DealReader

Valuations & Opinions Group

Q1 2016

Welcome to the latest issue of the Valuations & Opinions Group DealReader, a newsletter offering insights on valuation topics of interest to financial executives, business owners, and investment and valuation professionals. We are pleased to provide commentary regarding relevant valuation topics and keep you informed about developments at our firm and in the market.

Inside this Issue

Lincoln INTERNATIONAL

Peter Freire

Chief Executive Officer Institutional Limited Partners Association

Peter Freire was appointed Chief Executive Officer of the Institutional Limited Partners Association (ILPA) in June 2015, with the mandate to grow and diversify the ILPA membership and to enhance the value of the organization's research and educational offerings to its members. Prior to joining the ILPA, Peter had a successful 18-year career at the Corporate Executive Board (CEB), where he was responsible for CEB's global portfolio of HR businesses, principally the Corporate Leadership Council. He was also responsible for CEB's businesses in a number of regions outside of North America, including Asia-Pacific. More recently, Peter was a Managing Director and Member of the Executive Committee at the World Economic Forum. He has also served as an advisor and consultant to several startups and private companies operating subscription-based business models, primarily in the human capital/talent management fields.

A Fulbright Scholar, Peter earned his BS in Economics from the London School of Economics and his MBA from Harvard Business School. He resides in the Washington DC metro area with his wife and two teenage sons.

A Fireside Chat with Peter Freire, CEO of the Institutional Limited Partners Association

The Institutional Limited Partners Association ("ILPA") is the leading global organization dedicated to advancing the interests of institutional Limited Partners in private equity through industry-leading education programs, independent research, best practices, networking opportunities and global collaborations. ILPA's membership has grown to include over 350 member organizations from around the world representing over US $1 trillion of private assets globally.

In June 2015, ILPA named Peter Freire Chief Executive Officer, succeeding Kathy Jeramaz-Larson. Prior to his appointment, Mr. Freire spent eighteen years at CEB, formerly the Corporate Executive Board, and more recently with the World Economic Forum and as an advisor and consultant to private companies.

As one of the key organizations in the alternative asset space, Lincoln's Valuations & Opinions Group maintains a relationship with ILPA and conducted an interview with Mr. Freire in the first quarter of 2016. The interview addresses several key topics including ILPA's 2016 objectives, along with Mr. Freire's response to General Partners' feedback on its newly published fee and expense template.

Lincoln: As the recently appointed CEO, what is the thing that intrigues you most about your position?

Freire: When you think of the size of the private equity industry and its impact globally, to have the opportunity to play a role in the industry is an exciting one. Also, there's the challenge of building an organization. ILPA is today relatively small; we are comprised of eighteen individuals split between offices in Toronto, Boston and Washington. But we have plans for significant growth. Additionally, the board has an ambitious agenda including globalization [of the organization], better understanding and serving the needs of the different [private equity] segments, and working with the myriad partners in the [alternative asset] industry.

Lincoln: What are ILPA's top three goals in 2016?

Freire: One would be continued globalization. We started very much as a North American organization and still the majority of our members come from that continent. The board and I see eye-to-eye on the importance of being truly global. The good news is we are growing faster internationally than in North America, but we still have work to do. We host events all over the world (more than 20) where we bring LPs together to talk about the issues [they encounter] in the private equity industry.

Second, is to continue to push on the fee and expense transparency initiative that we initiated this past year. Our fee reporting template is probably the signature [output of this initiative]. We believe that improving the transparency between GPs and LPs through standardization can only improve the functioning of the industry to the benefit of everybody. We've worked very closely with a large number of players in the industry, [GPs, LPs and service providers] to construct a document which we believe is well balanced [and addresses] everyone's various needs and interests. We have also had significant input from bodies that represent GPs and various geographies too, such as PEGCC, ACG and Invest Europe. Having [the template] be adopted by the industry, we believe will significantly help the working relationship between GPs and LPs.

The third theme would just be the growth [of ILPA]. If we are to truly be the voice of the institutional LP in private equity, we have to continue to grow the number of LPs we represent. That probably means attracting a lot more of some of the smaller players in the industry who had perhaps not been our focus in the early days. And obviously we will see continued geographic expansion.

Lincoln: What do you believe will be the biggest challenge for the private equity industry in 2016?

Freire: It's interesting because we're sitting here having a conversation in the midst of a fair amount of market turmoil, at least in the public markets. Perhaps that creates all sorts of compelling opportunities for the private equity industry. Listening to members last year, the concern was how richly priced assets were and if that would make future returns harder to realize. Perhaps those assets are a little less expensive today.

Interview conducted by Brian Garfield

Brian joined Lincoln International in 2014 as a vice president. Previously, Brian spent over six years at Duff & Phelps, LLC where he was a vice president in their Alternative Asset Advisory group advising a wide range of alternative asset managers.

Furthermore, within the public plans, you're going to continue to see debates about how much to invest in private equity. If public markets continue this downward trend in asset values, this will put pressure on organizations which are looking for returns, as beneficiaries need to be paid. [Seeking such returns] might that be a good thing for private equity as the asset is seen as having a fairly long history of strong returns. [Additionally,] the returns that investors seek from private equity look pretty good relative to public market returns over the longer term (though there is some debate on this issue), and that might mean that there's even more enthusiasm for the asset class.

I [also] think the whole question of fees and the cost of investing in private equity will definitely be a hot issue. Our view is let's be transparent as to what those fees are so people understand them and where they come from, but we do not take a view as to what is an appropriate amount.

Lincoln: What functions would you like to see outsourced at a GP?

Freire: In general, our industry is going the direction of many [other] industries where you have more players coming in who can offer expertise in a particular area. This would suggest GPs and LPs may find an outsource partner who has greater expertise or [offer] cost efficiencies [that] they would [not realize] internally. I think this industry, again like other industries, is evolving in that direction. I can't tell you a particular [area of expertise] where I've seen more outsourcing, but everybody I'm introduced to has heard of new participants or service providers coming into the industry offering expertise in an area that might makes sense for a GP or LP to outsource to.

Lincoln: According to ILPA, in the hopes of providing LPs "the clarity and consistency of information required to perform their duties, while giving GPs a more consistent roadmap for what Limited Partners need", in January 2016, ILPA released, what is referred to as "Landmark Guidance on Private Equity Fee Reporting" a.k.a. the ILPA Fee Template.

Can you comment on the purpose of the template and ILPA's fee transparency initiatives?

Freire: I think as an industry matures and grows in size and stature, the idea of creating agreed standards and templates often makes sense and helps the industry better manage its relationships and public image. By and large, I'd say that the overwhelmingly majority of our members, and many other industry participants including GPs, agree on a long-term vision [of greater transparency and standardization].

We think that [the fee template] will help to create a common set of reporting and disclosure standards, allowing LPs to better understand, more easily and more quickly, the [relevant return and fee calculations] and where they will appear in GP reporting documents. The intent of the template is somewhat similar to the thinking behind a public firm's GAAP financial statements – creating an agreed set of definitions and disclosures in a standardized format. Once you've learned to read a GAAP financial statement, you know where to find [certain] important numbers. For many of our LPs, it is helpful to achieve that level of standardization, [which will then allow] them to compare [the figures] over time and between different industry partners and relative to other investment opportunities.

For the GPs, we hope standardization will make it easier and perhaps less costly over time to report back to LPs. [For example,] if you have 200 LP relationships, rather than 200 [heterogeneous] formats, [the GP can standardize the presentation, resulting in] fewer iterations.

We recognize that adopting a new standard may involve some short-term implementation costs, such as writing new software, but looking at the long term, having a standard out there that everyone looks to and understands, makes for increased transparency and understanding, which will be to the long term benefit of the entire industry.

Lincoln: From discussions and surveys conducted in the private equity community, there's been both positive and negative feedback on the template. What is your message to those reading this article?

Freire: Our plan is not to force [the template] on anyone. This has to be a voluntary effort by the practitioners in the industry who look at this as a good thing.

If you believe that as an industry, private equity must evolve from being a "craft industry" where reporting is bespoke and every relationship is using different formats, to one based on agreed formats and standards, then I think it's a welcomed evolution. We hope people will adopt it and give us feedback on what's working and what's not and what may need to be changed. We don't look at this as a one and done situation, but rather an evolution, an evolution of a long-term conversation about how we improve standards, and create greater transparency.

We want to be in an industry where we are able to hold our heads high, demonstrating that between GPs and LPs there is a very transparent relationship on cost and returns, and everybody understands what those are.

Lincoln's Follow-up Feedback: *Despite Limited Partners' publicly stated concerns about the multitude of information to digest within the fee template, coupled with General Partners' frustrations in regards to the onus of filling out the template, shortly after our interview, both The Carlyle Group and the California Public Employees' Retirement System, publicly backed the new ILPA fee template.*

Lincoln: What have you heard in regards to the fundraising process from the LP perspective?

Freire: It's hard for me to say there's a consistent theme I'm hearing. I can certainly say that many of our members have commented that the speed at which funds are closing seems to be quickening. Generally, funds have not perhaps found it as hard to raise money recently as they have in prior periods, at least for many of the established funds. I think that reflects the fact that as an asset class, private equity is perceived to have done well over the long term. I think a lot of investment committees are increasing their allocations to private equity. There are other organizations that might have hard numbers on this, but I would say I'm pretty sure the allocation to private equity is going up and not down. But, [with that said], it varies from institution to institution.

Lincoln: What advice would you give to a new GP that's entering the market in order to ensure a successful fundraising process? And to tag along with that point, from the perspective of an LP, what is the ideal GP demonstrating to potential investors when diligence is conducted?

Freire: The things I would dial up would be around track record and history, investing strategy, and their principles. These topics are all critical in making the decision on where to invest. I would absolutely mention here the importance for transparency. I think for any LP to go back to their own investment committee today, they have to be able to talk about a GP being totally transparent.

About Lincoln's Valuation Database

Lincoln maintains an extensive proprietary database. The Database includes financial data for a diverse group of companies across ten primary industry segments and offers a glimpse into the middle market, where reliable data is otherwise limited. Financial results reflect information available at the end of each calendar quarter (typically, financial statements for one or two months preceding the end of each calendar quarter).

Lincoln's Perspectives on the Middle Market

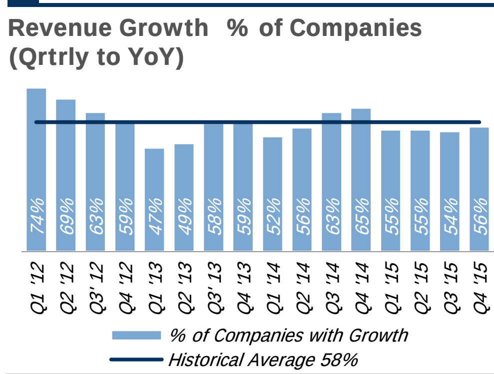
Lincoln's Q4 Valuations Database

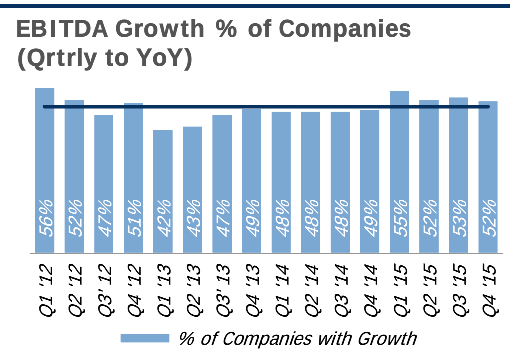
Lincoln's database of middle market companies indicated quarterly year-over-year revenue and EBITDA growth stability in Q4 2015, compared to the prior quarter. Out of over 820 portfolio companies tracked in Q4 2015, 56% of the companies grew their revenue base, while 52% grew EBITDA. This compared to growth of 54% and 53%, respectively, in Q3 2015.

In Q4 2015, companies in the energy industry reported the greatest quarterly year-over-year revenue declines of any industry since Q1 2012 of 28%. The industrials segment has also reported a decrease in average quarterly year-over-year revenue growth since Q3 2014 of 10.4%, from 6.7% to negative 3.7%, respectively.

Of the 16 quarters Lincoln has collected average quarterly year-over-year revenue and EBITDA growth, 14 of 16 quarters had revenue growth yet only 7 of 16 quarters had EBITDA growth.

Revenue & EBITDA Trends

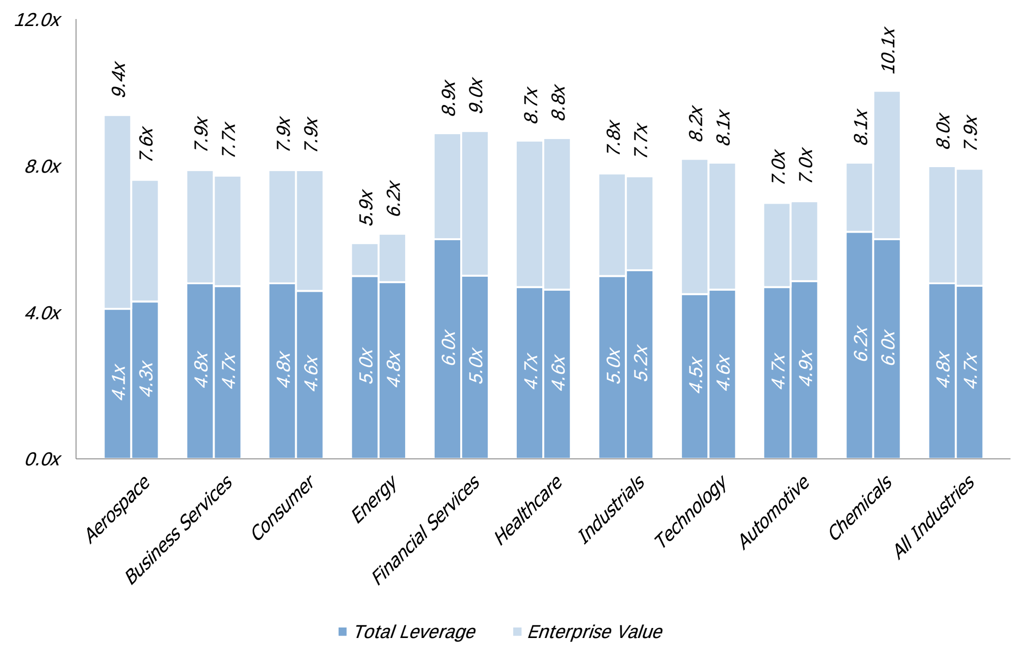




Lincoln's Estimated Enterprise Value Multiple and Leverage Observations

- On average, during the fourth quarter of 2015, observed enterprise value multiples have remained relatively constant from the prior quarter.
- The Aerospace experienced a ~2.0x decrease in average enterprise value multiples and Chemicals experienced a ~2.0x increase in average enterprise value multiples.
- Total leverage remained relatively constant from the prior quarter, with an average total leverage multiple across all industries of 4.7x as of Q4 2015.

Enterprise Value and Leverage by Industry (Q3 2015 vs Q4 2015)



Note: Q3 2015 values on Left, Q4 2015 values on Right
Source: Lincoln International proprietary database

Lincoln's Sponsor Backed M&A Observations

- The average Q4 2015 total enterprise value (TEV) / LTM EBITDA multiple implied by M&A transactions was 8.8x (based on 18 observed transactions), which represents a 0.5x decline over the Q3 2015 TEV / LTM EBITDA of 9.3x (based on 21 observed transactions).
- As of Q4 2015, on average, total leverage of 4.6x remained relatively consistent with the Q3 2015
- Average equity cushions observed in Q4 2015 were approximately 42%, a decrease of approximately 6.0% as compared to the prior two quarters.

Quarterly M&A Transactions

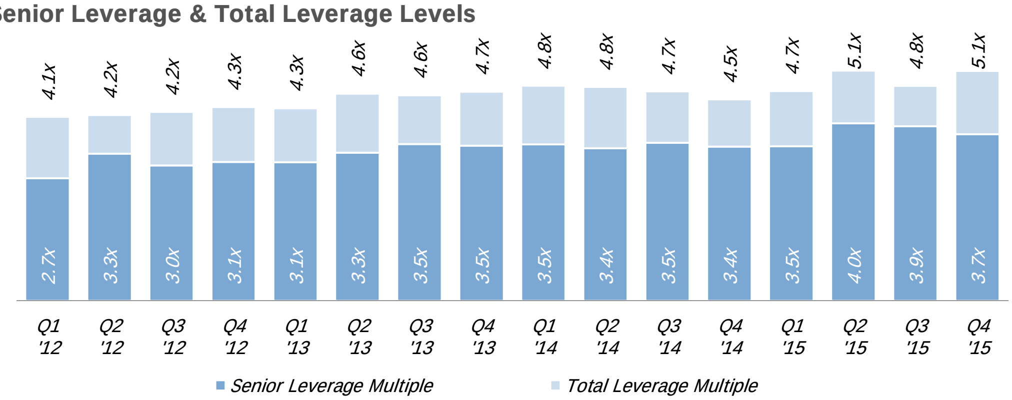
	Q4 '13	Q1 '14	Q2 '14	Q3 '14	Q4 '14	Q1 '15	Q2 '15	Q3 '15	Q4' 15
TEV / EBITDA	8.2x	8.2x	7.2x	8.2x	8.6x	9.1x	9.9x	9.3x	8.8x
Total Debt / EBITDA	4.6x	4.4x	4.8x	4.6x	4.7x	4.7x	4.9x	4.7x	4.6x
Senior Debt / EBITDA	3.5x	3.5x	3.5x	3.8x	3.7x	3.4x	3.9x	4.3x	3.5x
Equity % of Total Cap	43%	45%	32%	45%	43%	46%	48%	48%	42%
LTM EBITDA (Median)	$29	$16	$36	$29	$20	$14	$24	$31	$13
Count	20	29	36	27	47	16	43	21	18

Lincoln's Leverage and Junior Financing Observations

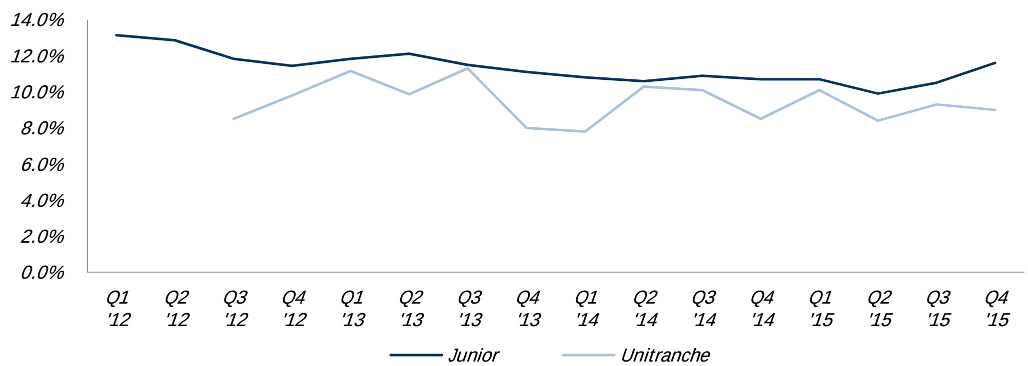
- Summarized on the right are the average leverage and junior financing statistics for recent transactions, including leveraged acquisitions, add-on acquisitions, refinancings, and dividend recapitalizations.
- Total leverage increased since Q1 2012 from 4.1x to 5.1x in Q4 2015.
- Leverage in Q4 2015 is higher than the four-year average total leverage of 4.6x.

Leverage and Junior Financing

Senior Leverage & Total Leverage Levels



Total Junior Pricing

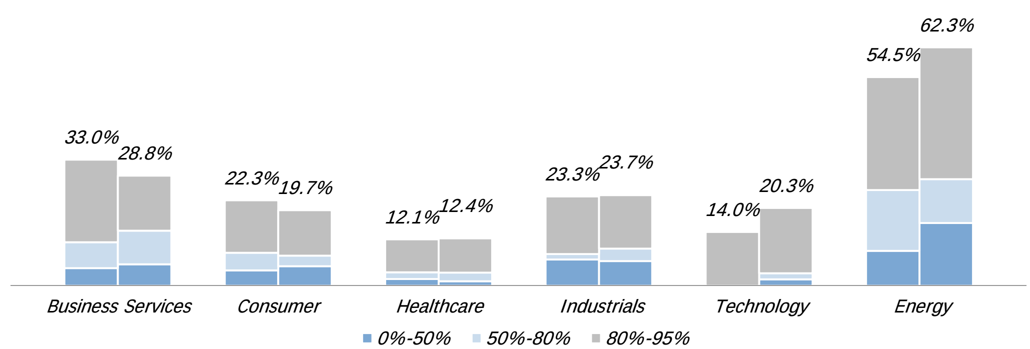


Lincoln's Distressed Valuation Observations

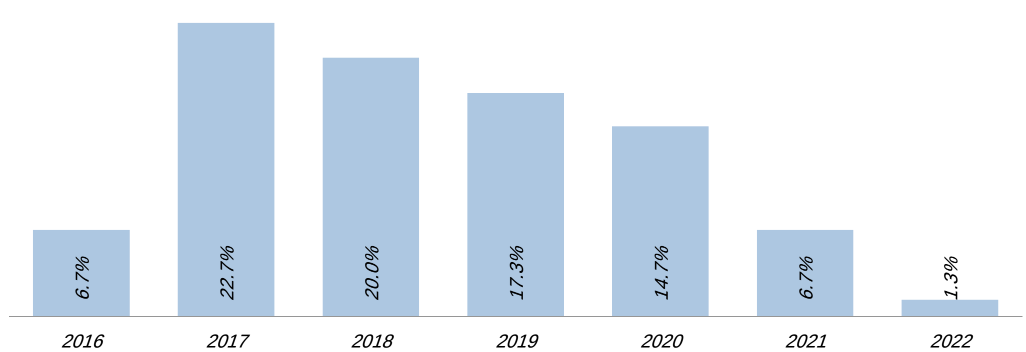
- Summarized on the right are the proportions of loans observed with values below 95%, 80% and 50% of par. The universe consists of mostly illiquid middle market loans valued by Lincoln and includes primarily first liens, unitranche, second liens, and mezzanine loans.
- The proportion of loans valued below 95% of par peaked in Q4 2015, and increased from the previous high levels in Q3 2015. These loans account for approximately 22.6% of the total dataset.

Distressed Trends

Loan Pricing Relative to Par



Distressed Issuances Maturities



Note: Pricing is represented on a per issuance basis and all issuances have been weighted equally.

About Lincoln's Regulatory Section

Lincoln monitors key regulatory action changes which have a direct impact on the alternative asset industry. This section offers a glimpse into the views and findings of key regulatory agencies, financial accounting standard boards, and related industry groups.

First Quarter Regulatory Update

2016 FINRA Regulatory & Examination Priorities

In January 2016, FINRA released its 2016 Regulatory and Examination Priorities. The focus of which addressed three broad issues: (1) Culture, Conflicts of Interest and Ethics; (2) Supervision, Risk Management and Controls; and (3) Liquidity.

In connection with the Supervision, Risk Management and Controls objective of 2016 FINRA has highlighted the valuation of Level III assets. More specifically, FINRA stated that a conflict can arise when proprietary traders are permitted to provide valuations for positions in which they have an interest (performance assessment / comparison calculation). As such, FINRA indicated it will focus on assessing firms' supervision, control and validation of traders' pricing of illiquid, unobservable Level III assets to ensure that positions are fairly valued. FINRA indicated that if deficiencies are identified, it will further investigate its findings and examine whether or not traders managers engaged in non-bona fide valuations to enhance compensation or other benefits.

SEC Announces 2016 Examination Priorities

In January 2016, the Securities and Exchange Commission announced its Office of Compliance Inspections and Examinations' ("OCIE") 2016 priorities. The priorities are organized around the same three thematic areas as those identified in the 2015 OCIE priorities; protecting retail investors, assessing market-wide risks, and using data analytics to identify signals of potential illegal activity.

Protecting Retail Investors: The OCIE will continue several 2015 initiatives relating to retirement services, fee arrangements and recommendations, and the supervision of registered representatives and investment advisor representatives at branch offices. The new areas of focus include compliance for ETFs and variable annuities, and the risk areas associated with public pension advisors.

Market-Wide Risks: In order to facilitate the SEC's mission to maintain fair, orderly, and efficient markets, the SEC will examine structural risks and trends that may involve multiple firms or entire industries. The 2016 initiatives focus on cyber security, regulation systems compliance and integrity, liquidity controls, and clearing agencies.

Data Analytics: In 2016, the OCIE will leverage its capabilities in data analytics to detect and identify registrants that appear to have elevated risk profiles. The focus of the initiatives relate to recidivist representatives and their employers, anti-money laundering, microcap fraud, excessive trading, and product promotion.

Takeaways from Private Equity International's CFOs and COOs Forum

In late January 2016, Private Equity International hosted its thirteenth annual CFOs and COOs Forum. According to a statement released by Private Equity International, several key hot topics were discussed including increases in LP demands as well as the risk of new small private equity groups. More specifically, the release highlighted the following key takeaways:

i. Investors are increasing their demands, requesting customized reports and in-depth data and analytics.

ii. The SEC is focused on fees and expenses, particularly in relation to end-of-life funds.

iii. As the alternative asset industry has matured over the past decade, many firms are still stuck in excel and a message throughout the forum was that private equity groups need to take technology seriously.

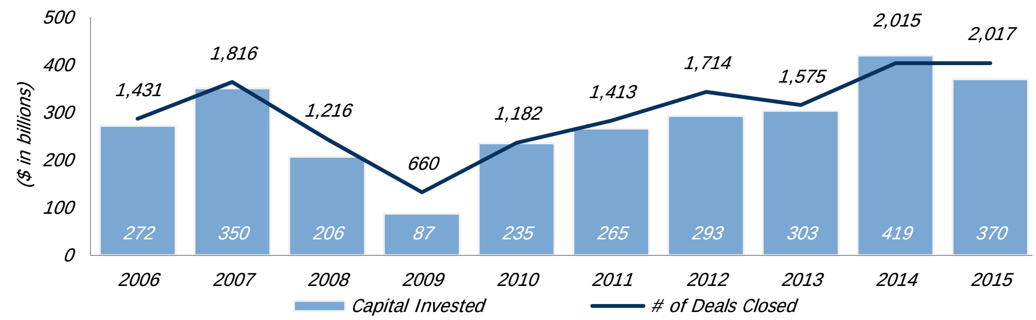
iv. Cybercrimes are on the rise and many GPs have no defensive measures or systems in place. New or smaller firms can be very lean with professionals covering multiple roles. This can lead to investment professionals unaware of their legal and compliance obligations, subjecting their firm to the expensive ramifications associated with failing to meet those obligations.

Middle Market Private Equity Snapshot

Deal Flow

- According to Pitchbook, 2015 ended with a record high number of middle market deals, ahead of the previous 2014 record year.
- Total dollar value for 2015 came in at $370 billion, which decreased 11.7% compared to 2014.

Middle Market Deal Flow by Year

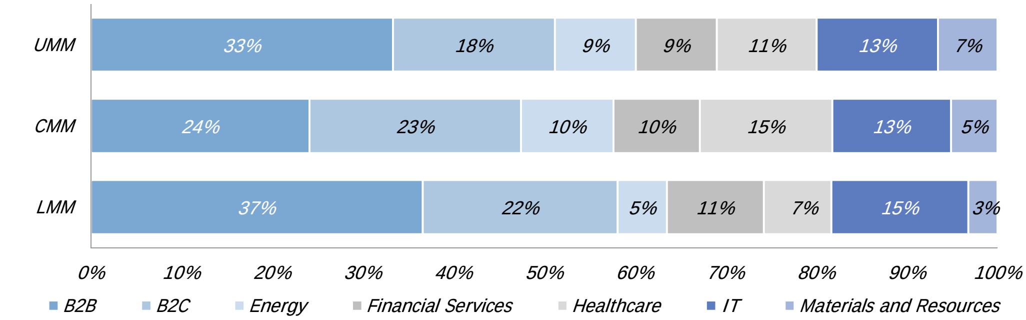


Source: Pitchbook
Note: All data for historical years represents annual results. 2015 year data is inclusive of the fourth quarter.

Deals by Sector

- Business to Business and Consumer remain the most favorable industries for deals in 2015, while the Materials and Resources industry continues to be the least desirable for capital deployment in 2015.

2015 Middle Market Deals by Sector

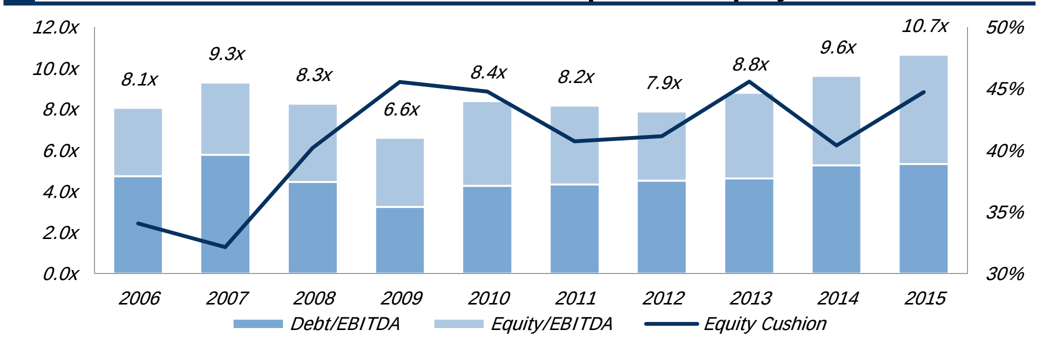


Source: Pitchbook
Note: Data for deals in the Upper, Center, and Lower Middle Market

LBOs

- According to S&P LCD data, LBO purchase price multiples increased for the third consecutive year.
- Equity cushions for LBOs also increased in 2015 compared to 2014.

Middle Market LBO Purchase Price Multiples and Equity Contribution

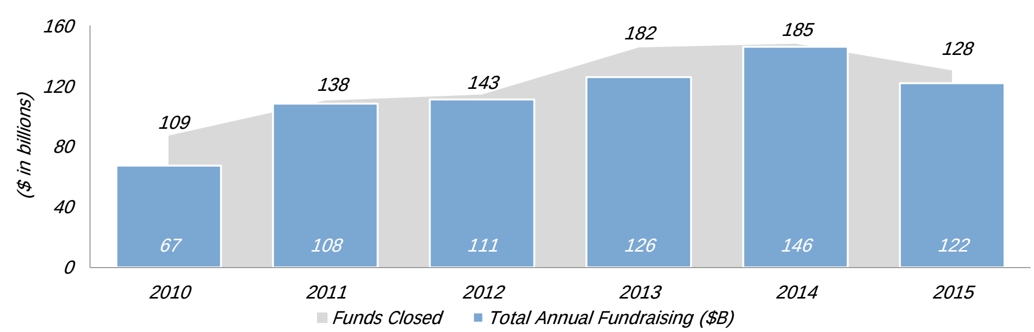


Source: S&P LCD
Note: All data for historical years represents annual results. 2015 year data is inclusive of the fourth quarter.

Private Equity

- Fundraising for mid-market private equity firms closed as the softest year for fundraising since 2012. In 2015, 128 funds closed with $122B capital raised versus 2014's record year of 185 funds with $146B of capital.

Middle Market Private Equity Fundraising

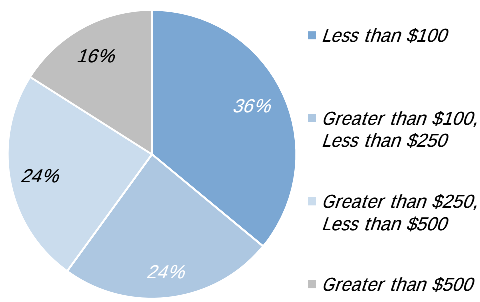


Source: Pitchbook
Note: All data for historical years represents annual results. 2015 year data is inclusive of the fourth quarter.

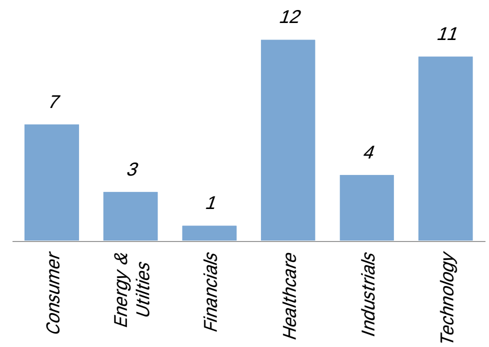
Select Middle Market Transactions

- The transaction count for Q1 2016 totaled 42, which was a 12.5% decrease from the 48 transactions closed in Q4 2015.
- A larger percentage of transactions occurred in the $100 million and less bucket, while less occurred in the $100 to $250 million bucket in Q1 of 2016 compared to Q4 of 2015. The other two size buckets held a similar percentage of transactions quarter-over-quarter.
- Healthcare and Technology companies remained the most active industries for sponsors in the middle market, while sponsors soured on energy investments in the quarter, which was evidenced by a 50% quarter-over-quarter transaction count decline.

Middle Market Transactions by Implied Enterprise Value



Number of Middle Market Transactions by Industry



Select Q1 2016 Middle Market Transactions Involving Sponsors

Date	Target	Industry	Transaction Size	Sponsor Role
1/4/2016	HealthFusion, Inc.	Healthcare	$ 190.0	Seller
1/4/2016	Infinity HomeCare, L.L.C.	Healthcare	63.0	Buyer
1/5/2016	Aesynt Incorporated	Healthcare	280.9	Seller
1/5/2016	Blue Belt Technologies, Inc.	Healthcare	275.0	Seller
1/5/2016	Project Rendezvous Holding Corporation	Healthcare	36.0	Seller
1/7/2016	Pinova Holdings, Inc.	Consumer	417.0	Seller
1/7/2016	Anterios, Inc.	Healthcare	90.0	Seller
1/7/2016	Heyzap Inc.	Technology	45.0	Buyer
1/8/2016	Open Monoclonal Technology, Inc.	Healthcare	178.0	Seller
1/8/2016	AbVitro, Inc.	Healthcare	124.9	Seller
1/8/2016	EDCO Group Inc.	Technology	62.0	Seller
1/11/2016	Park Water Company Inc.	Energy & Utilities	327.0	Seller
1/12/2016	Robertson Fuel Systems, LLC	Industrials	255.0	Seller
1/13/2016	Crealta Pharmaceuticals LLC	Healthcare	510.0	Buyer
1/13/2016	Advantech B+B SmartWorx Inc.	Telecom	99.9	Seller
1/13/2016	Overture Networks, Inc.	Telecom	40.0	Seller
1/14/2016	iSight Security, Inc.	Technology	268.6	Seller
1/15/2016	Boulder Brands, Inc.	Consumer	991.4	Seller
1/15/2016	Hotel Commonwealth	Consumer	136.0	Seller
1/20/2016	Unify Inc.	Technology	390.0	Seller
1/22/2016	Inventus, LLC	Technology	232.0	Seller
1/29/2016	Fuhu, Inc.	Consumer	95.0	Seller
2/1/2016	The Mutual Fund Store, LLC	Financials	584.0	Buyer
2/1/2016	TransMontaigne GP L.L.C.	Energy & Utilities	350.0	Seller
2/1/2016	Gilt Groupe, Inc.	Consumer	250.0	Seller
2/1/2016	EpiWorks, Inc.	Technology	49.0	Buyer
2/2/2016	SolidFire Inc.	Technology	870.0	Seller
2/2/2016	GATR Technologies, Inc.	Telecom	232.5	Seller
2/3/2016	AIM Aerospace, Inc.	Industrials	220.0	Buyer
2/4/2016	Tideland Signal Corporation	Telecom	69.0	Seller
2/5/2016	Sleepy's, LLC	Consumer	777.3	Seller
2/5/2016	Electronic Systems Protection, Inc.	Technology	130.0	Seller
2/8/2016	DenTek Oral Care, Inc.	Healthcare	225.0	Seller
2/8/2016	Digital Footprints International LLC	Technology	45.0	Buyer
2/9/2016	Constant Contact, Inc.	Technology	1,112.1	Seller
2/9/2016	Ocata Therapeutics, Inc.	Healthcare	371.7	Seller
2/11/2016	Ellipse Technologies, Inc.	Healthcare	94.2	Seller
2/11/2016	Nationwide Industries Inc.	Industrials	22.2	Seller
2/16/2016	Vitamin World, Inc.	Consumer	25.0	Seller
2/18/2016	Underground Solutions, Inc.	Industrials	85.0	Seller
2/23/2016	TeleCommunication Systems Inc.	Technology	481.7	Seller
2/24/2016	APR Energy plc	Energy & Utilities	502.3	Seller

Source: CapIQ Screening Tool
Note: USD in millions
Search Criteria: Implied Enterprise Value < $1 billion, Transaction Type: Merger/Acquisition, Geographic Location: United States of America, Transaction Closed Date: 01/01/2016 to 2/29/2016, Investment Firm Type: PE / VE, Showing: All results with > $20 million Implied Enterprise Value excluding acquisitions of Real Estate Assets

About Lincoln's Earnings Call Blog

Lincoln actively monitors the earnings releases of the public Alternative Asset Industry. The select quotes found in this section offer a glimpse into the views and findings of companies within the Alternative Asset Industry during the past quarters reporting period.

Earnings Call Blog

Q1 2016 Alternative Asset Industry Earnings Call Blog

Economic Uncertainty…

"Over the last year, energy prices have deteriorated significantly…. Growth in China remains sluggish. Some emerging markets… face significant political and economic challenges and divergence of developed market -- monetary policies and driving heightened volatility in rates, currency and equity markets. The Federal Reserve's action to raise interest rates for the first time in nearly 10 years marked … the beginning of an extended gradual tightening cycle. All of these factors are leading to a much more divergent world in 2016…"
— Laurence Douglas Fink, Chairman, CEO, BlackRock, Inc.

"I would continue to monitor the economy, we don't see anything on the horizon that indicates a strong economy, but there are some signals out there that we are entering recession. We still look at what the Federal Reserve is doing and its monetary policies."
— David Gladstone, Chairman and CEO, Gladstone Capital Corporation

"Overall In 2015, the middle market experienced its weakest year for sponsored loan volumes since 2009…"
— Todd G. Owens, CEO and Director, Fifth Street Finance Corporation

"We believe that volatility in the high yield and leveraged loan markets has been driven largely by declines in oil and other commodity prices, outflows of capital from both markets, and concerns around the sector of higher interest rates and increased defaults in the future. We also believe this is a lasting change, and unlikely to reverse itself anytime soon."
— R. Kipp deVeer, CEO, Ares Capital Corporation

"During the second fiscal quarter of 2016, concerns about slower economic growth and continued commodities weakness contributed to widening credit spreads and increased volatility in the credit markets. With that market backdrop, we maintained our view that the balance of risk versus reward of investible opportunities was not particularly favorable."
— Gregg Felton, President and CEO, Full Circle Capital Corporation

"…the leverage loan in high-yield markets … softened as high yield and leveraged loan funds experienced outflows due to expectations of Fed tightening, turmoil in the energy markets, and a weakening Chinese economy."
— Art Penn, Chairman, CEO, Pennant Park Investment Corporation

But with Economic Uncertainty Comes Opportunity…

"When you are an investment firm with locked-up capital, it is great news when things get cheaper. We generate most of our excess returns by making smart investments in markets like this one."
— Scott C. Nuttall, Global Head of Capital and Asset Management, KKR & Co. LP

"… we think it's a very interesting time to put money out now. There… [are] a lot of companies that desperately need capital. You can come at the top … of the risk stack -- capital stack and still have equity-like returns; and other cases, great companies with good assets just have no alternatives."
— Hamilton Evans James, Co-Founder, Chairman, and CEO, Blackstone Group, L.P.

"As we sit here today and look forward to the rest of 2016, we're beginning to see the potential for … more distressed investing opportunities than we have seen in the past several years."
— Joshua J. Harris, Senior Managing Director, Director and Member of Executive Committee, Apollo Global Management, LLC

"We expect a tougher environment over the next few years, but it is in this environment that we expect to see the best opportunities"
— William E. Conway Jr., Co-Founder, Co-CEO, The Carlyle Group LP

"We deliberately slowed our rate of deployment despite strong deal flow as we anticipate increasingly attractive opportunities and think that balance sheet flexibility is important in the current environment."
— Howard Levkowitz, Chairman, CEO, TCP Capital Corp

"Volatility creates opportunity for us. Investors turn to our firm in turbulent times for a number of reasons, our risk management, our reputation for outperformance in choppy markets and our focus on capital preservation."

— Daniel Saul Och, Chairman, CEO, Och-Ziff Capital Management Group LLC

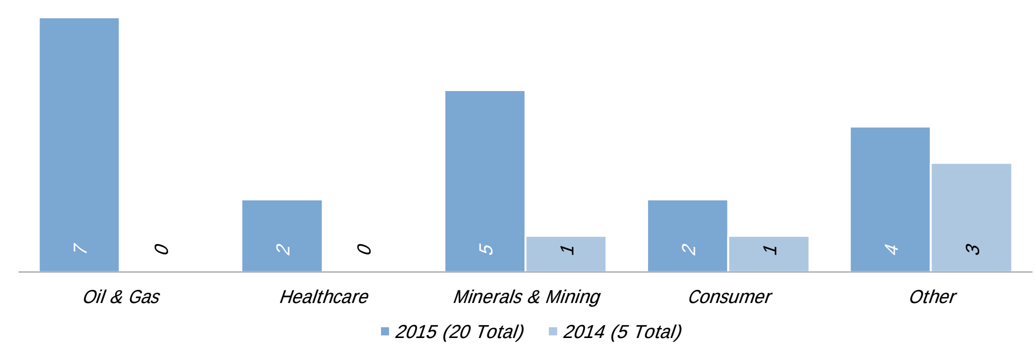
Source: Bloomberg Earnings Call Transcripts

Public Market Update

Defaults

- According to S&P LCD, there were approxmiately 20 defaults in 2015, an increase of 4.0x over 2014 (4 defaults).
- The oil & gas industry accounted for 35% of total defaults in 2015.

Defaults by Industry



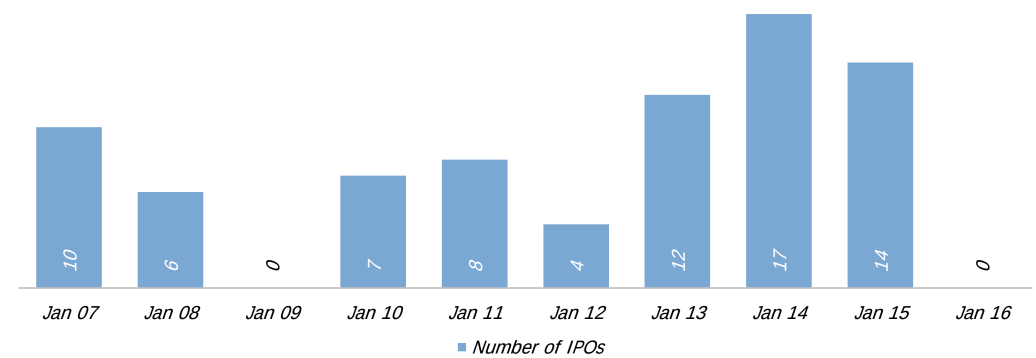
Source: S&P LCD

IPOs

- There were no US IPOs in January 2016, representing the first month-long draught since September 2011 and the first January without an IPO since 2009.
- The first 2016 IPO occurred in February when Editas Medicine (NasdaqGS:EDIT) went public, making it the first VC-backed entrant into the public market since December 18, 2015.

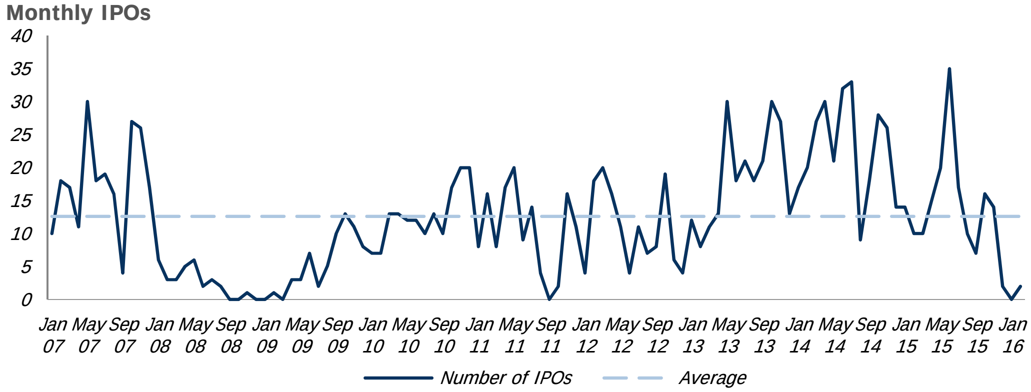
IPOs

Historical January IPOs



Source: S&P LCD

Monthly IPOs



Source: RenaissanceCapital.com
Notes: Monthly breakdown based on IPO pricing date, excludes SPACs, closed-end funds, and trusts

Global Industry Groups

Aerospace & Defense
Automotive & Truck
Building & Infrastructure
Business Services
Chemicals
Consumer
Distribution
Electronics
Energy & Power
Financial Institutions
Food & Beverage
Healthcare
Industrials
Packaging
Technology & Media

Global Locations

Amsterdam
Beijing
Chicago
Frankfurt
London
Los Angeles
Madrid
Milan
Moscow
Mumbai
New York
Paris
São Paulo
Tokyo
Vienna
Zurich

Advisory Services

Mergers & Acquisitions
Debt Advisory
Valuations & Opinions
Special Situations

About Lincoln International

Lincoln International specializes in merger and acquisition advisory services, debt advisory services, private capital raising and restructuring advice on mid-market transactions. Lincoln International also provides fairness opinions, valuations and pension advisory services on a wide range of transaction sizes. With sixteen offices in the Americas, Asia and Europe, Lincoln International has strong local knowledge and contacts in key global economies. The firm provides clients with senior-level attention, in-depth industry expertise and integrated resources. By being focused and independent, Lincoln International serves its clients without conflicts of interest. More information about Lincoln International can be obtained at www.lincolninternational.com.

Lincoln's Global Valuations & Opinions Group

North America

Patricia Luscombe, CFA
Managing Director (Chicago)
pluscombe@lincolninternational.com
+1 312 506 2744

Michael R. Fisch, CPA
Managing Director(Chicago)
mfisch@lincolninternational.com
+1 312 580 8344

Smitha Balasubramanian
Vice President (Chicago)
sbalasubramanian@lincolninternational.com
+1 312 506 2730

Neal Hawkins
Vice President (Chicago)
nhawkins@lincolninternational.com
+1 312 506 2701

Ron Kahn, CPA
Managing Director (Chicago)
rkahn@lincolninternational.com
+1 312 580 6280

Larry Levine, CPA
Managing Director (Chicago)
llevine@lincolninternational.com
+1 312 506 2733

Brian Garfield
Vice President (New York)
bgarfield@lincolninternational.com
+1 212 277 8105

Sarit Rapport
Vice President (New York)
srapport@lincolninternational.com
+1 212 257 7738

Disclaimer