 925 bps	5.00x - 6.00x	S + 850 - 925 bps	5.00x - 6.00x
Sub Debt	Cash of 12.0% - 13.5% PIK of 1.0% - 2.0% All-in of 13.0% - 15.5%	4.00x - 5.00x	Cash of 11.0% - 12.5% PIK of 1.0% - 2.0% All-in of 12.0% - 14.5%	4.50x - 5.50x	Cash of 11.0% - 12.5% PIK of 1.0% - 2.0% All-in of 12.0% - 14.5%	5.00x - 6.00x	Cash of 11.0% - 12.5% PIK of 1.0% - 2.0% All-in of 12.0% - 14.5%	5.00x - 6.00x
Preferred	All-in of 17.0% - 21.0%	Approximately 15%+ of Total Capitalization	All-in of 16.0% - 20.0%	Approximately 15%+ of Total Capitalization	All-in of 14.0% - 18.0%	Approximately 15%+ of Total Capitalization	All-in of 14.0% - 18.0%	Approximately 15%+ of Total Capitalization
Equity	All-in of 22.0% - 27.0%	Approximately 50%+ of Total Capitalization (inclusive of Preferred)	All-in of 20.0% - 25.0%	Approximately 45%+ of Total Capitalization (inclusive of Preferred)	All-in of 17.0% - 22.0%	Approximately 45%+ of Total Capitalization (inclusive of Preferred)	All-in of 17.0% - 22.0%	Approximately 45%+ of Total Capitalization (inclusive of Preferred)

Based on Lincoln's proprietary database and market observations from Lincoln's Capital Advisory Group

Note: The values presented above are based on prevailing metrics observed by Lincoln International in recent months; however, leverage multiples and pricing are highly dependent on a borrower's credit profile and may be higher or lower than those shown above for certain companies. SOFR & LIBOR floors, when included, are generally in the ~100 bps range. Spreads over LIBOR and those over SOFR are approximately equivalent.

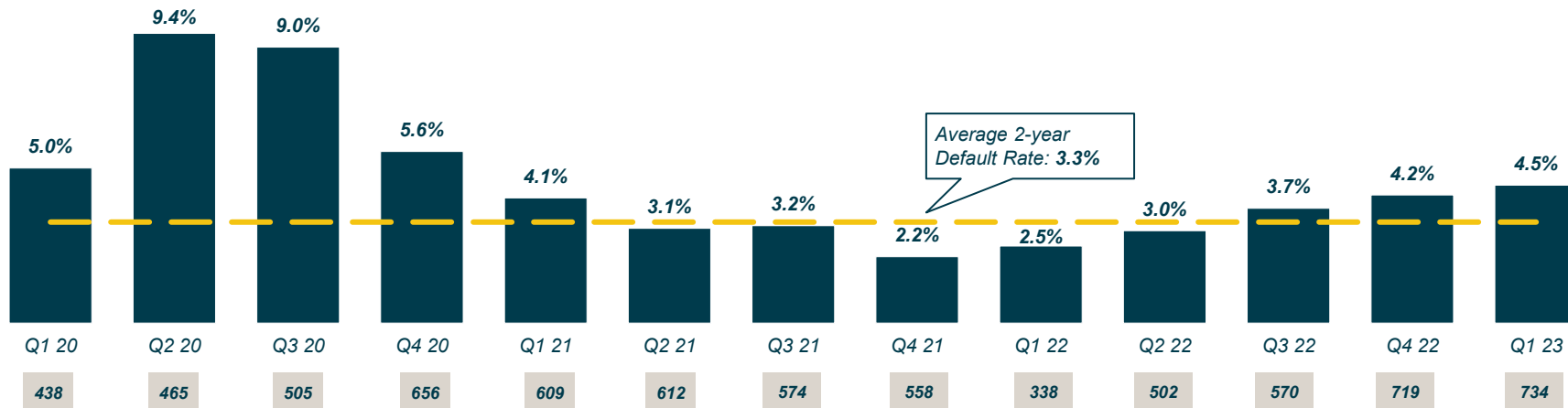
All-in Interest Expense on the Rise

Illustrative Interest Expense Calculation - Unitranche Term Loan (\$40 million EBITDA)				
('000 USD)	31-Dec-21	31-Dec-22	30-May-23	PF 5.5% Base Rate
Size (EV)	500,000	500,000	500,000	500,000
Debt	300,000	300,000	300,000	300,000
3M SOFR	0.08%	4.83%	5.09%	5.50%
Base Rate Floor	1.00%	1.00%	1.00%	1.00%
Spread	5.50%	6.50%	6.50%	6.50%
All in Interest Rate	6.50%	11.33%	11.59%	12.00%
Interest Expense	19,500	33,976	34,741	36,000
% of EBITDA	48.75%	84.94%	86.85%	90.00%
Change in Interest Expense since Dec-21:			78.16%	84.62%

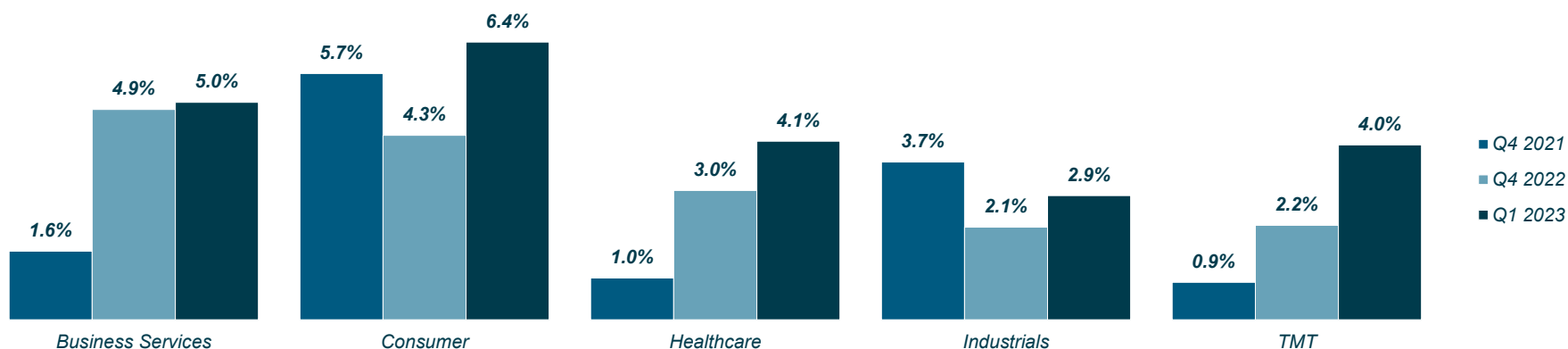
Given the rising rate environment, interest expense continues to be an increasing burden on borrowers

Covenant Default Rate (Size-Weighted)

Default rates increased for the fifth consecutive quarter but remain well below levels seen at the peak of COVID-19

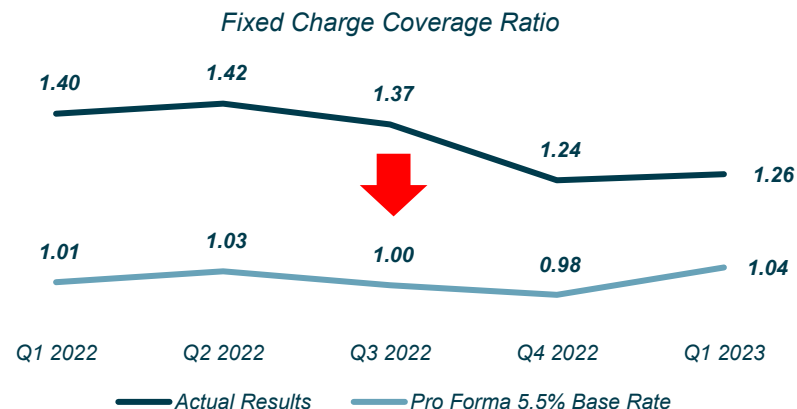
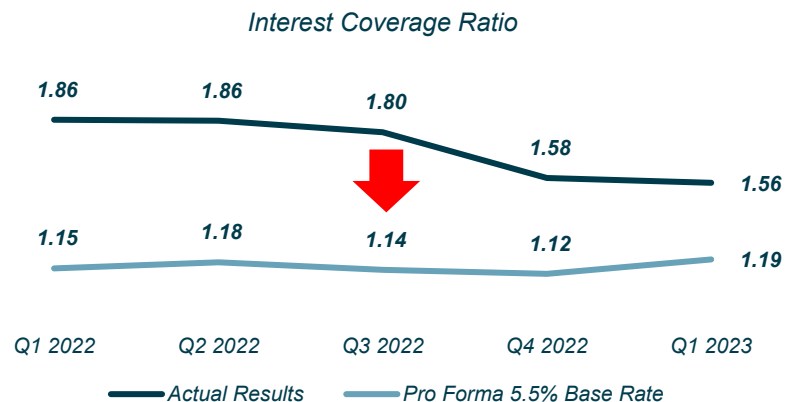


Default rates in cash flow-rich industries (e.g., business services, healthcare, and TMT) have increased from their historical lows since Q4 2021, signaling that no industries are safe-havens from inflationary pressures and rising interest rates

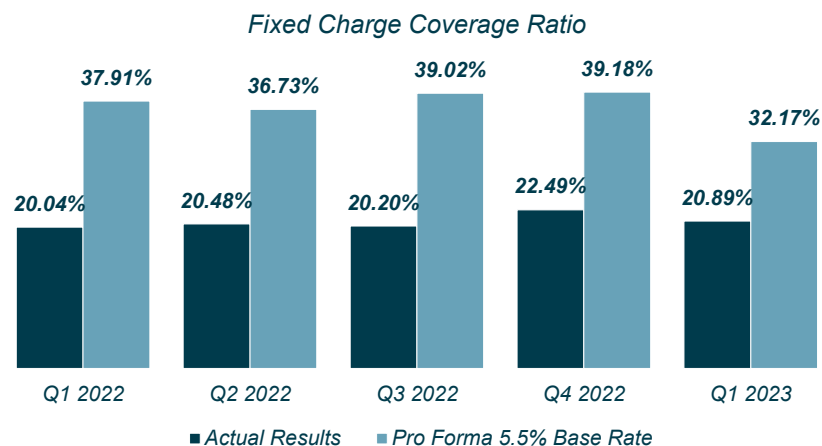
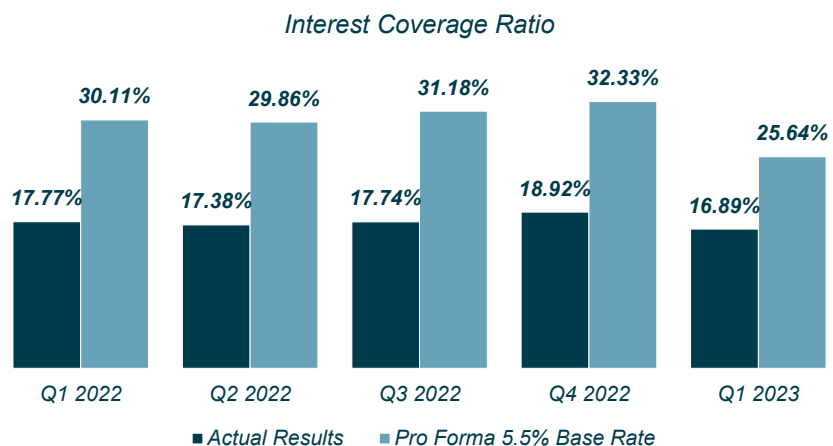


Interest & Fixed Charge Ratios (Actual vs. 5.5% Base Rate)

The average fixed charge coverage ratio tracked by Lincoln was approximately flat from Q4 2022 to Q1 2023 primarily due to LTM EBITDA growth and reduced capital expenditures as companies reined in their spending



Equal-Weighted Percentage of Companies with Interest Coverage and Fixed Charge Ratios under 1.0x



Source: Lincoln Valuations and Opinions Group Proprietary Database.

Calculations:

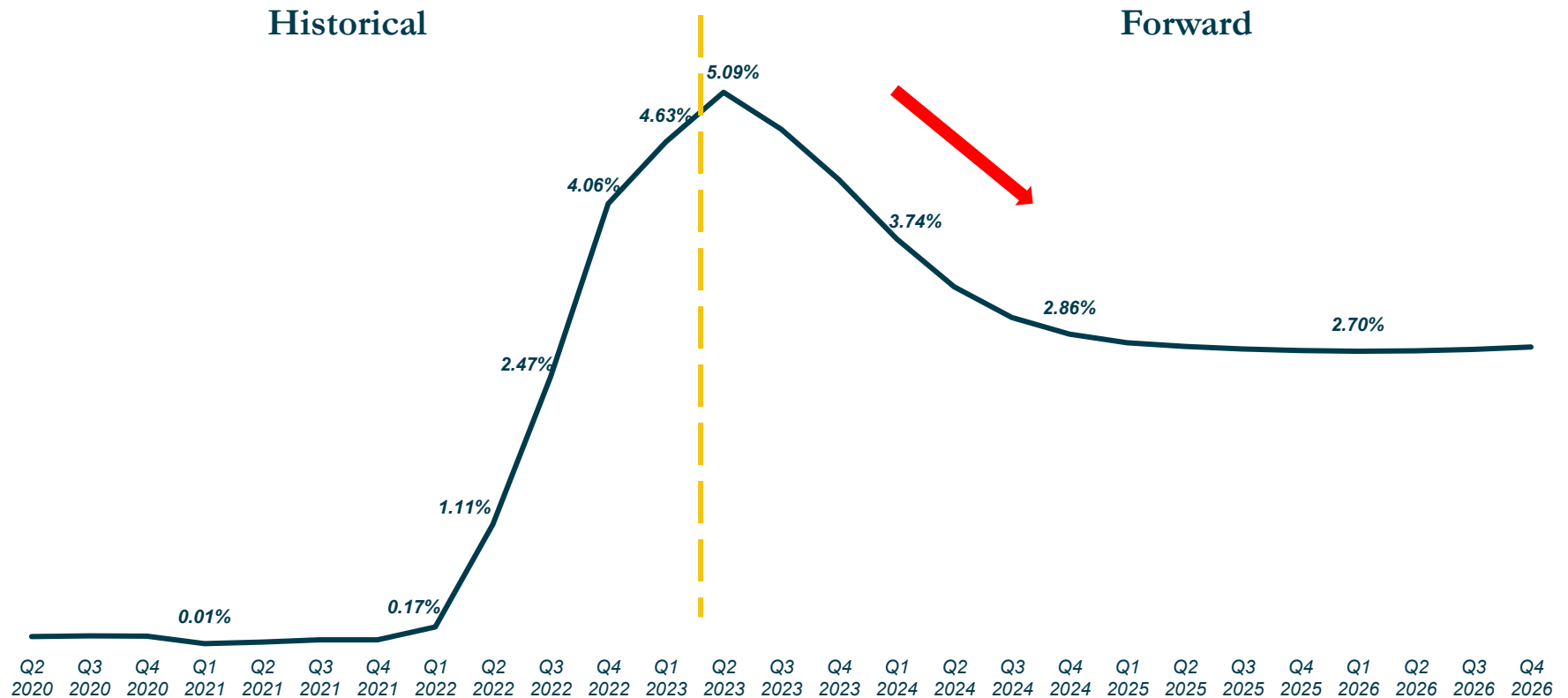
Interest Coverage Ratio = LTM EBITDA - Capex / Actual LTM Interest

Fixed Charge Coverage Ratio = LTM EBITDA - Taxes - Capex / LTM Interest Expense + (1% * Total Debt)

Capital Expenditures ("Capex") utilizes LTM Capex by default. If LTM Capex is not available, NFY Capex is utilized, and LFY Capex if both LTM Capex and NFY Capex are unavailable.

SOFR Curve Expected to Decline

Three-Month SOFR Rate



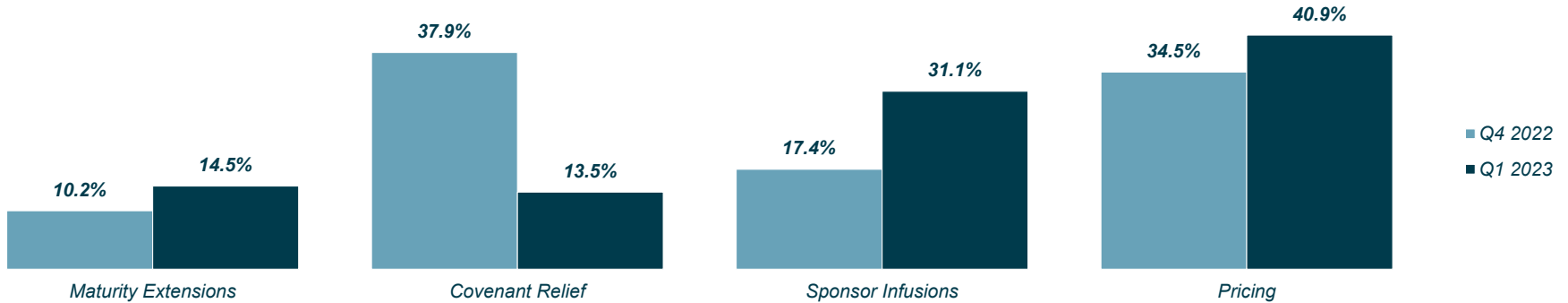
Fed officials are now signaling that rate hikes might slow or even stop, given uncertainty about outlook

Source: S&P Capital IQ

Private Credit Market Snapshot – Q1 2023 Amendments

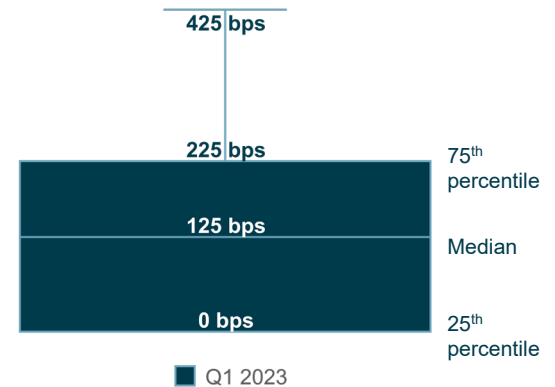
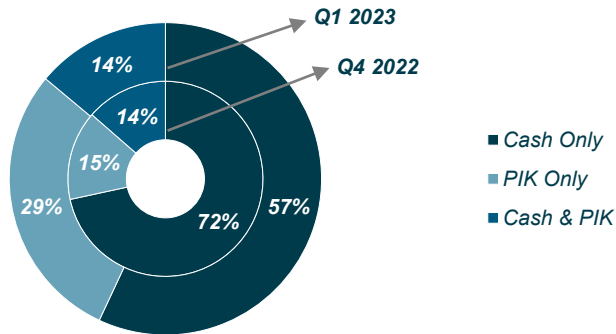
Most amendments in Q1 2023 involved increased pricing (both cash and PIK) and sponsor infusions, which have nearly doubled since Q4 2022. Despite fewer covenant relief-related amendments, the average length of covenant reliefs nearly quadrupled

Amendment Allocations



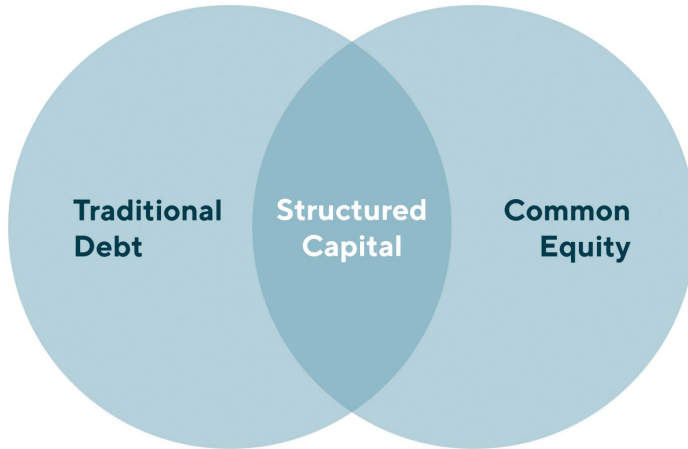
Since Q4 2022, more amendments executed were related to increased PIK pricing, with all-in pricing (cash + PIK) of loans increasing by 125 bps at the median as lenders required improved economics in today's market

Pricing Changes via Amendments (Cash + PIK)



Source: Lincoln Valuations and Opinions Group Proprietary Database.

Structured Capital is Filling the Gaps



Expected Return

14% ↔ 21%

Investors are more passive and debt-like with negative controls, board observation rights and covenants

Investors are generally equity-like with certain consent rights, board participation and “value-added angle”



With interest rates and input costs continuing to rise, structured capital is an alternative capital solution that is typically structured without cash interest payments



THANK YOU!



For more information, please contact Lincoln International's panelists:



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