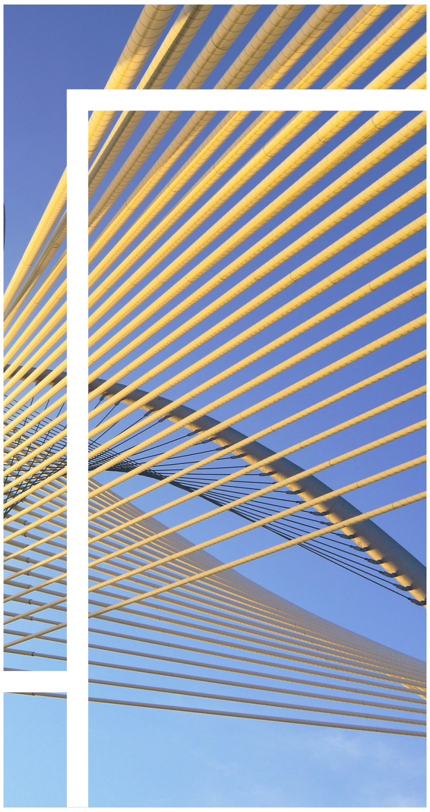
Company Values Teeter in Q1, but Q2 will Reveal Full Force of COVID-19 Impact



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Before COVID-19 spread worldwide, middle market companies exhibited robust growth in the first two months of the year and the largest quarterly gain in five quarters, according to the Lincoln Middle Market Index (Lincoln MMI). While the early effects were felt in March, we won't know the full extent of the impact on company values until the close of Q2. However, Q1 benchmarks can serve as an early indicator of how this pandemic will alter the balance sheets of both private and public companies alike.

One key finding from the Q1 Lincoln MMI was that private middle market companies exhibited less volatility than their public counterparts. Middle market enterprise values declined just 7.5%, compared to the sharp 16.0% decline of the S&P 500, as of March 31, 2020. The Lincoln MMI measures changes in the enterprise values of private middle market companies over time based on a subset of Lincoln's proprietary database of more than 2,000 portfolio companies, primarily owned by private equity firms.

While the pandemic brought significant declines in multiples, enterprise values at the end of Q1 aligned with the levels observed approximately one-and-a-half years ago, before the markets experienced a significant run-up.

Since its inception in Q1 2014, the Lincoln MMI has consistently found that middle market, private company enterprise values remain less volatile than its public market equivalent benchmark, 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.

OTHER HIGHLIGHTS OF THE Q1 2020 LINCOLN MMI INCLUDE:

Every industry was impacted by the coronavirus. Valuations across all industry segments declined, with decreases most severe for COVID-19-impacted industries—industrials and consumer had an average decline of 8.6%. The impact on technology and healthcare was less severe, experiencing an average decline of 5.3%. Following oil price decreases, the largest industry decline in this quarter's LMMI was the 18.0% decline in the energy sector.

Credit market sentiment shifts amidst uncertainty. Lenders are taking a more conservative approach when providing capital to middle market companies. Lenders often focus on loan-to-value and, as a result of the declines in enterprise values due to COVID-19, Lincoln International has observed a decrease in the amount debt lenders will provide of between one-half and one times their earnings before interest, taxes, depreciation and amortization (EBITDA).

Full impact of COVID-19 is still unknown. Although the declines last quarter were dramatic, the declines in most industries served primarily as a correction, erasing the gains from the last ~15 months. While such a rapid correction could not have been predicted, the full impact of the pandemic on companies' performance will not be completely determined until they release post-COVID-19 earnings.

The Lincoln MMI can serve as a more accurate benchmark for private equity portfolio performance in a time when PE sponsors and institutional investors require data to inform their investment strategy. For more information, visit: www.lincolninternational.com/perspectives/an-overview-of-the-lincoln-middle-market-index/

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