



RCP|Advisors

Lower Middle Market Buyout Deal Returns –
Sector & Macroeconomic Cycle Overview

June 2023

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Notes on Data

- » RCP collected information from its internal database, GPScout, which includes information provided to RCP from public data sources, third party data providers (e.g., Preqin, etc.), various fund managers and information from RCP's own investments. Because RCP's strategy is focused primarily on North American lower-middle market buyouts, a majority of investment managers analyzed by RCP operate in this segment of the market.
- » RCP's database, GPScout, provides private fund and investment-level performance data drawn from fundraising and diligence documents produced by general partners and publicly available information, as well as quarterly unaudited and audited annual financial statements produced by RCP's underlying fund managers. As of 6/21/2023, GPScout contains information on 3,500+ fund managers and more than 7,200 funds. These documents are provided to RCP by the fund managers themselves. Please note: RCP's database has been rebranded as GPScout. RCP's subscription-based manager research platform, formerly named GPScout, has been rebranded as GPScout Navigator.
- » This dataset contains observations from 7,389 private equity portfolio companies with investment dates between 1/01/05 and 12/31/17. These dates were selected as RCP believes they provide the most relevance in the context of analyzing investment performance related to the Great Financial Crisis ("GFC") of 2008 and reflect the "vintage year" of a given investment.
- » To maintain RCP's lower-middle market focus, these companies only include buyout and growth equity investments with enterprise values less than \$200 million. All investments outside of RCP's sector scope of healthcare, industrials, financial, consumer, and technology were excluded. Industry classifications were given from Capital IQ, a third-party investment intelligence platform.
- » Deal-level ROIC was calculated using the most recent available ROIC data per deal. ROIC is calculated by dividing the total value of an investment by the amount invested by the fund.
- » Past performance is not an indication of future performance, provides no guarantee for the future, and is not constant over time.

Vintage Years Important; Certain Sectors Consistently More Attractive Risk/Return

CURRENT SITUATION

The macroeconomic environment seems more uncertain than it has been in many years due to a variety of factors (rising interest rates, inflation, Ukraine war, etc.)



KEY QUESTION

If investing in Lower Middle Market Buyouts, are there certain sectors that have more attractive risk/return profiles that perform more or less favorably in different economic environments?

THIS ANALYSIS

We have segmented data by vintage year and high-level industry group (e.g., Healthcare, Technology, Industrials) to look for trends in performance that may help with evaluation of managers in this environment



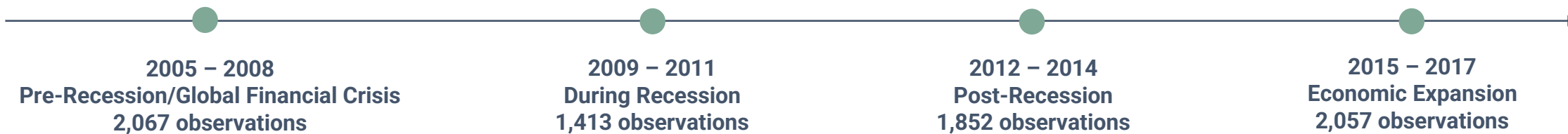
UNIQUE AND EXTENSIVE PROPRIETARY ANALYTICS DATABASE

RCP has been collecting return information on lower middle market private equity transactions for more than 20 years, with significant realized transaction data in every sector and in vintage years pre, during, and post financial crisis

Assumptions/Groupings Used to Assess Performance

ECONOMIC GROUPINGS

» To assess sector performance, we have segmented the data into four different groups based on the economic environment at time of investment:



VINTAGE YEAR

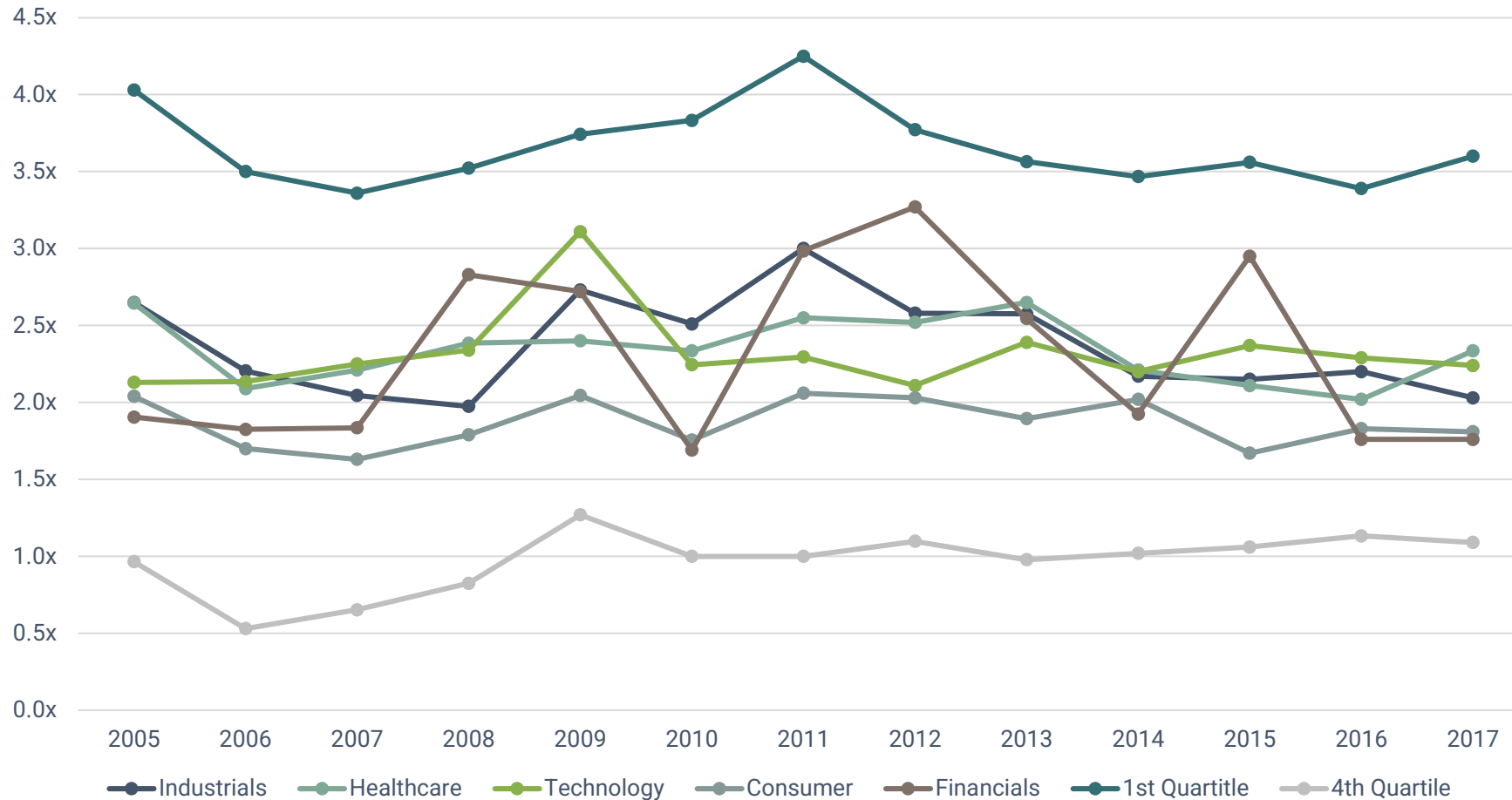
» Focus of report is on “vintage year” (i.e., year of investment) that deals occurred

DEAL PROFILE

» As RCP focuses on the North American lower middle market, this data set only includes investments that were under \$200M in enterprise value at acquisition

Median ROIC By Sector and Vintage Year

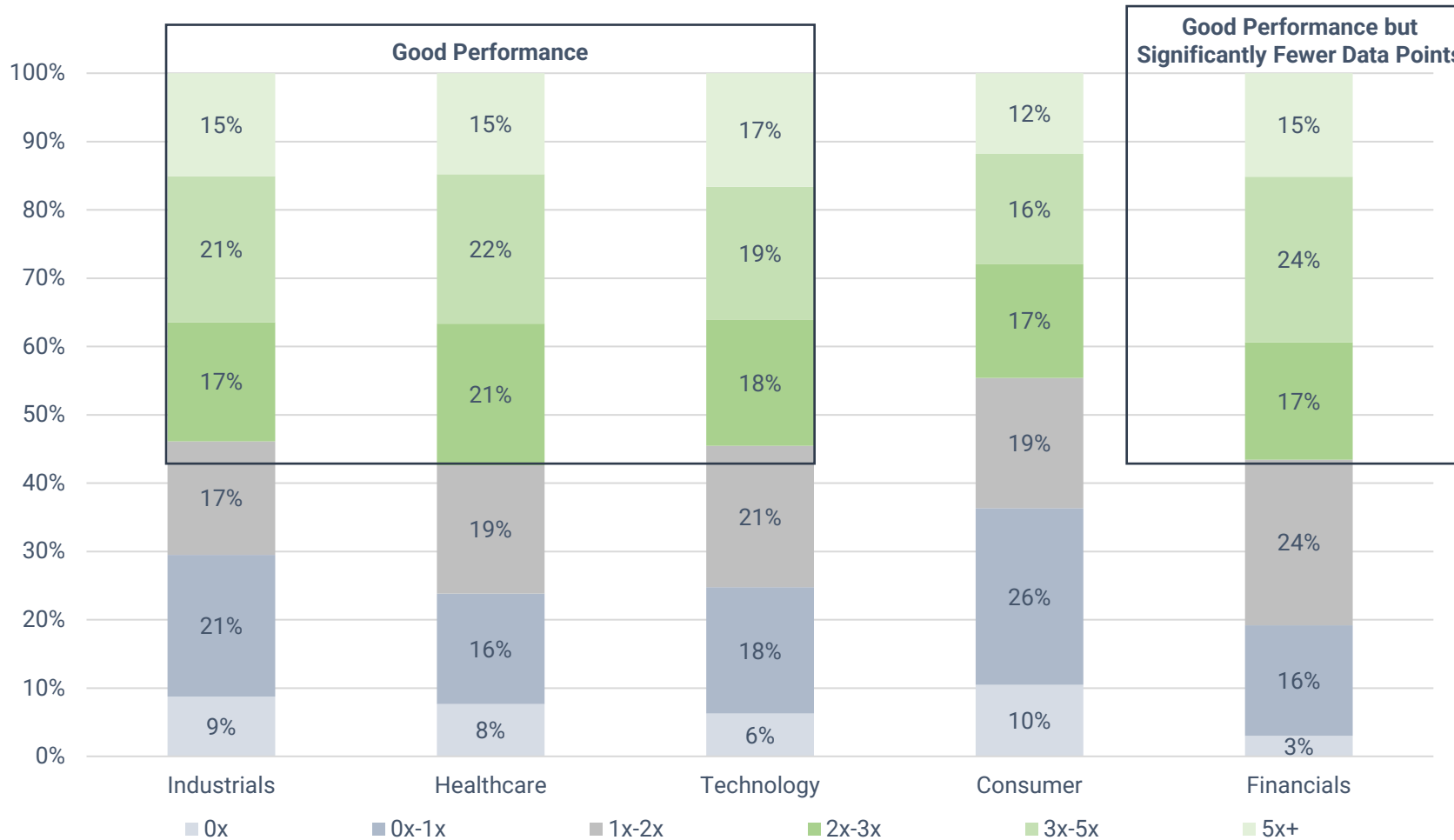
Industrials and Healthcare Consistently Strong Performers; Consumer a Laggard



Past performance does not predict, and is not a guarantee, of future results. Source: GPScout. Total n = 7,389. Only includes investments for which RCP has corresponding ROIC data. "Median ROIC" refers to the median ROIC of all investments of a given industry made in a given vintage year as of 9/30/22. Quartiles were calculated from investments from all industries in a given year.

Performance Distribution by Industry 2005 – 2008

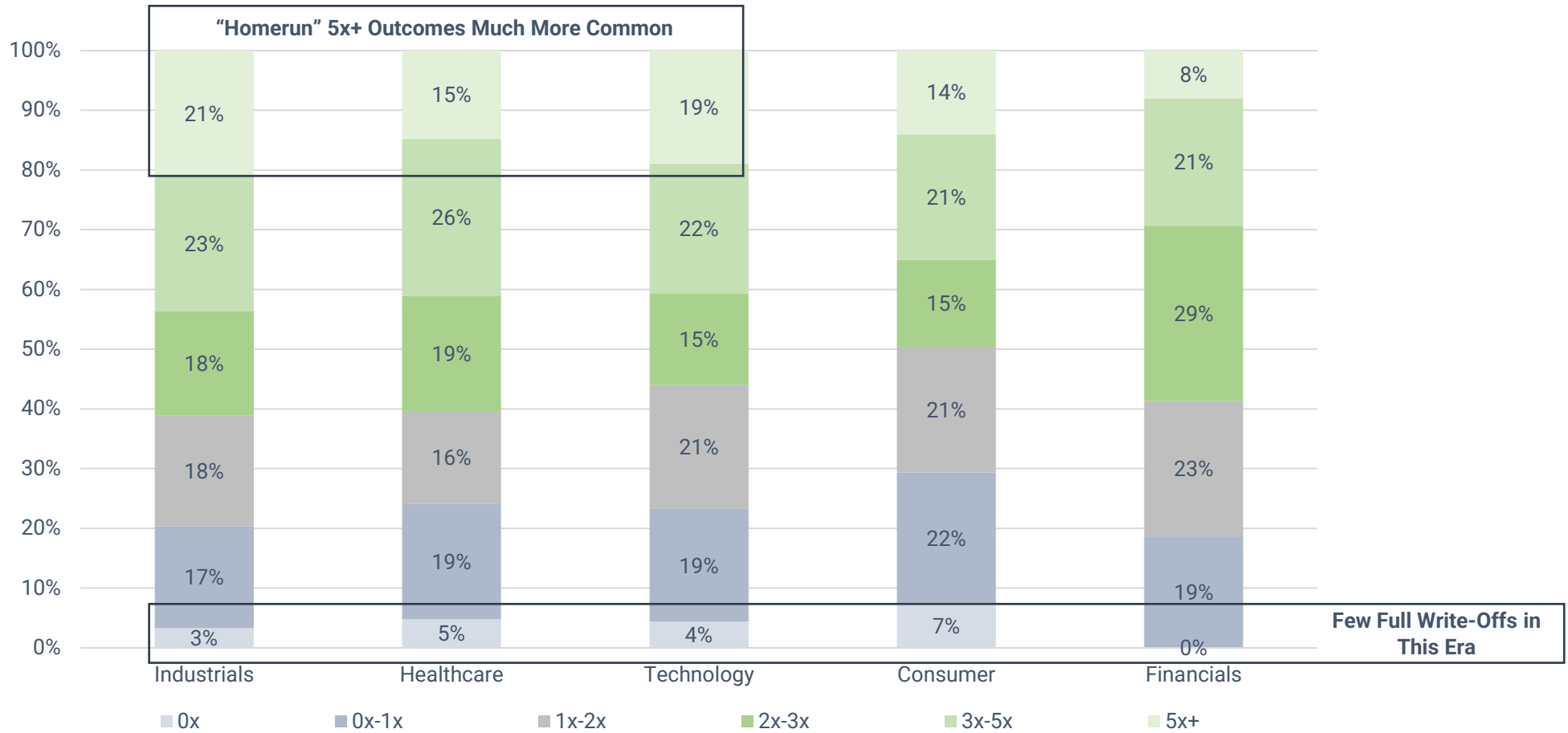
Strong Performance by Industrials, Healthcare & Tech with >50% of Deals Above 2x ROIC



Past performance does not predict, and is not a guarantee, of future results. Source: GPScout. Total n = 2,067. n = 763 for Industrials, 352 for Healthcare, 319 for Technology, 534 for Consumer and 99 for Financials. Data as of 9/30/22.

Performance Distribution by Industry 2009 – 2011

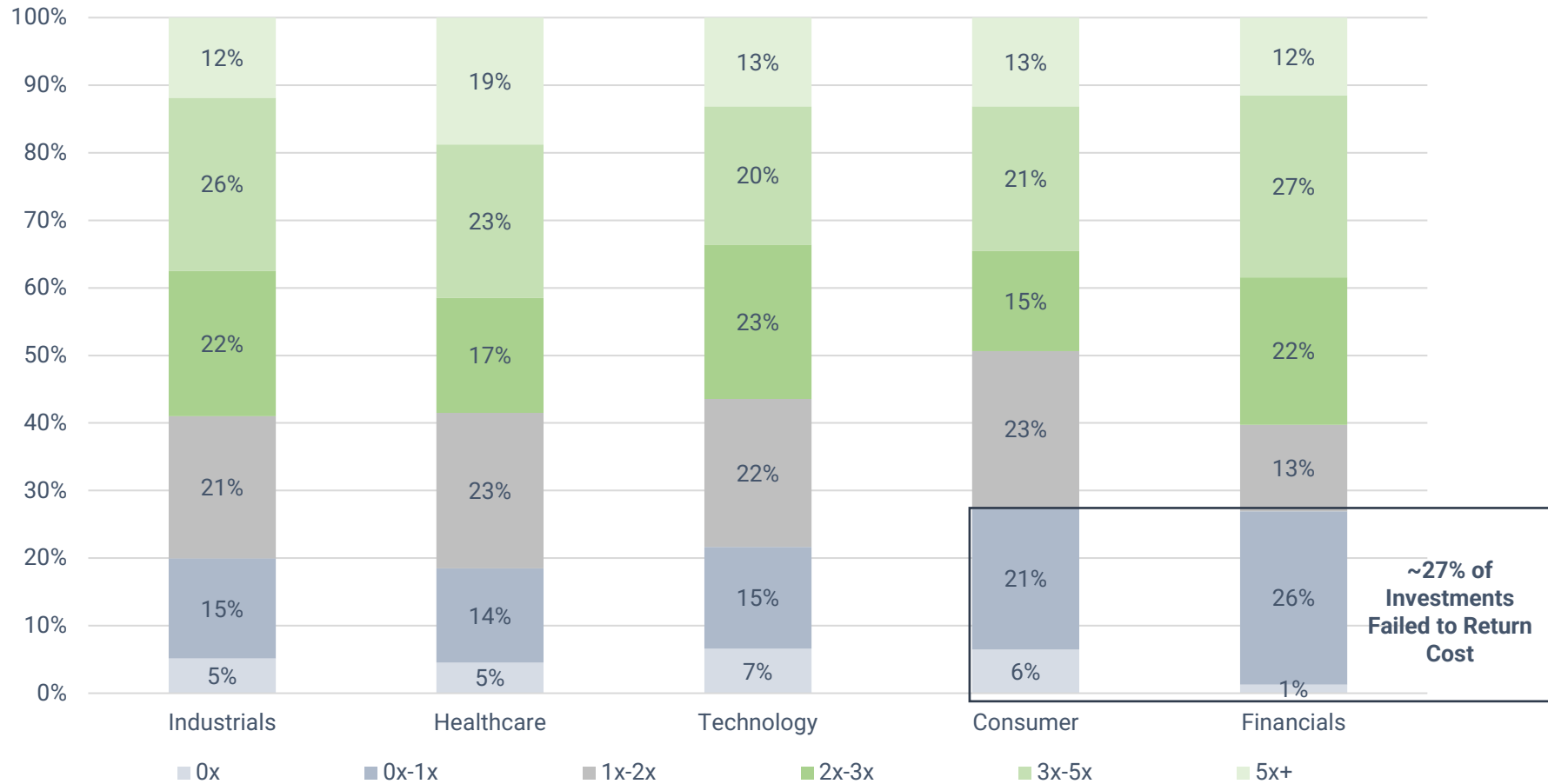
All Sectors Improved Investing in Trough Environment; Industrials & Tech Best Risk/Return



Past performance does not predict, and is not a guarantee, of future results. Source: GPScout. Total n = 1,413. n = 422 for Industrials, 270 for Healthcare, 275 for Technology, 371 for Consumer and 75 for Financials. Data as of 9/30/22.

Performance Distribution by Industry 2012 – 2014

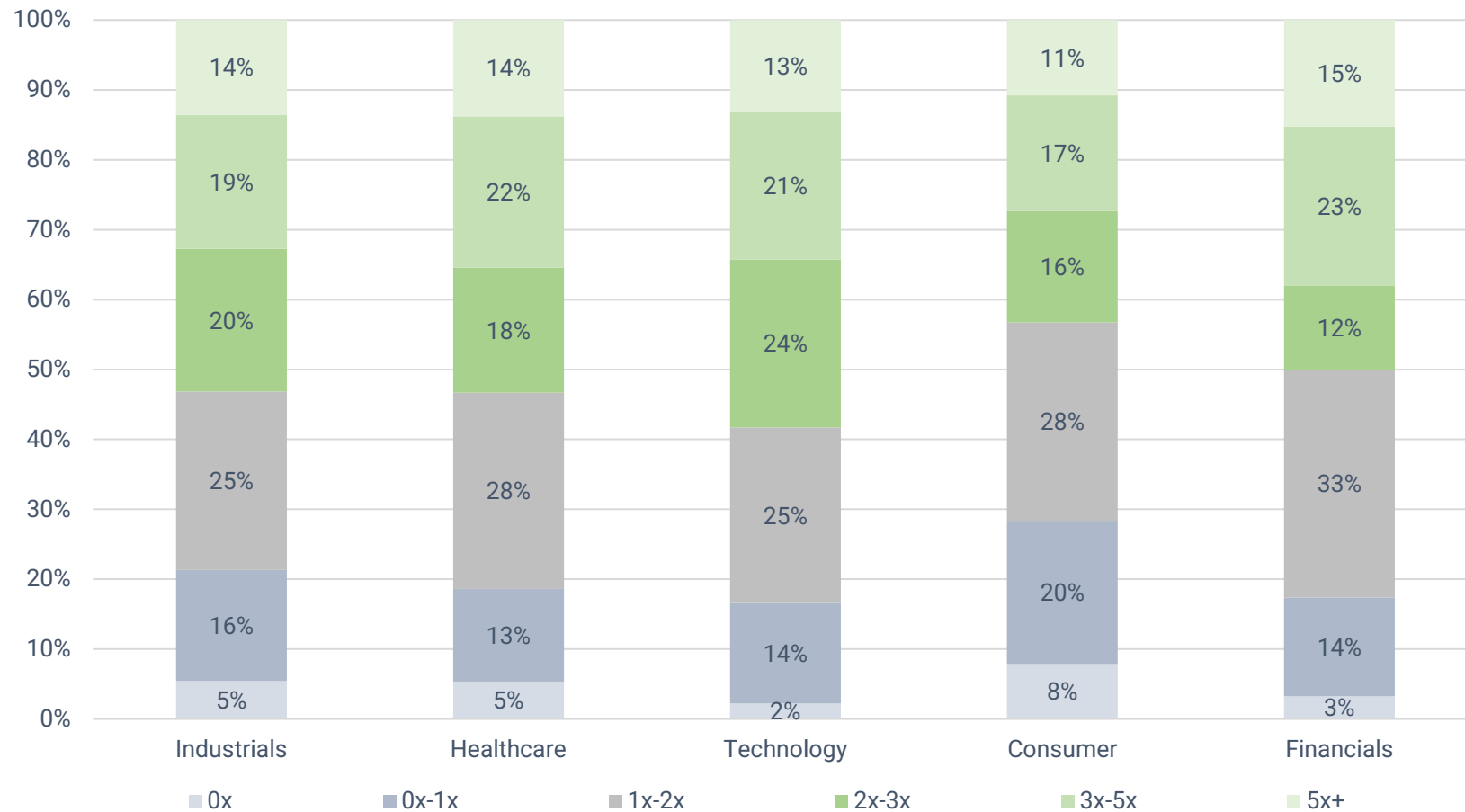
Industrials/Healthcare/Tech Remain Strong, Higher Loss Ratio in Consumer & Financials



Past performance does not predict, and is not a guarantee, of future results. Source: GPScout. Total n = 1,852. n = 566 for Industrials, 330 for Healthcare, 412 for Technology, 465 for Consumer and 79 for Financials. Data as of 9/30/22.

Performance Distribution by Industry 2015 – 2017

Similar Overall Trend From Prior Period Across Sectors



Past performance does not predict, and is not a guarantee, of future results. Source: GPScout. Total n = 2,057. n = 553 for Industrials, 392 for Healthcare, 537 for Technology, 483 for Consumer and 92 for Financials. Data as of 9/30/22.

Vintage Years Important; Certain Sectors Consistently More Attractive Risk/Return



VINTAGE YEARS IMPORTANT TO RELATIVE ASSESSMENT

- » Different vintage years and time periods can have significantly different risk/return profiles
- » A great or bad outcome in certain vintage years can't be viewed the same way in others
 - Example: a 5x ROIC is always great, but more impressive for an Industrials deal to achieve that in 09 to 11 (21% chance) vs. 12 to 14 (12% chance)



SOME SECTORS CLEAR WINNERS, OTHERS MORE DIFFICULT

- » Industrials, Healthcare, and Technology consistently had the most attractive risk/return; Consumer lagged consistently, and Financials was more volatile with fewer data points
- » Likely want consistent exposure to the three top sectors; other sectors can have strong performance and provide diversification, but need to make sure right deal or GP given data



LMM BUYOUTS HAVE DEMONSTRATED STRONG PERFORMANCE ACROSS MULTIPLE ECONOMIC CYCLES

- » For every sector and time period the likelihood of a 5x+ ROIC was meaningfully higher than the likelihood of having a full impairment
- » In almost every grouping (Consumer in 05 to 08 the exception) there was a 50% or greater chance to make at least a 2x ROIC at the deal level

This Presentation and the research contained therein is based on RCP's analysis of financial information obtained from public sources and/or provided to RCP by certain third parties (including, without limitation, private fund and investment-level performance data drawn from fundraising and diligence documents produced by general partners as well as quarterly unaudited and audited annual financial statements produced by RCP's underlying fund managers). RCP has not independently verified any such information provided or available to RCP. Performance information provided herein was not prepared, reviewed or approved by the underlying funds or their general partners. Information obtained from third parties is believed to be reliable, but no representation, warranty or undertaking, express or implied, is given as to the accuracy or completeness of such information. Projected market and financial information, analyses and conclusions contained herein are based on the information described above and on RCP's judgment, and should not be construed as definitive forecasts or guarantees of future performance or results. The information, data, analyses, and opinions presented herein do not constitute investment advice, are provided solely for informational purposes and should not be construed as a solicitation or offer to buy or sell securities, or recommendation to acquire or dispose of any investment or to engage in any other transaction, or advice of any nature whatsoever. The performance data shown represents past performance. **Past performance does not guarantee future results.**

Notes on Data

- » RCP collected information from PE firms, third party data providers (e.g., Preqin, etc.), and public data sources for inclusion in the dataset. Because RCP's strategy is focused primarily on North American lower-middle market buyouts, a majority of investment managers analyzed by RCP operate in this segment of the market.
- » Manager strategies include Buyout, Growth, Buyout & Growth and Distressed. Debt, venture capital, secondary sales/purchases, BDC, evergreen, and other unrelated strategies are completely excluded. Fund strategy classifications are determined based on internal RCP assessment.
- » Because analysis is often disaggregated by manager maturity, manager diversification, manager strategy, company sector, etc., certain analyses may be performed on smaller sample sizes and may be biased by one or several data points.
- » Past performance is not an indication of future performance, provides no guarantee for the future, and is not constant over time.

Biases within this Presentation for consideration include:

- » *Selection Bias*: In certain instances, recent deal attribute data may be more likely to describe investments made by RCP's underlying managers and are therefore subject to selection bias, as RCP tends to have more complete data from underlying managers.
- » *Survivorship Bias*: Information flow will be biased towards managers successful enough to raise subsequent funds; given updated return information is primarily gathered during fundraising diligence, data often reflects deals transacted by relatively more successful managers.
- » *Availability Bias*: Due to RCP's lower middle market focus, more data is available on smaller funds.

Terms:

n: number of observations.

ROIC: Return on invested capital

Sources:

GPScout: Provides private fund and investment-level performance data drawn from fundraising and diligence documents produced by general partners and publicly available information, as well as quarterly unaudited and audited annual financial statements produced by RCP's underlying fund managers. As of 6/1/2023, GPScout contains information on 3,500+ fund managers and more than 7,200 funds. These documents are provided to RCP by the fund managers themselves. Please note: RCP's database has been rebranded as GPScout. RCP's subscription-based manager research platform, formerly named GPScout, has been rebranded as GPScout Navigator.

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INTEGRITY - We acknowledge a duty and responsibility to act in the best interests of our partnerships.



PERFORMANCE - We strive to be the best at everything we do as a firm, with a particular emphasis on maximizing return on investment while remaining focused on capital preservation.



CLIENT CENTERED - We place the interests and needs of our clients first, as we focus on exceeding their expectations.



INNOVATION & LEADERSHIP - We aim to be an industry leader and innovator by encouraging an entrepreneurial spirit that empowers our professionals to create research driven, strategic growth opportunities for RCP and our investors alike.



PARTNERSHIP, COMMUNITY & INCLUSION - We strive to have a culture of partnership, seeking to build strong, collaborative relationships with all stakeholders, while also cultivating a culture of diversity and inclusion. We have a fundamental ethical and investment belief in responsible behavior, including ESG practices, across our internal culture, general business practices, and investment considerations.