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LINCOLN PRIVATE MARKET INDEX MODESTLY INCREASES, BUT PRIVATE MARKETS ARE BEGINNING TO COOL OFF

Lincoln International's 21st edition of the Lincoln Private Market Index (Lincoln PMI) reveals that in Q3 2022, private market enterprise values increased 1.9%. This quarter, the Lincoln LPMI increased due to modest improvement in fundamental performance in the private markets, partially offset the sixth straight quarter of multiple contraction. Whereas the Lincoln PMI increased 1.9%, the S&P 500 EV declined by 4.6% during Q3, reflecting the S&P 500's significantly more volatile enterprise value (EV) multiples. While most industries in the Lincoln PMI increased in the current quarter, consumer companies' enterprise values decreased, as consumer discretionary companies would likely be most directly impacted by a recessionary environment.

ABOUT THE LINCOLN PRIVATE MARKET INDEX

The Lincoln PMI is a first-of-its-kind index measuring changes in the enterprise values 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

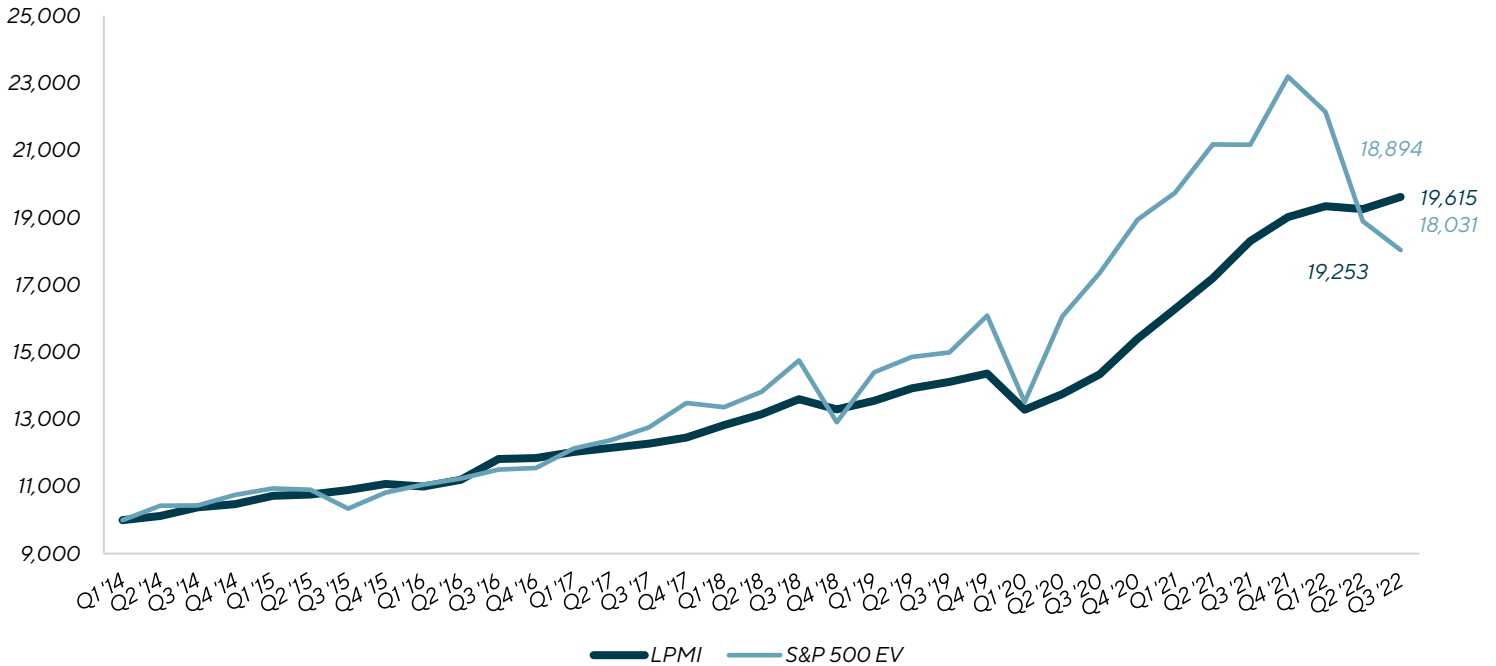
- 21st Edition: Covers Q3 2022
- Measures quarterly changes in the enterprise values of approximately 900 private companies, based on a population of approximately 3,800 companies primarily owned by private equity firms with a median EBITDA of approximately \$30-35 million
- Analyzes the impact from 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

Q3

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)

	Q3 '22	YTD	LTM
Lincoln PMI	1.9%	3.2%	7.2%
S&P 500 EV	(4.6%)	(22.3%)	(14.8%)

Starting at a value of 10,000 as of March 31, 2014, the Lincoln PMI has increased 96.1% cumulatively to 19,615, as of September 30, 2022. The Lincoln PMI grew at a compound annual growth rate of 8.2% since inception as compared to 7.2% for the enterprise values of the S&P 500.

Since mid 2019, the correlation between the two markets has diminished as there have been more shocks in the public market which have increased the volatility in the public markets whereas private markets have continued to grow thanks to well-capitalized sponsors and lenders bridging businesses through these shocks and focusing on long-term earnings growth.

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.

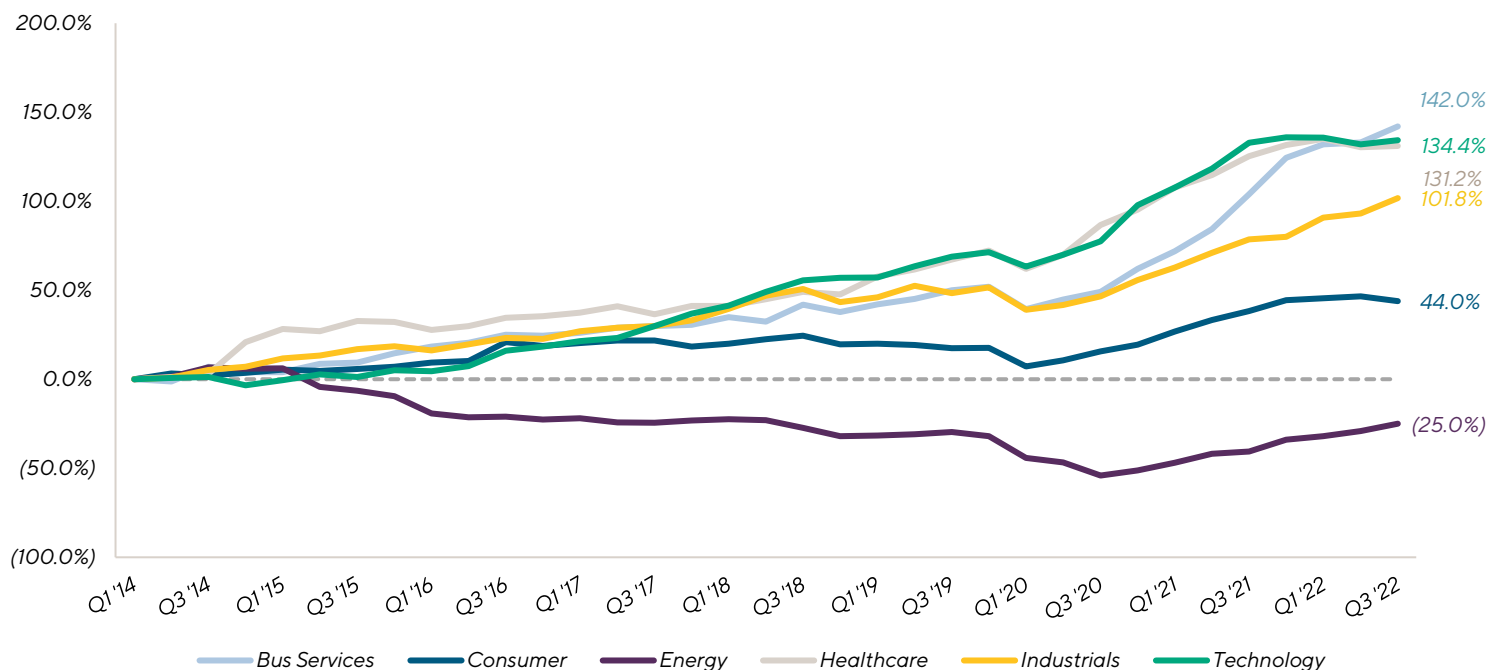
While the Lincoln PMI shows similar growth in enterprise value since inception as compared to the S&P 500, private equity owned companies traditionally have more leverage than public companies and, therefore, generate relatively greater equity gains.

SECTOR BREAKDOWN:

Consumer Experienced a Decline While Other Industries Saw Modest Growth

Q3

2022



Industry	Q3 2022	YTD	LTM
Bus Services	3.8%	7.9%	18.7%
Consumer	(1.8%)	(0.3%)	4.1%
Energy	5.7%	13.5%	26.4%
Healthcare	0.4%	(0.2%)	2.6%
Industrials	4.5%	12.2%	13.0%
Technology	1.0%	(0.7%)	60.6%

In Q3 2022, private company valuations increased on the back of continued positive earnings on average amidst public market volatility. As one might expect, with the economy entering a recessionary environment, performance by industry varied dramatically as those most impacted by consumer spending performed the worst while energy performed the best.

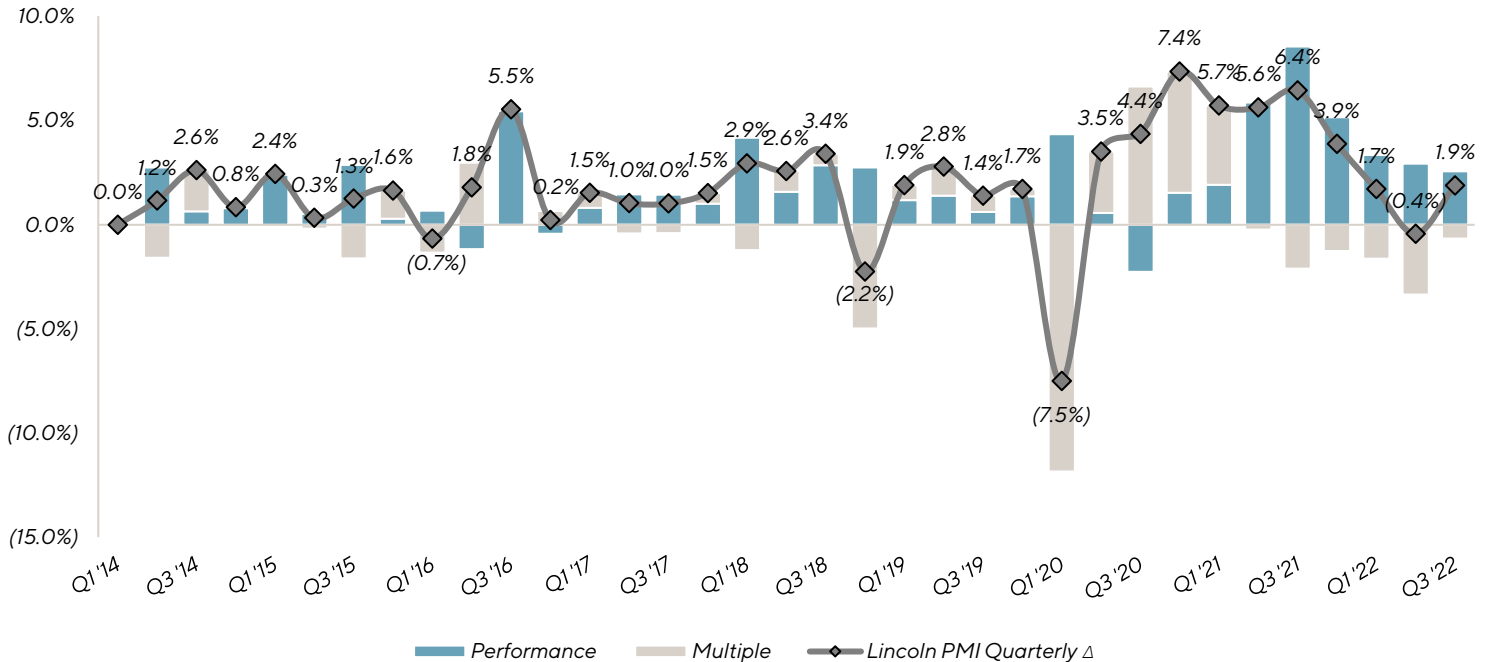
Consumer companies experienced enterprise value declines given they would be most directly impacted by a recessionary environment, though even within consumer some consumer staples performed well. However, as many companies have been able to pass along rising costs, most enterprise values increased despite margin compression.

Conversely, business services, industrials and energy industries saw accelerated growth in Q3 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

Q3

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.

The Lincoln PMI increased in Q3 2022 as the earnings growth more than offset multiple contraction. For the sixth consecutive quarter, enterprise value multiples contracted; however, the multiple contraction was less pronounced in Q3 2022 relative to the past four quarters.

“The performance of the Lincoln PMI relative to the S&P 500 during the third quarter continues to highlight one of the defining features of private markets,” noted 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. “Over the long run, private equity (buyout) investments have consistently outperformed the S&P 500. In this volatile quarter, private companies’ earnings growth and flat multiples combined to lead to outperformance relative to the public markets. It will be fascinating to see if this trend persists if the economy hits the rough spot that is widely predicted.”

SUMMARY: The Lincoln PMI

Q3

2022

GENERAL OBSERVATIONS:

- Private company enterprise values increased in Q3 2022 from near-record levels in Q2 2022 as the Lincoln PMI increased 1.9%. The index has increased 36.6% from pre-pandemic levels observed in Q4 2019 but growth has slowed for over a year.
- Despite 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 Q3 2022, private market valuations continued to hinge on whether companies can execute on projected growth while also mitigating recessionary pressures.
- In Q3 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.

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 Lincoln PMI to undergo a decline in the current quarter.
- In the current quarter, private company valuations for business services and industrials industries increased at an accelerated rate, while formerly safe spaces such as healthcare and technology saw more modest growth.
- 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

Q3

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

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

Q3

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 B.S. from the University of Illinois, where he graduated with highest honors.



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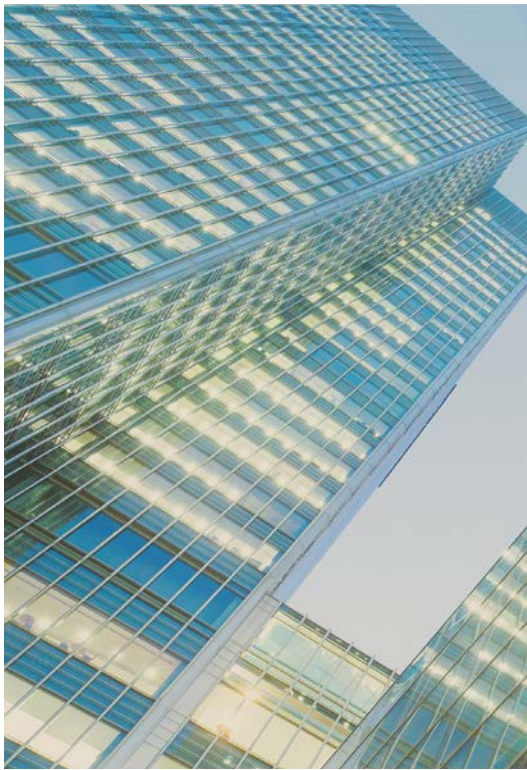
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Lincoln's Valuations & Opinions Group is a leading independent valuation advisor to managers of illiquid assets and lenders to alternative assets funds. The group specializes in the valuation of illiquid debt, equity and derivative securities. Additionally, 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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