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LINCOLN PRIVATE MARKET INDEX INCREASES MARGINALLY ON HIGHER FUNDAMENTAL PERFORMANCE DESPITE MULTIPLE PRESSURE

The Lincoln Private Market Index (Lincoln PMI) reveals that in Q3 2023, private market enterprise values (EVs) increased 0.8%. The Lincoln PMI's increase contrasted with the movement of the S&P 500, which decreased 3.7% since the second quarter. Larger companies performed the best this quarter as companies with more than \$50 million of EBITDA grew 1.3% whereas companies with under \$20 million of EBITDA declined in value by 1.4%. The increase in the Lincoln PMI was due to persistent earnings growth but was offset yet again by multiple contraction. However, earnings growth was under pressure as Lincoln observed slowing revenue growth this quarter.

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

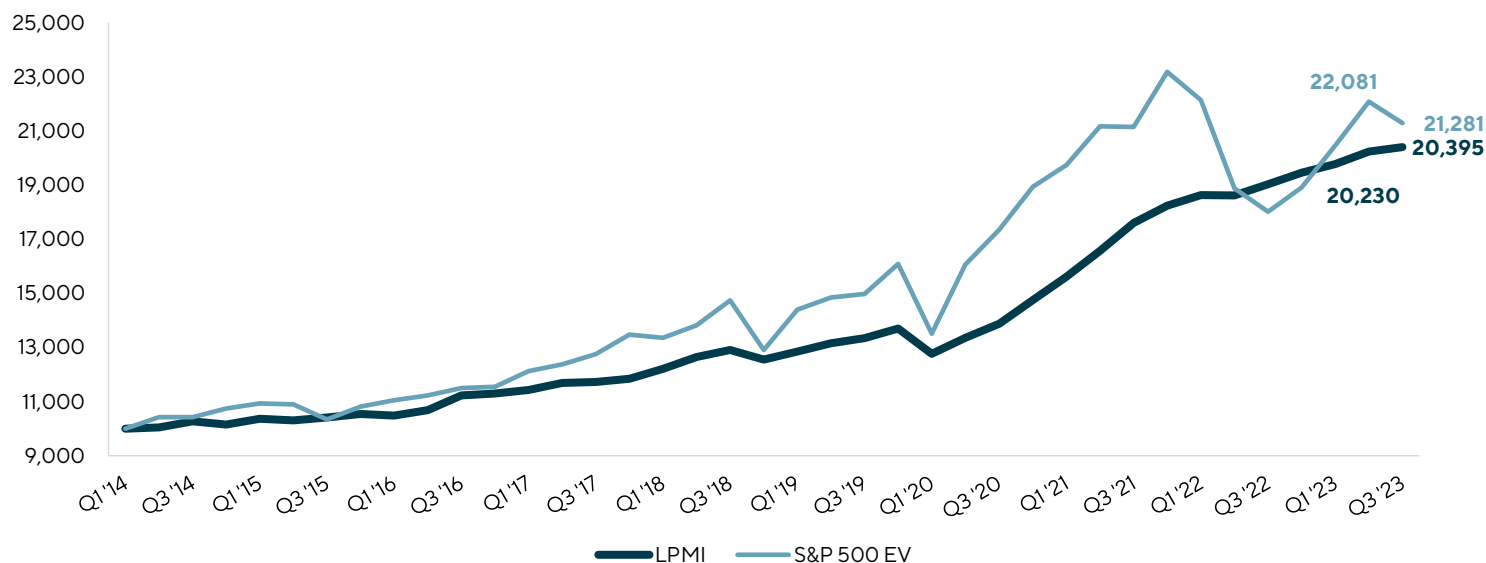
- 25th edition: covers Q3 2023
- Measures quarterly changes in the enterprise values of ~1,500 private companies, based on a population of approximately 4,500+ companies primarily owned by private equity firms with a median EBITDA of ~\$40-45 million
- Analyzes the impact from the change in company earnings versus market valuation multiples
- Assess the change in value for six industry sectors

RESULTS:

Private Markets Remain Insulated Amidst Public Market Volatility

Q3

2023



(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 '23	YTD	LTM
LPMI	0.8%	4.8%	7.2%
S&P 500 EV	(3.6%)	12.5%	18.1%

The Lincoln PMI grew at a compound annual growth rate of 7.8% since inception as compared to 8.3% for the enterprise values of the S&P 500. Further, since the start of the pandemic, private market enterprise values have outpaced S&P 500 enterprise values.

The correlation between the two markets has diverged in recent periods largely because of more volatile multiples in the public markets. Operating results continue to be the driver of private companies' enterprise value growth, though operating results face increasing headwinds. In Q3 2023, Lincoln International's proprietary database indicated single digit revenue growth for the first time since Q4 2021. Despite the slowdown and signal of a potential pullback in demand, LTM EBITDA growth across private companies has remained stable quarter-over-quarter at 4.3%.

"Time and time again we have observed that the movements in enterprise values of private companies are primarily a result of their fundamental performance," said Steve Kaplan, Neubauer Distinguished Service Professor of Entrepreneurship and Finance at the University of Chicago Booth School of Business, who assists and advises Lincoln International on the Lincoln PMI. "Therefore, if we start to see slowing demand trends negatively impact private company earnings, we could see a reversal of fortune in private company enterprise values."

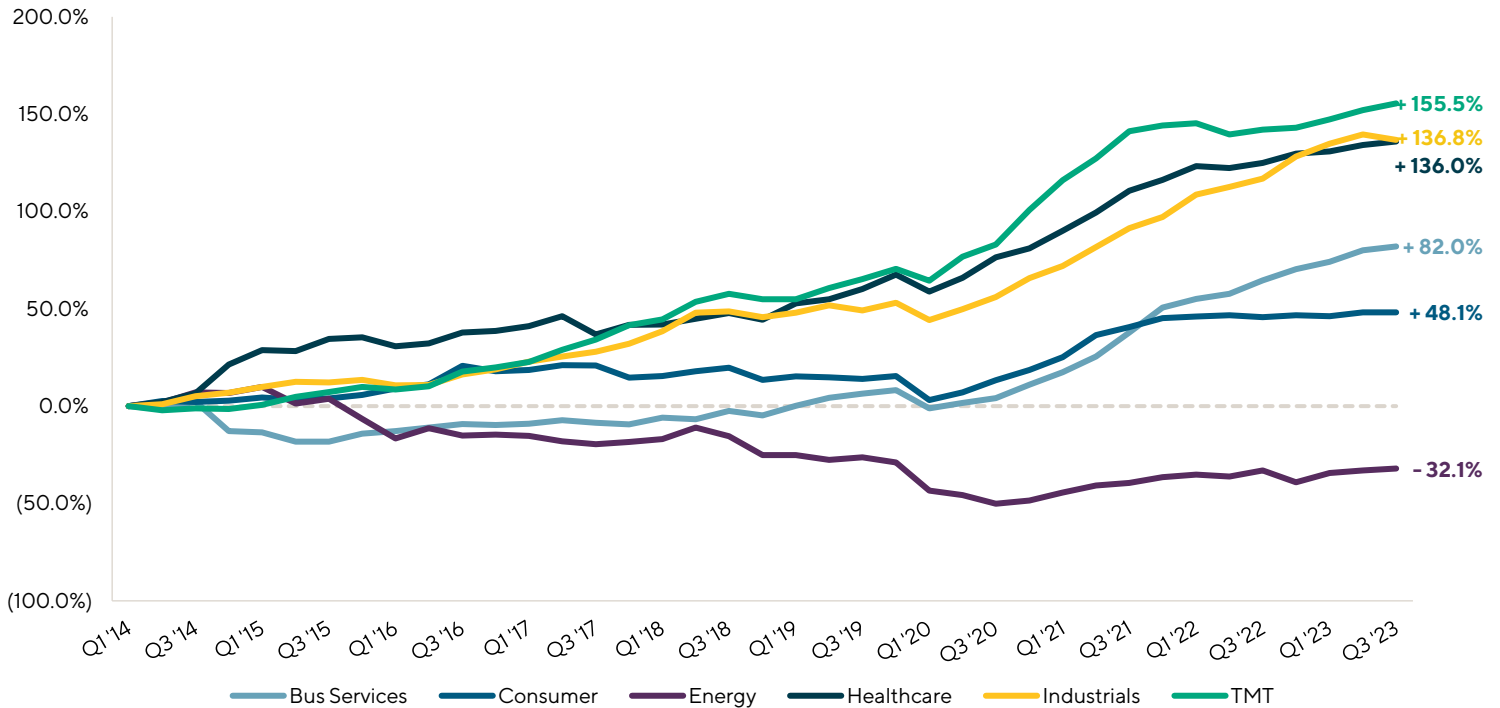
The Lincoln PMI shows that private company enterprise values remain less volatile than those of the S&P 500; the Lincoln PMI's volatility is less than half that of the S&P 500 EV index as multiples have tended to be more stable than public company multiples. As a result, the Sharpe Ratio, which measures excess return per unit of risk, of the Lincoln PMI is superior to that of the S&P 500 EV index.

SECTOR BREAKDOWN:

Industrial Valuations Declined While Other Industries Saw Flat-To-Modest Growth

Q3

2023



Industry	Q3 '23	YTD	LTM
Bus Services	1.1%	6.9%	10.6%
Consumer	0.0%	1.0%	1.7%
Energy	1.3%	11.5%	1.5%
Healthcare	0.8%	2.7%	4.9%
Industrials	(1.1%)	3.8%	9.2%
TMT	1.4%	5.1%	5.6%

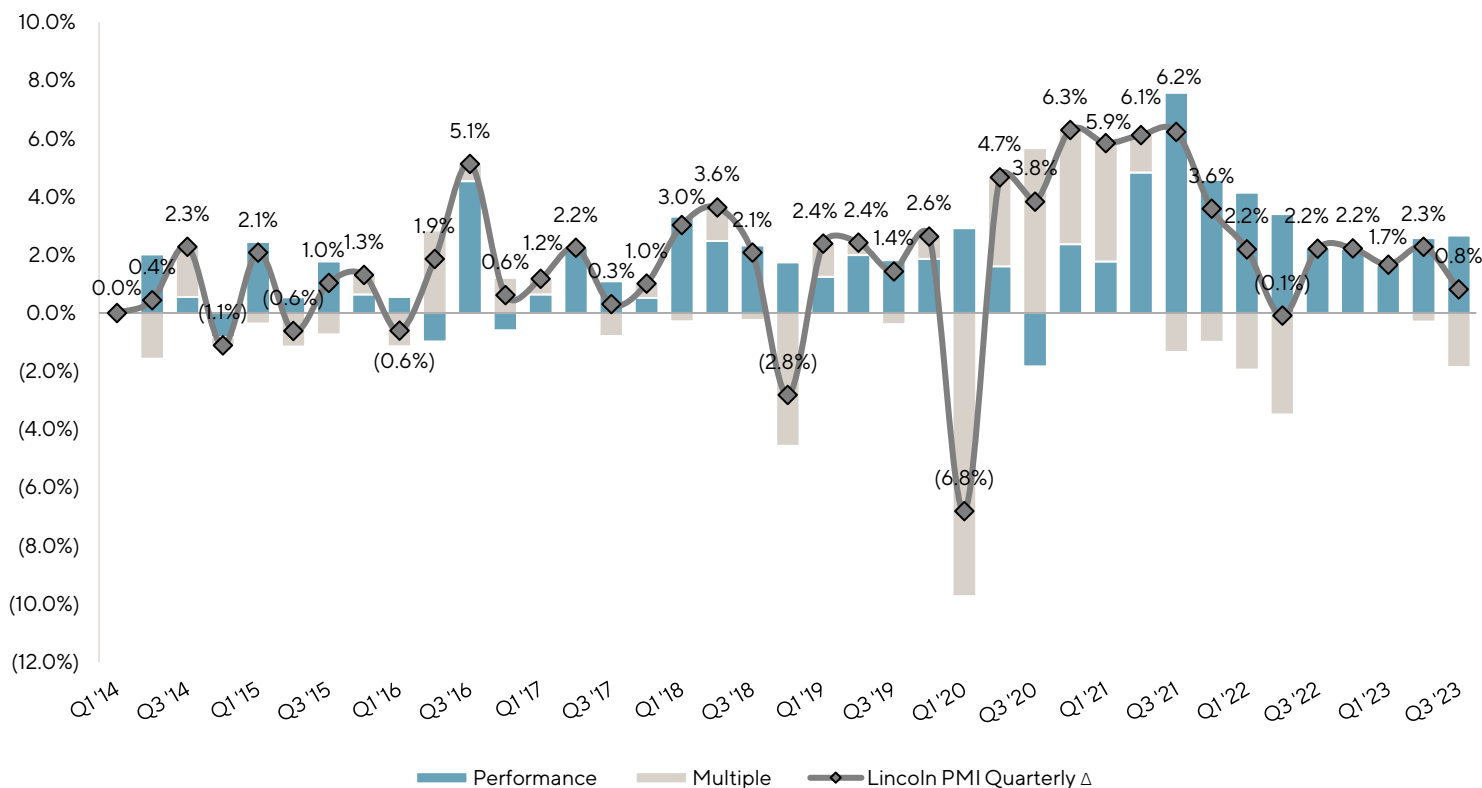
In Q3 2023, all industries experienced slower growth relative to Q2 2023; however, some experienced a greater impact than others. Consumer companies continue to be impacted given the persistent recessionary macroeconomic environment. While they were able to generate marginal year-over-year revenue growth of 2.4%, EBITDA declined 1.5%. As a result, the consumer industry has had the slowest enterprise value growth this year.

Contrarily, TMT saw the highest growth in Q3 2023. In light of difficult fundraising environments, TMT companies have generally been successful in shifting their focus from growing revenue at all costs to becoming profitable or enhancing profitability which helped sustain TMT valuations.

EXAMINING THE LINCOLN PMI: EBITDA Multiples versus Earnings

Q3

2023



~45%+

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.

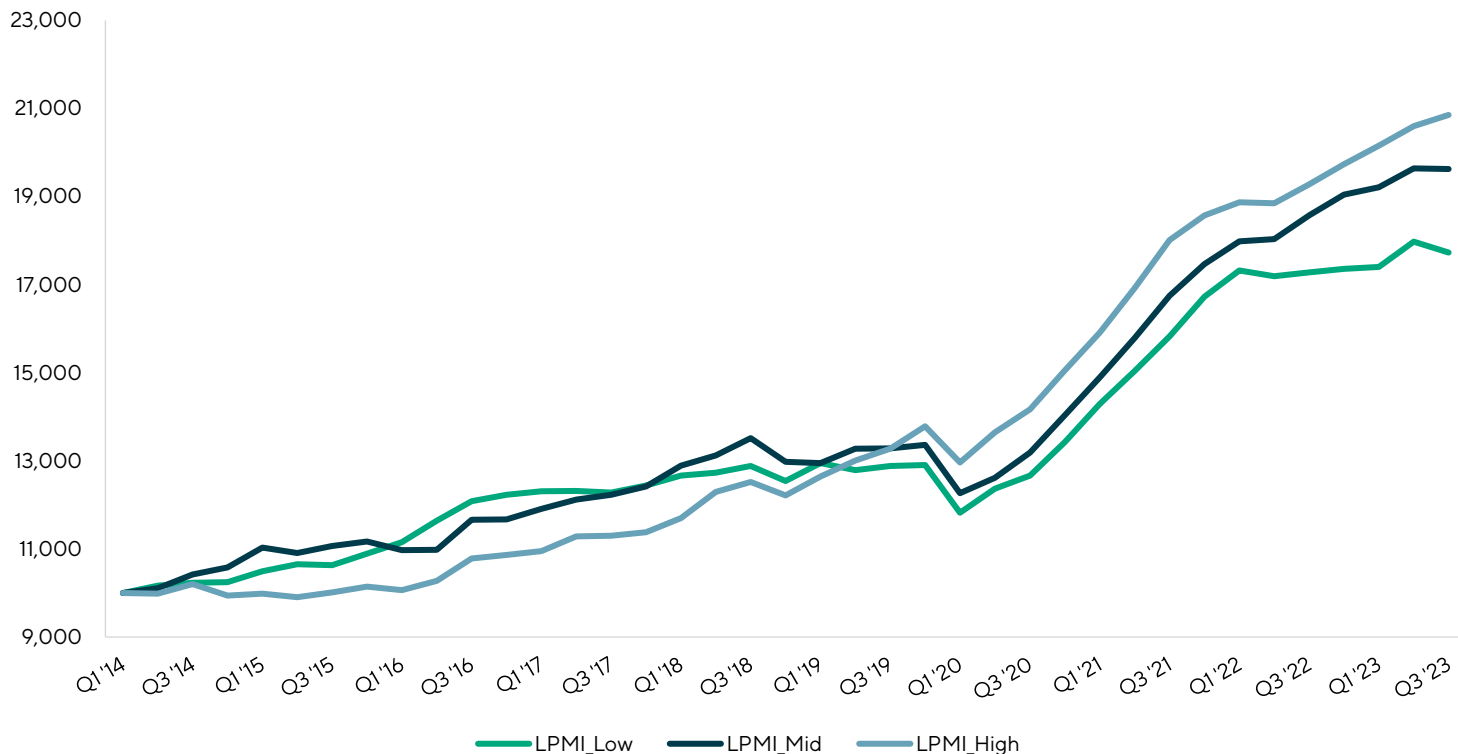
The Lincoln PMI increased in Q3 2023 as earnings growth more than offset multiple contraction. However, the index saw the largest multiple contraction since Q2 2022. This was corroborated by isolating new leveraged buyout transactions, which occurred at multiples 1.5x lower since the beginning of 2023. The lower multiples may reflect, among other factors, buyers' need to lower valuations to offset higher interest costs and decreased debt capacity to maintain their targeted fund returns.

"While, over the last year, many predicted a decrease in enterprise value multiples, it is only now that we are seeing an actual decrease in valuations for deals getting done," said Ron Kahn, Managing Director and co-head of Lincoln's Valuations & Opinions Group. "While the number of acquisitions continues to be lower and may not yet be of sufficient size to extrapolate to the wider universe of companies, it may also be a harbinger of things to come as the elevated base rates have a larger negative impact on valuations than the higher performance."

EXAMINING THE LINCOLN PMI: : Comparing Enterprise Value Growth by EBITDA Size

Q3

2023



(Low is includes companies with LTM EBITDA <\$20 million, Mid includes companies with LTM EBITDA of \$20 million to \$50 million and High includes companies with \$50 million to \$250 million)

While private company enterprise values tracked by the Lincoln PMI grew in aggregate in Q3 2023, not all companies were the beneficiary of this growth. Smaller companies' (i.e., those with less than \$20.0 million of EBITDA) enterprise values decreased 1.4%, whereas enterprise values of larger companies (i.e., those with EBITDA of \$50.0 million to \$250.0 million) increased 1.3%.

While there have been times historically when enterprise values of smaller companies grew more quickly than larger companies, larger companies have outperformed smaller

companies more recently. In fact, larger companies have both grown earnings at a faster rate than smaller companies and benefited from more stable valuation multiples over the last four quarters. In Q3 2023, the enterprise value decline of smaller companies was driven by greater multiple contraction relative to larger companies. This disparity is likely a result of an increased likelihood of customer concentration, difficulties in passing along rising costs, and less product / service offering diversification.

SUMMARY:

Q3 2023 Lincoln PMI

Q3

2023

Q3 2023 LINCOLN PMI: GENERAL OBSERVATIONS

- Private company enterprise values increased for the fifth consecutive quarter as the Lincoln PMI increased 0.8%, a slowdown from the increase of ~2% in each of the last four preceding quarters.
- Unlike the Lincoln PMI, the S&P 500 enterprise values declined in Q3 2023. While earnings for both private and public market companies grew, the S&P 500 experienced a greater degree of multiple contraction.
- 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.

Q3 2023 LINCOLN PMI: ENTERPRISE VALUE RESULTS

- Fundamental performance remains under pressure as revenue growth slowed to single digits in Q3 2023. Should slowing demand persist, private company enterprise values could start to see a decline.
- Despite continued selectivity and focus on recession-resilient companies, multiples for new leverage buyout transactions have declined since the beginning of 2023; buyers remain focused on meeting targeted returns, while grappling with the burden of interest costs and reduced debt capacity.
- Smaller companies experienced a decrease in enterprise value which contrasted the increase in enterprise values of larger companies, as the benefits of scale, diversification and negotiating power continue to attract investors in an uncertain post-pandemic macroeconomic environment.

Q3 2023 LINCOLN PMI: INDUSTRY BREAKDOWN ON AN ENTERPRISE VALUE BASIS

- Consumer companies continue to feel the pressures of a recessionary environment and have seen the slowest enterprise value growth in 2023.
- TMT companies have seen steady enterprise value growth over the last year as more TMT companies turn focus towards profitability versus revenue growth.

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

2023

SOURCE OF DATA AND SAMPLE SIZE

On a quarterly basis, Lincoln determines the enterprise fair value of over 4,500+ portfolio companies for over 140 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 \$250.0 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

4,500+

Portfolio companies are evaluated by Lincoln on a quarterly basis to determine their enterprise fair value

140+

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

METHODOLOGY:

Academic Advisors



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.

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 the Charles E. Merrill Faculty Scholar and 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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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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