RCP / Advisors

The Lower Middle Market: Understanding the Opportunities and Challenges

April 2025

Alex Abell
Managing Partner and Head
of RCP Customized Solutions

Access. Alignment. Performance.

Please see important disclosures at the end of this presentation (if applicable) before making any final investment decisions.

Notice

RCP / Advisors

This market thought piece ("Thought Piece") and all information contained herein shall not be construed as anything other than general educational material or market commentary. This Thought Piece is not an advertisement and is being provided solely for educational and informational purposes. This Thought Piece may not be relied on in any manner as, legal, tax or investment advice or as an offer to sell or a solicitation of an offer to buy an interest in any investment sponsored by RCP or be construed as an offer to sell or a solicitation of an offer to buy any securities or investment products.

This Thought Piece has been supplied solely for educational and informational purposes only and should not be viewed as a current or past recommendation or an offer to sell or the solicitation to buy securities or adopt any investment strategy. Any views expressed herein are those of the author(s) and do not necessarily reflect the views of RCP itself. The views expressed reflect the current views of the author(s) at the time of writing, based on available information and subject to change without notice. The information presented in this Thought Piece have been developed internally and/or obtained from sources believed to be reliable; however, RCP does not guarantee the accuracy, adequacy or completeness of such information The Thought Piece has been supplied for informational purposes only and therefore no representation or warranty is made, whether express or implied, by RCP or any of its affiliates, partners, employees, members, or agents as to the accuracy or completeness of the information provided. An investment in any private fund involves significant risks and certain potential material conflicts of interest. In considering any performance information contained herein, readers should bear in mind that past performance does not predict and is not a guarantee of future results. Investment in private equity involves significant risk, including the potential loss of invested capital. In considering any performance information contained herein, readers should bear in mind that past performance does not predict and is not a guarantee of future results. No investment or strategy implies a complete lack of risk. A private fund investment involves a high degree of risk as such investments are speculative, subject to high return volatility and will be illiquid on a long-term basis. Private fund investors may lose their entire investment.

For purposes of this Thought Piece, references to RCP and its "affiliates" shall be deemed to include RCP Advisors, LLC, RCP Advisors 2, LLC ("RCP 2") and RCP Advisors 3, LLC ("RCP 3"), and shall otherwise exclude P10, Inc. and its direct and indirect subsidiaries, except as otherwise expressly stated herein. Certain information contained herein excludes data related to (i) those funds managed by RCP which are tailored to the needs of a limited number of investors and/or have a different investment focus, strategy, philosophy, or otherwise deviate from RCP's primary focus on the North American small buyout market (including, without limitation, the RCP Graduate Funds, non-discretionary advisory clients, and discretionary separately managed accounts), (ii) Columbia Partners Private Capital, a separate business unit of RCP 2, (the "Private Capital Unit"), (iii) Five Points Capital, Inc., (iv) TrueBridge Capital Partners LLC, (v) Enhanced Capital Partners, LLC (and affiliates), (vi) Hark Capital Advisors, LLC, (vii) Bonaccord Capital Advisors, LLC (together with Hark Capital, the "HB Units"), and (viii) Westech Investment Advisors LLC (and affiliates), in each case except as otherwise expressly provided herein or unless the context otherwise requires.

Other

"Committed capital" primarily reflects the capital commitments associated with our SMAs, focused commingled funds, and advisory accounts advised by RCP since the firm's inception in 2001 (including funds that have since been sold, dissolved, or wound down and certain historical advisory accounts for which RCP's advisory contracts have expired). We include capital commitments in our calculation of committed capital if (a) we have full discretion over the investment decisions in an account or have responsibility or custody of assets or (b) we do not have full discretion to make investment decisions but play a role in advising the client on asset allocation, performing investment manager due diligence and recommending investments for the client's portfolio and/or monitoring and reporting on their investments. For our discretionary SMAs and commingled funds, as well as for our non-discretionary advisory accounts for which RCP is responsible for advising on all investments within the client's portfolio, committed capital is calculated based on aggregate capital commitments to such accounts. For non-discretionary accounts where RCP is responsible for advising only a portion of the client portfolio investments, committed capital is calculated as capital commitments by the client to those underlying investments which were made based on RCP's recommendation or with respect to which RCP advises the client. Committed capital does not include (i) certain historical non-discretionary advisory accounts no longer under advisement by RCP, (ii) assets managed or advised by the Private Capital Unit or HB Units of RCP 2, (iii) capital commitments to funds managed or sponsored by RCP's affiliated (but independently operated) management companies, and (iv) RCP's ancillary products or services.

RCP 3 is headquartered in Chicago, Illinois. RCP 2 is headquartered in Dallas, Texas with offices in New York, New York and Bethesda, Maryland.

The information contained in this presentation is not intended to be, and should not be viewed as, "investment advice" within the meaning of 29 C.F.R. §2510.3-21 or otherwise.

NOTES

RCP Funds & the Small Buyout Market

Potential Benefits

Attractive risk/return profile

Historical outperformance of other asset classes

Historical lower correlation with major market indices

Long-term return potential

Attractive market dynamics resulting in outperformance

Proper diversification through one investment vehicle

Potential access to top-tier and oversubscribed managers

Administrative efficiency

Favorable tax treatment

Strategic and operating control post-investment

Potential Risks

Determining investment success in an illiquid asset

Long-term nature of the private equity investment cycle

Capacity, access, selection, and allocation of top-tier and oversubscribed managers is not guaranteed

Highly illiquid

Potential loss of capital

Significant resources and expertise required

Measuring or benchmarking long term returns is challenging

High investment minimums

Potential additional fees

The foregoing list of risk factors does not purport to be a complete enumeration or explanation of the risks involved in an investment in a Fund. Prospective investors should read the respective Fund's memorandum and partnership agreement (when available) and consult with their own counsel and advisors before deciding whether to invest in such Fund.

OPPORTUNITIES

Structural Advantages in the Lower Middle Market

Company and deal characteristics are very favorable for activist PE investment

Large “Niche” Market that Behaves Differently from Larger PE and less Tied to Public Markets

More than 1200 managers and independent sponsors

Highly Motivated Teams

Smaller funds align GP and LP in carried interest wealth creation and higher returns

Multiple Opportunities to Drive Outsized Returns in Small Buyouts

Ability to scale and professionalize small companies offers PE a chance to improve small companies

Exit Market Set Up to help Drive Superior Returns

The larger PE markets have structural advantages for LMM companies to exit into

Lower Middle Market Consistently Delivers Better Returns

Measured in various ways LMM funds have produced stronger returns across multiple economic market cycles

This Thought Piece and all information contained herein is being provided solely for educational and informational purposes and may not be relied on in any manner as, legal, tax or investment advice or as an offer to sell or a solicitation of an offer to buy an interest in any investment sponsored by RCP or be construed as an offer to sell or a solicitation of an offer to buy any securities or investment products. References to the “multiple opportunities to drive outsized returns in small buyouts” and the “ability to scale and professionalize small companies” are illustrative in nature and do not guarantee any specific outcomes or investment performance. Such statements reflect general market observations and are not intended to represent actual or projected returns. All investments involve risk, and private equity strategies targeting small businesses may involve additional operational, liquidity, and execution risks. Any examples or language suggesting potential performance should not be relied upon as predictive or indicative of future results.

Challenges

Large “Niche” Market

More than 1200 managers and Independent Sponsors

Higher Dispersion of Returns: Manager Selection and Access Key

The outperformers can drive significantly outside returns but the left tail exists as well

Relationship Building Critical for Access to the Best Managers

Access is critical and very difficult in the small buyout market

Best Managers Usually Graduate Out of This Market

Strong returns usually leads to larger funds.

This Thought Piece and all information contained herein is being provided solely for educational and informational purposes and may not be relied on in any manner as, legal, tax or investment advice or as an offer to sell or a solicitation of an offer to buy an interest in any investment sponsored by RCP or be construed as an offer to sell or a solicitation of an offer to buy any securities or investment products.

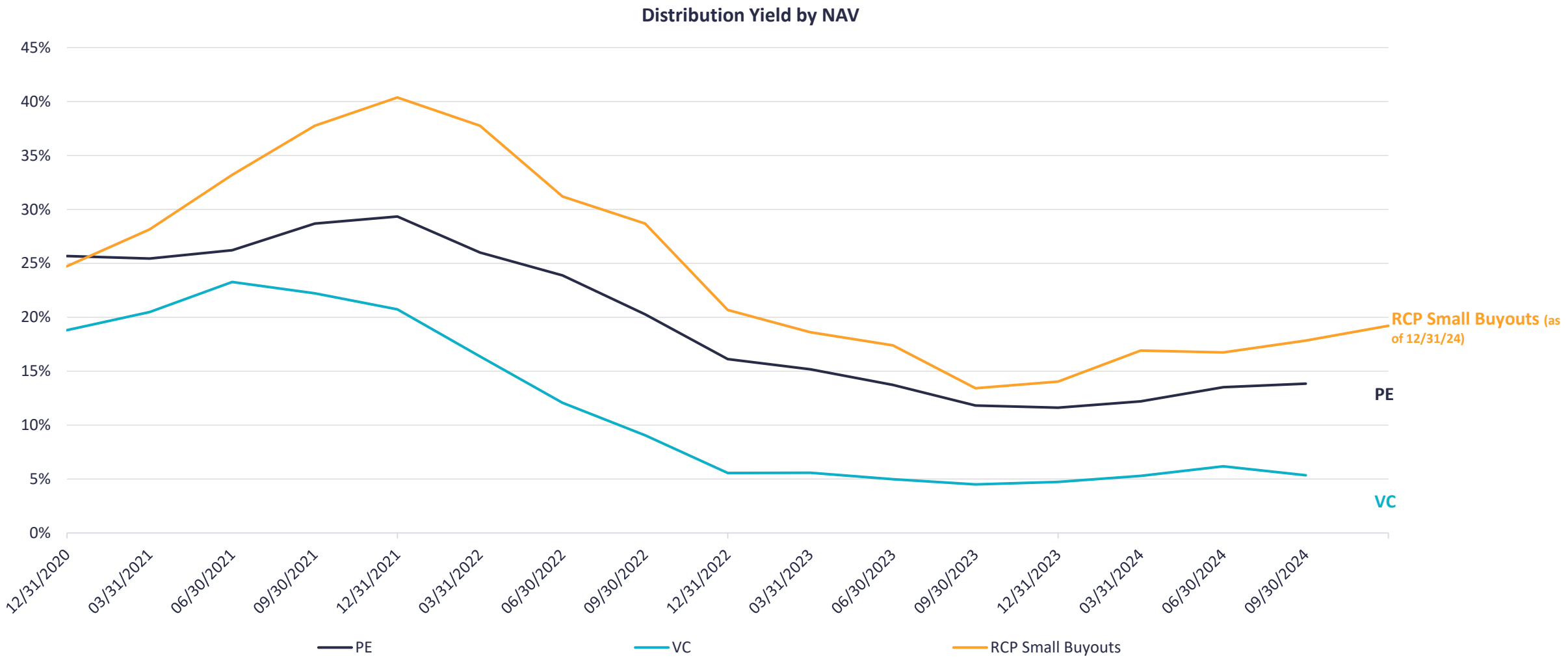
The effect of the pre-Trump high-interest rate environment on different parts of PE market

	Deal Activity	Debt Markets	Fundraising	Valuations
Buyouts in General	**New deals:** Slow; mismatch buyer/seller expectations; tough financing market **Exits:** Ground to a halt	Very difficult to raise large amounts; leverage lower/costs higher; more recent improvements	Slower (reflects lower exits and investor hesitancy); reasonable demand for trusted names	Lower overall (mostly early 2023), but declines not as significant as feared; concentrated in growth/high multiple sectors
U.S. Small Buyouts	**New deals:** Slower but better than market; relatively better financing environment; add-ons still widely available **Exits:** Slow	Available (significant contrast from overall market); but costs higher	Also slower, but "law of small numbers" helps success; strong demand for best existing and emerging GPs	Flat/Moderate Increases

This Thought Piece and all information contained herein is being provided solely for educational and informational purposes and may not be relied on in any manner as, legal, tax or investment advice or as an offer to sell or a solicitation of an offer to buy an interest in any investment sponsored by RCP or be construed as an offer to sell or a solicitation of an offer to buy any securities or investment products.

DISTRIBUTIONS

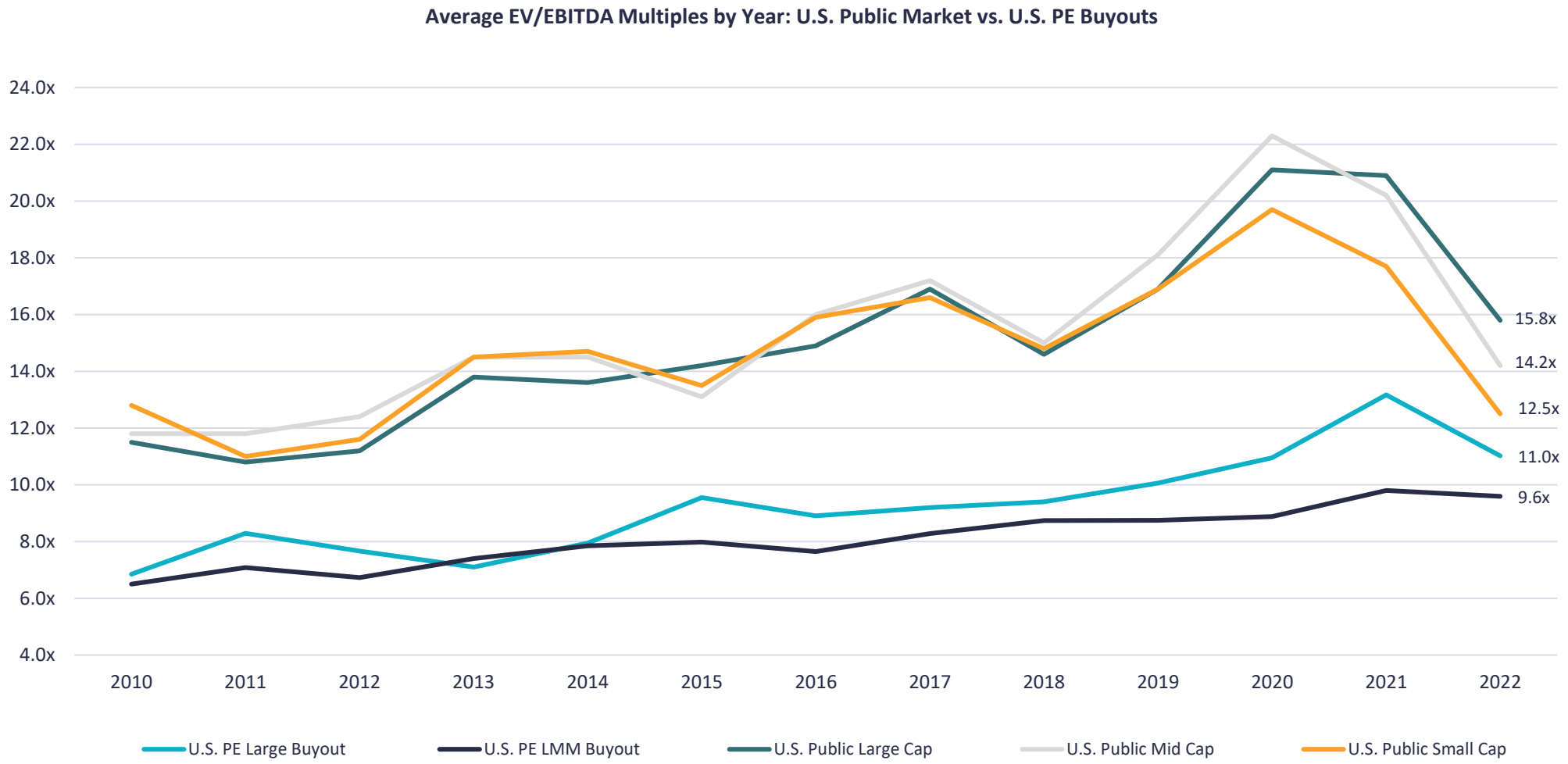
Quarterly distribution rates by U.S. asset class



Past performance does not predict and is not a guarantee of future results. Source: RCP Advisors and PitchBook. Cumulative quarterly returns as a percentage of cumulative net asset value since 3/31/2015 for RCP Funds I-XVIII. All returns calculated in USD.

VALUATION MULTIPLES

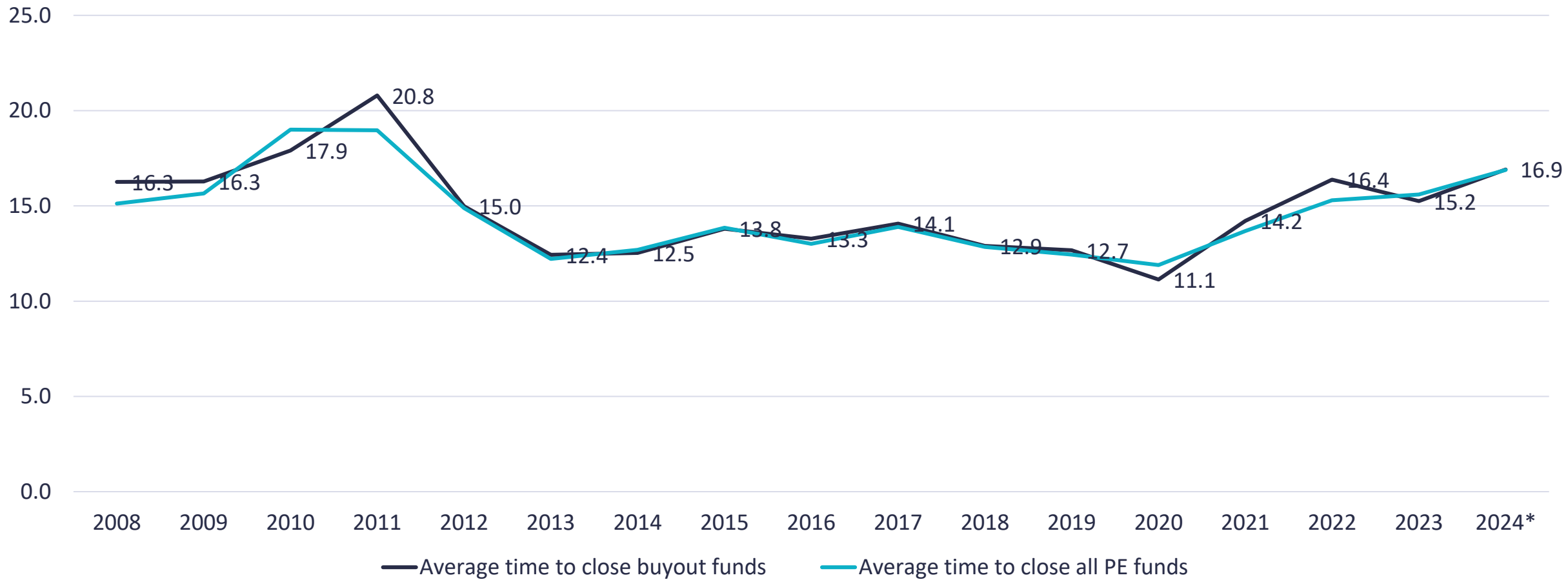
Lower middle market less correlated to public markets – and larger buyout



Past performance does not predict and is not a guarantee of future results. Source: GPScout and S&P Capital IQ. As of 12/31/22.

PE fundraising (macro) – Longer fundraising

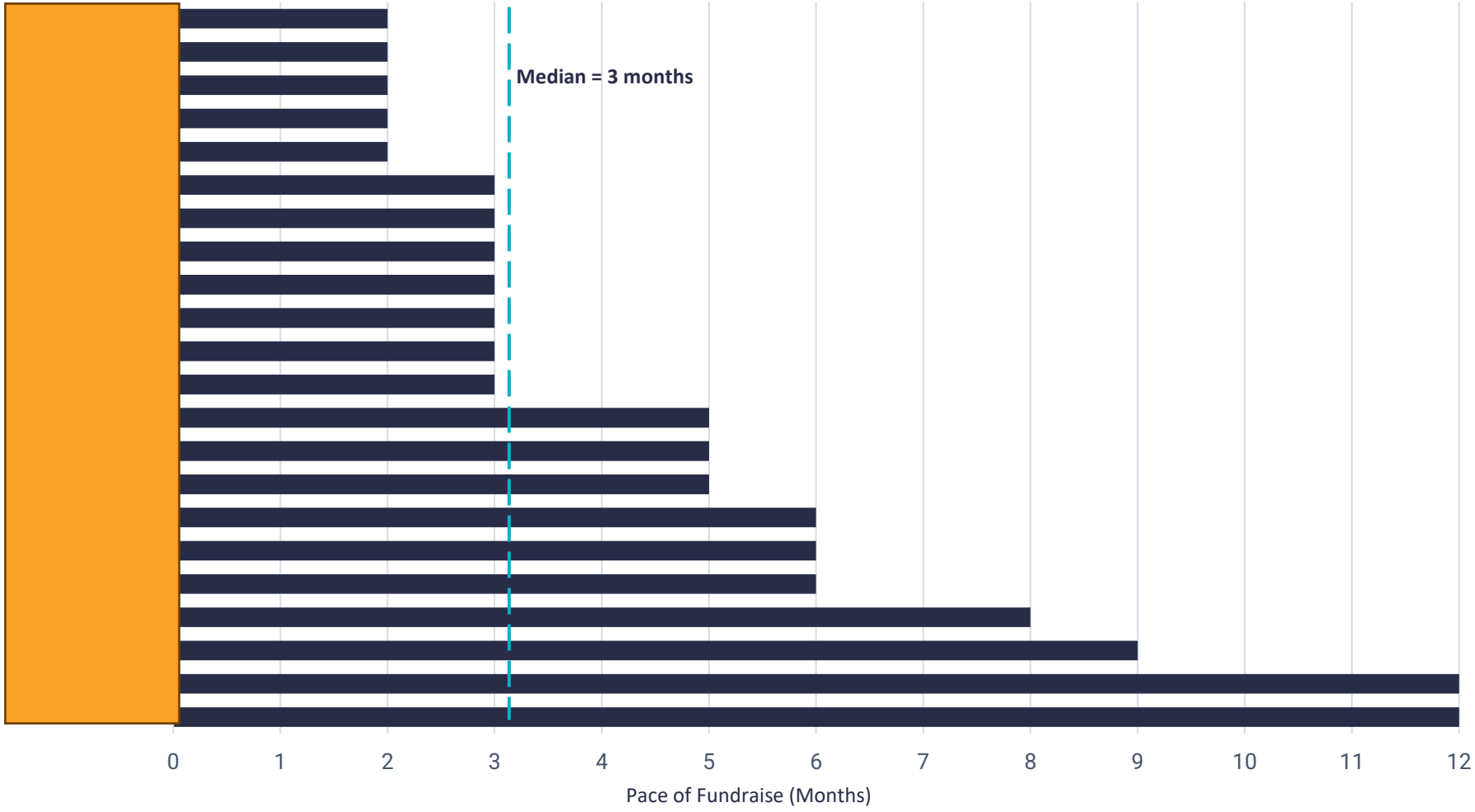
Average time (months) to close for U.S. PE funds



Source: PitchBook - Geography: U.S. *As of As of 3/31/24. This Thought Piece and all information contained herein is being provided solely for educational and informational purposes and may not be relied on in any manner as, legal, tax or investment advice or as an offer to sell or a solicitation of an offer to buy an interest in any investment sponsored by RCP or be construed as an offer to sell or a solicitation of an offer to buy any securities or investment products.

PE fundraising (micro) – Small/high quality buyouts in high demand

High quality managers still oversubscribed and enjoying quick fundraisings



Past performance does not predict and is not a guarantee of future results. Source: RCP Advisors. This illustration shall not be construed as an offer to sell or a solicitation of an offer to buy any securities or investment products. 2003-2024

OPPORTUNITIES: What drives returns in the small buyout market

Returns Are Generated in Lower Middle Market Through Value Creation and Scale

This Thought Piece and all information contained herein is being provided solely for educational and informational purposes and may not be relied on in any manner as, legal, tax or investment advice or as an offer to sell or a solicitation of an offer to buy an interest in any investment sponsored by RCP or be construed as an offer to sell or a solicitation of an offer to buy any securities or investment products.

OPPORTUNITIES: What drives returns in the small buyout market

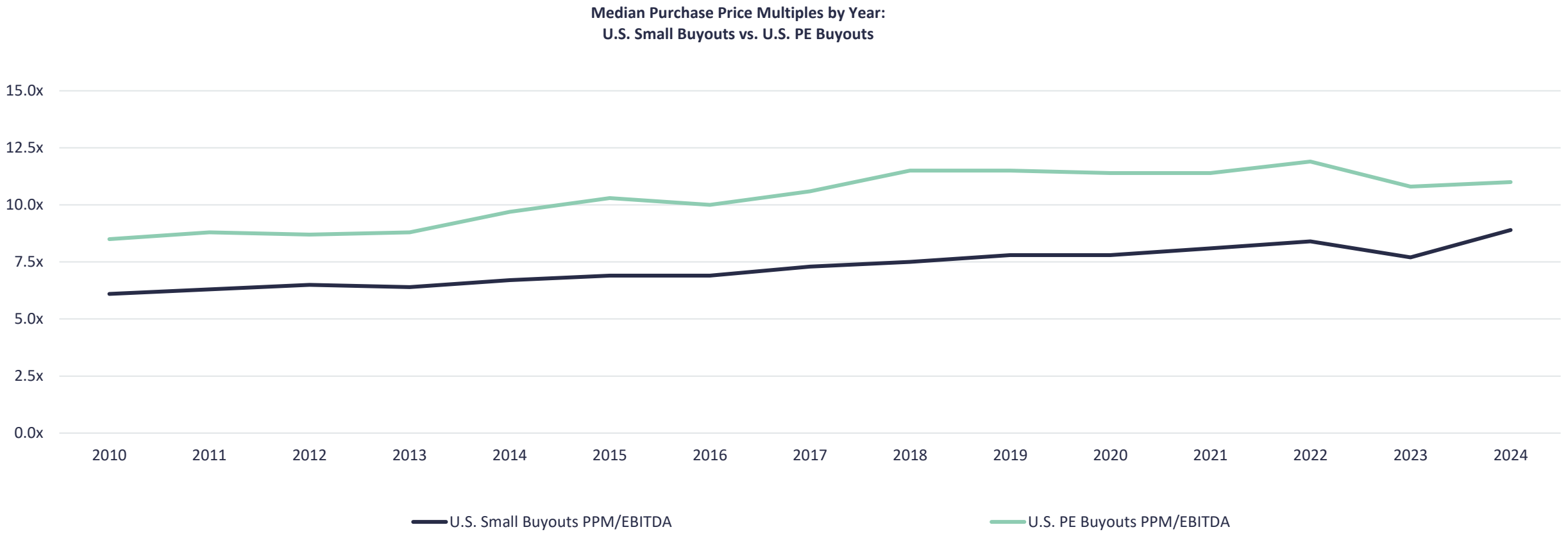
Returns Are Generated in Lower Middle Market Through Value Creation and Scale

Valuations Structurally Lower

Small Company Buyouts Typically Acquired from Less Institutional Sellers for Lower Valuations

This Thought Piece and all information contained herein is being provided solely for educational and informational purposes and may not be relied on in any manner as, legal, tax or investment advice or as an offer to sell or a solicitation of an offer to buy an interest in any investment sponsored by RCP or be construed as an offer to sell or a solicitation of an offer to buy any securities or investment products.

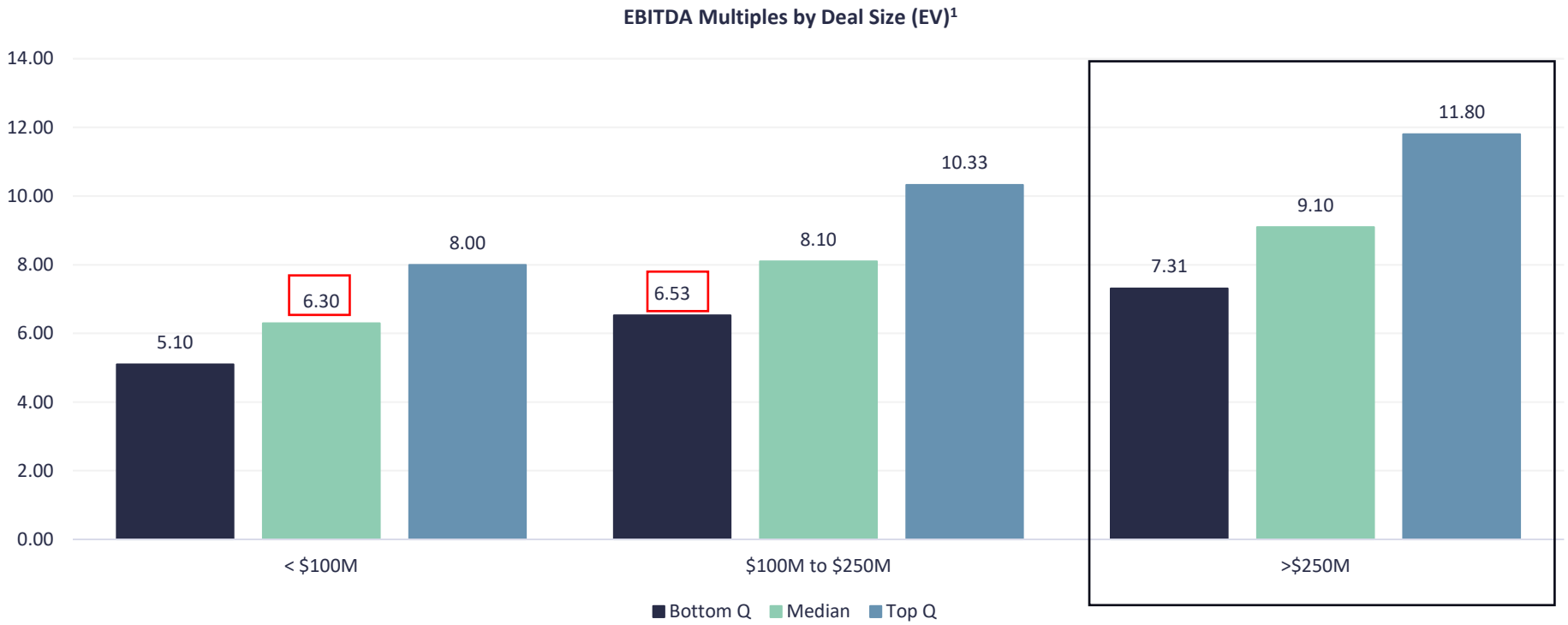
Valuations structurally lower



Source: GPScout and PitchBook/LCD. Data reflects the median EBITDA purchase price multiples of transactions categorized as buyout, buyout & growth, and growth occurring between 2010 and 2024 for North American companies with enterprise values between $10M and $100M across all sectors. GPScout dataset includes 3,585 companies. PitchBook Broader Market represents U.S. LBOs. PitchBook/LCD dataset includes 1,481 companies. This Thought Piece and all information contained herein is being provided solely for educational and informational purposes and may not be relied on in any manner as, legal, tax or investment advice or as an offer to sell or a solicitation of an offer to buy an interest in any investment sponsored by RCP or be construed as an offer to sell or a solicitation of an offer to buy any securities or investment products.

Valuations structurally lower

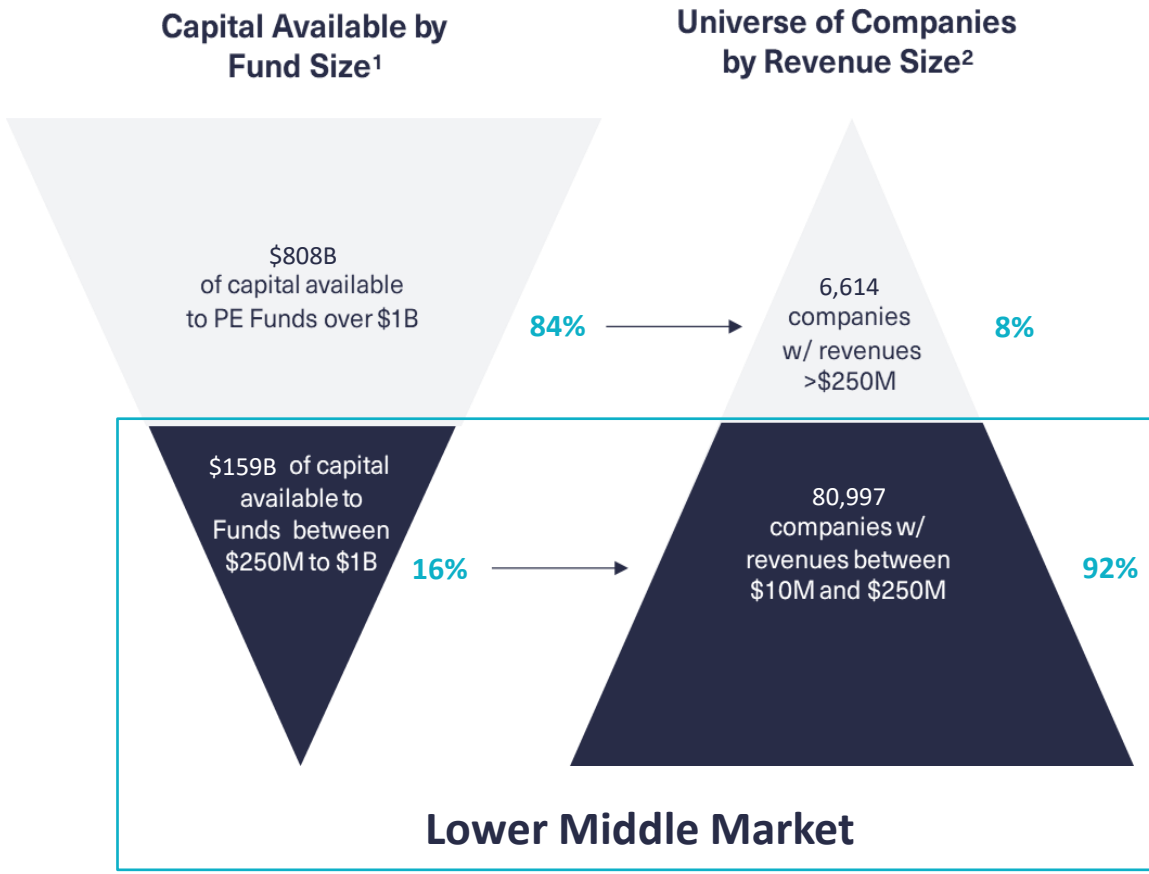
Small buyouts (<$100M EV) have highly attractive entry valuation relative to larger PE buyouts



1. Source: GPScout. Data reflects deals occurring between 1996 and 2024. Number of observations <$100M in enterprise value: 8,415; number of observations between $100M and $250M in enterprise value: 2,753; number of observations with >$250M in enterprise value: 1,962. This Thought Piece and all information contained herein is being provided solely for educational and informational purposes and may not be relied on in any manner as, legal, tax or investment advice or as an offer to sell or a solicitation of an offer to buy an interest in any investment sponsored by RCP or be construed as an offer to sell or a solicitation of an offer to buy any securities or investment products.

Small companies dominate market supply with significantly less capital in pursuit

Rich opportunity set requires expertise to navigate



SMALL BUYOUT MARKET BENEFITS

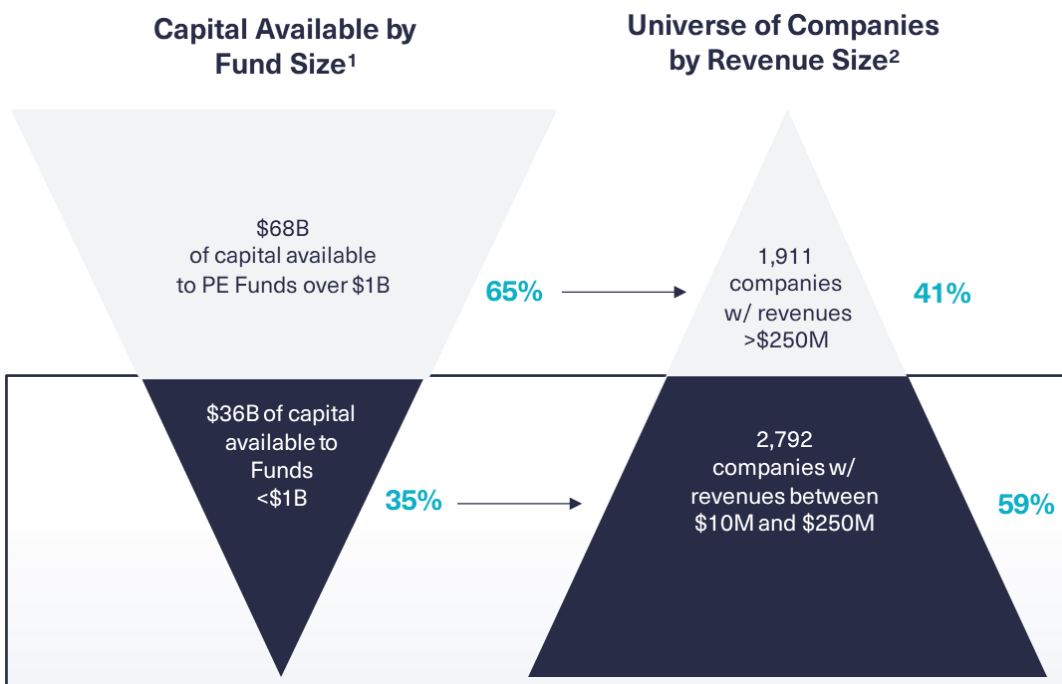
- Large Pool of Opportunities
- Limited Alternatives for Capital
- Operational Value-Add
- Inefficient Sourcing
- Favorable Purchase Price Valuations
- Multiple Arbitrage
- Exit Flexibility
- Favorable LP/GP Alignment of Incentives

Source: PitchBook and S&P Capital IQ. 1. PitchBook: Capital available to invest by fund size represents U.S. private equity overhang for vintage years 2017-2024. U.S. PE Funds: includes buyout, growth, co-investment, mezzanine, diversified PE, energy, and restructuring. As of 6/30/24. 2. S&P Capital IQ: Commercially-active businesses in the U.S. All subsidiary and business establishment data are combined. Additionally, public sector entities are excluded. As of 2/13/25. Please refer to Slide 3 for additional details on potential risks and benefits of investing in funds. This Thought Piece and all information contained herein is being provided solely for educational and informational purposes and may not be relied on in any manner as, legal, tax or investment advice or as an offer to sell or a solicitation of an offer to buy an interest in any investment sponsored by RCP or be construed as an offer to sell or a solicitation of an offer to buy any securities or investment products.

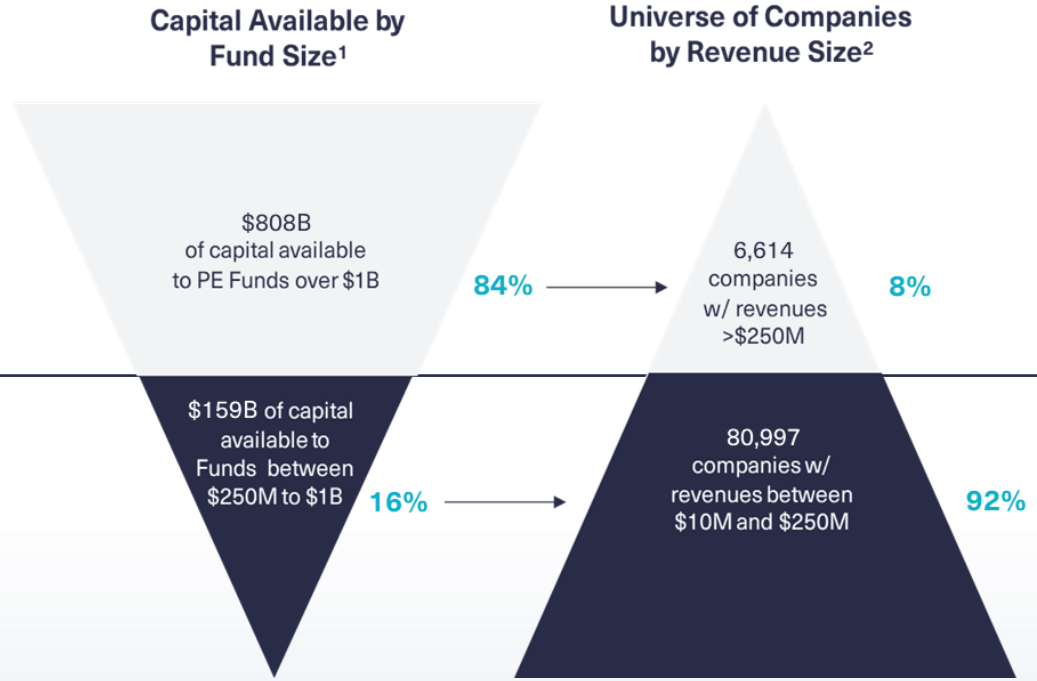
SMALL BUYOUT MARKET BENEFITS

Small companies dominate market supply with significantly less capital in pursuit

2002



2025



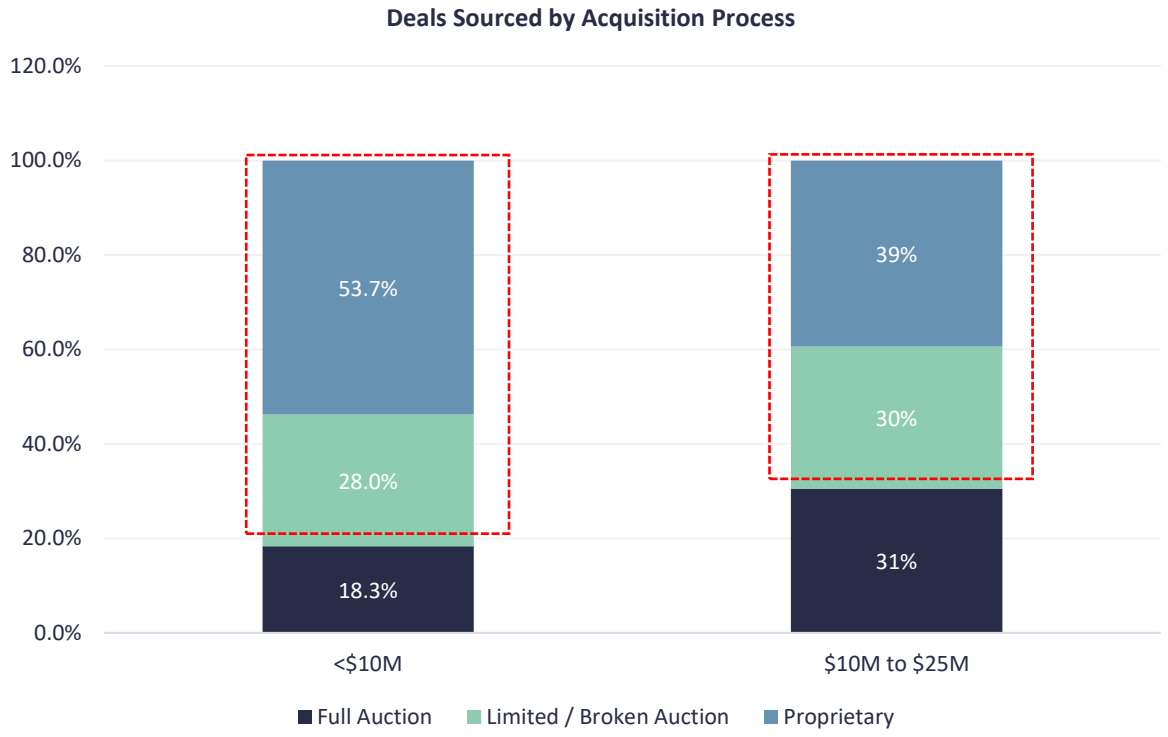
Small Buyout Market Benefits

- Multiple arbitrage
- Exit flexibility
- Favorable LP/GP alignment of incentives
- Large pool of opportunities
- Limited alternatives for capital
- Operational value-add
- Inefficient sourcing
- Favorable purchase price valuations

Source: PitchBook and S&P Capital IQ. 1. PitchBook: Capital available to invest by fund size represents U.S. private equity overhang for vintage years 2017-2024. U.S. PE Funds: includes buyout, growth, co-investment, mezzanine, diversified PE, energy, and restructuring. As of 6/30/24. 2. S&P Capital IQ: Commercially-active businesses in the U.S. All subsidiary and business establishment data are combined. Additionally, public sector entities are excluded. As of 2/13/25. Please refer to Slide 3 for additional details on potential risks and benefits of investing in funds.

Sourcing more proprietary

Less competition for small buyout deals (<$10M EBITDA)

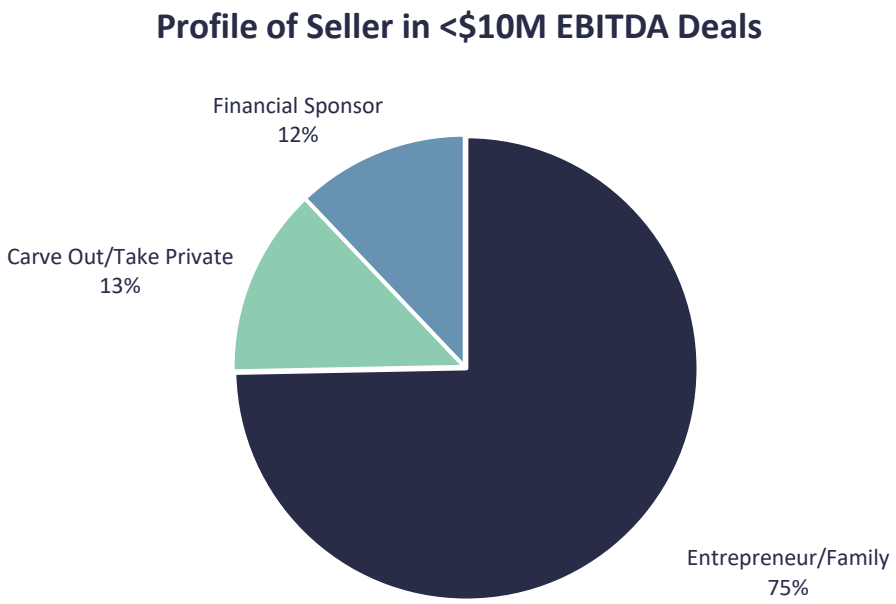


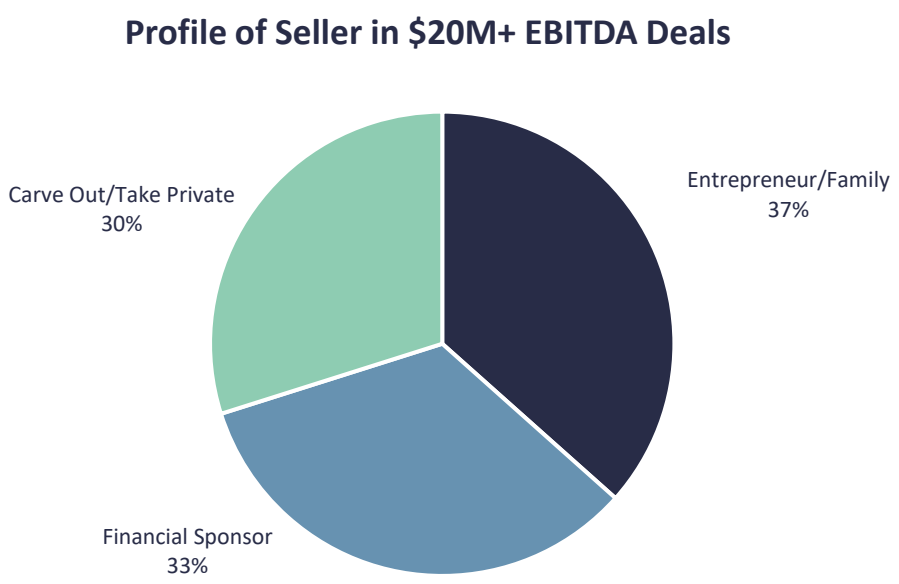
~82% of <$10M EBITDA PE deals acquired outside of "Full Auction" processes, compared to only 69% for $10M to $25M EBITDA PE deals

Source: GPScout. Data reflects deals occurring between 1996 and 2024. Number of observations <$10M in EBITDA: 4,308; number of observations $10M to $25M in EBITDA: 1,646. This Thought Piece and all information contained herein is being provided solely for educational and informational purposes and may not be relied on in any manner as, legal, tax or investment advice or as an offer to sell or a solicitation of an offer to buy an interest in any investment sponsored by RCP or be construed as an offer to sell or a solicitation of an offer to buy any securities or investment products.

Small company buyouts typically acquired from less institutional sellers

Fewer sponsor-to-sponsor transactions in the small buyout space





Past performance does not predict, and is not a guarantee, of future results. Any statements regarding private equity market or other financial conditions are based on past, observed market conditions, which are subject to change and may be superseded by subsequent market events or for other reasons. Source: GPScout. Data reflects deals occurring between 1996 and 2024. Number of observations <$10M in EBITDA: 2,011; number of observations with $20M+ in EBITDA: 492. This Thought Piece and all information contained herein is being provided solely for educational and informational purposes and may not be relied on in any manner as, legal, tax or investment advice or as an offer to sell or a solicitation of an offer to buy an interest in any investment sponsored by RCP or be construed as an offer to sell or a solicitation of an offer to buy any securities or investment products.

Lower middle market companies are less polished

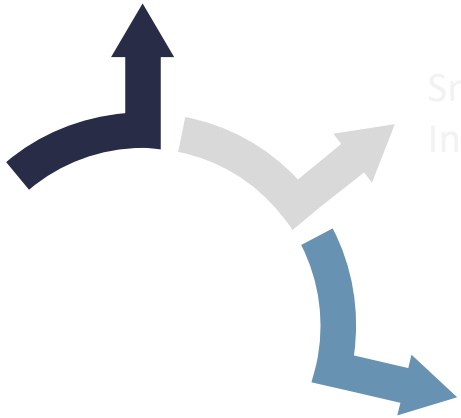
Greater opportunities exist to improve and scale smaller companies, adding value and generating returns

1. Often Family-Owned Business
2. Opportunities to Professionalize Management Team
3. Often Lacking a True CFO and Financial Functions
4. Opportunity to Implement Operational Best Practices
5. Customer Concentration
6. Limited Diversification of Products or Services
7. Geographic Concentration
8. Less Willing to Take on Risks, Such as M&A

Part of the reason valuations are lower in this part of the market is because of these risk factors within smaller companies

OPPORTUNITIES: What drives returns in the small buyout market

Returns Are Generated in Lower Middle Market Through Value Creation and Scale



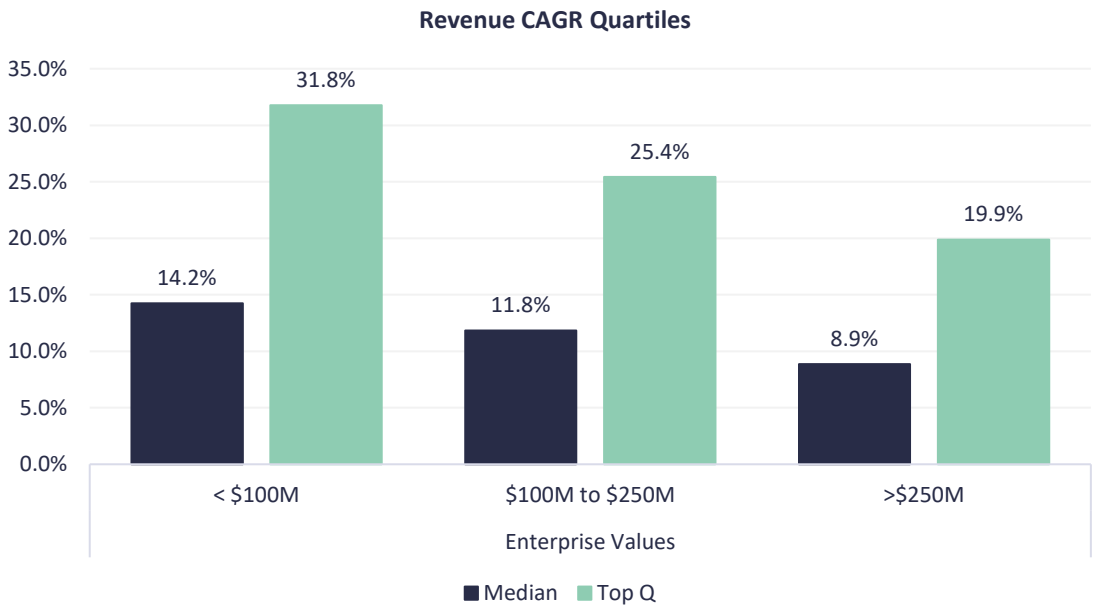
Small Company Buyouts Typically Acquired from Less Institutional Sellers for Lower Valuations

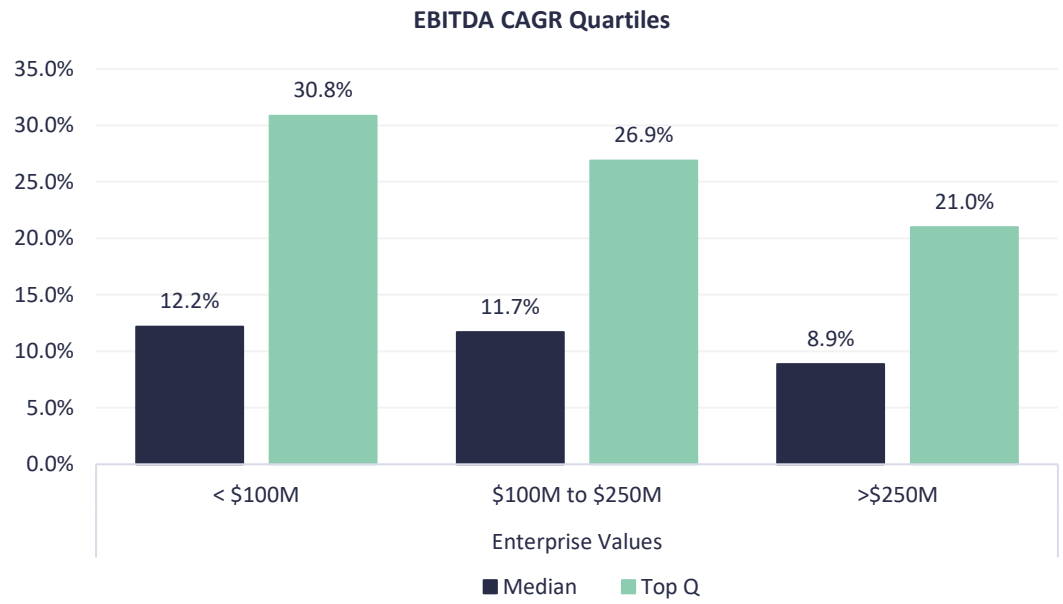
Lower Middle Market Deals Have the Potential for Higher Growth Compared to Larger Deals

This Thought Piece and all information contained herein is being provided solely for educational and informational purposes and may not be relied on in any manner as, legal, tax or investment advice or as an offer to sell or a solicitation of an offer to buy an interest in any investment sponsored by RCP or be construed as an offer to sell or a solicitation of an offer to buy any securities or investment products.

Easier to grow small companies – Top and bottom line

A smaller entry point creates meaningful revenue and EBITDA growth opportunities

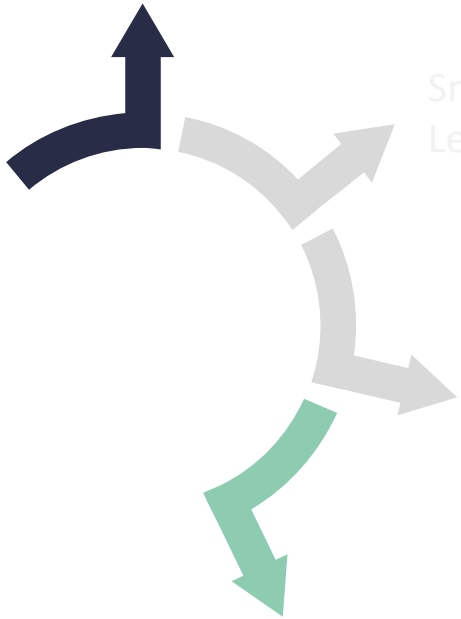




Past performance does not predict, and is not a guarantee, of future results. Source: GPScout. Data reflects deals occurring between 1996 and 2024. Number of observations <$100M in enterprise value: 8,415; number of observations between $100M and $250M in enterprise value: 2,753; number of observations with >$250M in enterprise value: 1,962. This Thought Piece and all information contained herein is being provided solely for educational and informational purposes and may not be relied on in any manner as, legal, tax or investment advice or as an offer to sell or a solicitation of an offer to buy an interest in any investment sponsored by RCP or be construed as an offer to sell or a solicitation of an offer to buy any securities or investment products.

OPPORTUNITIES: What drives returns in the small buyout market

Returns Are Generated in Lower Middle Market Through Value Creation and Scale



Small Company Buyouts Typically Acquired from Less Institutional Sellers for Lower Valuations

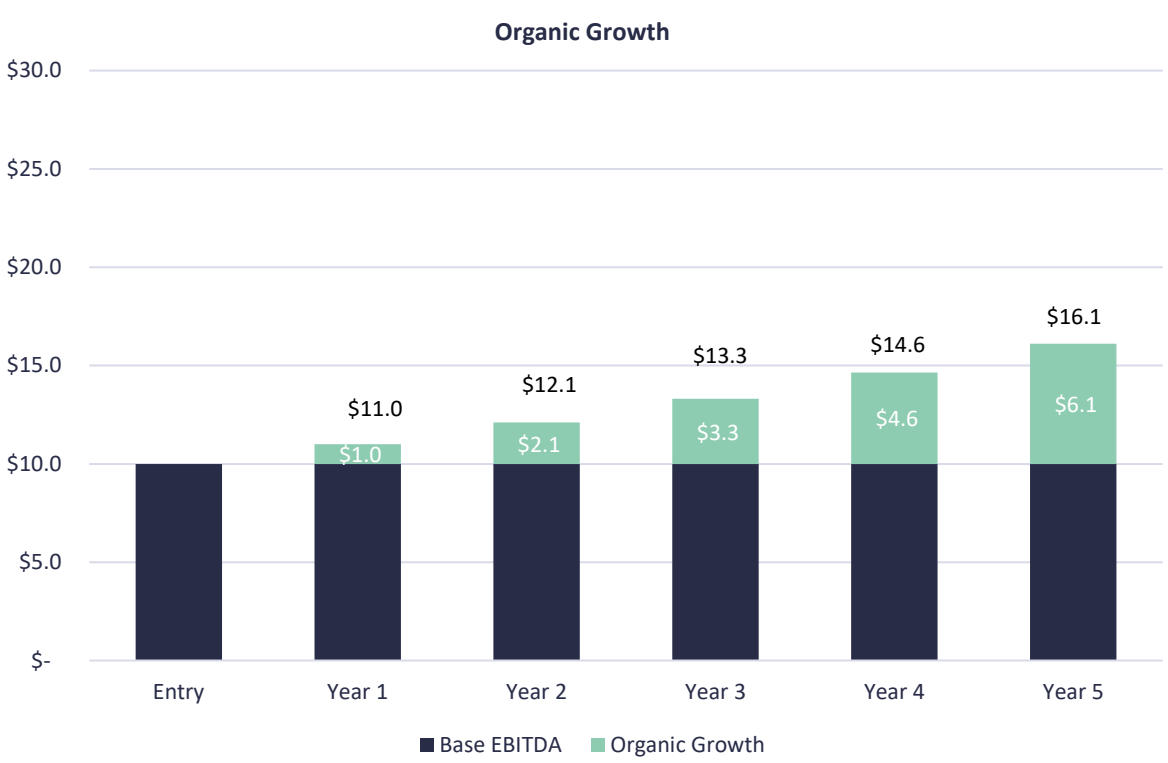
Lower Middle Market Deals Have the Potential for Higher Growth Compared to Larger Deals

Add-On Acquisitions May Lower the Effective Entry Valuation Multiples and Expedite Growth

This Thought Piece and all information contained herein is being provided solely for educational and informational purposes and may not be relied on in any manner as, legal, tax or investment advice or as an offer to sell or a solicitation of an offer to buy an interest in any investment sponsored by RCP or be construed as an offer to sell or a solicitation of an offer to buy any securities or investment products.

Add-on acquisitions may lower the effective entry valuation multiples and expedite growth

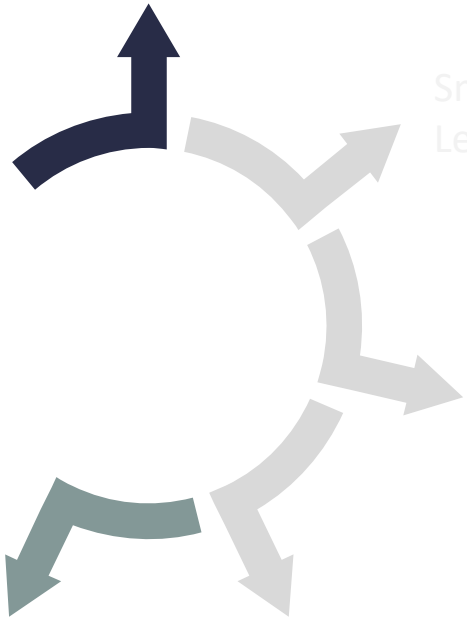
Acquisitions can be a valuable tool for small buyouts to create value



Source: GPScout. This Thought Piece and all information contained herein is being provided solely for educational and informational purposes and may not be relied on in any manner as, legal, tax or investment advice or as an offer to sell or a solicitation of an offer to buy an interest in any investment sponsored by RCP or be construed as an offer to sell or a solicitation of an offer to buy any securities or investment products. The information presented is for illustrative purposes only and is based on hypothetical scenarios. Past performance does not guarantee future results, and all investments involve risks, including the potential loss of principal. The use of leverage and assumptions about acquisition multiples, growth rates, and exit valuations may not reflect actual outcomes, which can be materially impacted by market conditions, economic factors, and other risks. Note:

OPPORTUNITIES: What drives returns in the small buyout market

Returns Are Generated in Lower Middle Market Through Value Creation and Scale



Small Company Buyouts Typically Acquired from Less Institutional Sellers for Lower Valuations

Lower Middle Market Deals Have the Potential for Higher Growth Compared to Larger Deals

Add-On Acquisitions May Lower the Effective Entry Valuation Multiples and Expedite Growth

Majority of Private Equity Capital is Targeting Companies Small Buyout Funds Are Exiting

This Thought Piece and all information contained herein is being provided solely for educational and informational purposes and may not be relied on in any manner as, legal, tax or investment advice or as an offer to sell or a solicitation of an offer to buy an interest in any investment sponsored by RCP or be construed as an offer to sell or a solicitation of an offer to buy any securities or investment products.

OPPORTUNITIES: What drives returns in the small buyout market

Returns Are Generated in Lower Middle Market Through Value Creation and Scale

Small Company Buyouts Typically Acquired from Less Institutional Sellers for Lower Valuations

Lower Middle Market Deals Have the Potential for Higher Growth Compared to Larger Deals

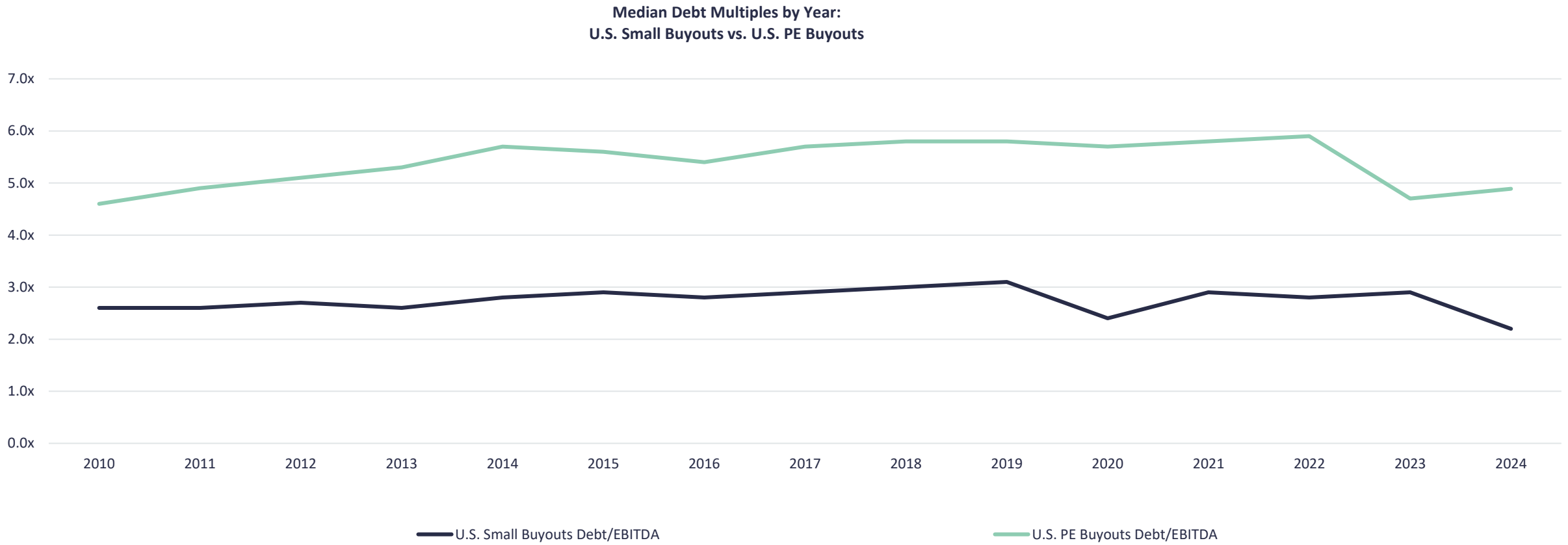
Add-On Acquisitions May Lower the Effective Entry Valuation Multiples and Expedite Growth

Majority of Private Equity Capital is Targeting Companies Small Buyout Funds Are Exiting

More Leverage Used in the Larger Part of Market Enables Buyers to Pay Higher Multiples

This Thought Piece and all information contained herein is being provided solely for educational and informational purposes and may not be relied on in any manner as, legal, tax or investment advice or as an offer to sell or a solicitation of an offer to buy an interest in any investment sponsored by RCP or be construed as an offer to sell or a solicitation of an offer to buy any securities or investment products.

U.S. buyout leverage

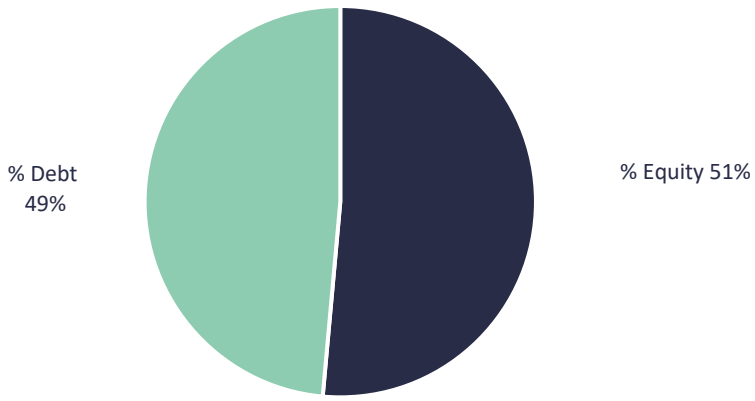


Source: GPScout and PitchBook/LCD. PitchBook data reflects median U.S. LBOs. GPScout data reflects the median entry net debt multiples of transactions categorized as buyout, buyout & growth, and growth occurring between 2010 and 2024 for U.S. and Canada companies with enterprise values between $10M and $100M across all sectors. GPScout dataset includes 3,244 companies. The PitchBook/LCD dataset includes 1,481 companies. This Thought Piece and all information contained herein is being provided solely for educational and informational purposes and may not be relied on in any manner as, legal, tax or investment advice or as an offer to sell or a solicitation of an offer to buy an interest in any investment sponsored by RCP or be construed as an offer to sell or a solicitation of an offer to buy any securities or investment products.

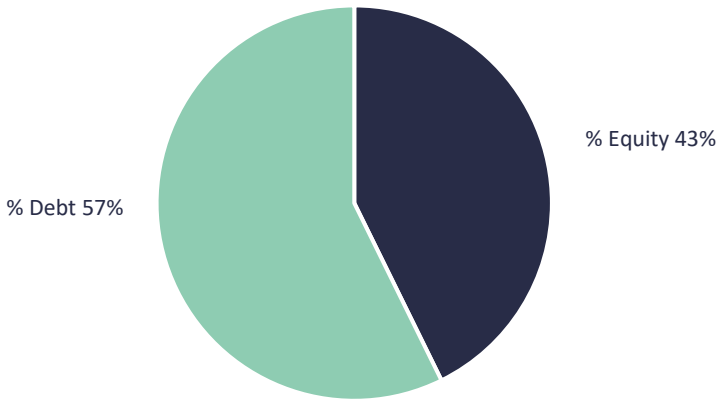
More leverage used in the larger part of market enables buyers to pay higher multiples

Larger deals have access to more debt compared to small buyouts

<$100M EV[1]



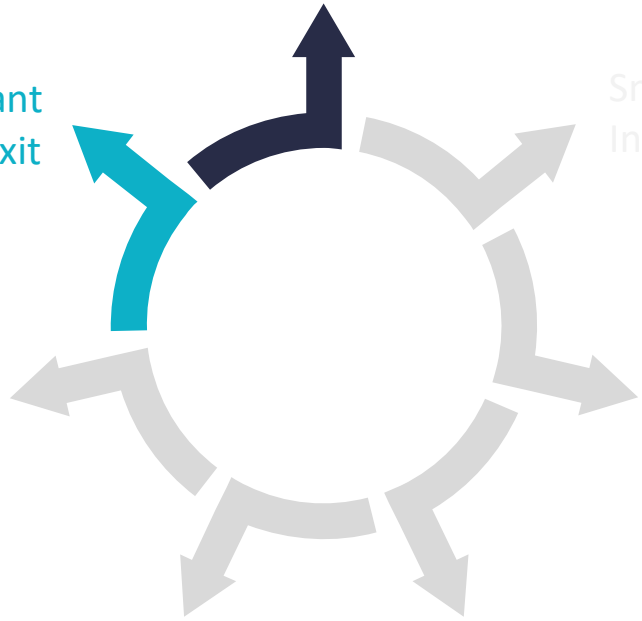
$250M+ EV[2]



Examples contained herein are for illustrative purposes only. 1. Source: GPScout. Data reflects deals occurring between 1996 and 2024. Number of observations <$100M in enterprise value: 8,415; number of observations with >$250M in enterprise value: 1,962. This Thought Piece and all information contained herein are being provided solely for educational and informational purposes and may not be relied on in any manner as, legal, tax or investment advice or as an offer to sell or a solicitation of an offer to buy an interest in any investment sponsored by RCP or be construed as an offer to sell or a solicitation of an offer to buy any securities or investment products.

OPPORTUNITIES: What drives returns in the small buyout market

Returns Are Generated in Lower Middle Market Through Value Creation and Scale



These Characteristics May Lead to Significant Multiple Expansion at Exit

Small Company Buyouts Typically Acquired from Less Institutional Sellers for Lower Valuations

More Leverage Used in the Larger Part of Market Enables Buyers to Pay Higher Multiples

Lower Middle Market Deals Have the Potential for Higher Growth Compared to Larger Deals

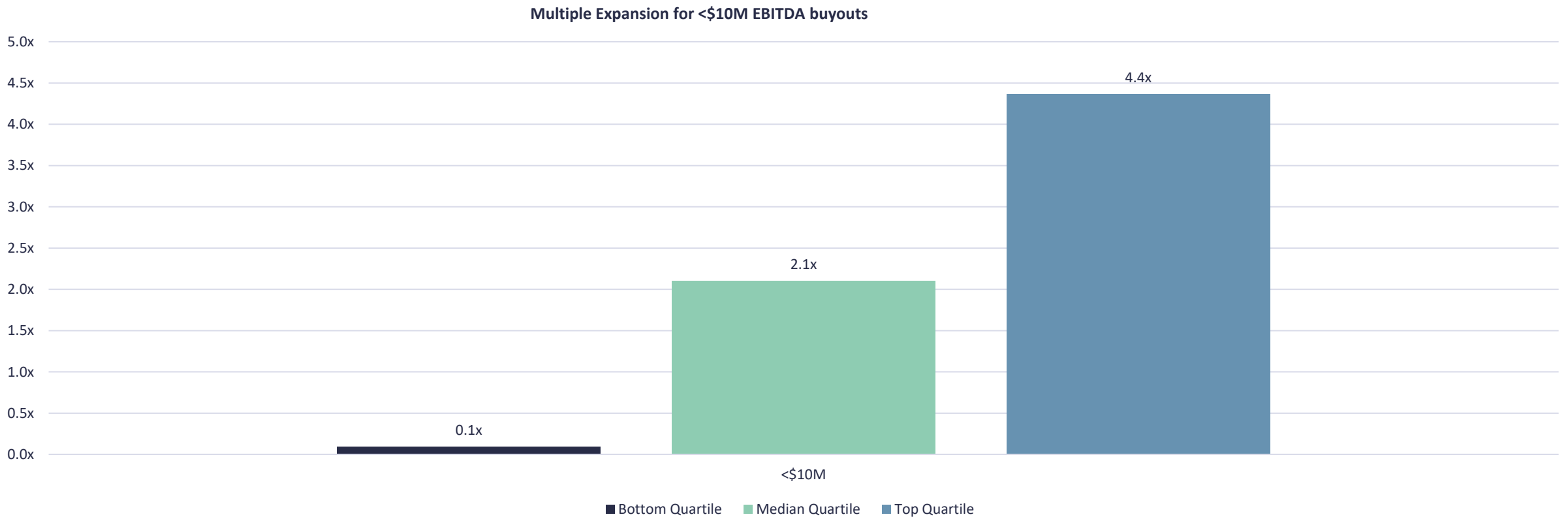
Majority of Private Equity Capital is Targeting Companies Small Buyout Funds Are Exiting

Add-On Acquisitions May Lower the Effective Entry Valuation Multiples and Expedite Growth

This Thought Piece and all information contained herein is being provided solely for educational and informational purposes and may not be relied on in any manner as, legal, tax or investment advice or as an offer to sell or a solicitation of an offer to buy an interest in any investment sponsored by RCP or be construed as an offer to sell or a solicitation of an offer to buy any securities or investment products.

These characteristics may lead to significant multiple expansion at exit

Small deals have the potential to generate greater multiple expansion which can drive outperformance

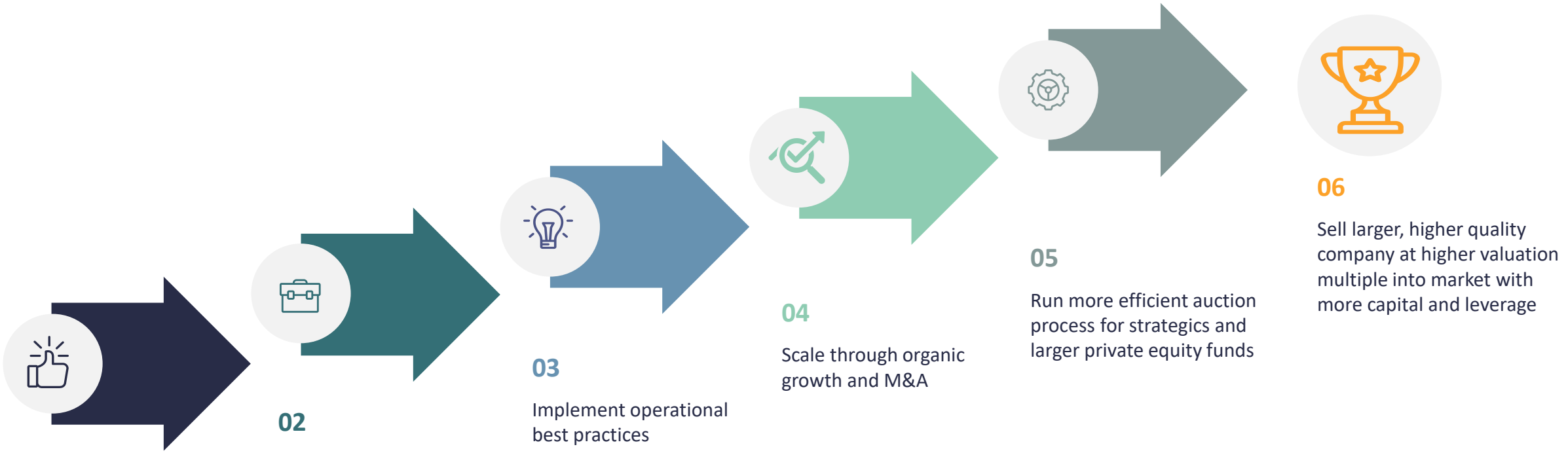


The information provided in this case study is for illustrative purposes only and is not intended to predict future performance or outcomes. The assumptions presented, including those related to EBITDA growth, multiples, and ROIC, are hypothetical and based on a specific set of conditions, which may not occur in real-world scenarios. Actual results may vary significantly and are not guaranteed. Past performance does not predict, and is not a guarantee of, future results. Private equity investments (including lower middle market investments) involve significant risks, including the potential loss of an investor's entire investment. Source: GPScout. Data reflects deals occurring between 1996 and 2024. Number of observations <$10M in EBITDA: 2,658. This Thought Piece and all information contained herein is being provided solely for educational and informational purposes and may not be relied on in any manner as, legal, tax or investment advice or as an offer to sell or a solicitation of an offer to buy an interest in any investment sponsored by RCP or be construed as an offer to sell or a solicitation of an offer to buy any securities or investment products.

OBSERVED DRIVERS OF RETURNS IN THE LOWER MIDDLE MARKET

Returns are generated in lower middle market through value creation and scale

Scaling and professionalizing, then selling these more attractive assets into a more efficient market



01

Acquire small company at low valuation through less efficient process

02

Professionalize management

03

Implement operational best practices

04

Scale through organic growth and M&A

05

Run more efficient auction process for strategics and larger private equity funds

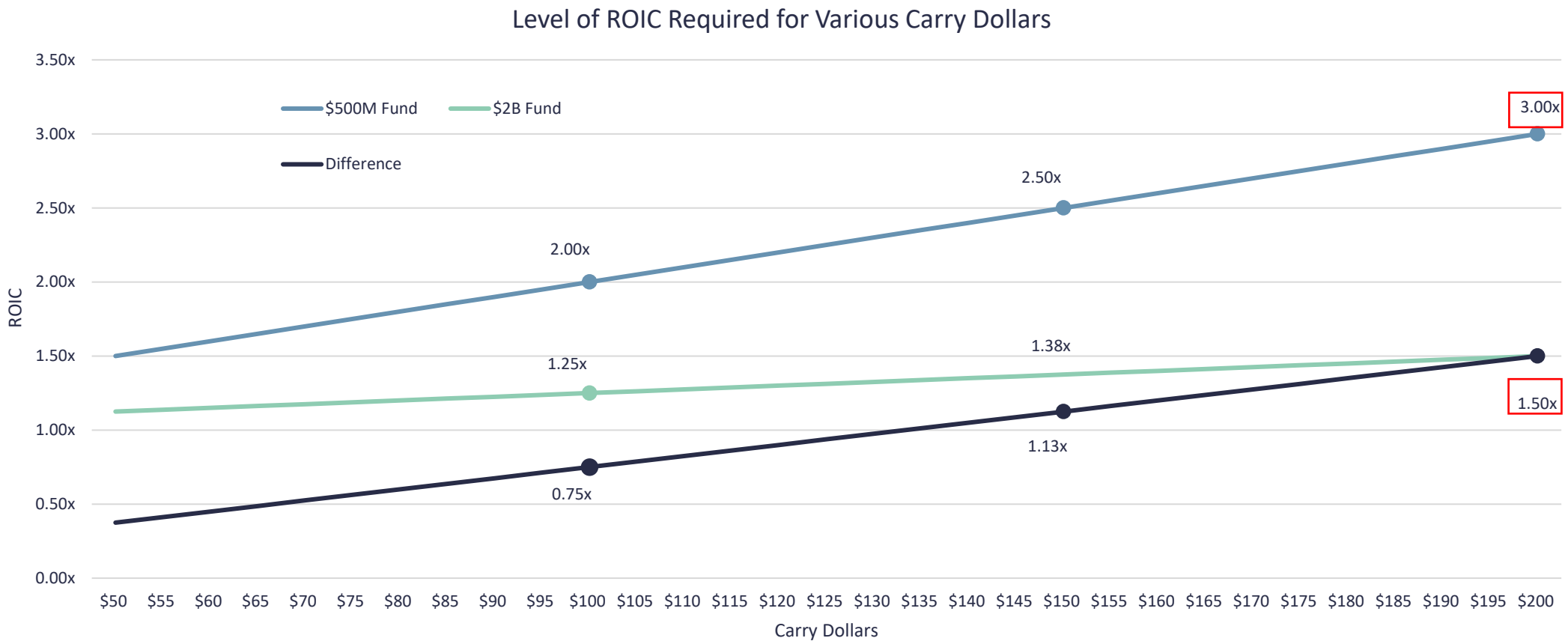
06

Sell larger, higher quality company at higher valuation multiple into market with more capital and leverage

The information provided in this slide is for illustrative purposes only and represents the characteristics of a lower middle market investment typically associated with positive outcomes. Actual results may vary significantly and are not guaranteed. Past performance does not predict, and is not a guarantee of, future results. Private equity investments (including lower middle market investments) involve significant risks, including the potential loss of an investor's entire investment.

Better alignment between LPs and GPs

Managers raising smaller pools of capital need a higher level of performance to generate the same carry

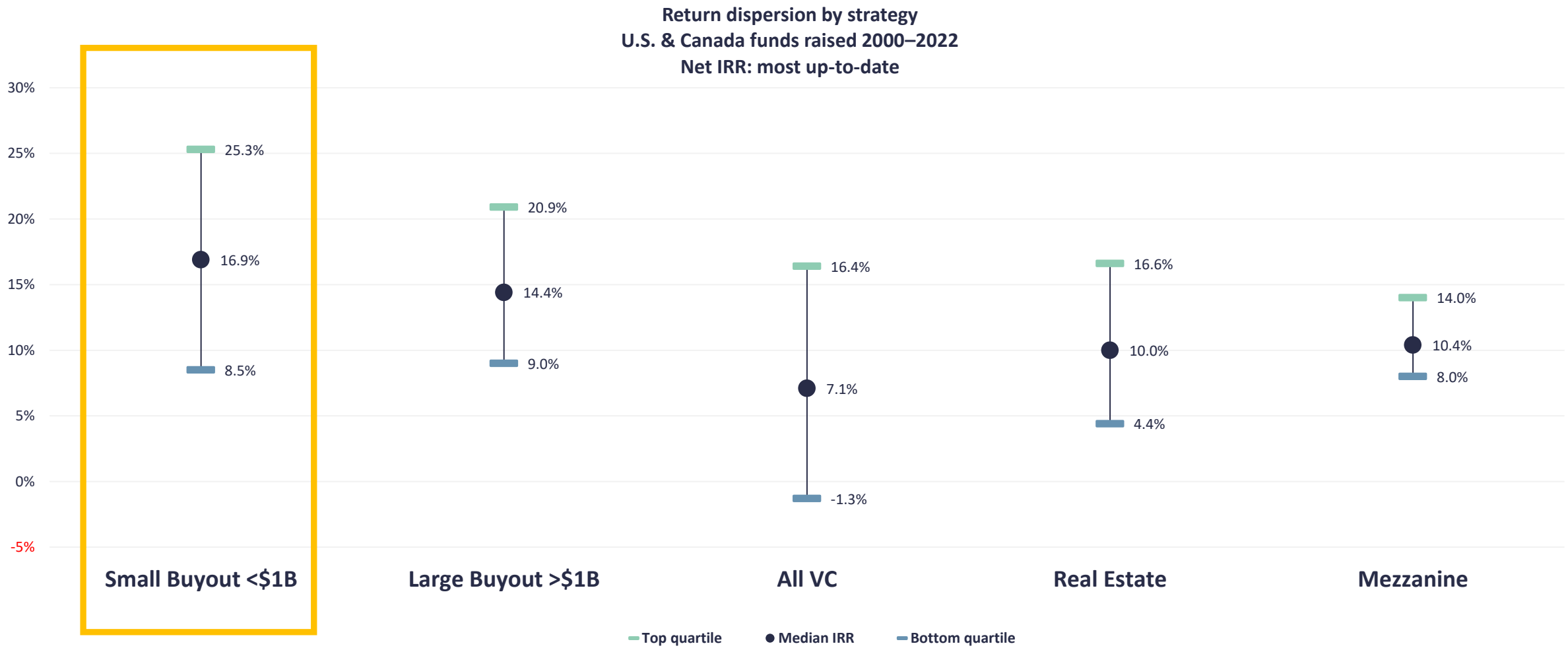


» **Larger fund managers can achieve same level of carry per partner with lower returns:** When fund size increases by 400% from $500M to $2B there is generally only a 75% increase in number of senior investment partners (from a median of 4 to a median of 7)

Source: GPScout. The scenarios above assume that a fund invests at its full capacity with 20% carried interest. **No hurdle rate is assumed or applied.** This Thought Piece and all information contained herein is being provided solely for educational and informational purposes and may not be relied on in any manner as, legal, tax or investment advice or as an offer to sell or a solicitation of an offer to buy an interest in any investment sponsored by RCP or be construed as an offer to sell or a solicitation of an offer to buy any securities or investment products.

LOWER MIDDLE MARKET BUYOUTS HISTORICAL OUTPERFORMANCE

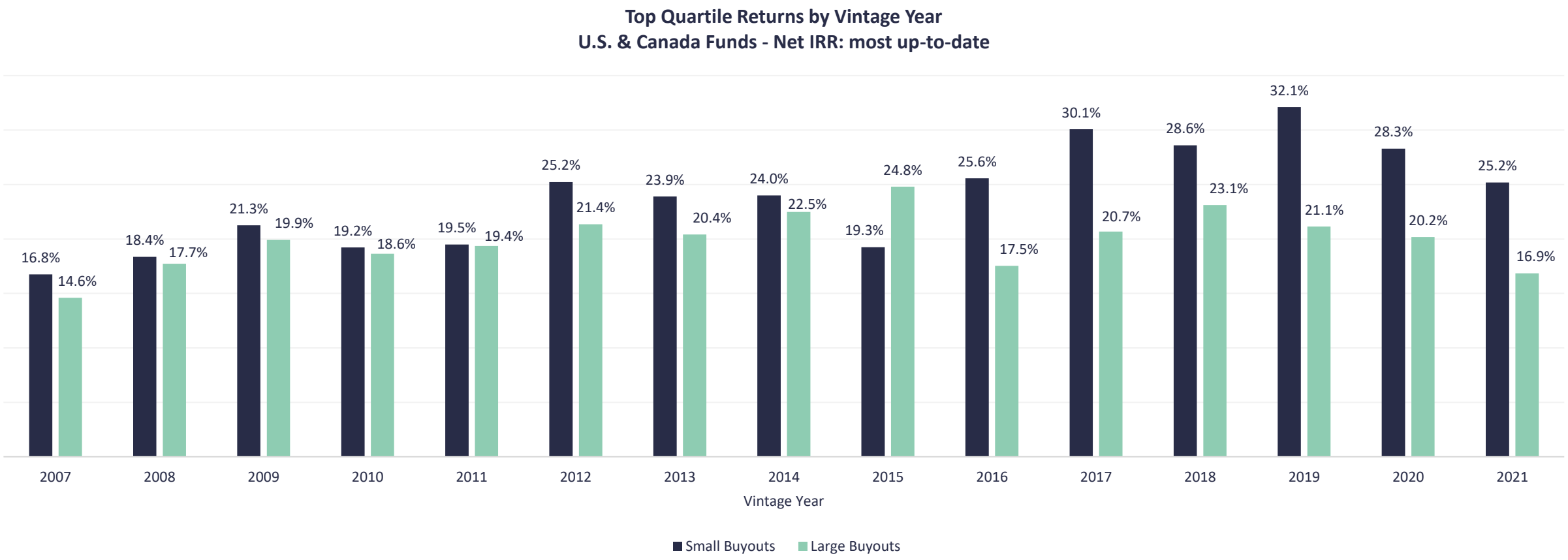
Small buyouts have historically provided attractive returns… manager selection is critical



Past performance does not predict, and is not a guarantee of, future results. Private equity investments (including lower middle market investments) involve significant risks, including the potential loss of an investor's entire investment. Because the performance information contained herein relies on figures denominated in U.S. Dollars, returns may increase or decrease as a result of currency fluctuations. Source: Preqin. 1. Return dispersion by strategy – Preqin data most up-to-date performance as of 2/19/25.

LOWER MIDDLE MARKET BUYOUTS HISTORICAL OUTPERFORMANCE

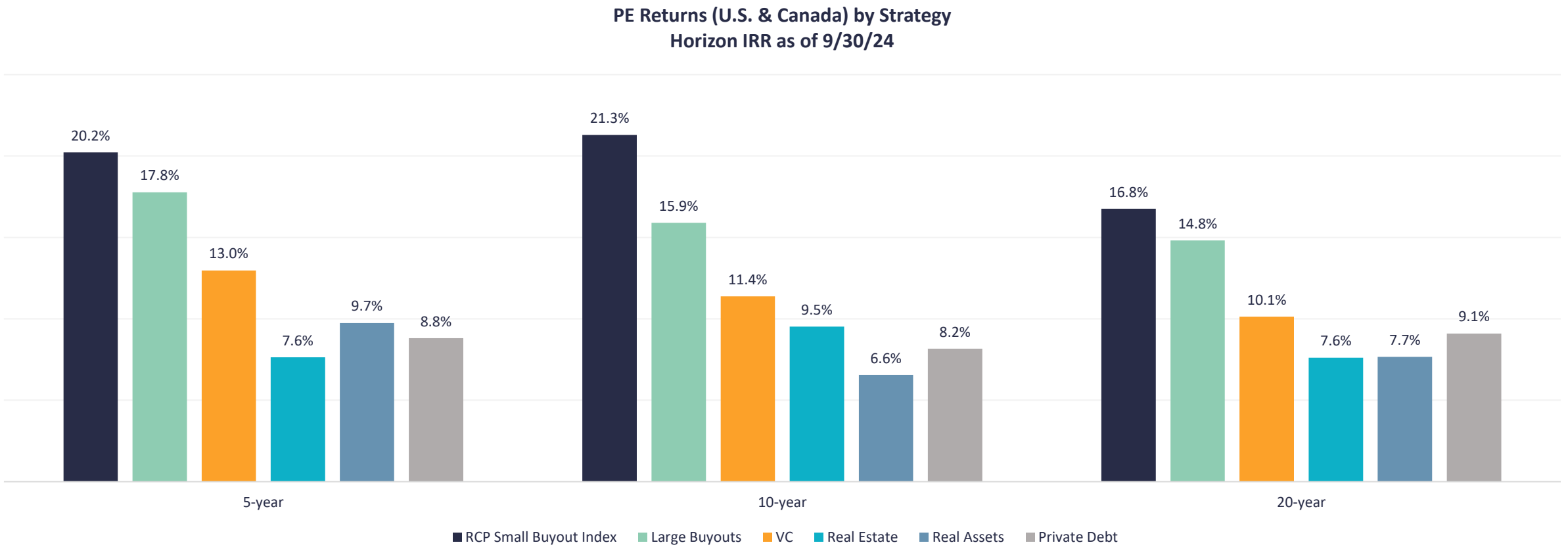
Small buyouts advantage across market cycles: Small buyouts top quartile returns have beaten large buyout top quartile in 14 of 15 vintage years from 2007 - 2021



Past performance does not predict, and is not a guarantee, of future results. Because the performance information contained herein relies on figures denominated in U.S Dollars, returns may increase or decrease as a result of currency fluctuations. There can be no assurance that a fund will achieve comparable results as any prior investments or prior investment funds of RCP. Source: PitchBook. Funds raised between 2007–2021 Net IRR by vintage as of 2/3/24. Unlike a fund, indices are unmanaged, are not available for investment, and do not incur expenses. Note: All references to fund metrics and performance contained in this Thought Piece are qualified in their entireties by reference to all of the notes contained in the Appendix. The explanatory notes and methodology contained in those notes should be carefully reviewed in full.

LOWER MIDDLE MARKET BUYOUTS HISTORICAL OUTPERFORMANCE

Small buyouts have historically provided attractive returns vs. other asset classes over various time frames

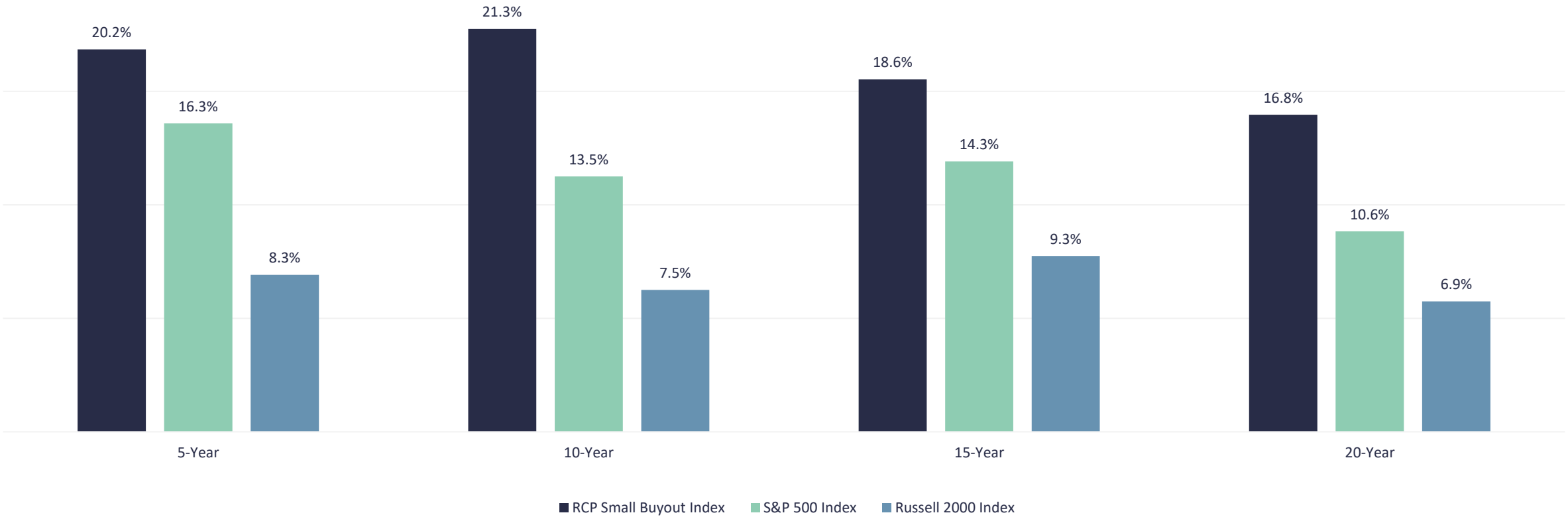


Past performance does not predict, and is not a guarantee of, future results. RCP's investment strategy is subject to significant risks and there is no guarantee that any RCP Fund will achieve comparable results as any prior investments or prior investment funds of RCP. Because the performance information contained herein relies on figures denominated in U.S. Dollars, returns may increase or decrease as a result of currency fluctuations. Source: RCP Advisors (GPScout), and PitchBook. RCP Small Buyout Index – The index is a horizon calculation based on data compiled from 253 U.S. and Canada buyout funds <$1B from RCP's primary and small and emerging manager portfolios, including fully liquidated partnerships, formed between 1999 and 2024. RCP does not guarantee access to these types of funds. The index used is pooled horizon internal rate of return (IRR). Calculated net of underlying fees and expenses, gross of RCP fees and expenses. Because Gross IRR does not reflect the deduction of RCP's fees and expenses, actual returns are less than what is shown. RCP's fees and expenses are described in Part 2 of RCP's Form ADV. Ppitchbook private equity strategies – These indexes are a horizon calculation based on data compiled from 7,867 U.S. and Canada funds, including fully liquidated partnerships formed between 2004 and 2024. Pooled horizon return, net of fees, expenses, and carried interest.

LOWER MIDDLE MARKET BUYOUTS HISTORICAL OUTPERFORMANCE

Small buyouts have historically outperformed the public markets

RCP Small Buyout Index (U.S. & Canada)[1] vs. Public Market Annualized Returns as of 9/30/24

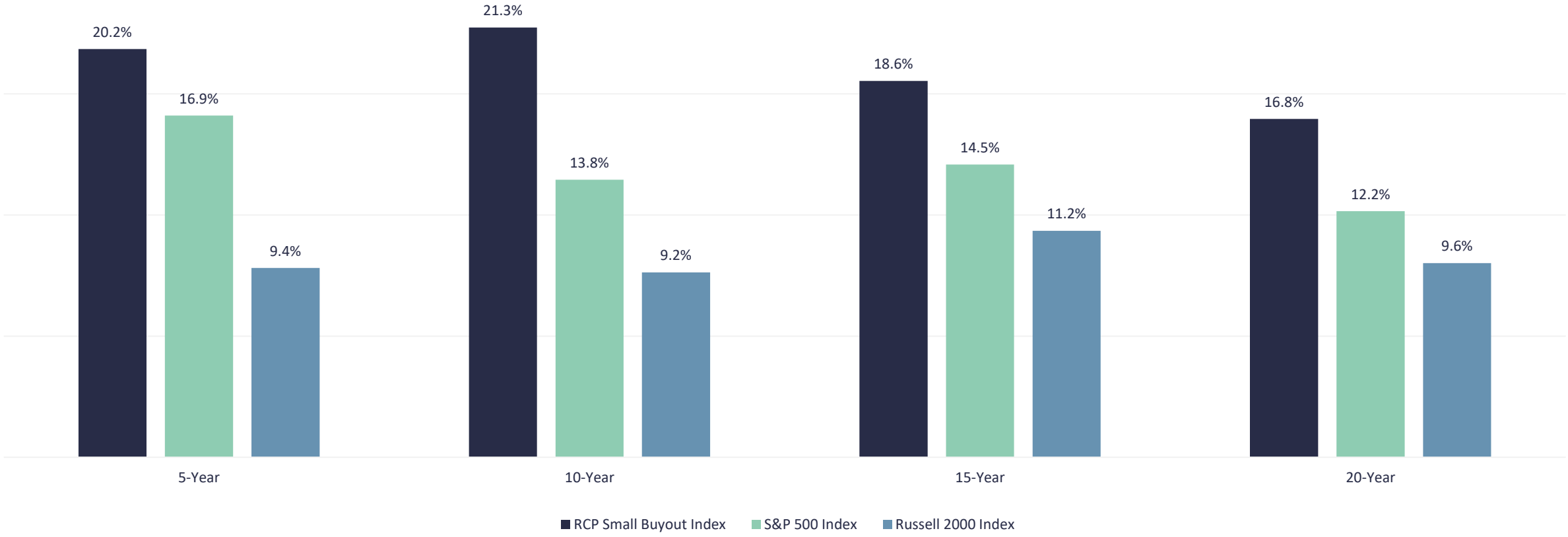


Past performance does not predict, and is not a guarantee of, future results. RCP's investment strategy is subject to significant risks and there is no guarantee that any RCP Fund will achieve comparable results as any prior investments or prior investment funds of RCP. Because the performance information contained herein relies on figures denominated in U.S. Dollars, returns may increase or decrease as a result of currency fluctuations. Source: Cobalt, GPScout, Frank Russell Company, and Standard & Poor's. 1. RCP Small Buyout Index – The index is a horizon calculation based on data compiled from 257 U.S. and Canada buyout funds <$1B from RCP's primary and small and emerging manager portfolios, including fully liquidated partnerships, formed between 1999 and 2024. RCP does not guarantee access to these types of funds. Private indexes are pooled horizon internal rate of return (IRR). Calculated net of underlying fees and expenses, gross of RCP fees and expenses. Because Gross IRR does not reflect the deduction of RCP's fees and expenses, actual returns are less than what is shown. RCP's fees and expenses are described in Part 2 of RCP's Form ADV. Performance metrics are preliminary, estimated and subject to change.

LOWER MIDDLE MARKET BUYOUTS HISTORICAL OUTPERFORMANCE

Small buyouts have historically outperformed the public markets when using a PME comparison

RCP Small Buyout Index (U.S. & Canada)[1] vs. Public Market Equivalent (PME+)
Horizon Pooled Net Gross IRR as of 9/30/24



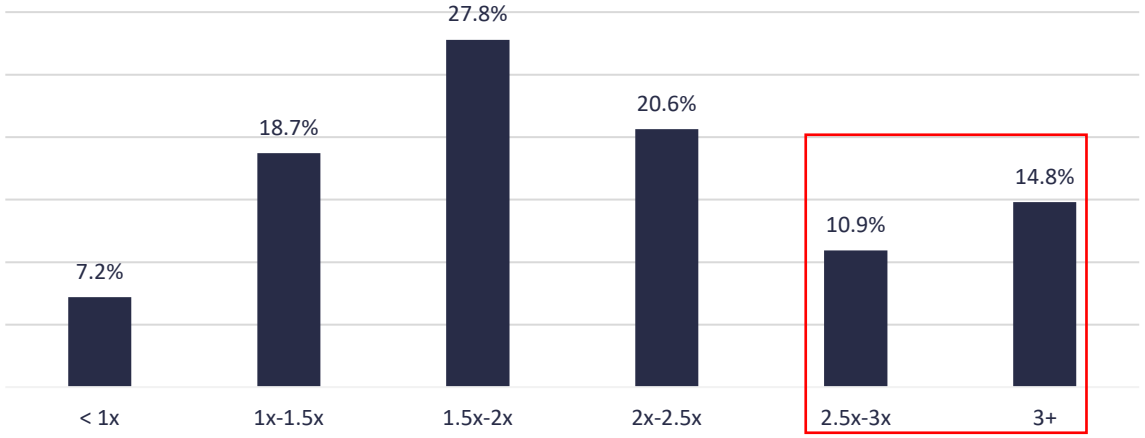
Past performance does not predict, and is not a guarantee of, future results. RCP's investment strategy is subject to significant risks and there is no guarantee that any RCP Fund will achieve comparable results as any prior investments or prior investment funds of RCP. Because the performance information contained herein relies on figures denominated in U.S. Dollars, returns may increase or decrease as a result of currency fluctuations. Source: Cobalt, GPScout, Frank Russell Company, and Standard & Poor's. 1. RCP Small Buyout Index – The index is a horizon calculation based on data compiled from 257 U.S. and Canada buyout funds <$1B from RCP's primary and small and emerging manager portfolios, including fully liquidated partnerships, formed between 1999 and 2024. RCP does not guarantee access to these types of funds. Private indexes are pooled horizon internal rate of return (IRR). Calculated net of underlying fees and expenses, gross of RCP fees and expenses. Because Gross IRR does not reflect the deduction of RCP's fees and expenses, actual returns are less than what is shown. RCP's fees and expenses are described in Part 2 of RCP's Form ADV. Performance metrics are preliminary, estimated and subject to change.

LOWER MIDDLE MARKET BUYOUTS HISTORICAL OUTPERFORMANCE

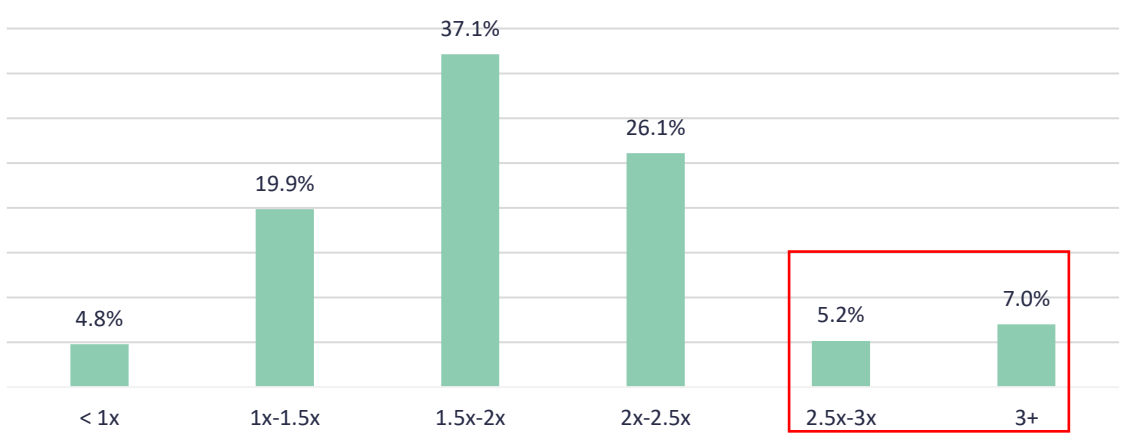
Small buyout funds have historically outperform larger buyout funds

Funds under $1B in size have better overall returns and higher potential for outperformance

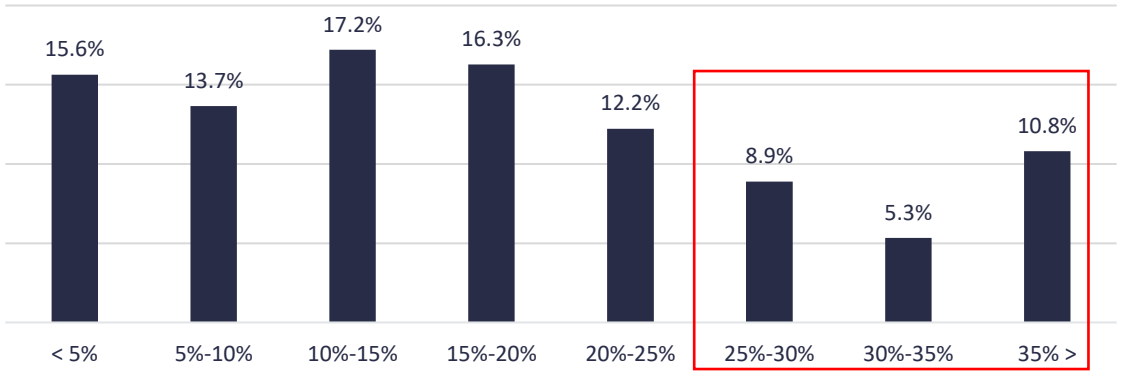
TVPI: Small Buyouts <$1B (U.S. and Canada)



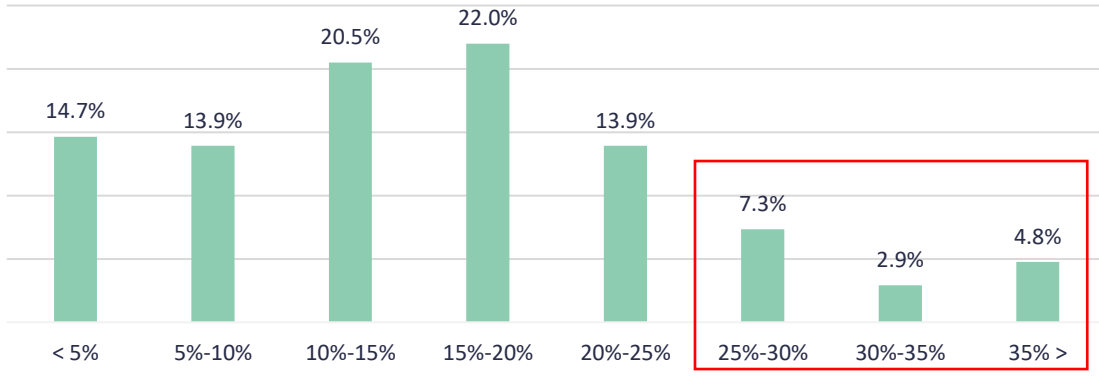
TVPI: Large Buyouts >$1B (U.S. and Canada)



Net IRR: Small Buyouts <$1B (U.S. and Canada)



Net IRR: Large Buyouts >$1B (U.S. and Canada)

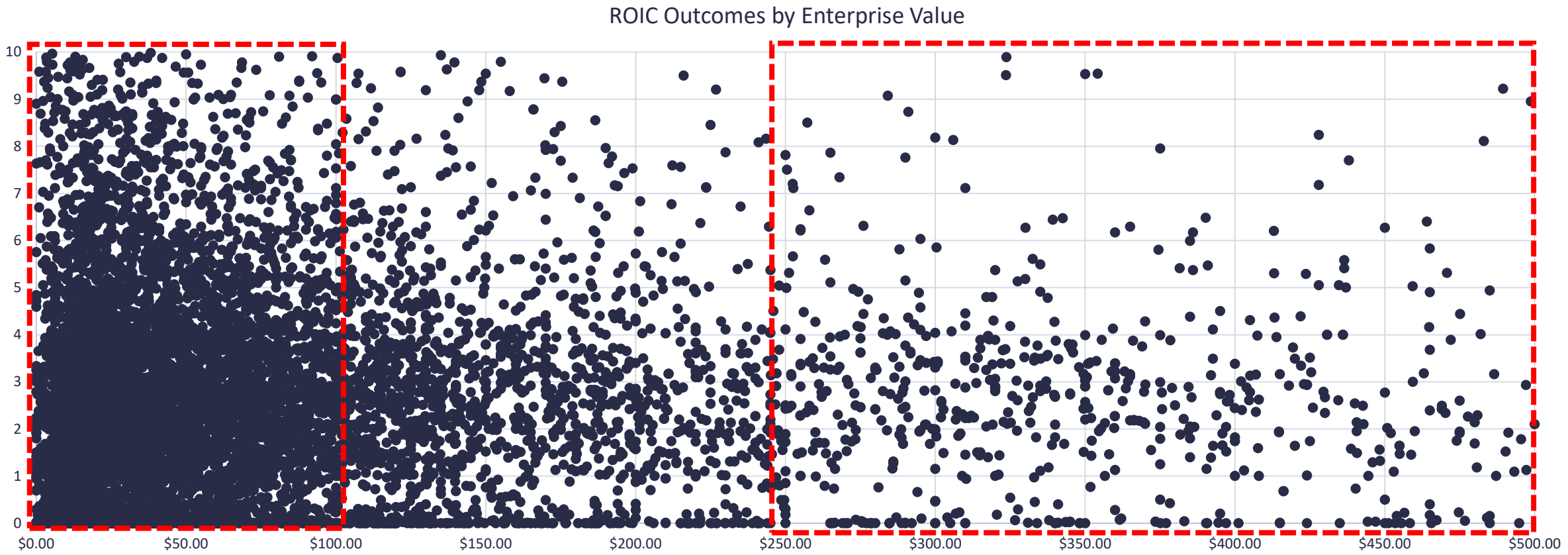


Past performance does not predict, and is not a guarantee of, future results. RCP's investment strategy is subject to significant risks and there is no guarantee that any RCP Fund will achieve comparable results as any prior investments or prior investment funds of RCP. Because the performance information contained herein relies on figures denominated in U.S. Dollars, returns may increase or decrease as a result of currency fluctuations. Source: GPScout, Small Buyouts <$1B – based on data compiled from 1,400 U.S. and Canada buyout funds <$1B formed between 1986 and 2021. Small Buyouts >$1B – based on data compiled from 272 U.S. and Canada buyout funds >$1B formed between 1986 and 2021. As of 9/30/24. RCP does not guarantee access to these types of funds. ROIC: gross of fees, expenses, and carried interest.

LOWER MIDDLE MARKET BUYOUTS HAVE HISTORICALLY LED TO BETTER RETURNS

Outsized returns have occured more often in smaller deals

Opportunity for 5x+ ROIC Outcomes Nearly Twice as Likely in Small Buyouts (<$100M EV) v Larger Deals ($250M+ EV)



Out of 9,310 fully realized observations, ~19% of Deals with less than $100M EV have generated a 5x+ ROIC

Only ~10% of deals at $250M+ EV have generated 5x+ ROIC

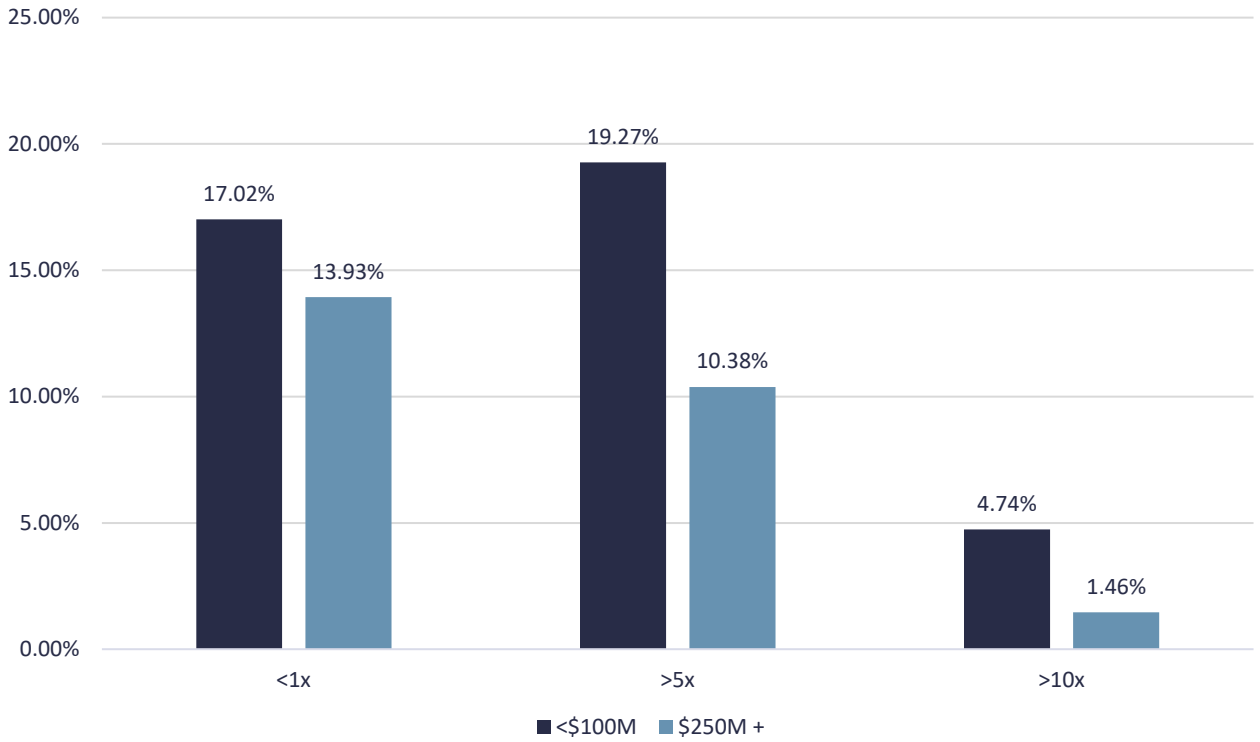
Past performance does not predict, and is not a guarantee of, future results. This Thought Piece and all information contained herein is being provided solely for educational and informational purposes and may not be relied on in any manner as, legal, tax or investment advice or as an offer to sell or a solicitation of an offer to buy an interest in any investment sponsored by RCP or be construed as an offer to sell or a solicitation of an offer to buy any securities or investment products. Source: GPScout. Data reflects deals occurring between 1996 and 2024. Number of observations <$100M in enterprise value: 8,415; number of observations with >$250M in enterprise value: 1,962.

LOWER MIDDLE MARKET BUYOUTS HAVE HISTORICALLY LED TO BETTER RETURNS

Very attractive return distribution for deals <$100M in enterprise value

Deals less than $100M in EV have historically had a much greater chance to outperform with only slightly higher chance of impairment

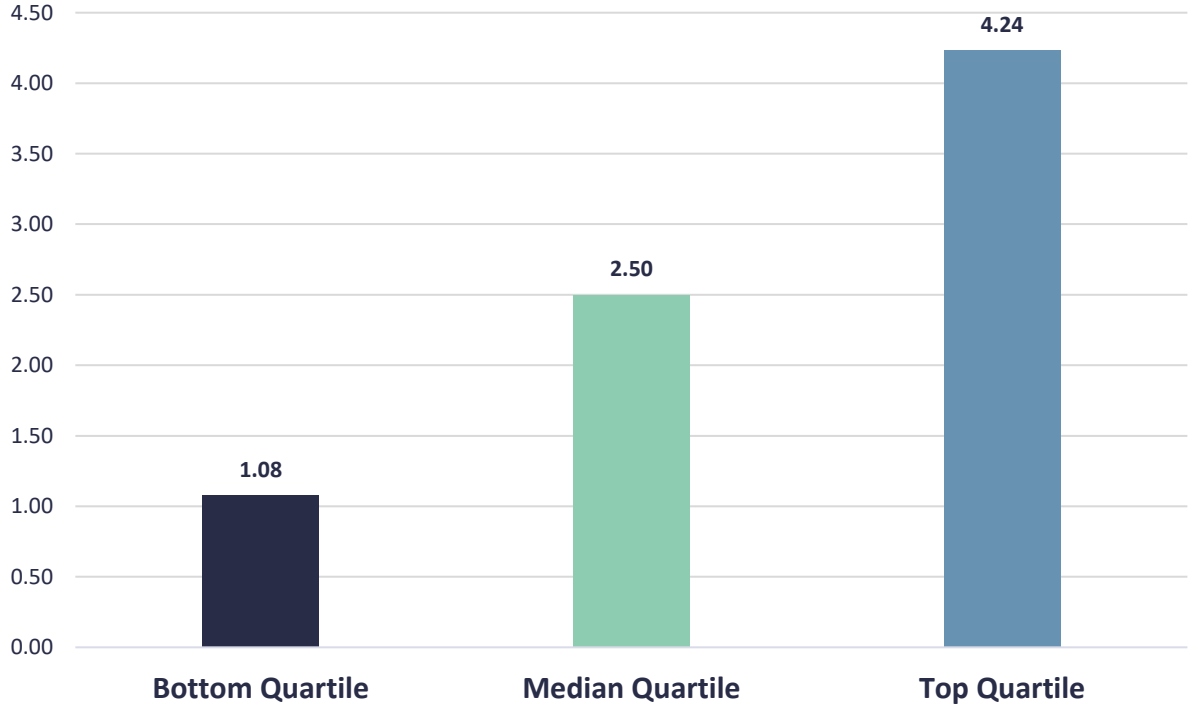
Impairment vs Homeruns



» Deals with <$100M of Enterprise Value historically have been observed to have a much greater chance to outperform their larger counterparts, with nearly 20% of these deals achieving a 5x+ ROIC and nearly 5% of these deals achieving a 10x+ ROIC compared to 10.4% and 1.5% for larger deals.

» The % of outcomes where a portfolio company did not return capital (<1x ROIC) is 17.02% for <$100M EV investments, which is only about 3% higher than the $250M+ EV investments at 13.93%

ROIC Quartiles for companies <$100M Enterprise Value



» For deals with enterprise values less than $100M at entry, the median realized outcome is 2.50x with the top quartile of the distribution generating a 4.24x ROIC

» Bottom quartile of the returns distribution in smaller deals is 1.08x ROIC; even the tougher deals are still typically returning capital

Past performance does not predict, and is not a guarantee of, future results. This Thought Piece and all information contained herein is being provided solely for educational and informational purposes and may not be relied on in any manner as, legal, tax or investment advice or as an offer to sell or a solicitation of an offer to buy an interest in any investment sponsored by RCP or be construed as an offer to sell or a solicitation of an offer to buy any securities or investment products. Source: GPScout. Data reflects deals occurring between 1996 and 2024. Number of observations <$100M in enterprise value: 8,415; number of observations with >$250M in enterprise value: 1,962.

Appendix

APPENDIX

Notes

This Thought Piece 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.

Comparison to Public Market Equivalent Indices. Performance of broad public market indices, such as the S&P 500, are for informational purposes only and do not provide a basis of comparison for private equity fund investments as the market volatility, liquidity and other characteristics of private equity fund investments are materially different from those of broad public market indices.

Comparison to Alternative Investment Indices/Benchmarks. Comparisons to alternative investment indices/benchmarks are subject to material inherent limitations. Data included in alternative investment indices or benchmarks generally do not represent the returns of all funds but rather only those to which the index/benchmark provider has access. The number of funds included in the index/benchmark data for a specific vintage year will likely vary. Moreover, performance information for all funds within a specific category may differ from those reported by the index/benchmark provider. Additionally, the universe from which the components of an alternative investment index/benchmark are selected include a significant element of "survivor bias" into the reported levels of an index/benchmark, as generally only successful funds will continue to report for the required period. Accordingly, indexation of alternative investment strategies tends to overstate the beneficial aspects of these strategies while obscuring certain risks, including the "risk of ruin."

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 Thought Piece 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 and smaller deals.

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 4/17/2025, GPScout contains information on 5,600+ fund managers and more than 10,500 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.

PitchBook Data, Inc.: PitchBook is an independent and impartial research firm dedicated to providing premium data, news and analysis to the venture capital and private equity industries. As a specialty-focused information resource, PitchBook has the ability to meticulously collect, organize and analyze hard-to-find private equity deal data. Pitchbook has over 220,000 web crawlers to capture relevant information from numerous sources—including filings, press releases, websites and more.

Preqin: Preqin Performance Analyst provides performance on 10,500+ separate vehicles managed by over 2,200 private equity firms from all over the world. Preqin maintains this data using a number of different methods, including collecting performance information directly from fund managers themselves, and also from requesting information from public institutional investors. All this private equity data is at a fund level, and is net to the investor.

S&P Capital IQ: A multinational financial information provider headquartered in New York City, United States, and a division of S&P Global. S&P Capital IQ was formed in 2010 from offerings previously provided by Capital IQ, elements of S&P including Global Credit Portal and MarketScope Advisor, enterprise solutions such as S&P Securities Evaluations and Compustat, research offerings including Leveraged Commentary & Data, Global Markets Intelligence, and company and fund research.

APPENDIX

Notes

Terms

Full Realizations: count of every exited company (based on exit date) in each RCP Fund. Additionally, it includes any company that has been sold on the secondary market through RCP's secondary sale of an underlying fund (based on the secondary sale date).

Management fees effect: As an example, the effect of investment management fees on the total value of an investor's portfolio assuming (a) quarterly fee assessment, (b) $1,000,000 investment, and (c) annual management fee equal to 1.00% of the investor's capital commitment starting from the first closing date of the fund followed by a 0.75% annual management fee after the fifth anniversary of the first closing date and continuing through the tenth anniversary of the first closing date would be $10,000 in the first year, and cumulative effects of $50,000 over five years and $87,500 over ten years. Actual investment advisory fees incurred by clients may vary. Management fees effect" disclaimer as follows: Please note: the compounding effect on the total rate of return net of management fees is not included in the example as it is not applicable to the commitment-based management fee charged to investors in RCP's fund-of-funds vehicles.

Median Purchase Price Multiple at acquisition: observations at 0.0x are excluded (signal that company was not bought based on EBITDA multiple – i.e., revenue multiple, book value multiple, OR negative EBITDA); observations above 35x are excluded.

Median Net Debt at acquisition: excludes multiples where EBITDA is negative; includes 0x observations where no debt was utilized; observations above 35x are excluded.

Portfolio Companies: Number of operating companies in each RCP Fund (does not include merged portfolio companies). For secondary funds, operating companies exited by the Fund underlying fund prior to the secondary investment date and holding exit date are excluded.

Acquisition Growth: A business strategy where one company buys another to achieve rapid expansion. It can open up new markets, geographies, and industries, can bring new assets into the portfolio—recognizable brands, intellectual property, key capabilities, or talent, and often involves transactions that require large amounts of capital, and requires focus on the merger or acquisition itself instead of the core business.

CAGR: The Compound Annual Growth Rate is the mean annual growth rate of an investment over a specified period of time longer than one year. To calculate compound annual growth rate, divide the value of an investment at the end of the period in question by its value at the beginning of that period, raise the result to the power of one divided by the period length, and subtract one from the subsequent result.

EBITDA: An indicator of a company's financial performance which is calculated in the following manner: EBITDA = Revenue -Expenses (excluding tax, interest, depreciation and amortization). EBITDA is essentially net income with interest, taxes, depreciation, and amortization added back to it, and can be used to analyze and compare profitability between companies and industries because it eliminates the effects of financing and accounting decisions.

Leverage: The use of borrowed money to increase the potential returns on an investment. Leverage is a strategy that involves using debt to finance an investment or project. The goal is to increase the potential returns on the investment, assuming it increases in value.

Multiple Expansion: A private equity strategy that involves purchasing an asset and selling it at a higher valuation multiple than the original purchase price. Multiple expansion is a type of arbitrage that private equity firms use to increase their profits. It's a fundamental strategy in private equity, especially when acquiring smaller companies to combine into a larger entity.

Organic Growth: A business's growth that comes from internal resources and strategies, such as sales, marketing, and search engine optimization. Generally, is considered to be a natural continuation. Organic growth is usually slower paced, fairly easy to control, doesn't typically require much extra upfront investments, keeps focus on core business.

APPENDIX

Notes

Terms

CAGR: The Compound Annual Growth Rate is the mean annual growth rate of an investment over a specified period of time longer than one year. To calculate compound annual growth rate, divide the value of an investment at the end of the period in question by its value at the beginning of that period, raise the result to the power of one divided by the period length, and subtract one from the subsequent result.

EBITDA: EBITDA is an indicator of a company's financial performance which is calculated in the following manner: EBITDA = Revenue -Expenses (excluding tax, interest, depreciation and amortization). EBITDA is essentially net income with interest, taxes, depreciation, and amortization added back to it, and can be used to analyze and compare profitability between companies and industries because it eliminates the effects of financing and accounting decisions.

IRR: Represents the internal rate of return of a "representative investor" in a particular Fund. IRR is a time-weighted average expressed as a percentage. The IRR of an investment is the discount rate at which the net present value of costs (negative cash flows) of the investment equals the net present value of the benefits (positive cash flows) of the investment, including the current value of unrealized investments.

Leverage: The use of borrowed money to increase the potential returns on an investment. Leverage is a strategy that involves using debt to finance an investment or project. The goal is to increase the potential returns on the investment, assuming it increases in value.

Median Purchase Price Multiple at acquisition: observations at 0.0x are excluded (signal that company was not bought based on EBITDA multiple – i.e., revenue multiple, book value multiple, OR negative EBITDA); observations above 35x are excluded.

Median Net Debt at acquisition: excludes multiples where EBITDA is negative; includes 0x observations where no debt was utilized; observations above 35x are excluded.

Median LTM Revenue and EBITDA represent financials at acquisition (provided by GP). If LTM is unavailable, represents performance provided by GP at time of acquisition on which valuation was based on – includes projections in some cases. For secondary funds, LTM represent financial performance at time of the original fund acquisition (not necessarily when purchased by SOF I, II, III, and IV). Please note, no currency adjustments were made for these metrics. Other factors to consider: no adjustments are made for proforma add-ons or earn-outs (EV, purchase price multiple, debt multiple, LTM Rev/EBITDA); and direct co-investments in earlier funds are excluded. The median purchase price multiples exclude growth equity deals purchased off of a revenue multiple.

PME+ Defined IRR: represents the internal rate of return of the Fund. IRR is a time-weighted average expressed as a percentage. The IRR of an investment is the discount rate at which the net present value of costs (negative cash flows) of the investment equals the net present value of the benefits (positive cash flows) of the investment, including the current value of unrealized investments.

Public Market Equivalent (PME) and PME+: IRR and cash multiples have been the standard of benchmarking, but one of their main drawbacks is that they cannot be directly compared to indices that are used in mainstream asset classes. Public-market equivalent benchmarks (PMEs) effectively address this problem, making it possible to directly compare alternative asset fund performance to the performance of indexed asset classes by using fund-level cash flows. As there are multiple ways to calculate a PME, RCP Advisors has employed the PME+ method which to avoid negative NPVs, scales the distributions by a factor λ such that the public NAV at the end is equivalent to the private NAV. The private equity fund and the fictive fund have the same capital calls and the same final NAV, but different distributions. PME accumulates the outperformance or underperformance in the final NAV, whereas PME+ spreads it over time across all distributions. Additionally, PME+ ensures that the number of public shares remains positive and, therefore, avoids the shortness issue. PME and PME+ are relatively simple as well as intuitive and are both widely used in the private equity industry.

RCP / Advisors

Get in touch

312.266.7300
rcp@rcpadvisors.com
Follow us on LinkedIn

Chicago Office

353 N. Clark Street
Suite 3500
Chicago, IL 60654

Dallas Office

4514 Cole Avenue
Suite 1600
Dallas, TX 75205