



DealReader Valuations & Opinions

Winter 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.

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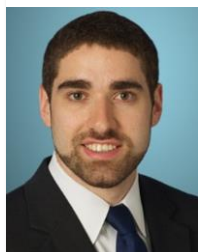
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Substantiating EBITDA Adjustments

The Trends and Increased Scrutiny on this Key Underwriting Consideration

One of the most commonly used financial metrics in the leverage lending market is Earnings Before Interest Taxes Depreciation and Amortization, or better known to most as EBITDA. EBITDA, a key indicator for the health of a company, is used to measure earnings power, acts as a guide for how much debt a portfolio company may bear and is used in many key financial ratios including interest coverage, fixed charge ratio and leverage. As part of the underwriting of a loan, the lender and the portfolio company may agree to establish certain add-backs to EBITDA including those for non-recurring items, synergies related to acquisitions, employee stock-based compensation and extraordinary items. The adjustments are a key consideration in the underwriting process as the acceptable adjustments could be the difference between passing or tripping a financial covenant.

A review of middle market companies tracked in Lincoln's valuation's database reveals approximately 70% of borrowers report EBITDA adjustments. This represents an increase over 2015 where 57% of borrowers reported EBITDA adjustments and 48% in 2014. Of the borrowers who reported EBITDA adjustments in the most recent LTM periods, approximately 50% of them reported EBITDA adjustments in excess of 10% of total reported adjusted EBITDA while 30% reported EBITDA adjustments in excess of 20% of total reported adjusted EBITDA.

As evidenced by Lincoln's proprietary middle market database, the volume of EBITDA adjustments is on the rise and, concurrently, the appetite for risk has grown. Between 2014 and 2016, lenders have been willing to provide more leverage to companies who have produced lower unadjusted EBITDA. As such, given the rise in adjustments, companies that do not realize the adjustments portrayed at underwriting, are at a higher risk today of becoming liquidity constrained, having unsustainable capital structures and potentially defaulting on their loan.

In March 2013, in an effort to address the growth and changes in the leverage lending market, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency released the

"Interagency Guidance on Leveraged Lending." The guidance sought to provide a framework to regulated bank lenders for sound underwriting, risk management, and subsequent monitoring and reporting policies. Since its 2013 release, bank lenders subject to regulation have placed substantial focus on the total leverage threshold, currently 6.0x EBITDA. Though the guidance does not restrict deals above 6.0x total leverage, regulators note that leverage in excess of this amount "raise supervisory concern," adding that deals which "exceed this leverage level may receive additional scrutiny to assess the sustainability of the capital structure and repayment capacity of the borrower."

Regulators have begun to increase scrutiny on EBITDA adjustments used to underwrite deals². On a teleconference held by regulators in February 2015 to provide further clarity on the new guidelines, the regulators stated that adjustments "should be supported by third-party due diligence" and "should come with appropriate documentation and 'credible justification' that explains how or why changes are attainable and sustainable³."

Several noteworthy transactions have received regulatory scrutiny since release of the guidance, and it has likely contributed to the loss of aggregate market share for the top-20 lenders (whom are mostly regulated), who have seen their share of the leveraged loan market decline from 92% in 2013 to 83% in 2015¹. The shift in market share has likely been consumed by smaller non-regulated lenders such as credit opportunity funds, smaller direct investment vehicles, and business development companies.

While the entities originating debt to support the smaller middle market transactions, referenced from Lincoln's valuation's database earlier, are not generally subject to the same lending provisions as the larger banks, it is possible that new regulations and/or additional guidance could be effectuated. In addition, the SEC has begun to place more scrutiny directly upon the companies it regulates for the way they are presenting non-GAAP adjusted earnings in their press releases and financial statements. The SEC is seeking to "put at least some of the non-GAAP genie back in the bottle" and has sent more than 100 comment letters to companies questioning whether their non-

1. [http://www.willkie.com/~media/Files/Publications/2016/02/Leveraged_Lending_Guidelines_2013_to_2015_Imp act.pdf](http://www.willkie.com/~media/Files/Publications/2016/02/Leveraged_Lending_Guidelines_2013_to_2015_Imp%20act.pdf)
 2. <http://www.wsj.com/articles/the-ultimate-earnings-fighting-championship-1476615601>
 3. <http://blogs.wsj.com/moneybeat/2015/02/26/regulators-on-leveraged-lending-a-cheat-sheet/>

About Lincoln's Valuation Database

Lincoln maintains an extensive proprietary database of private company data. 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).

GAAP disclosures comply with SEC guidance¹. With the increased use of EBITDA adjustments underwriters must closely monitor progress toward the achievement of

the adjustments, as falling short will have numerous implications to the valuation of securities post-close and the recoverability of one's invested capital.

Lincoln's Perspectives on the Middle Market

Lincoln's Q2 Valuations Database

Lincoln's database of middle market companies indicated declining quarterly year-over-year revenue growth and flat Adjusted EBITDA growth in Q2 2016, compared to the prior quarter. Out of over 840 portfolio companies tracked in Q2 2016, 51% of the companies grew base revenue, while 47% grew Adjusted EBITDA. This compared to growth of 56% and 47%, respectively, in Q1 2016.

In Q2 2016, companies in the energy industry reported a total average quarterly year-over-year revenue decline of -27.7%, a decrease of 3.1% from the prior period.

Of the six industries observed, Industrials, Consumer, and Healthcare reported positive

quarterly year-over-year Adjusted EBITDA growth, and Business Services, Energy, and Technology reported quarterly year-over-year Adjusted EBITDA declines.

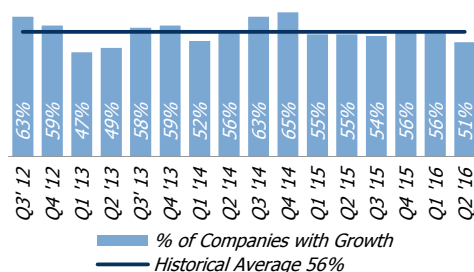
All Adjusted EBITDA size strata reported an increase in average quarterly year-over-year revenue growth rates from the prior period.

Total quarterly year-over-year revenue grew from 0.9% in the Q1 2016, to 2.0% in Q2 2016.

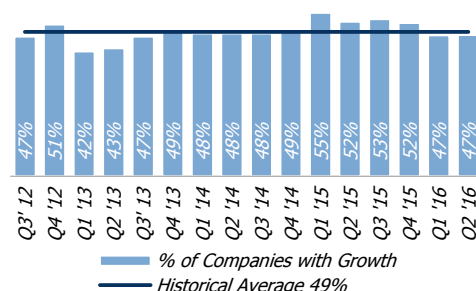
The \$30 - \$50 million and > \$50 million Adjusted EBITDA categories reported the greatest increase in growth rates from the prior period with a 2.4% and 1.8% increase, respectively.

Revenue & EBITDA Trends

Revenue Growth % of Companies (Qtrly to YoY)



EBITDA Growth % of Companies (Qtrly to YoY)



1. <http://www.wsj.com/articles/sec-probes-whether-companies-are-misusing-adjusted-earnings-metrics-1477577108>

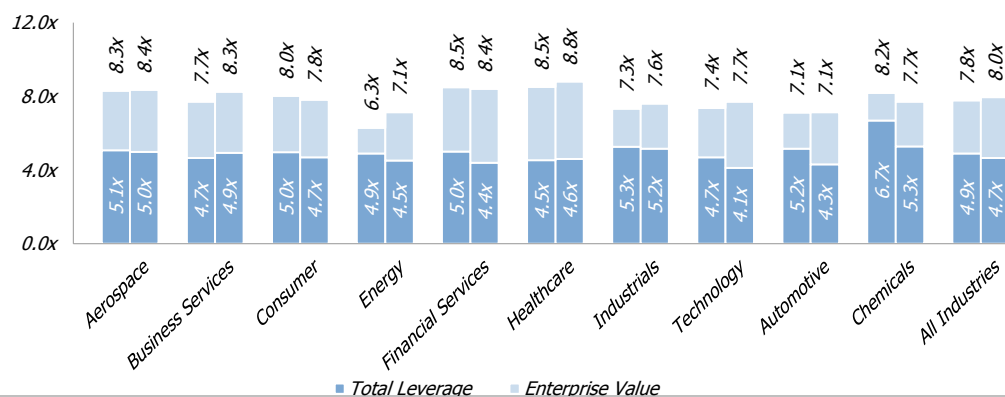
Lincoln's Estimated Enterprise Value and Leverage Observations

- On average, during the second quarter of 2016, observed enterprise value multiples have increased or remained relatively constant from the prior quarter
- Energy experienced a ~0.9x increase in average enterprise value multiples and Chemicals experienced a ~0.5x decrease in average enterprise value multiples
- Total leverage decreased from the prior quarter, due to the stable quarterly year-over-year Adjusted EBITDA growth and higher enterprise value multiples

Lincoln's Sponsor Backed M&A Observations

- The average Q2 2016 total enterprise value (TEV) / LTM EBITDA multiple implied by M&A transactions was 9.2x (based on 21 observed transactions)
- Total acquisition leverage multiples increased by 0.4x, from 4.1x in Q1 2016 to 4.5x in Q2 2016, which is in-line with the four year average leverage of 4.5x
- Overall, Q2 2016 reflects a recovery in M&A activity after a slower-than-typical first quarter of the year with an increase in observed transactions

Enterprise Value and Leverage by Industry (Q1 2016 vs Q2 2016)



Note: Q1 2016 values on Left, Q2 2016 values on Right
Source: Lincoln International proprietary database

Quarterly M&A Transactions

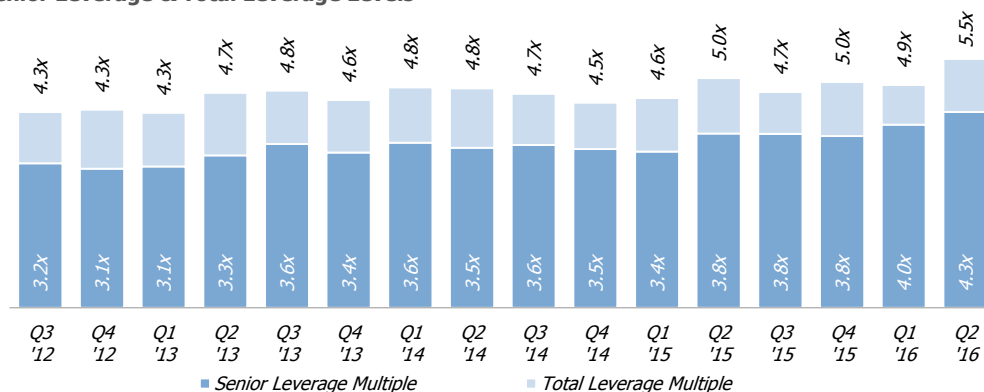
	Q2 '14	Q3 '14	Q4 '14	Q1 '15	Q2 '15	Q3 '15	Q4 '15	Q1 '16	Q2 '16
TEV / EBITDA	7.3x	8.3x	8.6x	9.1x	9.6x	9.3x	8.9x	7.6x	9.2x
Total Debt / EBITDA	4.9x	4.6x	4.7x	4.7x	4.9x	4.8x	4.5x	4.1x	4.5x
Senior Debt / EBITDA	3.5x	3.9x	3.7x	3.4x	3.5x	4.2x	3.5x	3.7x	3.5x
Equity % of Total Cap	32%	45%	42%	46%	46%	48%	45%	45%	50%
LTM EBITDA (Median)	\$36	\$28	\$20	\$14	\$25	\$29	\$24	\$50	\$24
Count	39	26	48	16	50	27	30	6	21

Lincoln's Leverage and Junior Financing Observations

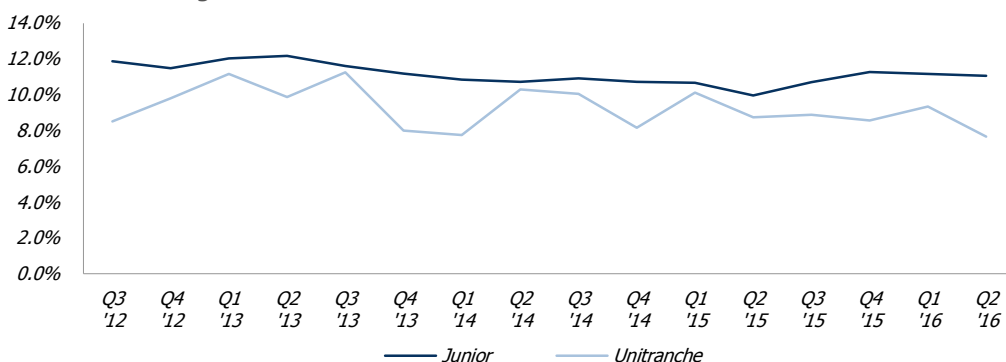
- Summarized on the right are the average leverage and junior financing statistics for recent transactions, including leveraged acquisitions, add-on acquisitions, refinancings, and dividend recapitalizations
- Total leverage, raised in conjunction with the aforementioned transactions, has increased since Q3 2012 from 4.3x to 5.5x in Q2 2016, which is also higher than the four-year average total leverage of 4.7x

Leverage and Junior Financing

Senior Leverage & Total Leverage Levels



Total Junior Pricing

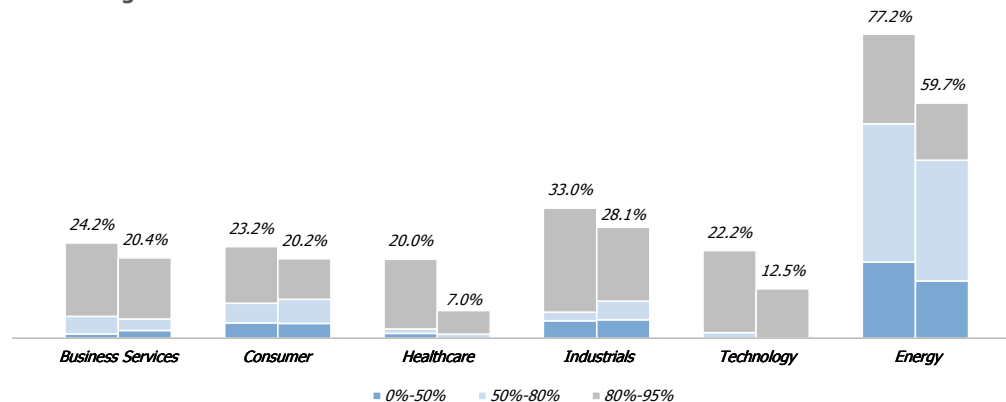


Lincoln's Distressed Valuation Observations

- 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 Q1 2016 but remains above historical averages in Q2 2016. These loans account for approximately 20.5% of the total dataset
- Energy companies account for 35.4% of the issuances valued below 80.0%, lower than prior quarter, as energy markets improved in Q2 2016

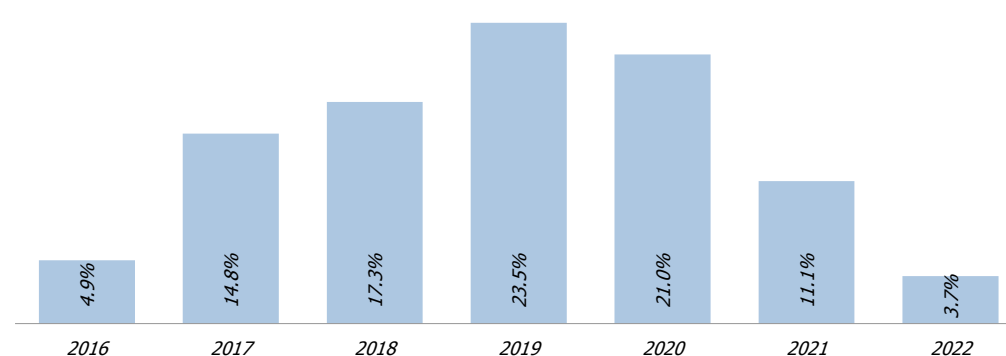
Distressed Trends

Loan Pricing Relative to Par



Note: Q1 2016 values on Left, Q2 2016 values on Right

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.

Key Contributors

- Sarit Rapport, ASA
- Chris Mazzone, CPA
- Patrick Waite

Fourth Quarter Regulatory Update

SEC Chair Announces Resignation

SEC Chair Mary Jo White announced her plans to step down in January 2016, two years before her term is up and commensurate with the end of the Obama administration. The decision to step down will immediately allow incoming President-Elect Donald Trump to begin to reshape Wall

Street, as he will appoint White's successor. The SEC Chair's departure will cap a near four-year tenure in which more than 50 significant rulemaking initiatives were advanced and a record number of enforcement actions were made.

SEC Announces FY 2016 Enforcement Results

In fiscal year 2016, the SEC filed 868 enforcement actions, which included 548 independent actions, both single year highs for the SEC. This compares to 807 and 507 total enforcement actions and independent enforcement actions, respectively, in FY 2015. The SEC set numerous records for the fiscal year ended September 30, 2016, which included the most cases involving investment advisers or investment companies (168), the most independent or standalone cases involving investment advisers or investment companies (98) and the most money distributed to whistleblowers (\$57 million). While FY 2016 represented numerous records

for the SEC regarding the amount of enforcement actions brought, the dollar amount of disgorgement and penalties ordered were lower year-over-year with over \$4.0 billion ordered in FY 2016 versus \$4.2 billion ordered in the prior year.

"Over the last three years, we have changed the way we do business on the enforcement front by using new data analytics to uncover fraud, enhancing our ability to litigate tough cases, and expanding the playbook bringing novel and significant actions to better protect investors and our markets," said SEC Chair Mary Jo White in the Press Release.

Consumer Lending

After initiating its review of the payday loan industry in 2012, the Consumer Financial Protection Bureau (the "CFPB"), on June 2, 2016, proposed new regulations covering (i) loans with a term of 45-days or less and (ii) loans that either are repaid directly from the consumer's account or income or are secured by the consumer's vehicle.

In an attempt to prevent any abusive and unfair practices by lenders and also prevent, what the CFPB referred to as "debt traps", the proposed regulations will require lenders to reasonably determine the borrower's ability to repay its loan, make it difficult for lenders to encourage distressed borrowers into refinancing the same debt and cap the number of short-term loans that can be made in succession.

Through October 2016, the CFPB received nearly one million public comments on the

proposed regulations, which are now being reviewed prior to issuing final regulation. The payday loan industry believes the new rules are extremely restrictive and would hurt Americans who are reliant on financial aid when emergencies arise. Other consumer advocacy groups feel the proposal is too focused and is missing certain other restrictions, including a cap on interest rates charged on payday loans (currently regulated at the state level).

Although it remains uncertain how the public comments received will impact the CFPB's final regulation, it is interesting to note that an index made up of public companies in the consumer lending industry has increased 8.3% since the June 2016 announcement. This increase also comes after months of declining stock prices, during which time potential regulation was looming.

Proposed IRS Code 2704(b)(4) and its Impact on Valuations

On August 2, 2016, the U.S. Department of Treasury proposed new regulations that would expand the Internal Revenue Code Section 2704. The new Section 2704(b)(4) would virtually eliminate valuation discounts for transfers of interests in family-controlled entities ("FCE") and would profoundly affect valuations performed for family estate planning purposes.

Used to minimize the transfer tax cost of passing FCEs to the next generation, valuation discounts are intended to reflect the seller's/receiver's limitations on control and the asset's limitation on marketability. While these discounts are accepted as business reality, the IRS is concerned that (i.) discounts artificially reduce value for tax purposes; and (ii.) no family member would

intentionally sell at a depressed value, thereby reducing family wealth.

The IRS's proposed regulation would amend Section 2704 by:

i. Expanding and introducing restrictions including:

- the definition of "applicable restrictions," which relates to liquidating an asset, would expand such that even state law defaults, which may allow valuation discounts, are disregarded; and
- the introduction of "disregarded restrictions," like "applicable restrictions," would be ignored¹.

ii. The proposal removes discounts associated with non-family members. Going forward, the presence of a non-family member is recognized when the interest is economically substantial and longstanding. Such interest must:

- be held for more than three years before the date of transfer;
- be greater than 10% in value and, when combined with other non-family interest, be greater than 20%; and
- include a right to put the interest to the FCE and receive a minimum value. This provision prevents a minority, non-family member from having "phantom rights" which would not allow the investor to liquidate. The provision is intended to ensure that the interest is a bona fide investment and not in place solely to take valuation discounts.

iii. The commencement of the "Three-Year Rule"

- This provision captures transfers which result in the lapse of voting or liquidation rights and are made within three years of death. Such transfers are treated as having occurred at the time of death. For example, if a parent with a 60% interest in an FCE transfers one-half of her interest to each of her two children and she dies within three years, any discounts taken would be reversed and added back to the taxable estate at time of death. Notably, any transfers prior to the enactment of regulation Section 2704(b)(4) would still be subject to the *Three-Year Rule*; the discounts will not be grandfathered.

As the IRS has prioritized this proposal, it may be finalized as early as the first quarter of 2017. In response to this timeline, business owners are expected to accelerate FCE valuations so as to grandfather the valuation discounts before new regulations take effect. Despite, business owners' expeditious efforts, positions taken contrary to a proposed regulation must be reported on gift tax returns per IRS regulation Section 301.6501(c)-1(f)(2)(v) and therefore, if discounts are applied in a valuation of an FCE before the regulation is officially adopted, the determined discounts must be disclosed either in the appraisal or in the gift tax return. Furthermore, per the *Three-Year Rule*, if the death of the transferor occurs within three years of the transfer, which can be before the adoption of the new regulation, the applied discounts will be reversed.

1. Includes (1) limitation on the owner's ability to liquidate an interest (2) limitation on liquidation proceeds to an amount that is less than a minimum value (3) deferment of payment of liquidation proceeds for more than six months, and (4) provision that permits repayment in anything other than cash or property (e.g., a promissory note)

Middle Market Private Equity Snapshot

Deal Flow

- U.S. Middle Market private equity M&A activity is on pace for its lowest volume and aggregate dollar value year since 2013

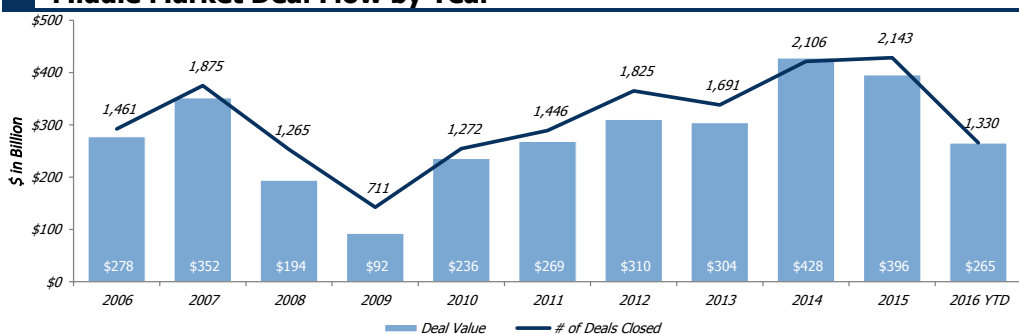
Deals by Sector

- While the lower middle market is on pace for its most active year since 2012, both the center and upper middle market are behind 2014 and 2015 deal volume and deal count
- Similar to recent quarters, the IT sector was the most active sector for upper middle market transactions, while business to business was the most active sector for both the core and lower middle market

LBOs

- According to S&P LCD data, LBO purchase price multiples have averaged 0.8x less than 2015 and 0.3x greater than 2014
- 2016 YTD equity cushions have averaged the 2015 average of ~45%

Middle Market Deal Flow by Year

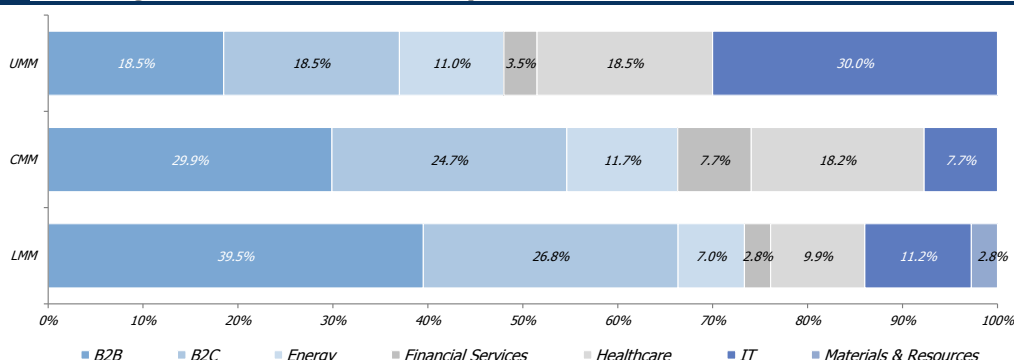


Source: Pitchbook

Note: All data for historical years represents annual results. 2016 year data is through September 30, 2016.

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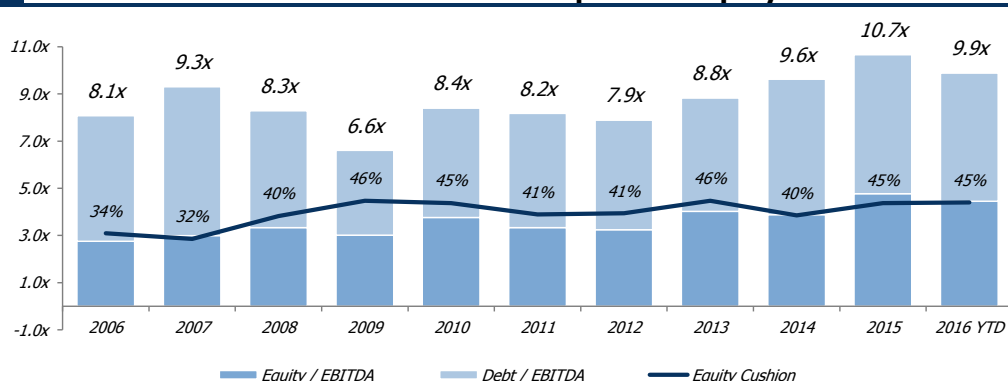
2016 Q3 Middle Market Deals by Sector



Source: Pitchbook

Note: Data for deals in the Upper Middle Market ("UMM"), Center Middle Market ("CMM"), and Lower Middle Market ("LMM")

Middle Market LBO Purchase Price Multiples and Equity Contribution



Source: S&P LCD

Note: All data for historical years represents annual results. 2016 year data is through September 30, 2016.

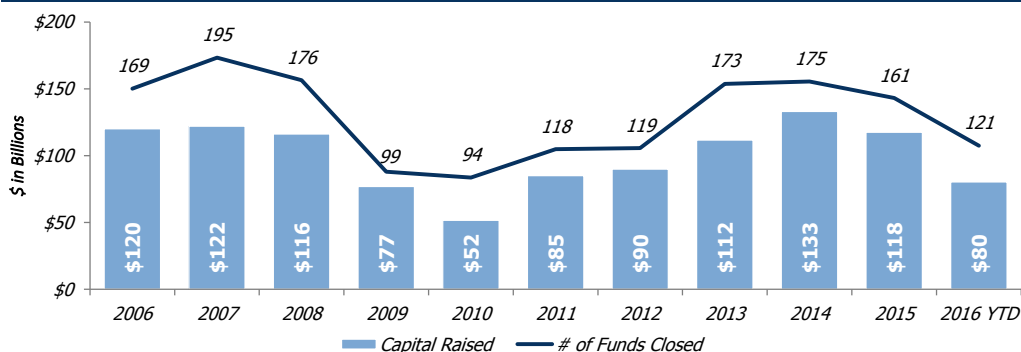
Private Equity

- 121 middle market private equity firms closed in 2016, which is on pace to match last year's closed funds
- Total capital raised is on pace to end the 2016 year 8.9% behind the prior year

Select Middle Market Transactions

- According to Capital IQ, 19 sponsor-involved middle market transactions have closed in Q4 2016 through mid-November 2016, a ~60% decline from the 55 closed transactions of the same type in Q3 2016 through mid-August
- The transaction count was generally evenly distributed across the size buckets, with the exception of the "Less than \$100 million" bucket which represented over one third of the identified middle market transactions in the quarter
- Similar to Pitchbook's data presented above, IT remains a favorite industry of middle market PE with 6 closed transactions in Q4 through mid-November. Consumer Discretionary and Healthcare tied for the second most active industry with 4 transactions each

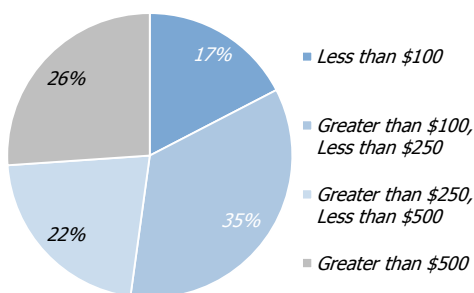
Middle Market Private Equity Fundraising



Source: Pitchbook

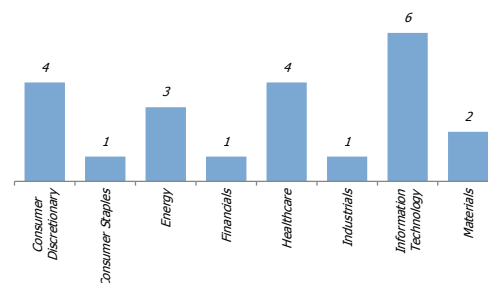
Note: All data for historical years represents annual results. 2016 year data is through September 30, 2016.

Middle Market Transactions by Implied Enterprise Value



Source: Capital IQ

Number of Middle Market Transactions by Industry



Select Q4 2016 Middle Market Transactions Involving Sponsors to Date

Date	Target	Industry	Transaction Size	Sponsor Role
11/10/2016	Apigee Corporation	Information Technology	\$630.1	Seller
11/9/2016	HookLogic, Inc.	Energy	250.0	Seller
11/9/2016	Integrated Memory Logic Limited	Information Technology	136.0	Buyer
11/9/2016	Halex Corporation	Industrials	47.0	Seller
11/8/2016	Grand Design RV	Consumer Discretionary	503.1	Seller
11/2/2016	NextEra Energy Resources, LLC, Pennsylvania Gas Generating Assets	Utilities	760.0	Buyer
11/1/2016	Blackhawk Group Holdings, Inc.	Energy	321.1	Seller
11/1/2016	Direct General Corporation	Financials	165.0	Seller
11/1/2016	Texas Monthly Inc	Consumer Discretionary	25.0	Buyer
10/31/2016	iSqFt, Inc.	Information Technology	631.0	Buyer
10/31/2016	Vertellus Specialties Inc.	Materials	453.8	Seller
10/31/2016	Remy International, Inc., Light Vehicle Aftermarket Business	Consumer Discretionary	80.0	Seller
10/28/2016	Monster Worldwide, Inc.	Information Technology	486.1	Seller
10/24/2016	Raptor Pharmaceuticals Corp.	Healthcare	891.7	Seller
10/24/2016	Vitae Pharmaceuticals, Inc.	Healthcare	550.9	Seller
10/19/2016	GovDelivery, Inc.	Information Technology	153.0	Seller
10/13/2016	Sigma Electric Manufacturing Corp.	Materials	250.0	Seller
10/13/2016	Critical Flow Solutions Inc.	Energy	214.0	Buyer
10/13/2016	VXi Corporation	Information Technology	35.0	Seller
10/4/2016	Respiratory Care Business (nka:Vyair Medical)	Healthcare	500.0	Seller
10/3/2016	Fleischmann's Vinegar Company, Inc.	Consumer Staples	250.0	Seller
10/3/2016	Valence Health, Inc.	Healthcare	247.3	Seller
10/1/2016	FP Holdings, LP	Consumer Discretionary	312.5	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: 10/01/2016 to 11/14/2016, 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 quarter's reporting period.

Earnings Call Blog

Q3 2016 Alternative Asset Industry Earnings Call Blog

Continued Strength in Fundraising ...

"[T]he fund-raising environment remains very strong and a good one for us. We've got a lot of different products that we're talking to investors about, and the overall backdrop is great. I'd say people are looking for places to invest to generate returns and in particular, yields."

— *Scott C. Nuttall, Global Head of Capital and Asset Management, KKR & Co. LP*

"[T]here has been... more funds coming in. There has been new entrants and growth of existing entrants, but I would just reiterate the way we've run the business, we have not sought to sort of be in the areas that have been the highest populated areas for lenders."

— *Rajneesh Vig, President and COO, TCP Capital Corp.*

... And Lower Transaction Volumes ...

"[W]e find that the competitive environment in the sponsor business is driven more by the dearth of deal activity this year as it is by the capital that's out there to be deployed."

— *Bruce J. Spohler, CEO, Solar Capital Ltd.*

"Overall, middle-market loan volumes continue to be depressed as compared to loan volumes over the past several years. However, there was a modest increase in activity during the period from the previous two quarters."

— *Michael J. Zugay, Managing Director, Head of Investments, BlackRock Capital Investment Corp.*

"The third quarter was actually a relatively modest period of activity for middle-market loan issuance, and with this more moderate supply of new transactions, terms on most new deals have become more competitive, with tighter pricing and looser structural protections in terms of documentation and covenants."

— *Robert Kipp DeVeer, CEO, Ares Capital Corp.*

... Has Created a Challenging Environment for Deployment.

"I should say the current market valuation for buyouts is still pretty challenging, and again, our business is one where we have to... make investments and looking to acquire these businesses and it's not a consistent process."

— *David Gladstone, Chairman and CEO, Gladstone Investment Corp.*

"The middle-market loan environment during the third quarter remained challenging for

capital providers like ourselves amid tightening credit spreads, more issuer-friendly terms, and elevated capital inflows."

— *Bo Stanley, President, TPG Specialty Lending*

"The tightening spreads and more broadly friendly terms we noted on our last quarter continue [sic] to be seen in the most new issue in the loan market. Almost three quarters of first lien issuance in the primary market is covenant-lite. The preponderance of new issue syndicated second lien loans today are highly levered covenant-lite long-dated with weak inter-creditor protections. Leverage multiple of in the broadly syndicated market and the upper middle market have continued to creep up and unfortunately deal terms continue to have an issuer friendly bias"

— *Michael Mauer, CEO, CM Finance Inc.*

Asset Managers are Staying Diligent ...

"Lastly, and building on several years of portfolio construction history, we have continued to avoid companies operating in markets characterized by high levels of commodity price exposure."

— *Jonathan H. Cohen, CEO, TICC Capital Corp.*

"In corporate credit, we selectively increased exposure early in the year as credit spreads widened. Given current valuations in much of the asset class, we have been selective in adding exposures although we continue to seek out mispriced process driven investments. While we cannot predict the cause or timing of the next big turn to the credit markets, we are confident there will be further dislocations both big and small."

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

"We stick to a religious and rigorous discipline around investing, and we stay away from challenged areas, like paying full multiples for public companies unless we have a very specific path towards achieving value creation. That discipline can constrain certain businesses at certain points in the cycle, but we have no shot clock in basketball, so to speak, and we don't have to be fully invested until we see things we like."

— *Stephen Allen Schwarzman, Chairman and CEO, The Blackstone Group L.P.*

"We are consistently inconsistent in our deployment because as a management team we've made the decision, we'll deploy when we see value and when we don't. Now given

our new strategic focus on these more first lien heavy weighted assets, there may be a quarter or two we see some contraction"

— Sam Tillinghast, CEO, THL Credit

... And Some Managers are Experiencing an Improving Deal Flow Pipeline.

"[D]on't take away any assumptions because of the lightness in the quarter. I mean, we've got probably 15 transactions right now that we're in diligence on, that we're signed up on, that are proceeding towards a close as a firm. And probably 75% of those transactions are unitranche transactions"

— Ted Koenig, CEO, Monroe Capital Corp.

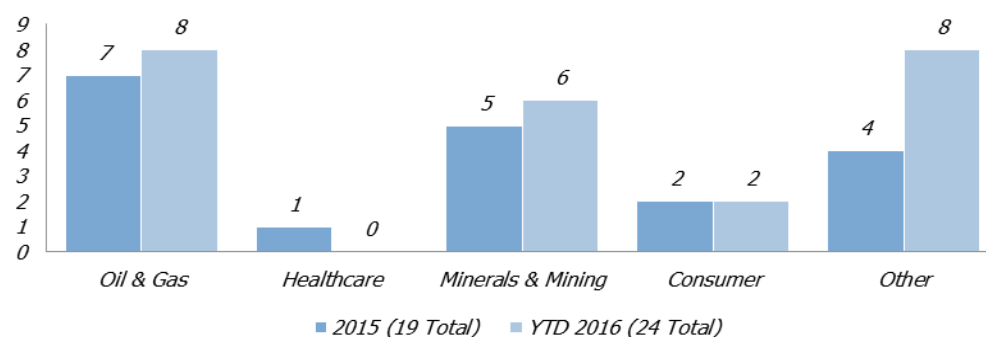
"[W]e are starting to see indications of a more robust IPO market... A stronger tech IPO market is typically a leading indicator of an improved M&A market for tech companies... [W]e are beginning to see a silver lining in technology M&A activity, given the recent number of mega tech M&A transactions that have been announced in the second half of 2016... These types of mega mergers are another leading indicator that tech M&A activity could pick up as we go into Q4 and 2017"

— Gerald Michaud, President, Horizon Technology Finance Corp.

Source: Bloomberg Earnings Call Transcripts

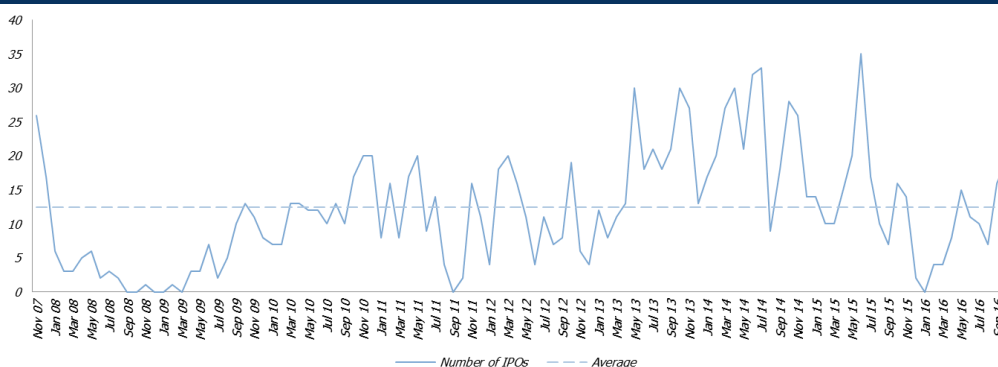
Public Market Update

Defaults by Industry



Source: S&P LCD

Monthly IPOs



Source: RenaissanceCapital.com

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

Defaults

- The 24 total defaults YTD September 2016 has exceeded the 19 total defaults over the entirety of the 2015 calendar year
- The oil & gas industry accounted for 33.3% of total YTD 2016 defaults while minerals & mining accounted for 25.0%

Monthly IPOs

- There were 94 IPOs in the first nine months of 2016. In September 2016 there were 19 IPOs, the highest of any month in the calendar year

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

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Chicago
Dallas
Frankfurt
London
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Mumbai
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