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## PRIVATE COMPANY ENTERPRISE VALUES INCREASED AGAIN TO NEW RECORD HIGHS IN Q1

Lincoln International's 19th edition of the Lincoln Private Market Index (Lincoln PMI) reveals that in Q1 2022, private market enterprise values increased 1.7%. Fundamental performance remained the driver of growth in Q1 2022, as multiple contraction partially offset earnings growth in the Lincoln PMI during the quarter. Contrary to the increase in the Lincoln PMI, the S&P 500 EV declined during Q1 by 4.5%, reversing the S&P's superior performance in Q4 2021. While most industries in the Lincoln PMI grew to start the year, the volatility of the public technology companies began to impact the valuations of the private technology companies as the technology industry experienced only its second decline in value since Q1 2016.

### ABOUT THE LINCOLN PRIVATE MARKET INDEX

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

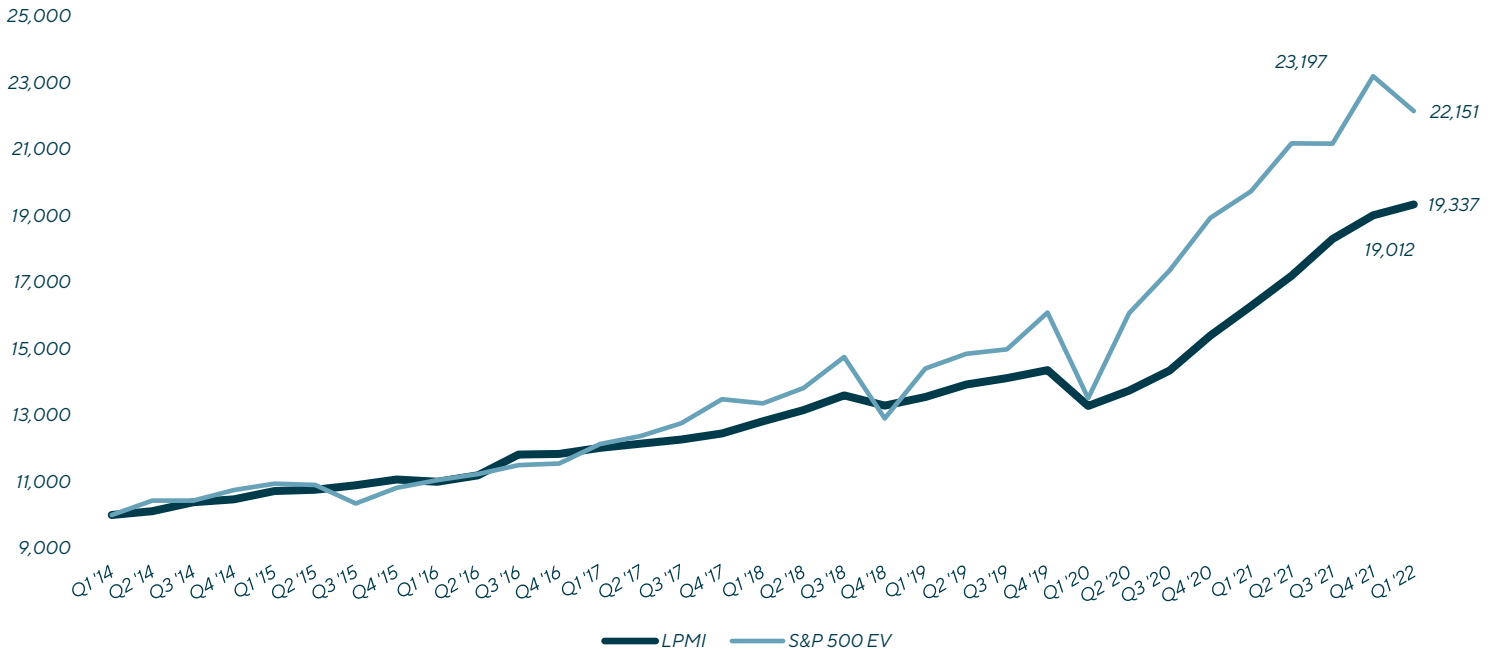
- 19th Edition: Covers Q1 2022
- Measures quarterly changes in the enterprise values of approximately 500 private companies, based on a population of approximately 3,500 companies primarily owned by private equity firms with a median EBITDA of approximately \$35 million
- Analyzes the impact from the change in company earnings versus market valuation multiples
- Assess the change in value for six industry sectors

## RESULTS:

# Private Markets Somewhat Insulated Amidst Public Market Volatility

Q1

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; including such companies produces similar results)

	Q1 '22	LTM
Lincoln PMI	1.7%	18.8%
S&P 500 EV	(4.5%)	12.2%

Starting at a value of 10,000 as of March 31, 2014, the Lincoln PMI has increased 93.4% cumulatively to 19,337, as of March 31, 2022. The Lincoln PMI grew at a compound annual growth rate of 8.6% since inception as compared to 10.5% for the enterprise values of the S&P 500.

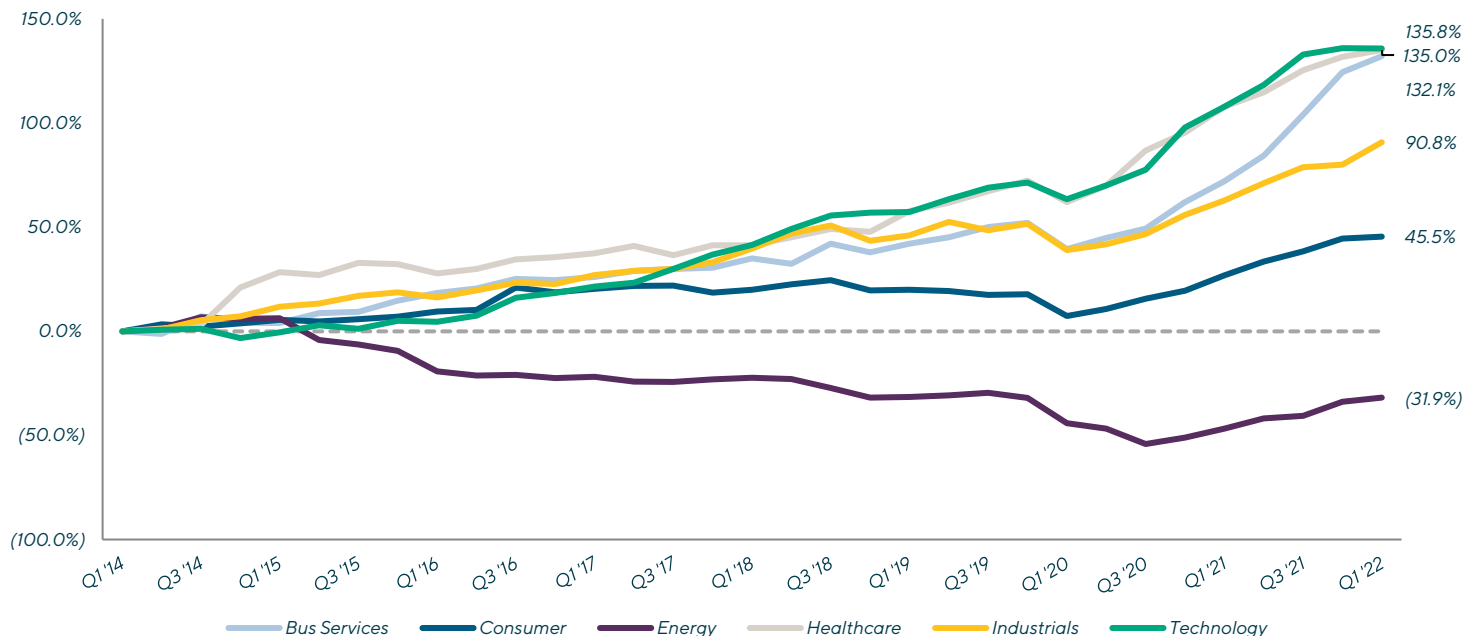
- While in 2021 the Lincoln PMI grew by 23.5%, the S&P 500 enterprise values grew just 22.5%. The private markets continued to outperform the public markets to start 2022, despite the public markets entering “correction” territory, the private markets remained comparatively insulated. However, according to a recent live survey of approximately 100 alternative asset investment professionals conducted by Lincoln, approximately two-thirds believed that private company enterprise values will decline by the end of 2022.
- 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 a relatively lower 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:

# Growth Slowed Across Industries with Technology Even Declining

Q1

2022



Industry	Q1 2022	LTM
Bus Services	<b>3.4%</b>	<b>35.0%</b>
Consumer	<b>0.7%</b>	<b>14.7%</b>
Energy	<b>3.1%</b>	<b>28.0%</b>
Healthcare	<b>1.4%</b>	<b>13.1%</b>
Industrials	<b>6.0%</b>	<b>17.2%</b>
Technology	<b>(0.1%)</b>	<b>13.5%</b>

While growth slowed in most industries, the volatility of the public technology markets began to seep into the private markets as technology companies' enterprise values were effectively flat, ceasing the rampant growth of the last two years. The slight decline was only the second quarter in the last five years when the technology industry experienced a decline in enterprise value.

Consumer enterprise value growth continued to lag behind the rest of the private markets as the industry perhaps most directly impacted by persistent supply chain headwinds, labor shortages and inflationary pressures. The same trend was true for public markets as well as consumer discretionary companies experienced some of the largest declines to start 2022.

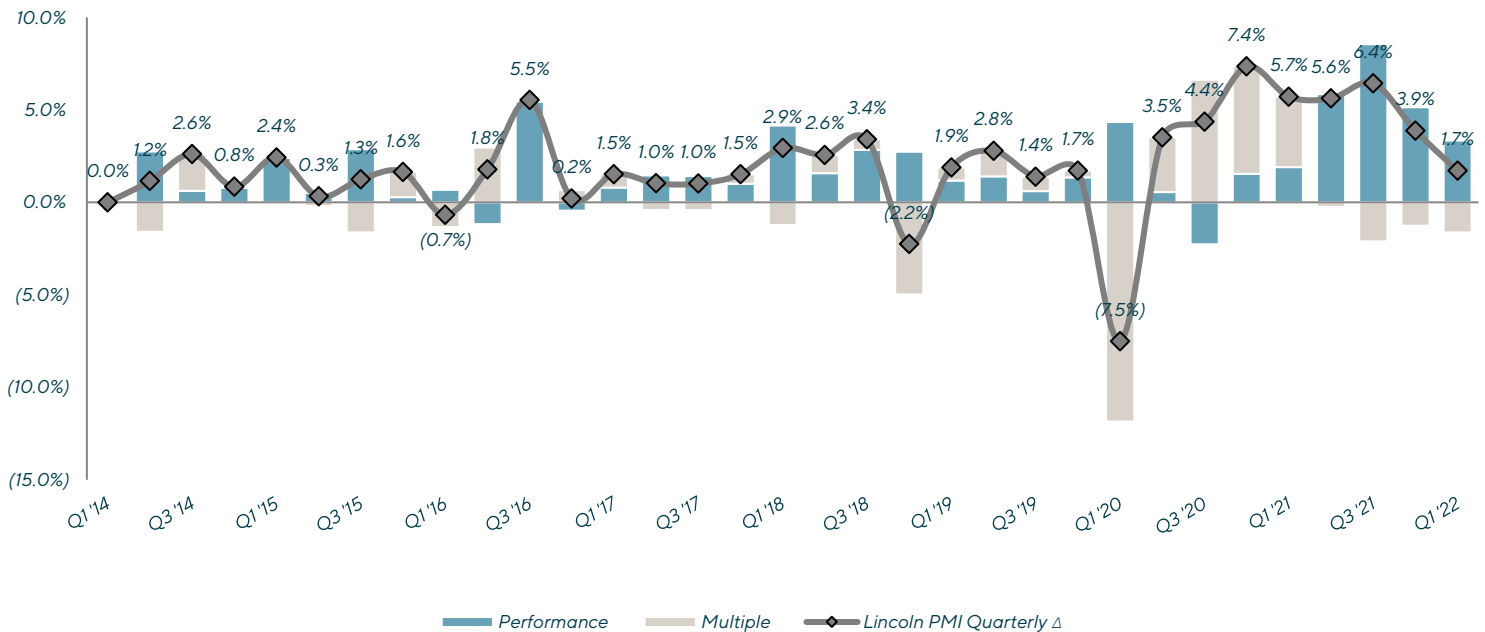
Conversely, energy continued to grow at above-average rates and was up approximately 50% from its trough six quarters ago. The energy segment has been the beneficiary of some of these inflationary pressures as energy prices remain elevated; this references not just oil and gas prices, but other commodities too. Only business services outperformed the energy segment over this stretch of time.

# EXAMINING THE LINCOLN PMI:

## Examining the Lincoln PMI - EBITDA Multiples versus Earnings

Q1

2022



~40%+

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.

Lincoln PMI enterprise values grew at lower rates in Q1 2022 as compared to the previous six quarters, as earnings growth was partially offset by multiple contraction during the quarter. This was the same trend that persisted for the last three quarters. The significant amount of dry powder in the private markets has helped stabilize multiples relative to the public market volatility.

“While we have historically observed that the public markets are often a leading indicator for the private markets, the private markets have consistently proven to be less volatile,” 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. “Fundamental performance and private companies’ ability to weather the storm of cost pressures will likely define valuations of the private markets in the rest of 2022.”

# SUMMARY: The Lincoln PMI

Q1

2022

## GENERAL OBSERVATIONS:

- Private company enterprise values again grew to record levels in Q1 2022 as the Lincoln PMI increased 1.7%. The index has increased 34.7% from pre-pandemic levels observed in Q4 2019 but growth has slowed for three straight quarters.
- In 2021, the Lincoln PMI's growth outpaced that of the S&P 500's enterprise values as the Lincoln PMI grew by 23.5% in 2021 as opposed to the S&P 500's enterprise values which grew 22.5% and this trend continued in Q1 2022 as S&P 500 enterprise values declined while the Lincoln PMI increased.
- 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:

- Heading into 2022, private market valuations hinged on whether companies can execute on projected growth while also mitigating cost pressures caused by supply chain issues, labor shortages and inflationary pressures; however, these headwinds are posing greater and greater risks to growth initiatives.
- In Q1 2022, both the Lincoln PMI and S&P 500 EV indices benefitted from improved operating results; however, multiple contraction was notably more material in the public markets.
- Fundamental performance remains the primary driver of long-term enterprise value growth in the Lincoln PMI; more volatile times prove this out as the Lincoln PMI benefitted from the greater stability of private market multiples and thus outperformed the S&P 500 EV.

## INDUSTRY BREAKDOWN ON AN ENTERPRISE VALUE BASIS:

- Although growth slowed across most industries, business services and energy, two industries with less direct exposure to inflationary and supply chain pressures, continued to grow at above-average rates.
- Those industries facing slowing growth and the greatest degree of concern regarding near-term growth potential, specifically consumer, were also facing multiple contraction and lagging the rest of the private markets.

### 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

Q1

2022

### SOURCE OF DATA AND SAMPLE SIZE

On a quarterly basis, Lincoln determines the enterprise fair value of over 3,500 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/lincolnmimi](http://www.lincolninternational.com/services/valuations-and-opinions/lincolnmimi)

**3,500**

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

Q1

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 Bachelor of Science from the University of Illinois, where he graduated with highest honors.





## GLOBAL INDUSTRY GROUPS

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Consumer  
Energy, Power & Infrastructure  
Financial Institutions  
Healthcare  
Industrials  
Technology, Media & Telecom

## ADVISORY SERVICES

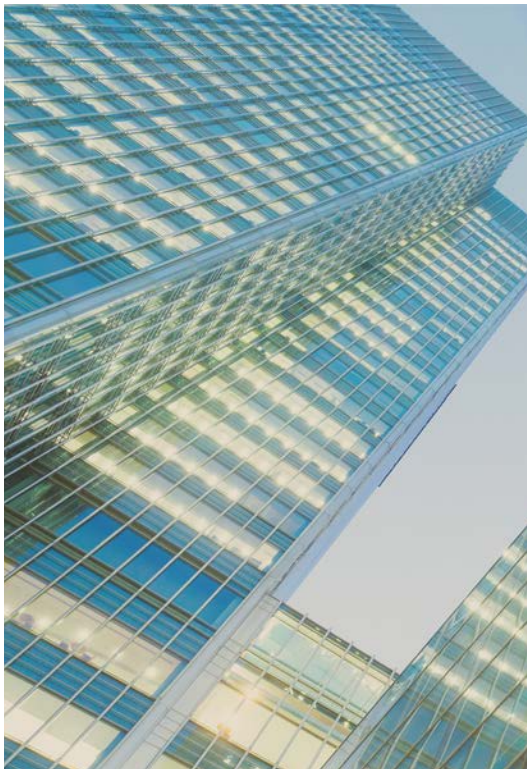
Mergers & Acquisitions  
Capital Advisory  
Private Funds Advisory  
Valuations & Opinions

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We are trusted investment banking advisors to business owners and senior executives of leading private equity firms and their portfolio companies and to public and privately held companies around the world. Our services include mergers and acquisitions advisory, private funds and capital markets advisory, and valuations and fairness opinions. As one tightly integrated team of more than 800 professionals in more than 20 offices in 15 countries, we offer an unobstructed perspective on the global private capital markets, backed by superb execution and a deep commitment to client success. With extensive industry knowledge and relationships, timely market intelligence and strategic insights, we forge deep, productive client relationships that endure for decades. Connect with us to learn more at [www.lincolnternational.com](http://www.lincolnternational.com).

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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