



Webinar: Q3 2023

Private Market Insights

16 August 2023

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Today's Valuations & Opinions Group (VOG) Speakers

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Discussion Agenda

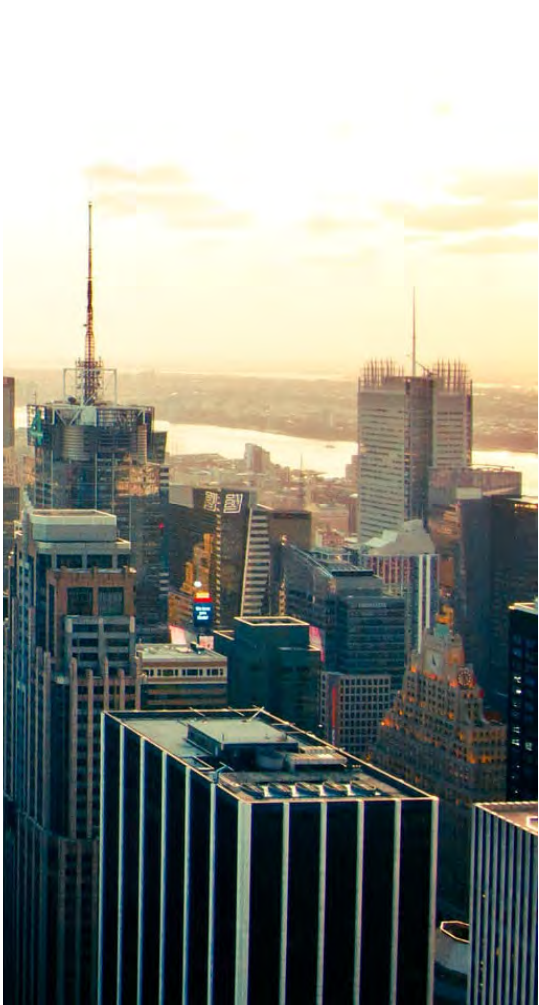
- **State of the Markets**
 - **Public vs. Private Market Enterprise Value Observations**
 - **Macroeconomic & Transaction Trends**
 - **Company Fundamental Performance**
- **Credit Market Observations**
 - **Trends in Private Markets**
 - **BSL and Direct Lending Market**
 - **Private Market Outlook**
 - **Implications for Q3 2023 Valuations**

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.

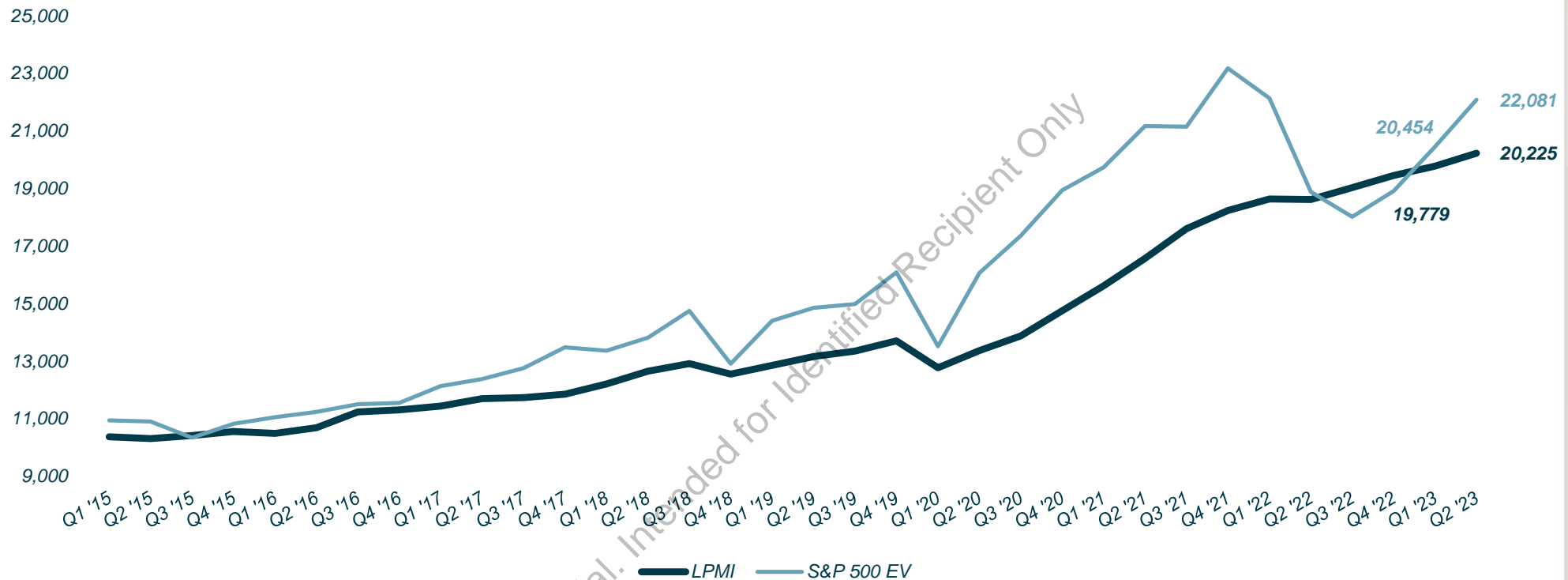
Current Market Conditions

Section 1



Lincoln Private Market Index

Index vs. S&P 500 Enterprise Values



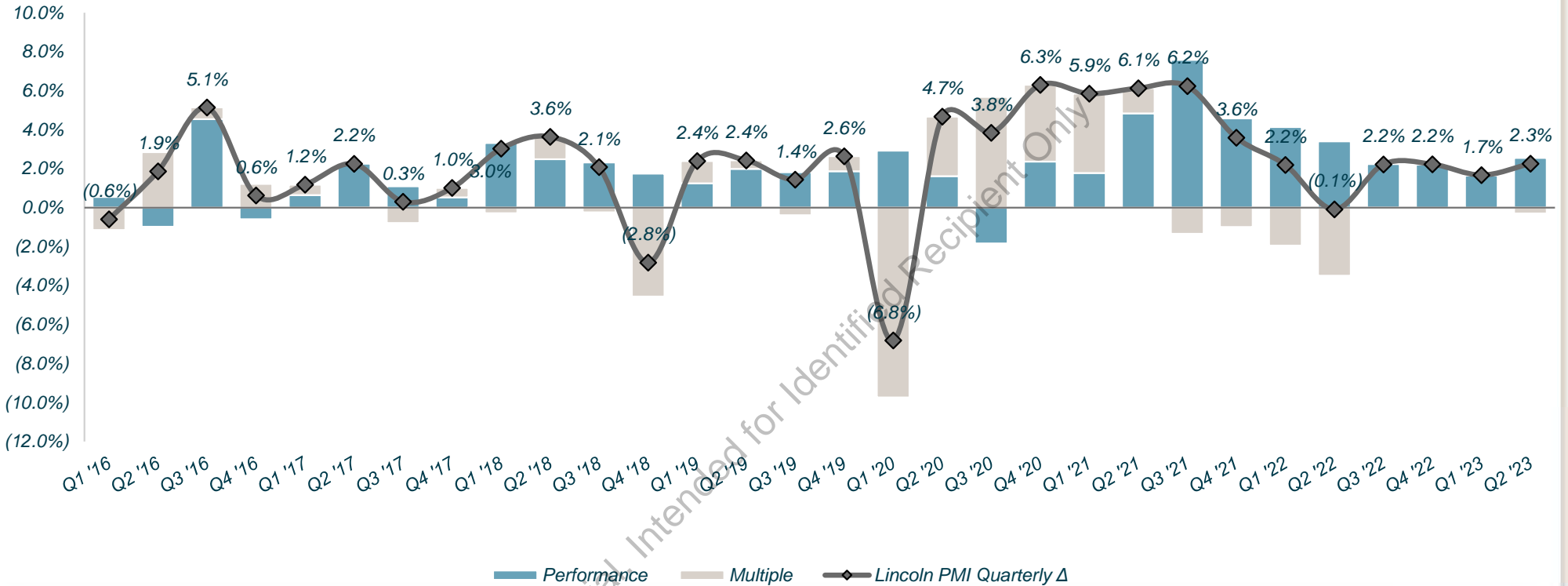
	Q3 '22	Q4 '22	Q1 '23	Q2 '23	LTM
LPMI	2.2%	2.2%	1.7%	2.3%	8.6%
S&P 500 EV	(4.6%)	5.0%	8.2%	8.0%	17.0%

The LPMI and S&P 500 increased in the current period, however, similar to Q4 2022 and Q1 2023, the LPMI increase was modest in comparison to the S&P 500

The LPMI saw growth driven by resilient fundamental performance. S&P 500 growth was driven by the growth of the five largest companies, which are generally incomparable to private companies

Lincoln Private Market Index

Index Drivers: Multiples vs Earnings

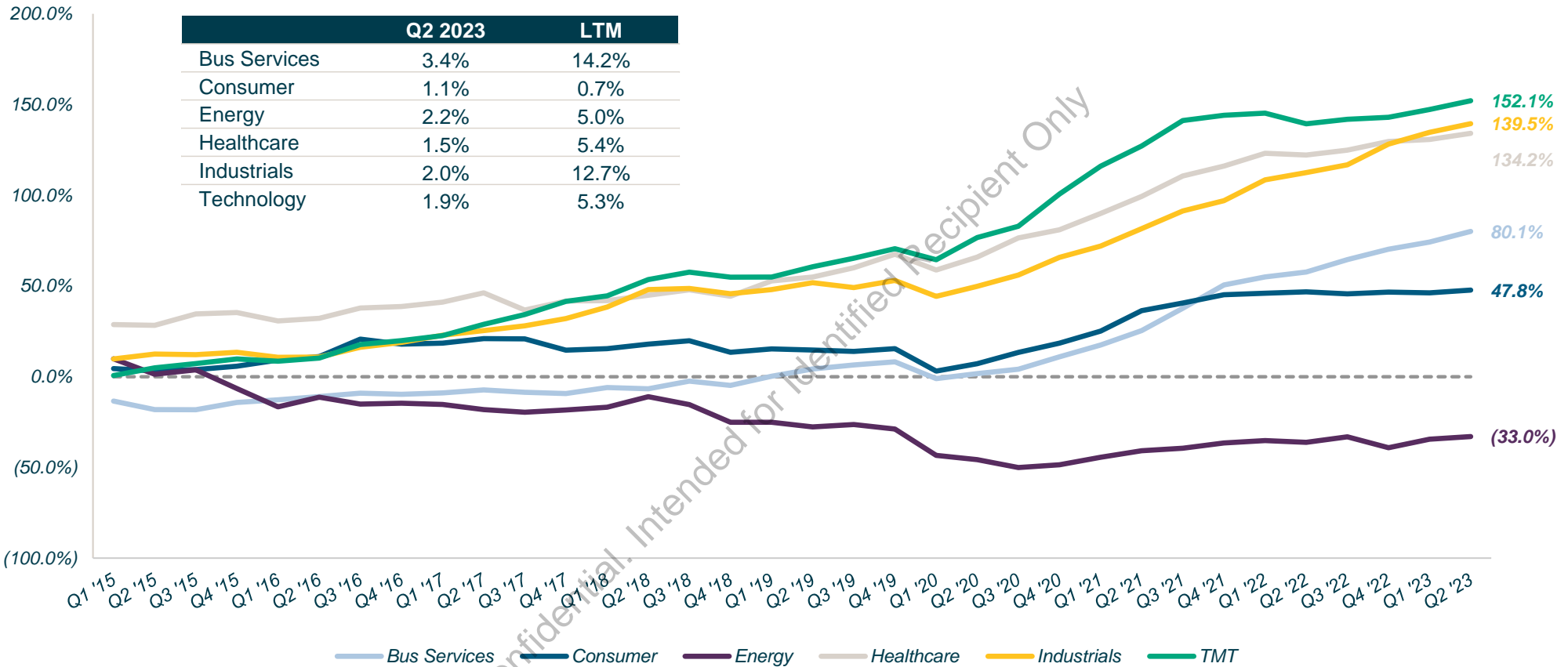


	EBITDA Performance				EBITDA Multiples				EV Growth			
	Q3 '22	Q4 '22	Q1 '23	Q2 '23	Q3 '22	Q4 '22	Q1 '23	Q2 '23	Q3 '22	Q4 '22	Q1 '23	Q2 '23
LPMI	2.2%	2.2%	1.7%	2.6%	(0.0%)	0.0%	0.0%	(0.3%)	2.2%	2.2%	1.7%	2.3%
S&P 500	2.3%	0.8%	0.8%	0.8%	(6.8%)	4.2%	7.3%	7.1%	(4.6%)	5.0%	8.2%	8.0%

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

Lincoln Private Market Index

Industry Performance – Enterprise Value



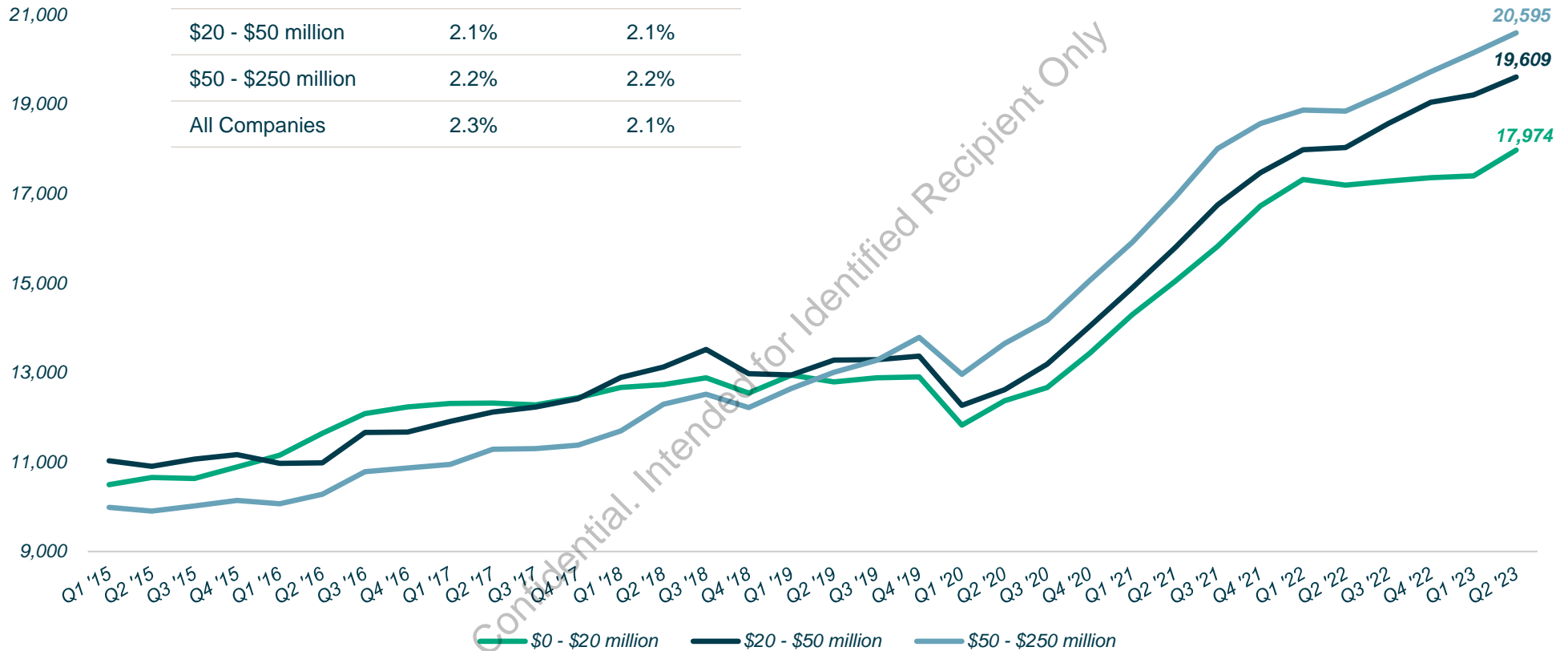
Enterprise value growth slowed for Business Services and Industrial companies, despite continued growth of LTM revenue and LTM EBITDA

As an unexpected but positive sign, enterprise values of Consumer companies increased in Q2 2023, more than reversing Q1 2023 declines

Lincoln Private Market Index

Performance by Size – Enterprise Value

	Q2 2023	LTM
\$0 - \$20 million	3.3%	1.1%
\$20 - \$50 million	2.1%	2.1%
\$50 - \$250 million	2.2%	2.2%
All Companies	2.3%	2.1%

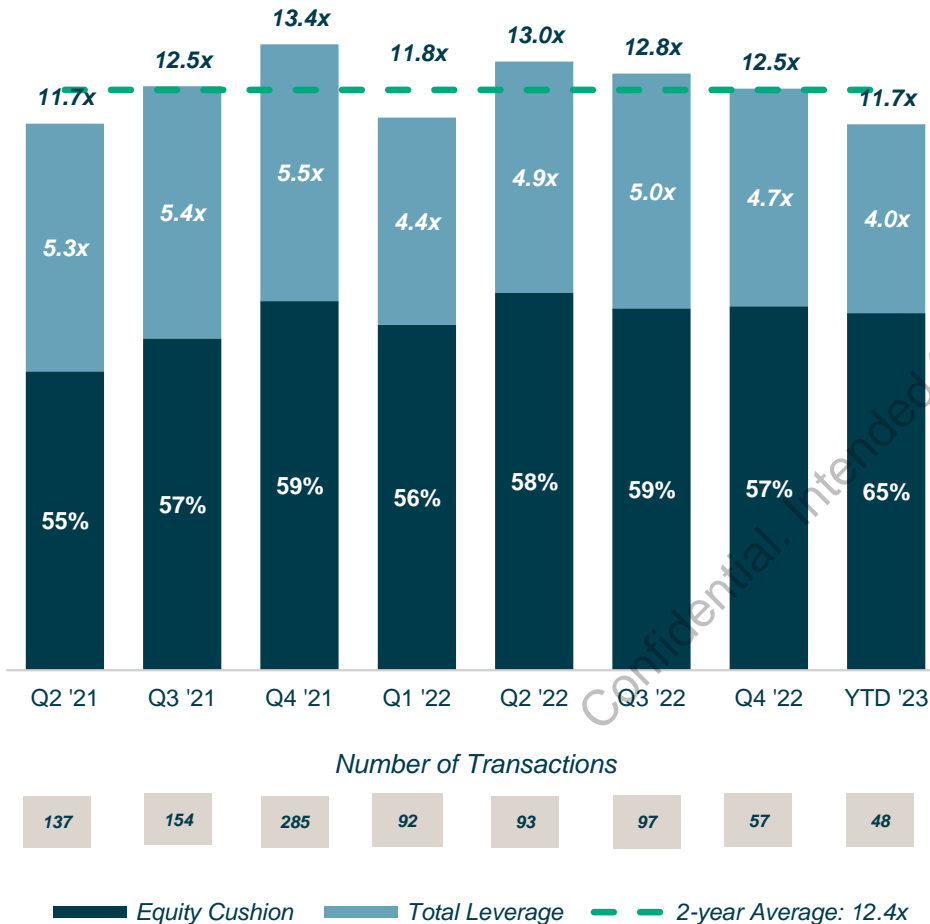


<\$20 million EBITDA companies saw the most significant enterprise value growth last quarter, despite having the slowest growth on an LTM basis

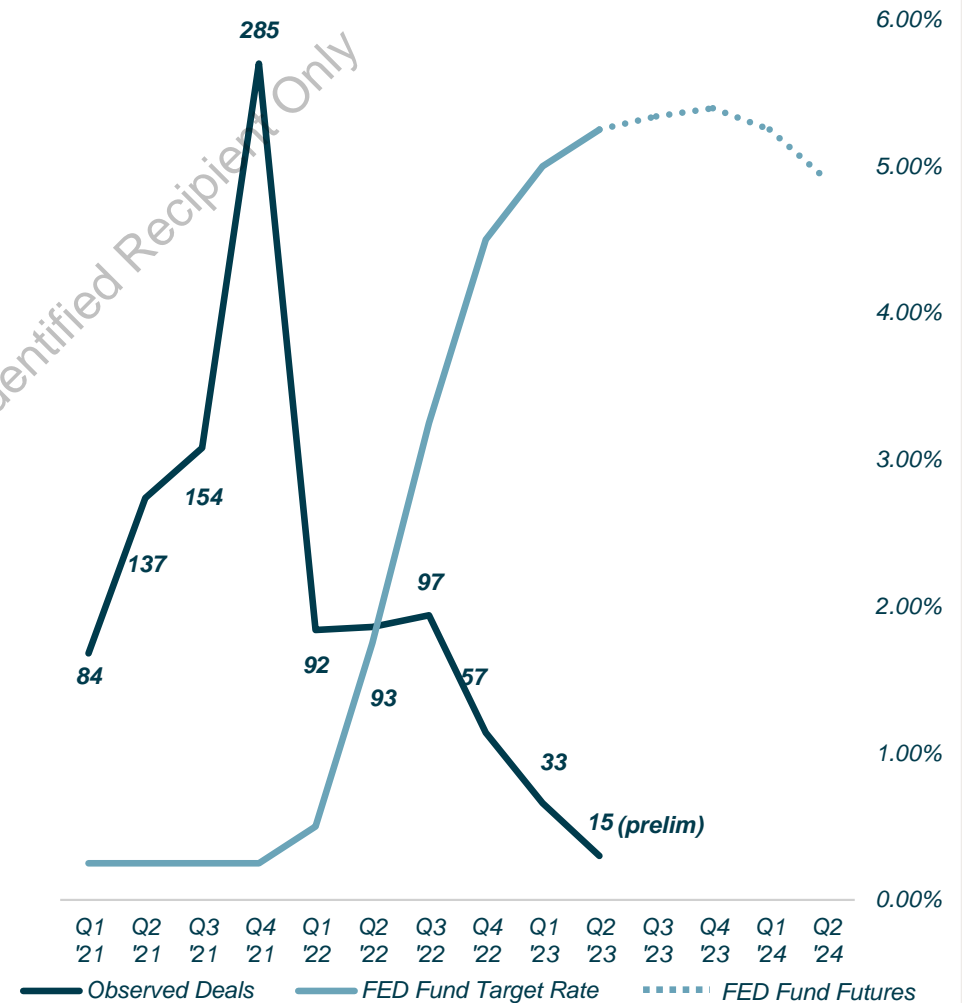
Lincoln Observed New Third-Party M&A Buyouts

YTD 2023 average M&A multiples declined relative to the 3 preceding quarters to the lowest point since Q2 2021. Leverage declined as underwritten equity cushion requirements remained elevated.

EV / LTM EBITDA Transaction Multiples



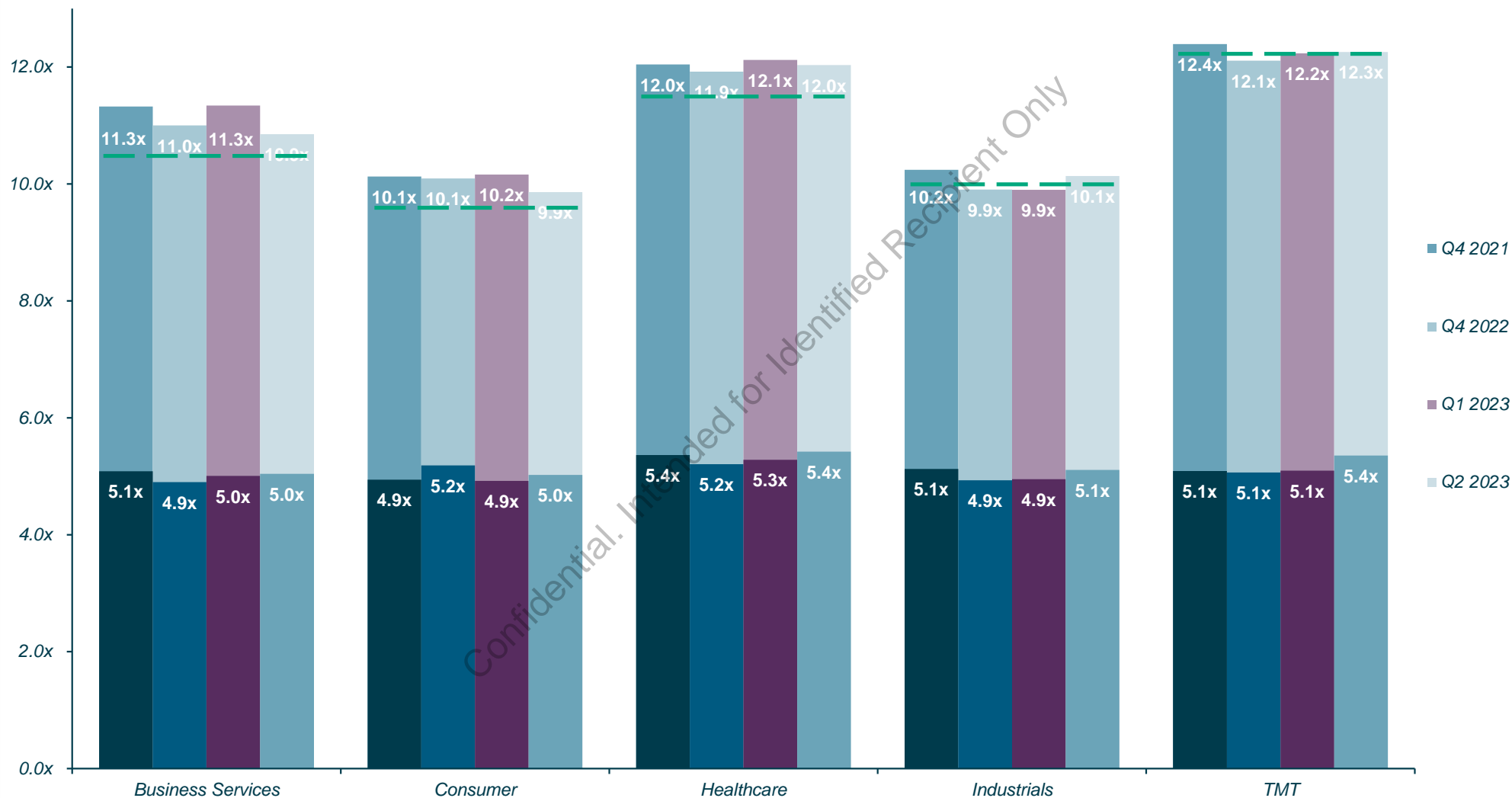
FED Funds Target Rate & LI Observed Deal Activity



Source: Lincoln VOG Proprietary Private Market Database, FED Funds Futures per CME Group.

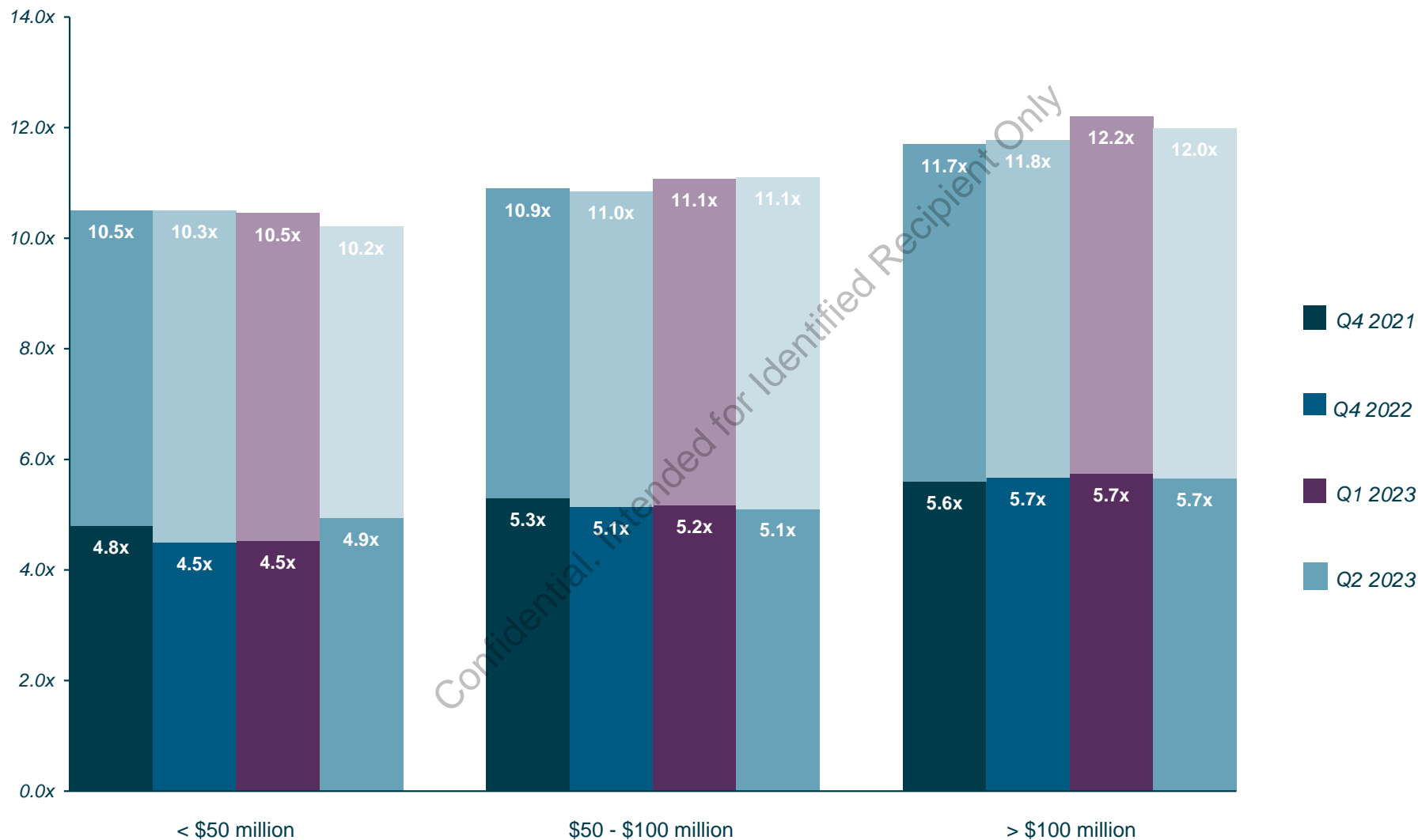
EV / LTM EBITDA and Leverage Multiples by Industry

EV / LTM EBITDA multiples across most industries remained in line with the trailing 2-year average



EV/LTM EBITDA and Leverage Multiples by EBITDA Size

Larger EBITDA size companies have attracted higher EV / LTM EBITDA multiples



Poll Question 1

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

- Increase
- Decrease
- Remain Stable

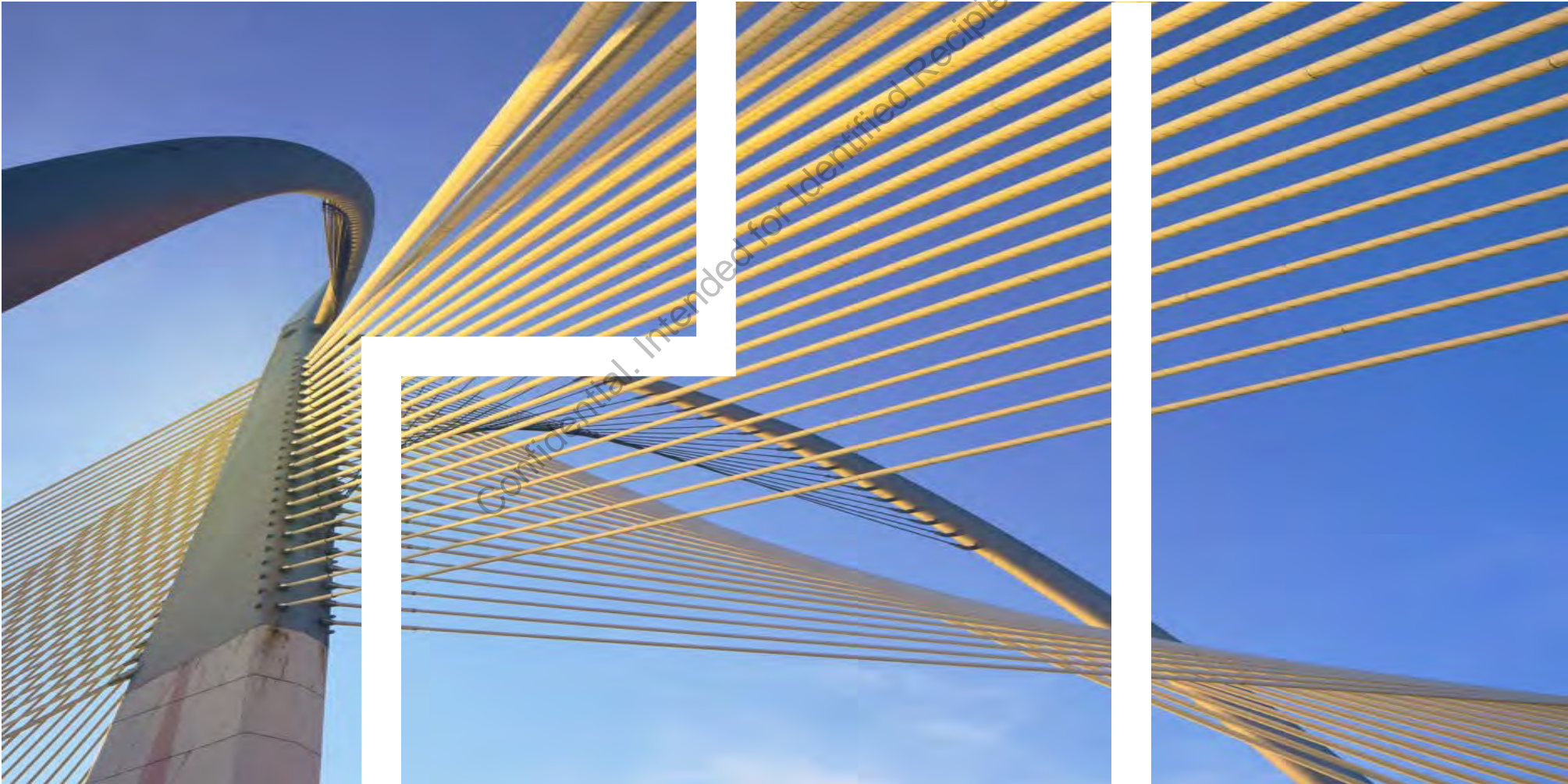
When do you expect transaction activity to return?

- Q4 2023
- Q1 2024
- Q2 2024
- 2H 2024 or beyond

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Company Performance Trends

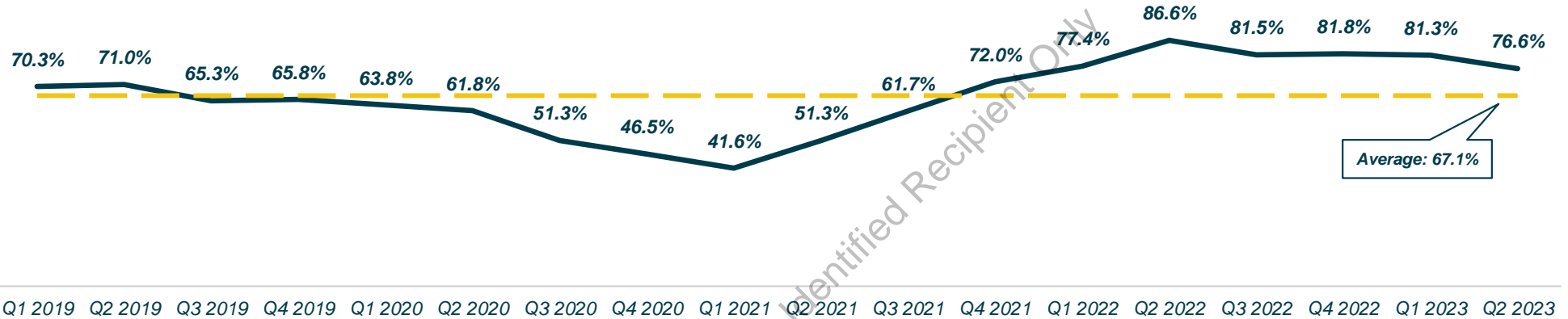
Section 2



Portfolio Company Gainers and Decliners

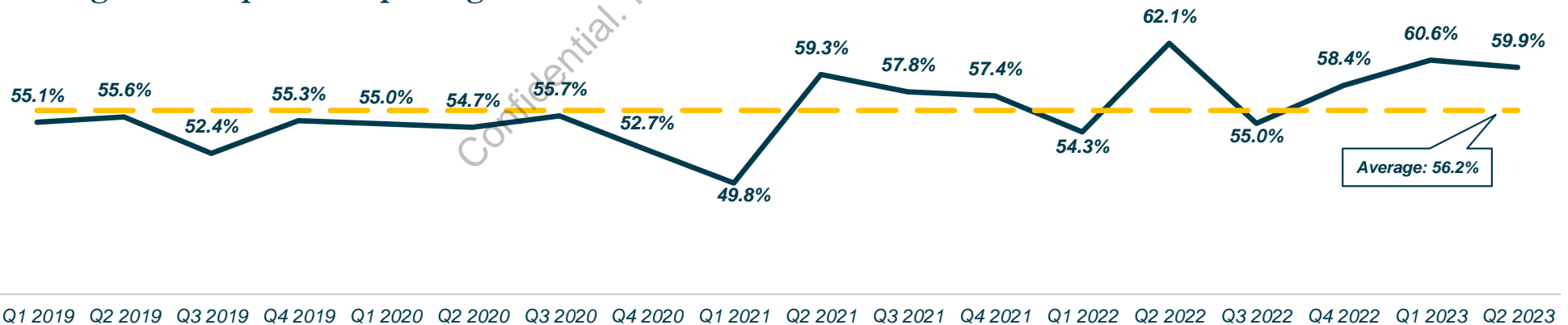
Since its peak in Q2 2022, the number of private companies reporting YoY LTM Revenue growth declined ~10%. Furthermore, the number of private companies reporting YoY LTM Revenue growth declined ~5% since Q1 2023 alone

Percentage of Companies Reporting YoY LTM Revenue Growth



The number of private companies reporting YoY LTM EBITDA growth exhibited greater stability relative to the Q2 2022 peak

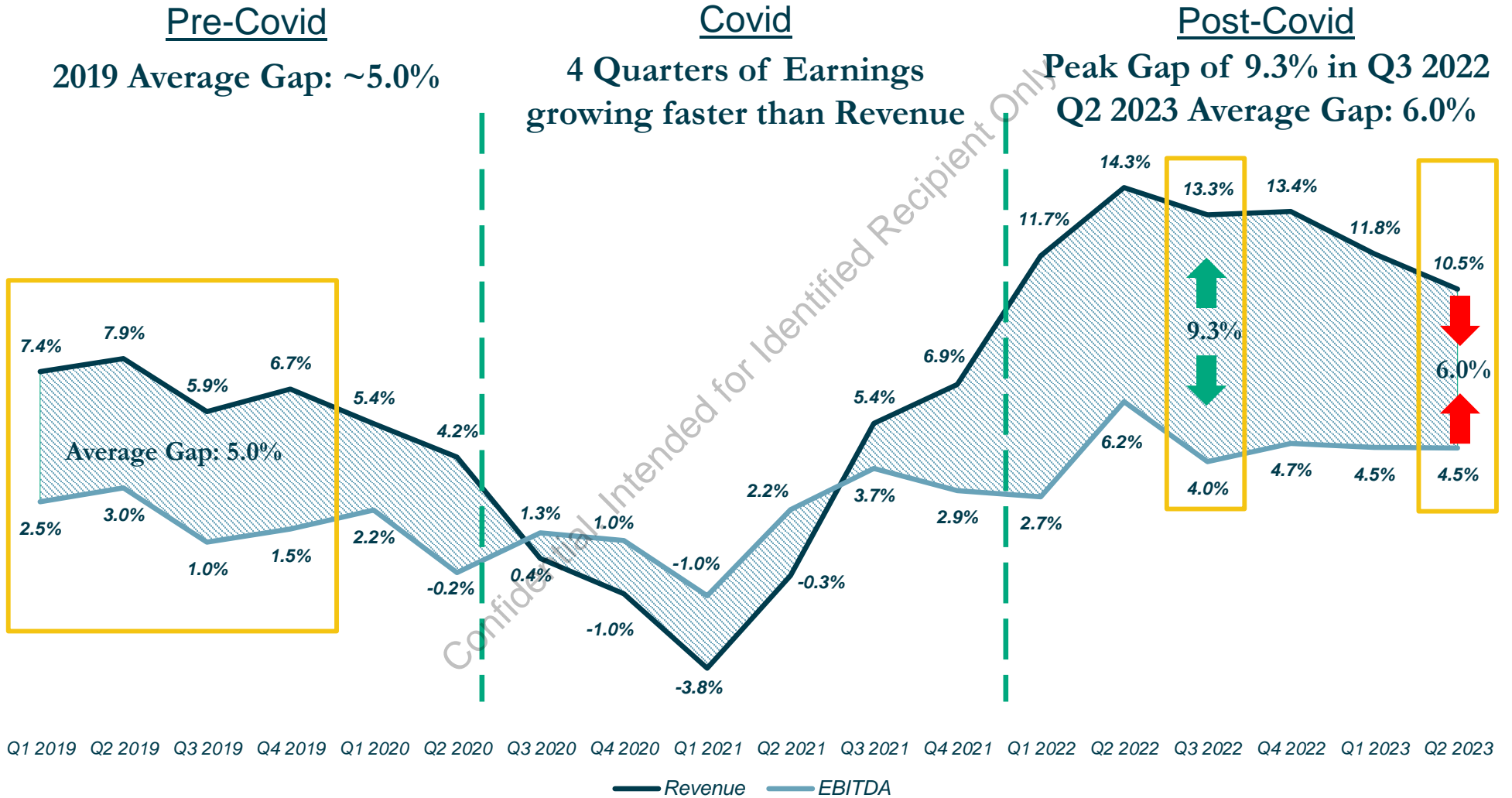
Percentage of Companies Reporting YoY LTM EBITDA Growth



Source: Lincoln VOG Proprietary Private Market Database.

YoY LTM Revenue & EBITDA Growth Magnitude

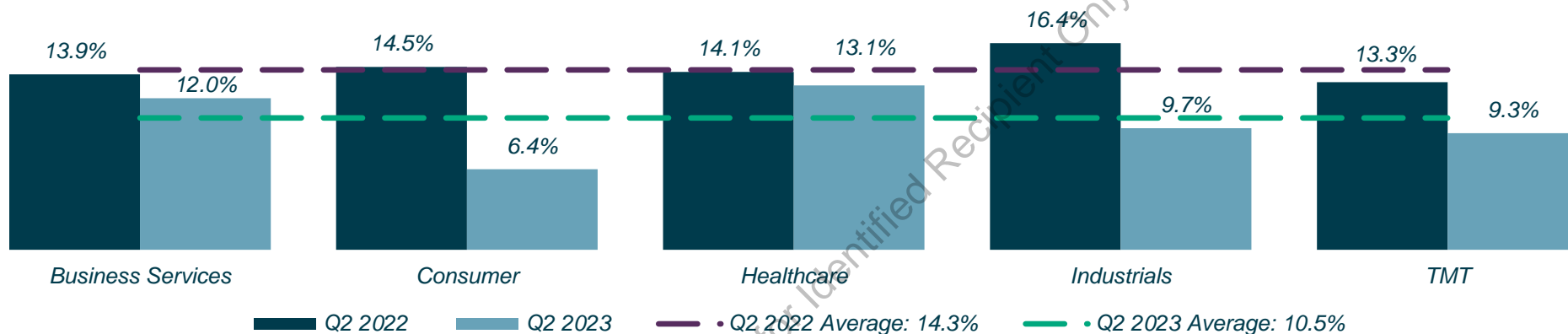
Private markets revenue growth contracted for the last four quarters and EBITDA growth has been relatively stable, resulting in decreased margin compression



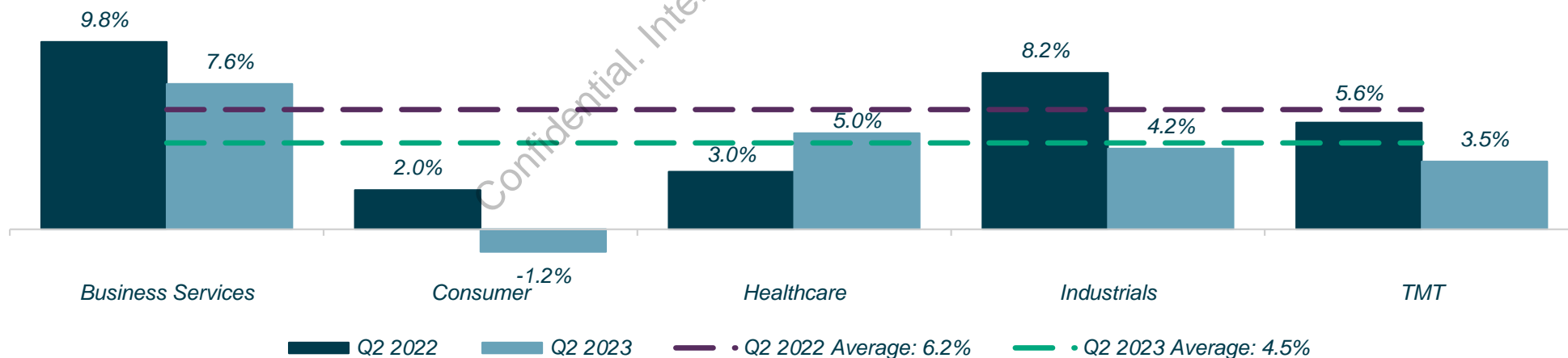
YoY LTM Revenue & EBITDA Growth Magnitude by Industry

The magnitude of revenue growth continued to remain strong in Q2 2023, albeit at a lower rate year-over-year, and exceeded EBITDA growth as a result of rising input costs given inflationary pressures

YoY LTM Revenue Growth



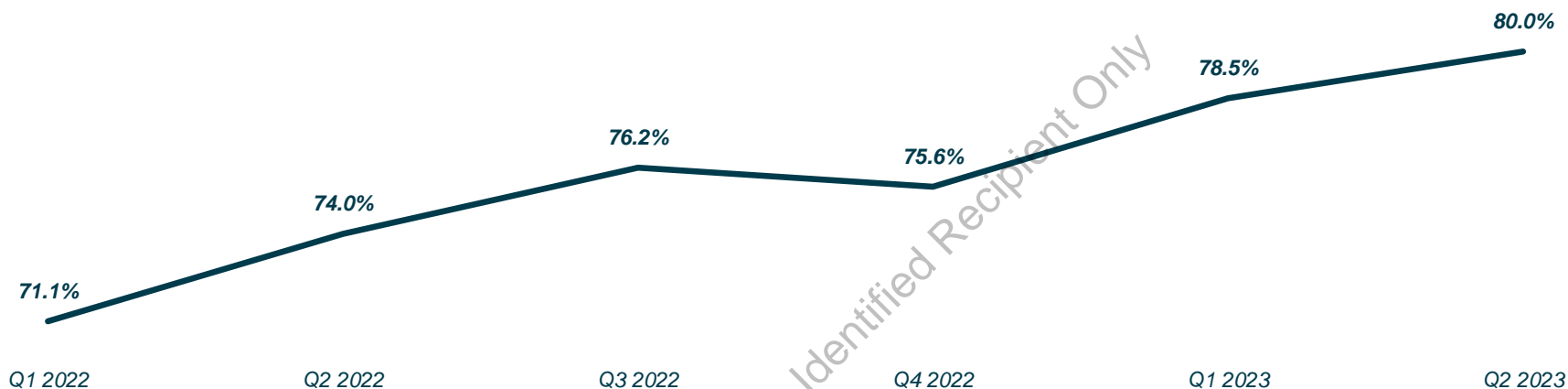
YoY LTM EBITDA Growth



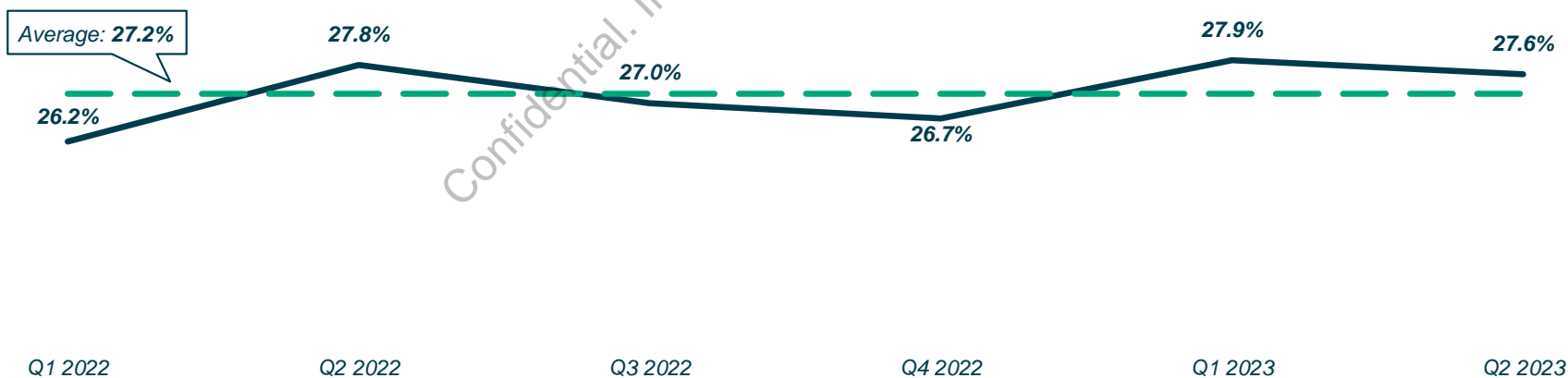
Source: Lincoln VOG Proprietary Private Market Database.

LTM EBITDA Adjustments

Percentage of Companies Reporting LTM EBITDA Adjustments

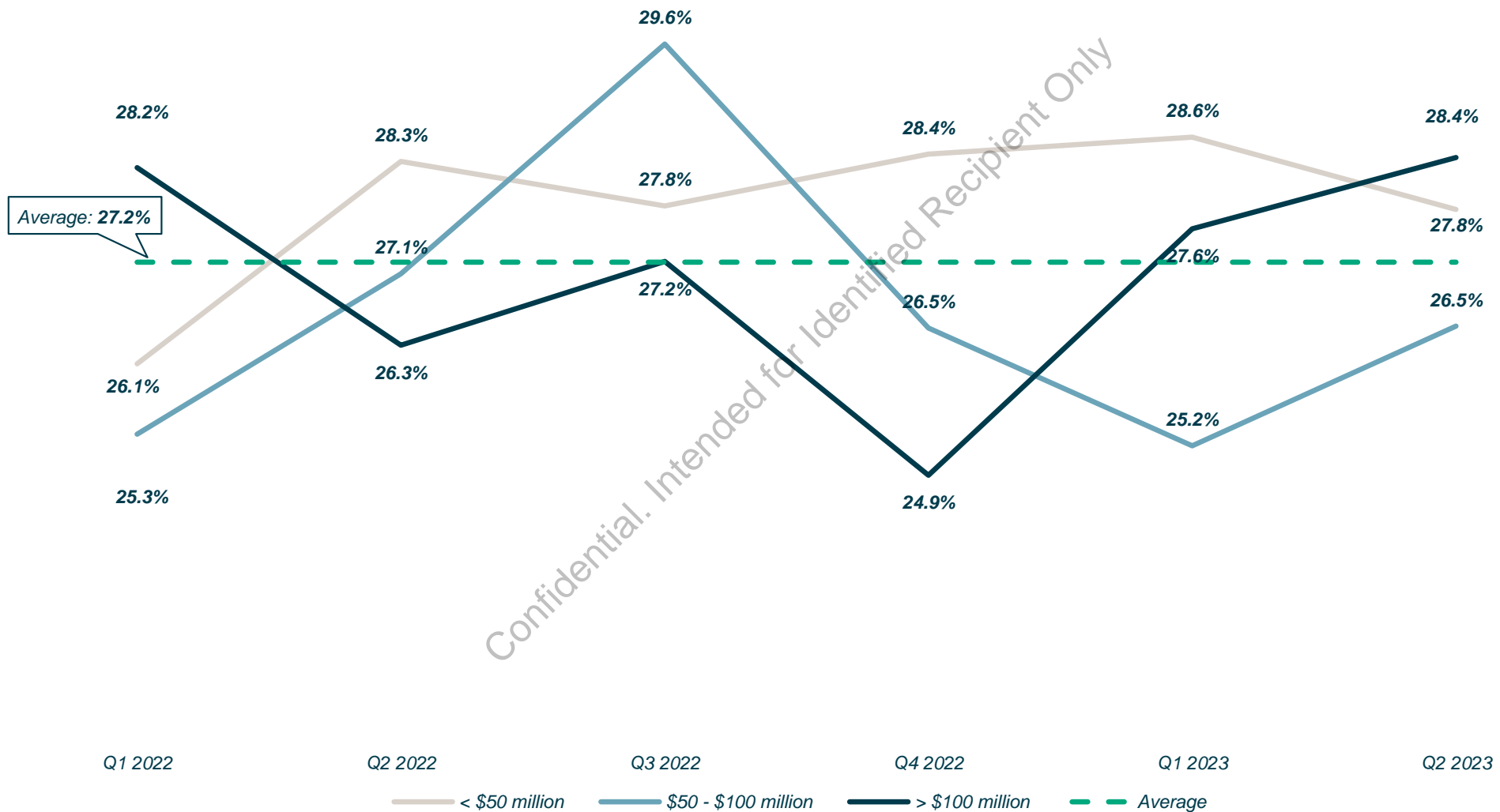


Magnitude of LTM EBITDA Adjustments as a % of Adj. LTM EBITDA



LTM EBITDA Adjustments (continued)

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



Poll Question 2

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?

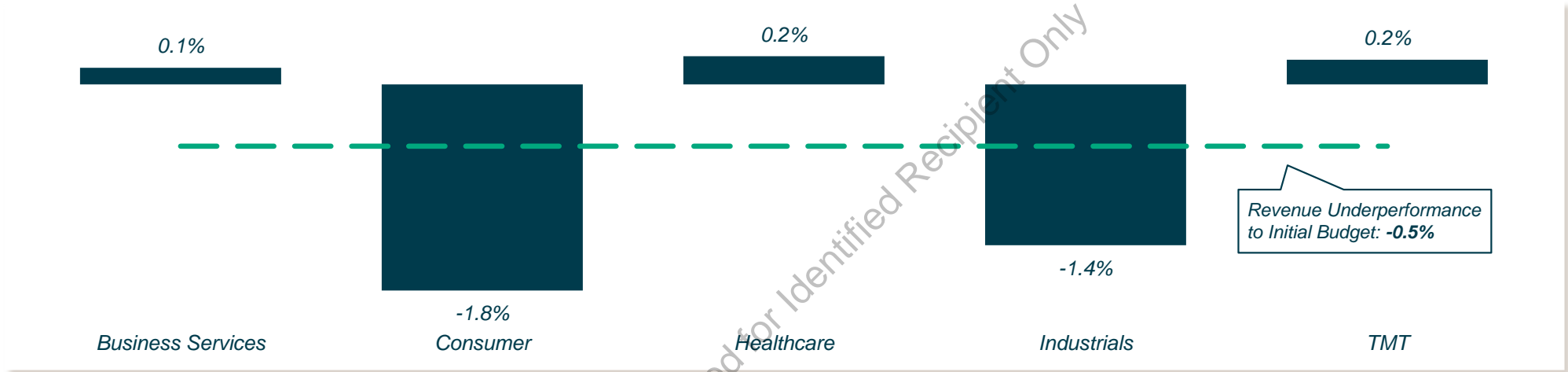
- <0%
- Flat
- 1% - 5%
- 6% - 10%
- 10%+

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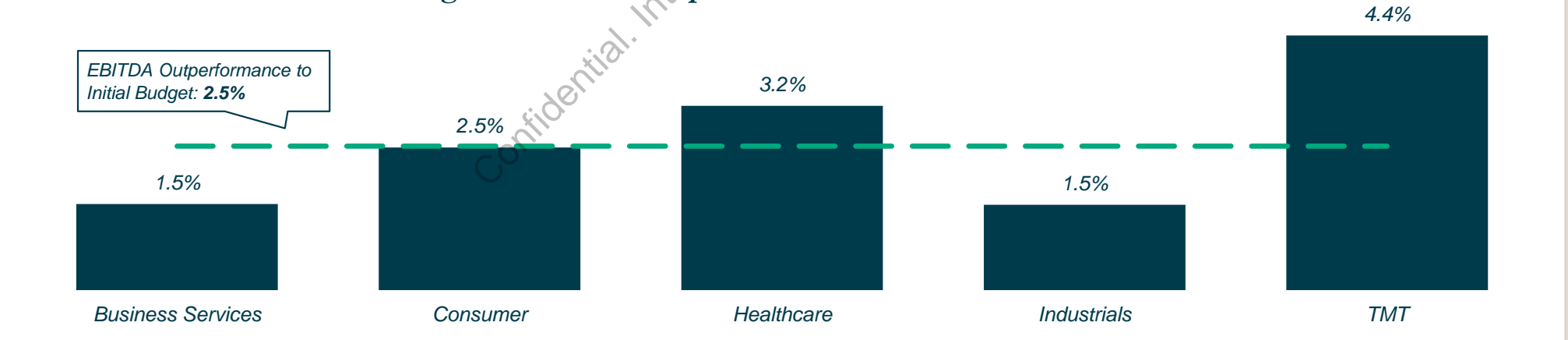
2023 YTD Actuals vs. Initial Budget by Industry

As of June 30, 2023, private companies across all industries have outperformed their YTD EBITDA budgets, reflecting strong fundamental operating performance and cost-cutting initiatives

2023 YTD Actual vs. Initial Budget Revenue Comparison

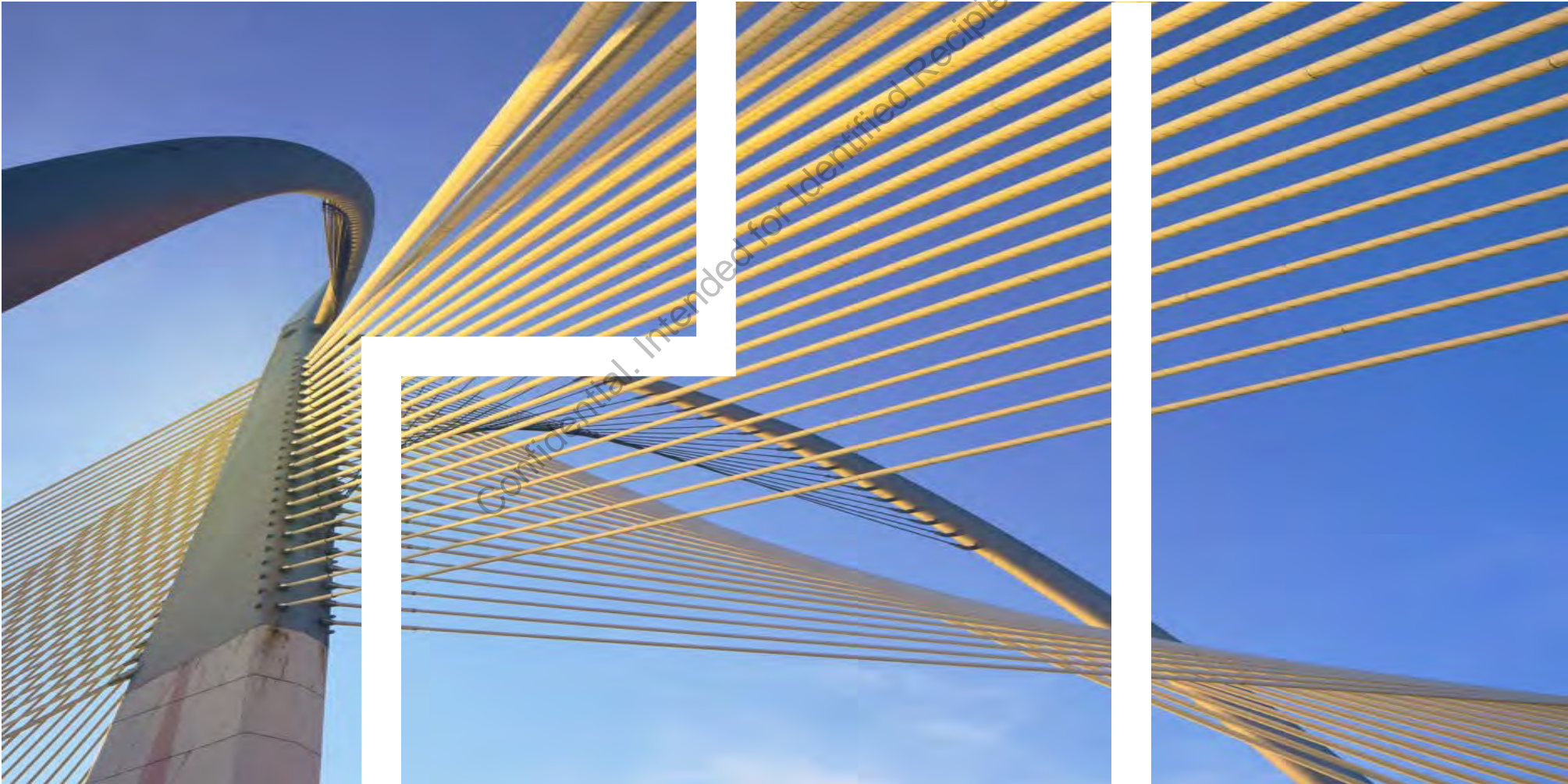


2023 YTD Actual vs. Initial Budget EBITDA Comparison



Current State of the Private Capital Markets

Section 3



Poll Question 3

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

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Current State of Private Credit Markets

New deals have been underwritten with higher equity cushions and higher closing fees than in recent years; since the start of 2023, pricing for larger companies has tightened

Equity Cushion

~50%+

Required Equity Cushion

1L / Unitranche Pricing

<\$100M EBITDA: Stable

>\$100M EBITDA: 25 bps

Decrease in Spread Since
Q2 2023

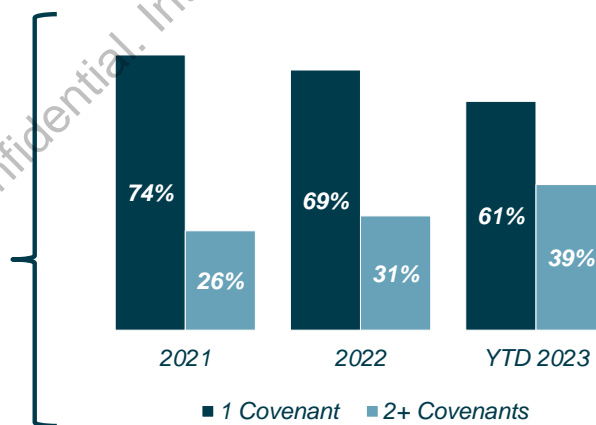
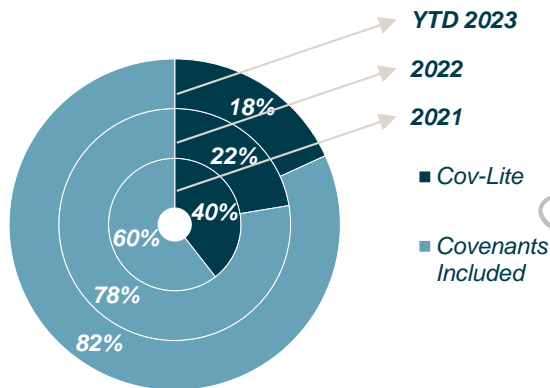
OID

97.5%+

50 bps lower OID from Q2 2023

As an increased percentage of new deals have gone to private markets, as opposed to the syndicated markets, lenders have been increasing the required number of covenants as there has been increased lender scrutiny when underwriting deals

New Transactions - Covenants



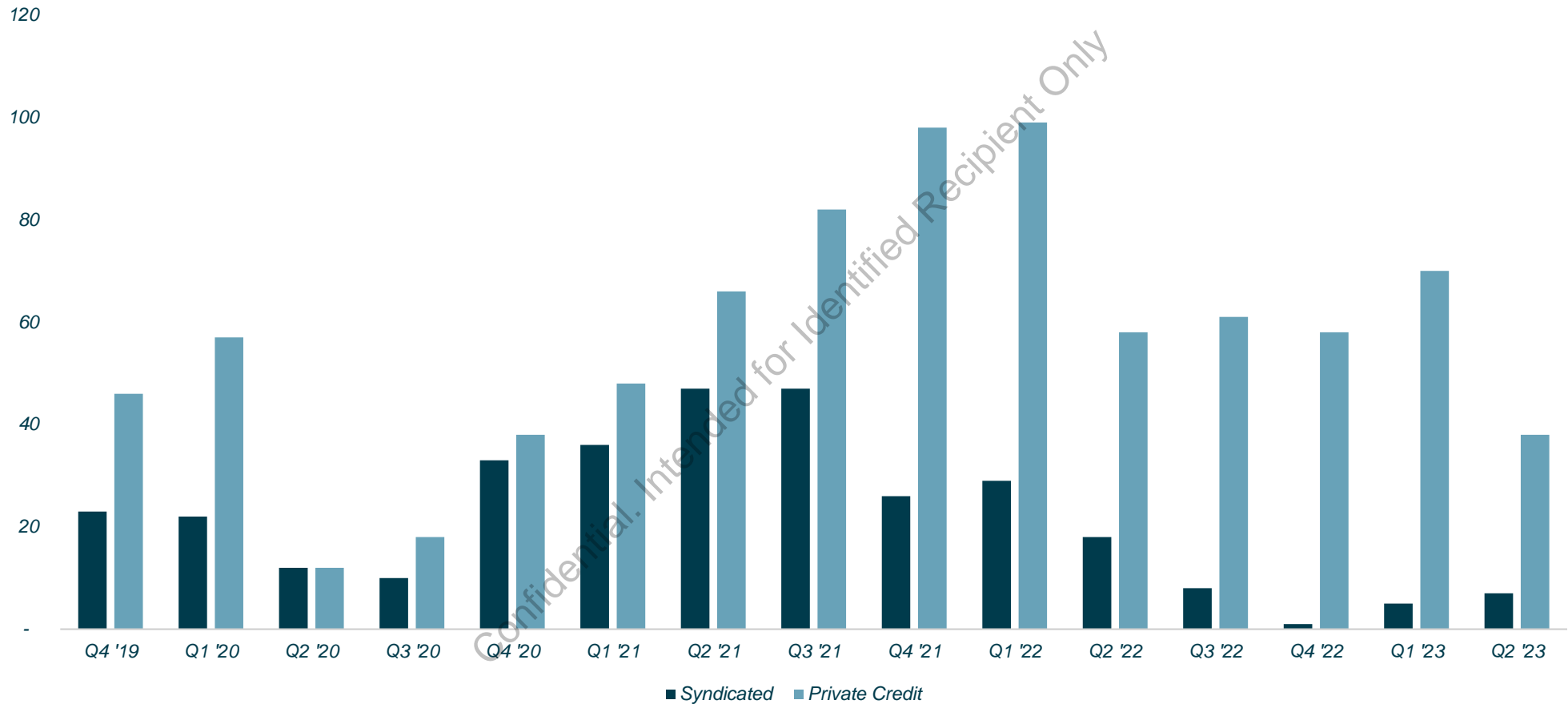
Growth of Private Credit ⁽¹⁾

70%+

Of new deals since the start of 2022 have gone to the private markets

Private Credit Continues to Gain Market Share Over the BSL

Count of LBOs Financed in BSL vs. Private Credit Markets



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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 – August 2023

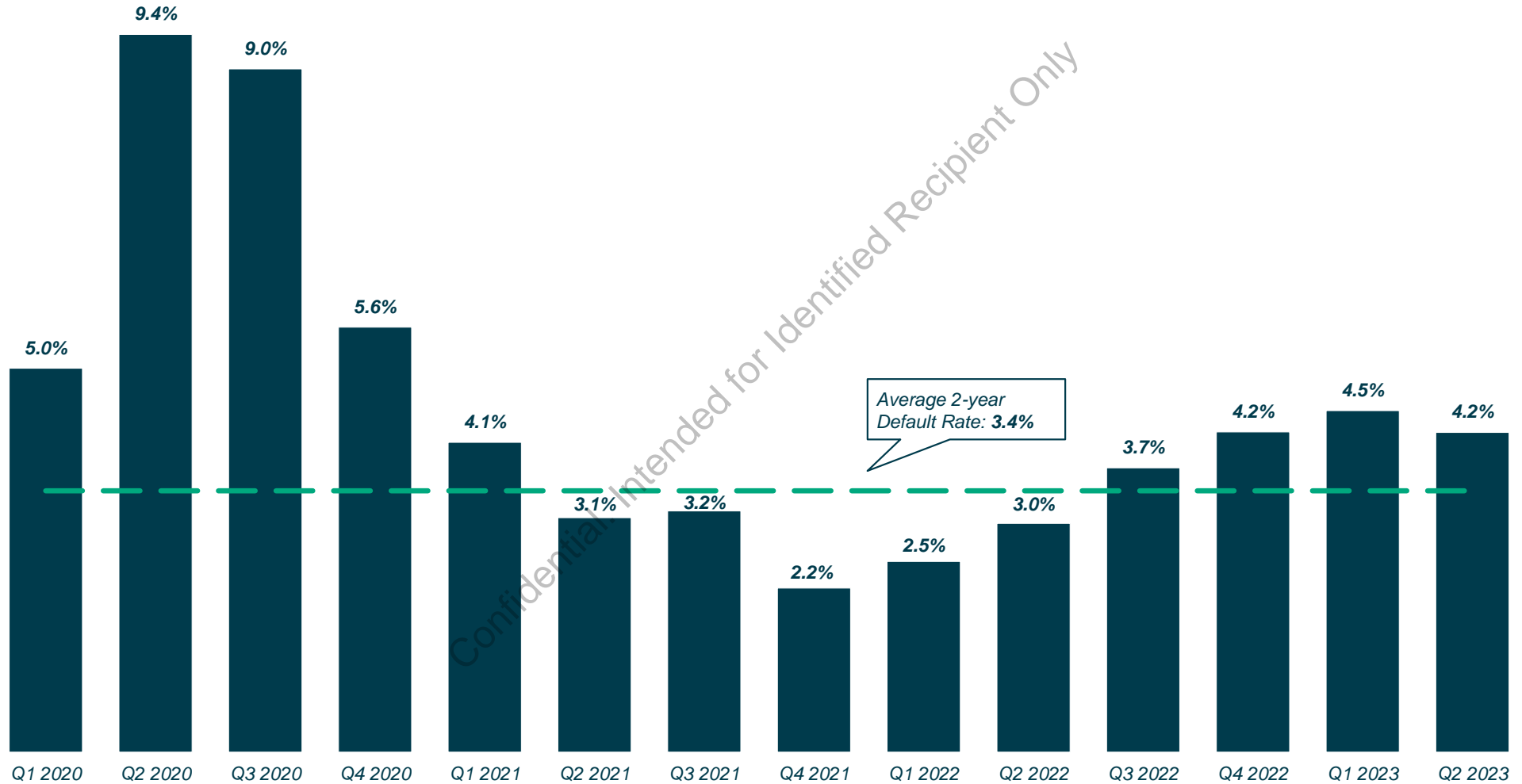
EBITDA Security Type	<\$15mm of EBITDA		\$15mm to \$40mm of EBITDA		\$40-100mm of EBITDA		>\$100mm of EBITDA	
	Pricing	EBITDA Multiples	Pricing	EBITDA Multiples	Pricing	EBITDA Multiples	Pricing	EBITDA Multiples
Asset Based Senior	S + 200 - 300 bps	N / A	S + 150 - 250 bps	N / A	S + 150 - 250 bps	N / A	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 + 450 - 525 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 + 475 - 575 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 + 575 - 675 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 + 825 - 900 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)

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

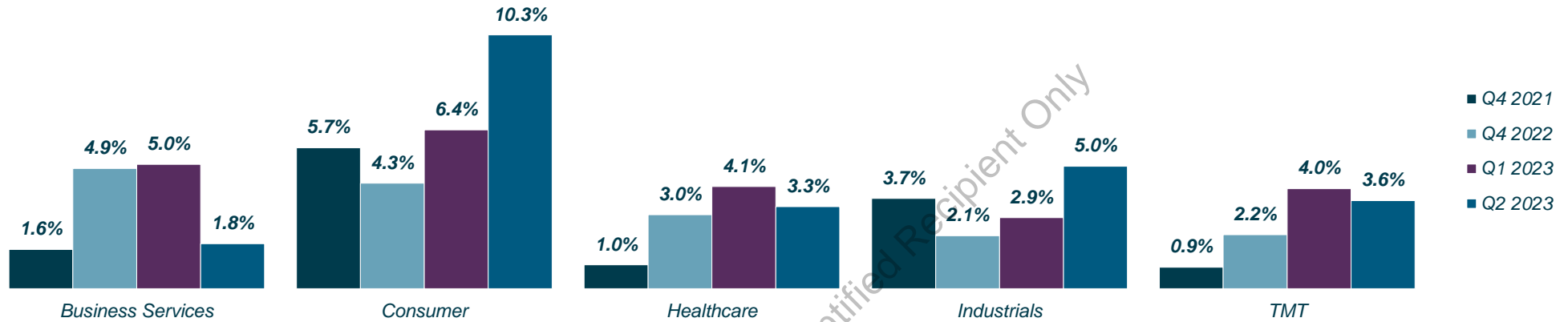
Covenant Default Rate (Size-Weighted)

Covenant default rates decreased for the first quarter since Q4 2021 and remained well below levels seen at the peak of COVID-19

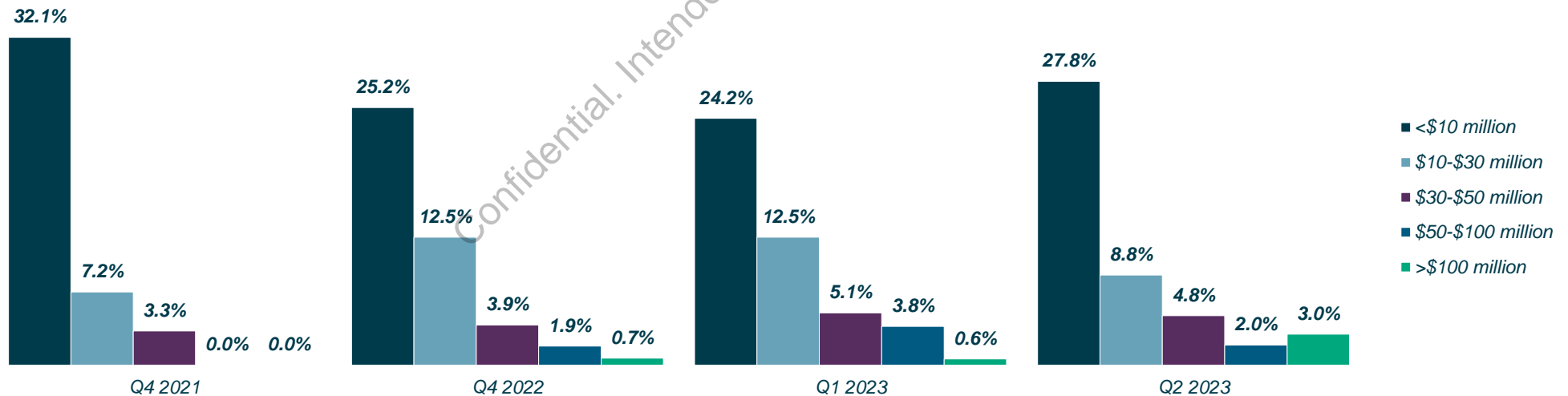


Covenant Default Rate by Industry and Size (Size-Weighted)

Covenant default rates in cash flow-rich industries (e.g., business services, healthcare, and TMT) have increased from their historical lows since Q4 2021 and covenant default rates in the consumer industry have nearly doubled since the end of 2021.



Additionally, covenant default rates continue to be inversely related to size, with one in four companies with less than <\$10 million EBITDA defaulting on one or more covenants in Q2 2023



Private Credit Markets – New Amendments

As borrowers and lenders anticipated covenant defaults, they proactively addressed the issue by amending the loan documents as the number of amendments increased since Q1 2023. Specifically, most amendments in Q2 2023 involved increased pricing and sponsor infusions, and the percentage of amendments relating to maturity extensions doubled since the end of 2022

Since the Start of 2023...

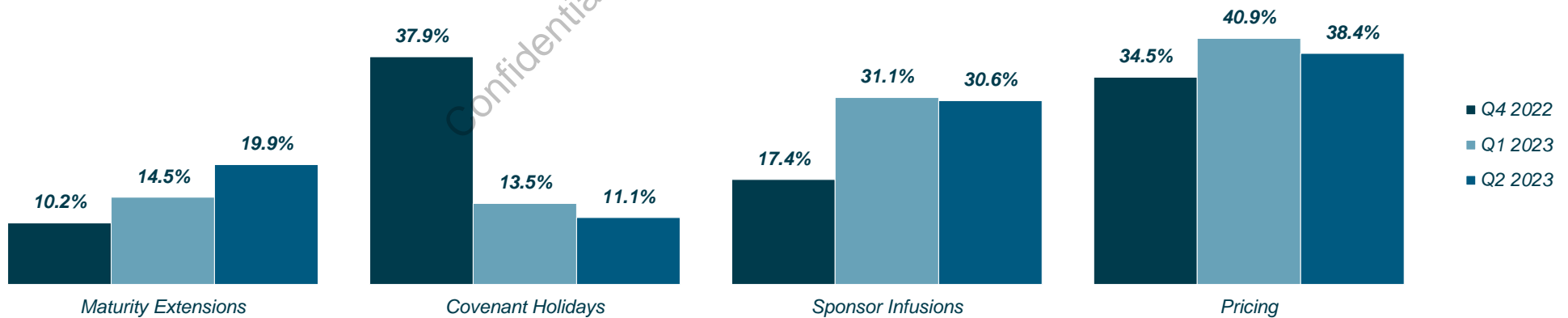
425+

Amendments Executed

Almost 15%

of Companies Lincoln Valued had Amendments

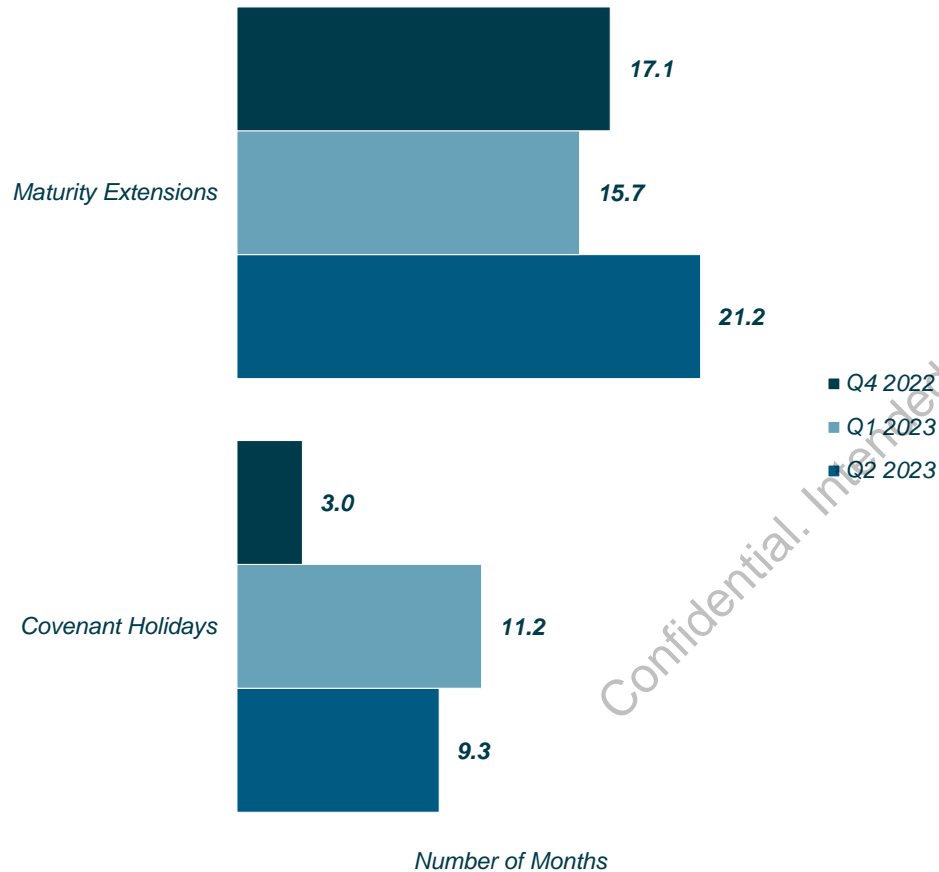
Amendment Allocation



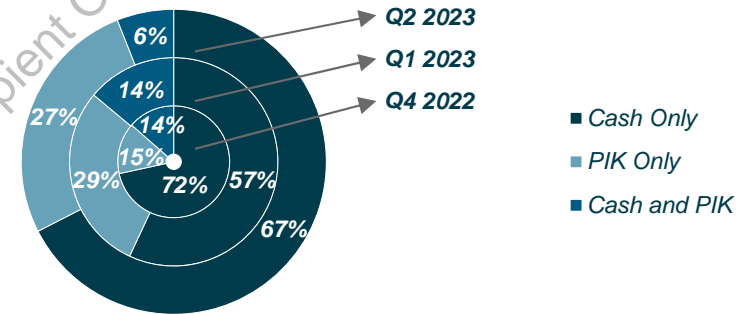
Private Credit Markets – New Amendments (continued)

Since Q1 2023, more amendments executed were related to increased cash pricing, with all-in pricing (cash + PIK) of loans increasing by 50 bps at the median as lenders required improved economics in today's market

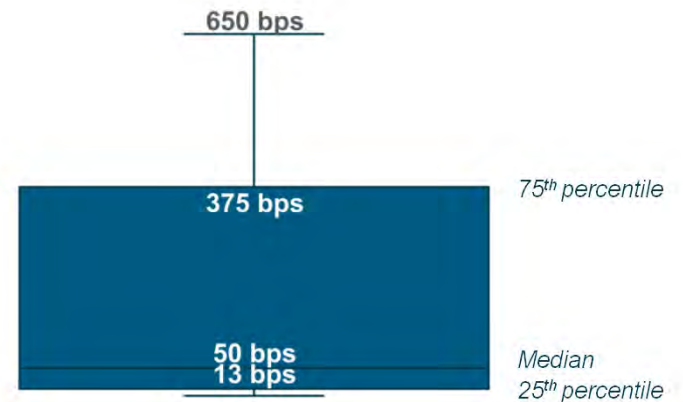
Average Length of...



Pricing Changes via Amendments (Cash + PIK)



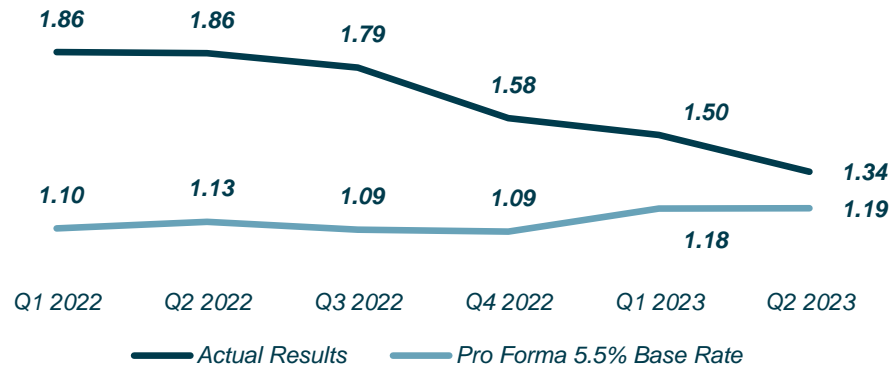
Changes in Cash Pricing via Amendments



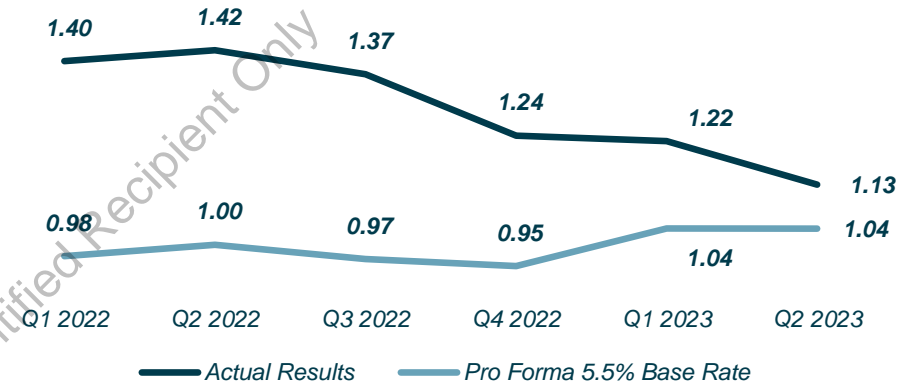
Interest and Fixed Charge Ratios (Size-Weighted Actual vs. 5.5% Base Rate)

The average interest coverage and fixed charge coverage ratios tracked by Lincoln decreased from Q1 2023 to Q2 2023 due to the increase in base rates quarter over quarter

Interest Coverage Ratio

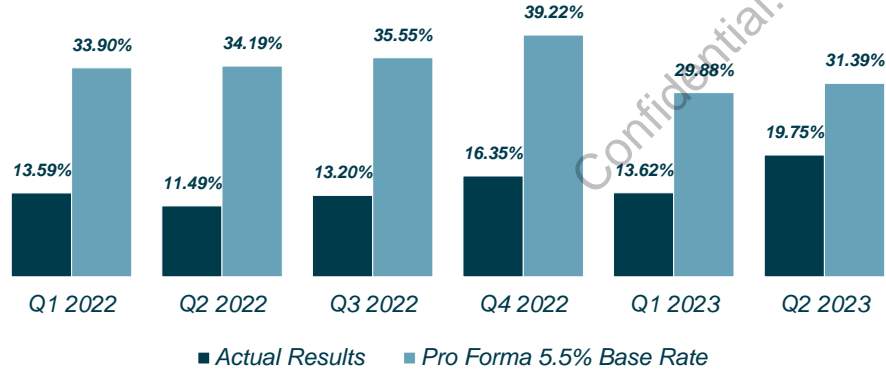


Fixed Charge Coverage Ratio

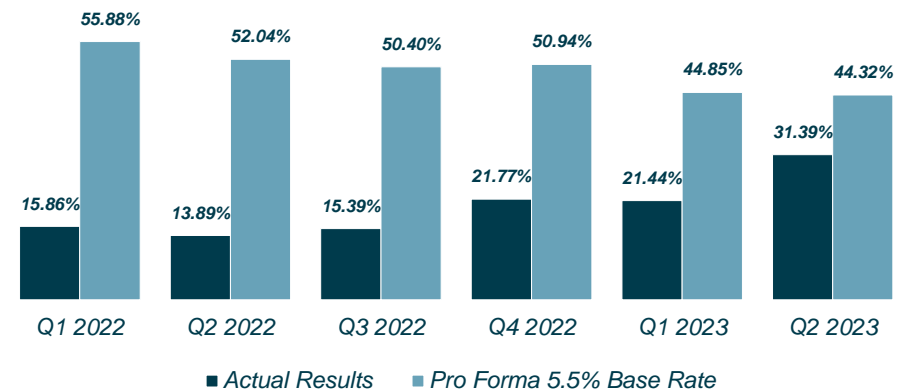


Size-Weighted Percentage of Companies with Interest Coverage and Fixed Charge Ratios under 1.0x

Interest Coverage Ratio



Fixed Charge Coverage Ratio



Fixed Charge Coverage Ratios by Vintage (Size-Weighted Actual Base Rate)

Lincoln observed higher fixed charge coverage ratios for deals done in Q2 2023 than in previous quarters due to increased scrutiny among lenders, who lent at increasingly lower leverage levels. Similarly, the percentage of companies who reported fixed charge coverage ratios below 1.0x has halved since Q4 2021

Fixed Charge Coverage Ratios by Vintage

1.04

Q4 2021 Transactions

LIBOR: 0.21% as of December 31, 2021
L + 525 – 625 bps average unitranche pricing
5.00x – 6.00x average underwriting leverage

1.16

Q4 2022 Transactions

SOFR: 4.65% as of December 31, 2022
S + 625 – 700 bps average unitranche pricing
4.25x – 5.25x average underwriting leverage

1.33

Q2 2023 Transactions

SOFR: 5.28% as of June 30, 2023
S + 625 – 700 bps average unitranche pricing
3.50x – 4.50x average underwriting leverage

Size-Weighted Percentage of Companies with Fixed Charge Coverage Ratios under 1.0x by Vintage

31.7%

Q4 2021 Transactions

25.9%

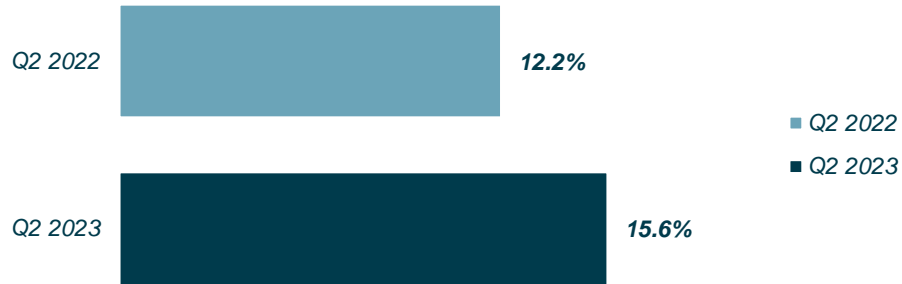
Q4 2022 Transactions

14.8%

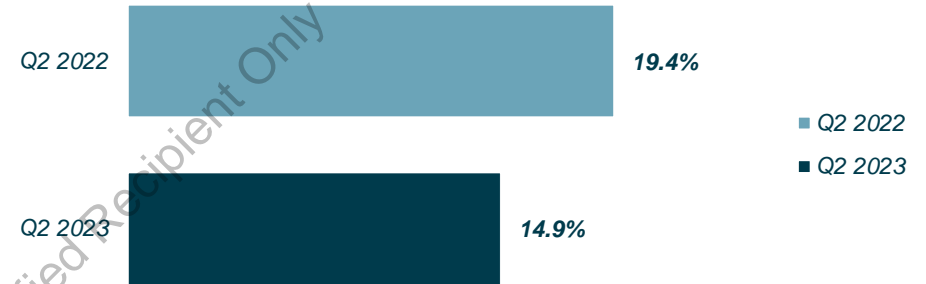
Q2 2023 Transactions

Upcoming Maturity Dates

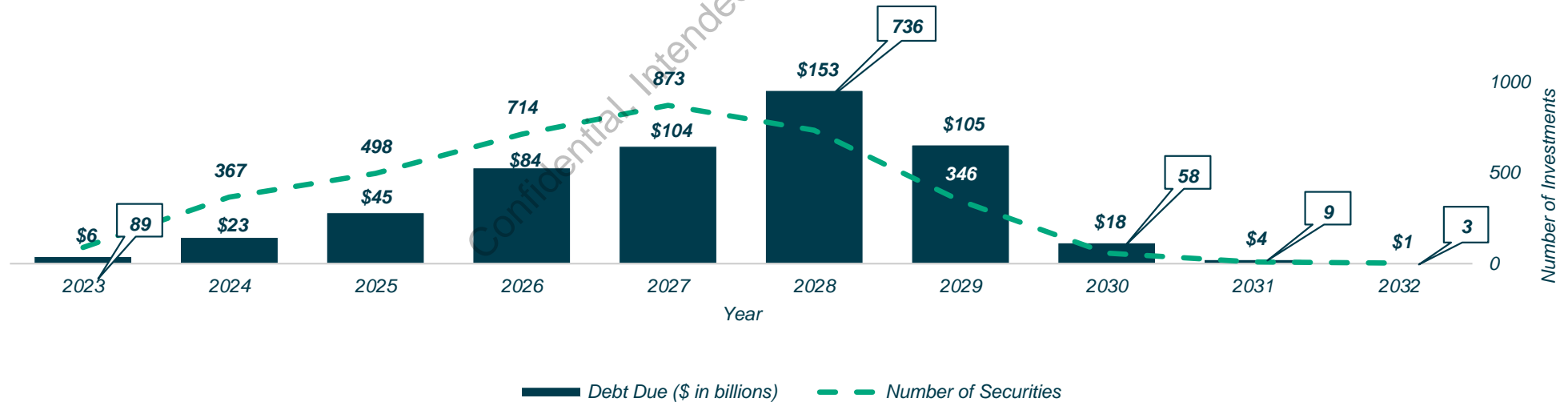
All Securities – Due to Mature in 3-Years



Securities Marked at <90.0% of Par – Due to Mature in 3-Years



Upcoming Credit Maturities





THANK YOU!

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