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The Revenue Engine

Don't Miss a Month

How Early Value Creation Planning Drives Top-Quartile Returns

Executive Summary

- Achieving top-quartile returns in PE requires growth planning to begin even before deal close
- Many firms lose valuable early months of the hold period if they miss the critical window created during diligence to start work on the value creation plan
- **Quality of Revenue (QoR) diligence** is conducted during the deal process to enable faster execution post-close by:
  - Building a strong fact base to drive commercial growth strategy
  - Aligning the sponsor and management teams from the outset of the hold period
  - Ensuring key growth initiatives are identified and launched as soon as possible to maximize impact
- Integrating QoR during diligence accelerates time-to-value and drives stronger DPI

Nine years ago, Blue Ridge Partners CEO, Jim Corey, penned an article called The Lost Years, warning that failing to focus on revenue growth from Year One of the hold period came at a high cost. Many PE firms now recognize that cost, particularly as high interest rates, longer hold periods, and more challenging exits have put increasing pressure on DPI.

Illustrative Example: The Impact of Beginning the VCP 9 Months Earlier

Input Assumptions: Company starts with $100M in annual revenue
Baseline 15% growth rate, which becomes 25% under the VCP

		Base	VCP
		VCP begins month 9	VCP begins month 1
YEARLY REVENUE ($M)	Year 1	108	112
	Year 2	137	147
	Year 3	180	192
	Year 4	235	251
	Year 5	196	210
Exit Multiple		6.5x	7x
Enterprise Value ($M)		1276	1467
Valuation Difference		191	

In response, we have seen sponsors become increasingly proactive about their VCPs and start work with management early in the hold period. Instead of lost years, then, we now more often see "lost months." Why do sponsors still accept even those lost months?

> **Starting a VCP 9 months sooner – right after close – could yield 10-15% valuation increase at exit**

Top-quartile DPI performers cannot afford to lose a month. They begin planning for close and constructing the VCP during diligence, leveraging the opportunity to request data and build a fact base that can support conversations on value creation immediately post-close.

Quality of Revenue (QoR) diligence is designed to drive value creation planning from the earliest possible period, during diligence. QoR provides a thorough understanding of the commercial capabilities needed to deliver the growth plan. By building a fact base and supporting context that can be deployed as soon as the hold period begins, QoR provides a point of view for operating partners to encourage open and productive management conversations from Day 1.

Top-performing PE firms recognize that unlocking growth opportunities early in the hold period has an outsized impact on DPI. They start planning for exit during diligence, so that they don't miss a month.

What a Difference a Month Makes - A Situation Inspired By Real Events

No One's First Priority During Diligence

In the lead-up to investment committee approval, the typical PE deal team principal is focused on closing the deal and ensuring the thesis holds up under scrutiny. His mind is consumed with defending valuation, confirming the capital structure, and making sure there are no surprises in legal, accounting, or operational diligence. He's balancing pushback from senior partners, who want to stress test every assumption, while coordinating with lenders to ensure the right debt package is in place.

Commercial topics like GTM structure and pricing are not front and center as IC approaches. Our Principal is counting on the Operating Partner to provide a diagnosis of the commercial organization. She will; she's had

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time to review some of the deal documents and projections and noted a few key weaknesses and opportunities in the commercial organization. However, she lacks the bandwidth to review the data in detail, conduct external interviews, or start work on the VCP; other PortCos take higher priority.

The team is therefore relying on general GTM expertise, high-level growth projections from a market study, and a few customer calls to understand red flags. Commercial data analytics are limited. These are enough to check the box on GTM and keep the deal moving over the finish line. Figuring out the VCP itself can wait for the first 100 days.

Post-Close Reality

Once the deal closes, our typical PE principal – after popping his bottle of champagne to celebrate what will certainly be the defining deal of his career – graciously accepts the opportunity to sit on the Board of his hard-won PortCo. He is pleased to be a part of unlocking TargetCo's value and realizing its opportunities.

He introduces the Operating Partner to the management team. A PMO is chosen to spearhead the creation of the VCP. It's the honeymoon period, and everything is off to a good start.

Sixty days after close, the Board has its first meeting. The CEO talks about on-target revenue projections, and the PMO reviews a high-level VCP that has been constructed over the past month. The principal notes that these high-level priorities of the VCP lack tactical detail or defined owners. He asks about the lack of data underpinning some of the VCP's initiatives. The PMO assures the Board that the data request related to the VCP is next in the queue; the data team has been focused on finishing updates to the CRM. That's also a high priority, so our Principal is placated. However, he resolves to keep the pressure on at the next Board meeting.

Despite a proactive and disciplined approach, many months were still lost that cannot be recovered

Three months later, at five months post-close, our Principal-turned-Board member is back in his seat. This time there is data to back up the VCP, but our Board member is more concerned now that he is seeing the story laid out by the data. Of course there should be an initiative focused on the pipeline – why are there so few leads? Yes, pricing should be an area of focus – why is discounting so high? It looks like maybe the Operating Partner will need to be more involved here than he first anticipated.

The Principal asks for the Operating Partner to lean in on next steps at the PortCo. She is able to reshuffle priorities to get started immediately, and within a month, there is a well-defined VCP with clear owners, next steps, and timelines. It looks like the PortCo will need an external consultant to deal with pricing, though, and management is slow to free up budget and meet with potential parties. By the time the consultant is hired and the pricing study is complete, it's nine months post-close. 15% of the holding period is gone. Despite our Principal's proactive and disciplined approach, many months were still lost that cannot be recovered.

Not Missing a Month: Planning for Exit from Diligence

Someone's First Priority During Diligence

In an alternate reality, our Principal, still running fast and focused on a dozen critically important aspects of his deal, hires external Quality of Revenue (QoR) diligence support. QoR conducts a thorough evaluation of the gaps in the commercial capabilities required to deliver on the post-close growth trajectory. It identifies and quantifies the key levers that a management team should pull to maximize revenue acceleration. It lays out a high-level action plan, noting the difficulty associated with pulling specific levers.

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GTM and pricing have now become someone's first priority during diligence. The QoR team requests relevant commercial data from the management team as part of the usual course of diligence. Over the three weeks of QoR, the QoR team spends approximately 500 labor hours assessing the current state of the Target's commercial engine and optimizing a post-close growth plan. By the time the deal has closed, a revenue growth VCP is ready for discussion with the management.

A New Conversation

Now our Principal-turned-Board member has a much clearer understanding of gaps in commercial leadership, key functions, and key processes that need to be addressed early on. He is entering the hold period with a much better understanding of how involved the Operating Partner will need to be in this PortCo. He is able to tag her from the outset, and the two of them meet with the management team early to discuss the commercial organization.

With data and a proposed path forward in hand, our Principal and Operating Partner are well-prepared to direct this conversation. They can point to trends in lead growth, customer churn, discounting, and sales turnover. They can ask for management's opinions on the challenges facing the commercial organization. They can ask whether management is aligned with the proposed next steps of the value creation plan, and if not, why. If external support is required, they can propose a team to management at the first meeting.

By six months into the hold period, key KPIs are already showing visible progress in the right direction

Sixty days after close, when the Board has its first meeting, multiple initiatives within the VCP have already reported significant progress and a new pricing regime is already being launched. This time there has been no waiting for data or initiative leaders. By six months into the hold period, key KPIs are already showing visible progress in the right direction – the value creation plan is producing the type of gains that could support an early exit and higher DPI.

No More Wasted Time

For many PE firms, having a strong VCP in place six months after close that can deliver on growth targets already feels like a win. But this approach still wastes valuable months and momentum from the deal process. Too many firms do not ask for sufficient commercial data during diligence and do not enter the hold period with a clear plan. Then, reluctant to upset the honeymoon with management, they tread cautiously until they cannot afford to wait any longer. Setting up a VCP focused on the company's most important growth levers is something that can, and should, be done as early as possible – during diligence.

PE firms have come a long way in the past nine years. They no longer lose years before acting on growth initiatives. However, as earning top-quartile returns has become more challenging, early action has become more critical. Avoiding wasted years is no longer sufficient – now even wasting months is too costly. Firms that consistently identify and activate growth levers as early as possible will continue to outperform those that wait.

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Why Quality of Revenue (QoR)?

Blue Ridge Partners offers Quality of Revenue diligence: a fact-based forecast of a company's revenue performance over the first three years. QoR diligence provides:

- Greater conviction in bidding
- Faster start to organic growth acceleration
- Mitigation of downside surprises
- Earlier successful exits

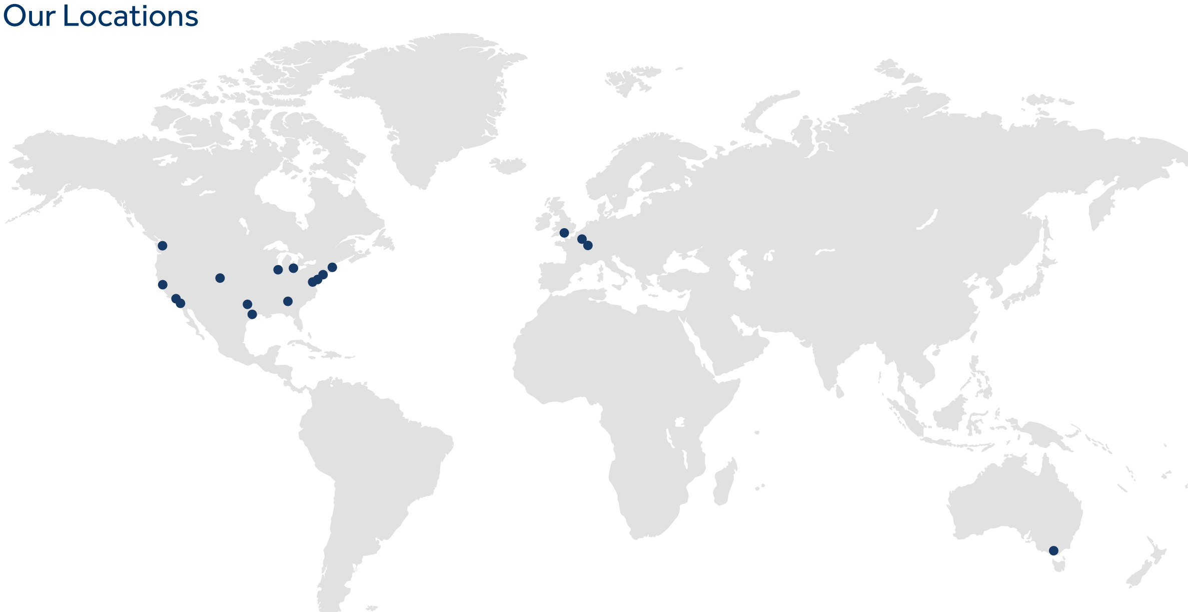
The most proactive and exit-focused PE firms prioritize growth early. They evaluate a target's QoR alongside its QoE and market context.

Why Blue Ridge Partners?

Blue Ridge Partners is recognized as the most experienced, impactful and respected firm that is exclusively focused on helping companies accelerate profitable revenue growth. We have worked with over 1,300 companies worldwide on commercial model transitions, strategic pricing engagements and due diligence assignments. We are known for rolling up our sleeves, being pragmatic in our analyses and delivering tangible results that focus on the "how" of execution. Based on our significant experience we have amassed extensive knowledge of the issues that affect revenue performance.

For further information please contact us at info@blueridgepartners.com or visit us at www.blueridgepartners.com.

Our Locations



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