day one growth

DAY ONE GROWTH RESEARCH · NO. 01

quality of growth

underwriting the operating system behind the deal model.

VERSION 1.0
JULY 2026
CIRCULATE FREELY

QofE validates the earnings you are buying.
QofG validates the growth you are underwriting.

01

CONTENTS

one number carries the deal model. this is the discipline for testing it.

history
What actually produced growth, and how much of it can reasonably repeat?

engine
What can the current operating system produce, at what cost, in what time?

underwriting
What evidence supports the modeled case, and what must be built?

WHAT IS PROVEN AND WHAT IS PROPOSED

Parts One and Two are built on published third-party research and one illustrative deal model of Day One Growth's own, each labeled where it appears. Parts Three and Four are methodology — a synthesis and a decision system, not predictive science. Page 28 states what the evidence does not yet support.

00 · A NOTE FROM THE FOUNDER

the number nobody owns.

A deal model is a long argument told in rows and columns. Most of the rows are checkable. Revenue last year happened. Gross margin happened. The lease expires when the lease expires. A team of accountants can spend six weeks confirming that the past was what management says it was, and they will hand you a document that is admirably difficult to argue with.

Then there is one number that has not happened yet.

It sits near the top of the model, expressed as a growth rate, and everything below it is downstream. Move it three points and the return case changes character. Move it five and it is a different deal. It is the most consequential assumption in the file and the only one that cannot be verified, because it describes a future nobody has observed.

Here is the strange part. Almost every diligence workstream touches that number. Often, no single workstream owns the reconciliation.

Financial diligence tests whether the earnings underneath it are real, then stops at the present. Commercial diligence tests whether the market is large enough and whether customers want the thing, then stops at the company's front door. Operational diligence examines whichever functions the scope happened to cover. The model itself is not diligence at all. It is arithmetic performed on other people's conclusions.

I spend my time inside private-equity-backed companies, operating across marketing, sales, product and AI, from lower-middle-market platforms up to enterprises with $400 to $700 million of revenue. The job is not generating ideas. There are always more ideas than capacity. It is turning a value-creation thesis into a small number of operating commitments that produce measurable revenue and EBITDA.

That vantage point exposes a recurring gap. The growth rate arrives at the investment committee as a kind of orphan. Everyone has seen it. Everyone has a view. Nobody has been asked to produce evidence that *this* company, with the people and systems it actually has, can generate it — and nobody has been asked to price what it would cost to build the parts that are missing.

For most of the last fifteen years that was survivable, because growth did not have to carry very much. Multiples rose. Debt was cheap. A company could compound earnings at five percent and still produce a respectable return, because the price paid and the price received were doing the real work. That arrangement has ended, and the arithmetic of its ending is not subtle.

Five percent could be assumed. Eleven has to be built. This paper publishes the current standard, including its limits. The method will improve through real engagements. The claims should improve only when the evidence does.

this paper is

an underwriting standard.

A way to reconcile historical growth, the current engine, the modeled case, and the first 100 days.

this paper is not

a claim of predictive proof.

The framework is a synthesis. Project Atlas demonstrates mechanics, not investment outcomes.

A sponsor should never have to wonder whether the growth verdict changed because the adviser wanted the execution work.

Nick McClish
FOUNDER · DAY ONE GROWTH

01 · THE THESIS

a growth rate looks like one assumption. it is a bundle of operating bets.

The deal model compresses market demand, customer behavior, pricing, capacity, talent, technology and timing into one percentage. Compression is useful. It is not the same as proof.

the category problem

Most funds already assess growth. Commercial diligence sizes the market and tests demand. Financial diligence validates historical performance. Operational diligence examines selected capabilities. Management assessment considers the team. **The problem is not absence. The problem is reconciliation.** Those workstreams can each be directionally right while the combined growth case is still wrong.

A model may assume share gain without identifying the motion that wins it. It may assume pricing without proving willingness to pay, cross-sell without customer ownership, new-logo growth without productive capacity, or digital leverage without usable data. Each assumption sounds reasonable alone. Together they can require an operating company that does not yet exist.

THE PROPOSED STANDARD

A pre-acquisition opinion on how durable, efficient, repeatable, controllable, scalable and transferable a company's growth really is, reconciling history, the current engine, the deal model, and the capabilities required to close the gap.

what changes in the investment decision

01 normalize

start with what actually happened.

Separate acquired revenue, market momentum, catch-up price, one-time projects, and true organic production.

02 quantify

turn the engine into equations.

Give every material dollar a lever, an input, a capability, a cost and a time to impact.

03 classify

put uncertainty in the right case.

Supported, conditional, upside and downside replace one blended assumption.

- **The execution gap becomes visible.** The output shows what business as usual produces versus what the underwritten case requires.
- **Uncertainty receives a home.** Supported growth enters the base, conditional growth receives explicit prerequisites, and unproven growth stays in upside.
- **The handoff begins before close.** Conditions become owners, investments, milestones, kill criteria, and the first 100-day agenda.

**QofE adjusts EBITDA.
QofG adjusts belief.**

Day One Growth synthesis. QofG complements, rather than replaces, financial, commercial, operational and management diligence.

01

the arithmetic changed, and it changed the job.

Two of the three levers that produced private equity returns have closed. What is left is operating growth, and the rate the model requires has roughly doubled.

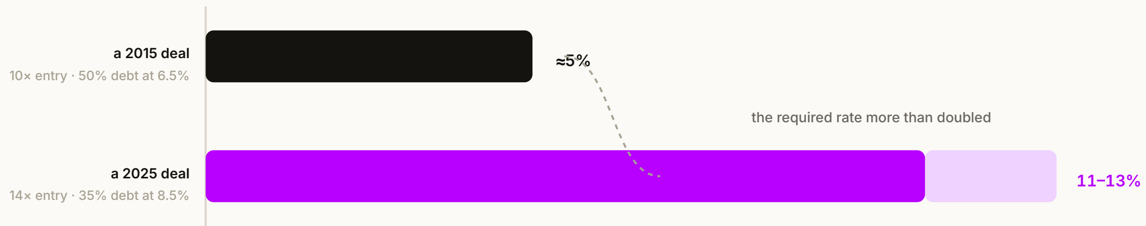
01 · WHY NOW

the growth hurdle doubled.

A 2015 buyout could clear a 2.5× gross return on roughly five percent annual EBITDA growth. A comparable 2025 structure needs eleven to thirteen. Bain named the shift: “12 is the new 5.” We rebuilt the arithmetic.

FIGURE 01

Annual EBITDA growth required to deliver a 2.5× gross MOIC over a five-year hold. Day One Growth illustrative model, after Bain's “12 is the new 5.”



Model · Day One Growth, after Bain & Company, *Global Private Equity Report 2026*. Five-year hold; 2.5× gross MOIC; cash for debt service held at 50% of EBITDA after tax, capex and working capital; interest accrues on the balance and all remaining cash sweeps to principal; no dividends or add-ons. The 2025 range spans a flat exit to one turn of expansion. Entry multiples and debt terms are the market data overleaf.

the inputs changed

Three are visible at entry: the multiple paid, the leverage raised, and the cost of that debt. The exit multiple is not observable. It is an underwriting choice. Once those four and the cash-conversion assumption are fixed, the required EBITDA growth is arithmetic. The judgment sits in the assumptions, not the calculation.

INPUT	2015	2025
Entry multiple	10.0× EBITDA	14.0× EBITDA
Leverage	~50% of EV	~35% of EV
Cost of debt	6.5%	8.5%
Exit multiple	12.5× EBITDA	14.0–15.0× EBITDA
Required EBITDA growth	≈5%	11–13%

Illustrative structure, not a market average. The 2015 deal is drawn as the decade actually treated it: the exit multiple drifted up. The 2025 deal gets a flat exit to one turn of expansion.

THE CONSEQUENCE

Doubling a required growth rate is not a change of degree. It is a change of kind. Five percent is what happens if you keep the customers you have, price with inflation, and break nothing. Eleven requires a machine that does not yet exist in most lower-middle-market companies.

CHECK THE ARITHMETIC

Entry price, debt, interest, a cash sweep, an exit. Every assumption is in the caption. Change any of them within reason and rerun it; the required rate moves a point or two. **The doubling survives every version we tested.**

The deal model did not get more ambitious. The structure around it got more demanding, and the growth assumption absorbed the difference.

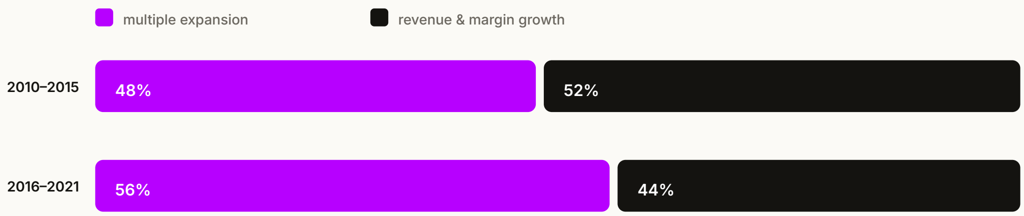
02 · WHERE RETURNS CAME FROM

the levers that closed.

For most of the modern history of the asset class, the honest answer to "where did the return come from" was: the price went up, and the debt got paid down.

FIGURE 02

Share of value creation in the average buyout deal, by era.



Over the same two periods, revenue growth among buyout companies fell 14% and margin growth fell 51%.

Source · Bain & Company, *Global Private Equity Report 2022.*

both levers are now less dependable

Multiple expansion requires selling at a richer multiple than the one paid. With entry multiples near record levels, that is harder to underwrite responsibly. Deleveraging still matters, but less debt at entry and higher interest expense reduce what it contributes, against the thinnest coverage on record.

US ENTRY MULTIPLE

12.5×

Median US buyout EV/EBITDA in 2025, matching the 2021 record.

PITCHBOOK

DEBT SHARE

50%→33%

Debt as a share of US purchase price, 2015 to 2025.

PITCHBOOK

COST OF THAT DEBT

5.0→10.9%

Average US LBO loan yield, 2021 to 2023; roughly 8–9% in 2025.

PITCHBOOK LCD · BAIN

INTEREST COVERAGE

2.3×

On newly minted 2024 transactions, a record low.

PITCHBOOK LCD

The scale of the dependency is easy to underestimate. Across buyout deals entered between 2010 and 2022, McKinsey attributes **59 percent of returns to leverage and multiple expansion combined**. For deals entered from 2010 and exited by 2021, the easiest vintage in living memory, the figure was closer to two thirds.

Put plainly: most of the industry's return came from two levers that are now less dependable and more expensive. That does not make them unavailable. It makes operating performance less optional.

EQUITY IN THE DEAL

Equity contributions to US LBOs topped **50%** for the first time on record in 2023, against a ten-year average of 41%.

PitchBook LCD

03 · THE REMAINING LEVER

growth is the load-bearing wall.

“Create value operationally” is true and nearly useless, because operational value creation has two components and they are not equally available.

The first is margin. It is the smallest of the three levers, at 14 percent of the value created across more than 10,000 realized investments, and at the median deal it is smaller still: Bain's decomposition of buyouts entered from 2013 to 2023 found the typical deal generated **essentially no margin expansion at all**, with the gains concentrated in the top quartile.

Where sponsors did underwrite margin, they missed. Bain examined thirty-three software buyouts: thirty-one of them (**94 percent**) modeled a median 560 basis points of margin improvement over a five-year hold. Projected EBITDA growth averaged 15.6 percent a year. Realized growth averaged 8.2 percent. Roughly half.

Which leaves revenue, already carrying more of the load than most deal models acknowledge.

THE UNDERWRITING GAP, MEASURED

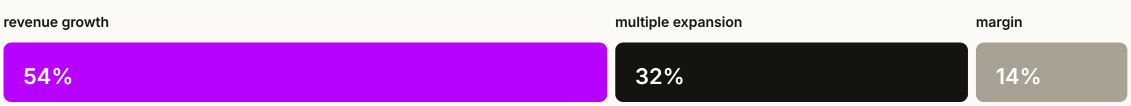
15.6% vs 8.2%

Projected versus realized annual EBITDA growth across 33 software buyouts.

Bain & Company, Global PE Report 2025

FIGURE 03

What actually creates value, across more than 10,000 global private equity investments.



Revenue growth is already the largest single driver of value, roughly four times the contribution of margin.
It is also the driver with the least diligence infrastructure behind it.

Source · Gain.pro, *The Private Equity Value Creation Report 2025*, across 10,000+ realized investments. Windows and methods differ between this dataset and the era analysis opposite — the ordering, not the decimals, is the point. Multiple expansion contributed roughly 40–45% of returns as recently as 2019–21.

and the exit market has started pricing it

This is not only an entry problem. Growth is the mechanism by which assets clear: over a recent six-year window in Europe, assets growing faster than 25 percent a year sold at roughly a **50 percent premium** to those growing below 5 percent — and the assets that actually sold in 2024 and 2025 out-grew the ones left behind.

The growth rate is the assumption the return case rests on, and one of the few that still reaches the investment committee with no single owner for the reconciliation.

02

and growth is exactly what is failing.

The lever that now has to carry the deal model is the one sponsors report missing most often — and the misses are neither random nor unforeseeable.

04 · THE EVIDENCE

the plans miss.

No single audited statistic exists for “deals that miss the case they were underwritten on.” What exists is a consistent pattern across independent surveys and one deal-level study.

EUROPE · 2026

65%

of respondents captured **less than half** the value targeted in value creation plans built over the prior two years.

ALVAREZ & MARSAL · N=200

NORTH AMERICA · 2026

41%

realized **below 75%** of planned value creation over the last twelve months.

ALVAREZ & MARSAL · N=100

DEAL-LEVEL · SINCE THE GFC

71%

of investments fell short of projected margins, on average **330 bps** below the deal model.

BAIN & COMPANY · N=65 · 2019

> A NOTE ON THIS EVIDENCE
> The two Alvarez & Marsal figures are self-reported responses to differently worded questions on different samples; they sit side by side, not as a trend. The Bain 71% figure is deal-level and therefore stronger, but it dates from October 2019 and rests on sixty-five deals. We cite it because it remains the only published study of its kind, and because Bain's 2025 software analysis reaches the same conclusion with newer data.

the misses are not caused by the world being unpredictable

If value creation plans failed mainly because of pandemics, wars and rate shocks, there would be nothing to underwrite; bad luck is not diligenceable. That is not what the evidence says.

AlixPartners examined roughly forty companies that entered distress within one to four years of a significant investment, excluding pandemic-era filings. **Core operating issues were cited in more than three quarters of them.** Around a third had operating-model failures: unproven concepts, or models unable to adapt. Fewer than one in five fell to events that were genuinely hard to foresee.

Simon-Kucher reaches the same place from the other direction: **67 percent of value creation initiative failures come from controllable causes:** poor implementation (53%), an unrealistic business case (37%), portfolio company resistance (35%).

An unrealistic business case is not bad luck. If it existed at signing, it is an underwriting error. If it was created afterward, it is a planning error.

UNFORESEEN RISK, QUANTIFIED

24% of deals encounter risks not identified during diligence — ranging from 10% in the best-performing quartile of firms to 45% in the worst. A thirty-five point spread between firms doing the same job.

EY, PE Value Creation Benchmark Survey 2025 · n=128

AND IT SHOWS UP IN RETURNS

Firms that minimize unforeseen risk achieve **76%** ROI attainment against **68%** for those that do not.

EY, 2025

Among roughly 40 companies that entered distress after a major investment, core operating issues appeared in more than three quarters. Many were diligenceable. That does not make them predictable. It makes them worth testing.

05 · THE FAILURE MODES

four assumptions that break.

The same handful of levers appear in nearly every lower-middle-market growth thesis. Each has a published reference point. None is a universal benchmark, all are useful reality checks, and almost none are underwritten against.

01

cross-sell

What the model says: a large installed base, a second service line, and obvious whitespace.

What the record shows: fewer than **20%** of organizations achieve their cross-selling goals. Revenue synergies overall capture about 77% of target, and take roughly five years to arrive against two for cost synergies.

McKinsey · 75+ M&A executives across 12 industries; separately, 200 M&A executives across 10 industries. Overestimating revenue synergies was the most cited reason for unsuccessful deals in Bain's survey of 281 executives.

02

pricing

What the model says: three points of price, achievable immediately, straight to EBITDA.

What the record shows: companies realize an average of **43%** of the price increases they set out to achieve — down five points in two years. Customer resistance and competitive pressure account for most of the leakage.

Simon-Kucher, Global Pricing Study 2025 · 2,200+ business leaders, 28 countries, 39 industries. Pricing is also the lever *least* likely to fail outright and fastest to impact — which is why the gap is realization, not viability.

03

sales capacity

What the model says: hire eight sellers, they produce at plan from month four.

What the record shows: ramp to full productivity is now **6.2 months** — the highest in the study's history — and only **48%** of account executives attain quota, down from 51%. Required experience at hire has risen to 3.7 years from 2.7 in 2022.

The Bridge Group, 2026 · n=158 B2B companies. Separately, Ebsta's analysis of 655,000+ opportunities found 78% of sellers missed quota and win rates fell 10% year over year.

04

the plan itself

What the model says: these initiatives are additive and will run in parallel.

What the record shows: one in three improvement initiatives fails, and **67%** of those failures trace to controllable causes. Meanwhile **65%** of sponsors replace the CEO during the hold; 83% say unplanned turnover lengthens it.

Simon-Kucher, PE Value Creation Study 2025 · 100+ PE executives. AlixPartners, 11th Annual PE Leadership Survey · n=427, fielded Oct–Dec 2025.

levers that share a constraint are not additive

Each of the four is usually modeled as an independent line. They are not. More demand creates nothing if delivery capacity is full. Price rises can suppress conversion. Hiring adds capacity while reducing productivity during ramp. A growth case that adds these together without testing the dependencies has not been built. It has been listed.

AND YET

Fewer than **one in four** firms embed value creation planning before the LOI, when it could still change the price.

Alvarez & Marsal, NA Value Creation Report 2026

06 · THE CONSEQUENCE

the bill arrives as a backlog.

32,000

unsold portfolio companies, carrying **$3.8 trillion** of unrealized value. Average holding periods at exit have drifted toward seven years, against five to six through the 2010s.

BAIN & COMPANY · GLOBAL PE REPORT 2026

Underwriting error does not announce itself when it is made. It may show up years later, when an asset misses its growth plan and fails to clear.

Not every long-held asset is an underwriting miss. Rates, exit markets, entry prices and fund timing all matter. But the backlog raises the cost of getting the growth case wrong.

AGED INVENTORY

52%

of buyout-backed inventory has been held more than four years, up from 43% a year earlier — over 16,000 companies.

MCKINSEY · 2026

PERFORMANCE OF THAT INVENTORY

70%

of companies held four years or longer are "doing just OK or worse."

BAIN · 2024

DISTRIBUTIONS

6%

Distributions as a share of assets under management in the year to June 2025, against a 2015–19 average of 16%.

MCKINSEY · 2026

DRY POWDER WAITING

$1.3T

of buyout dry powder, with over 40% of it having sat available for two years or more.

BAIN · MCKINSEY · 2026

Distributions as a share of net asset value have now held below 15% for four consecutive years — a level last seen during the financial crisis. The exit market has not closed; it has become selective. The assets that sold in 2024 and 2025 carried higher median revenue growth than the assets still held.

Which makes the quality of the growth assumption an exit problem, not merely an entry problem.

THE SELECTION MECHANISM

Assets growing above **25%** a year sold at roughly a **50% premium** to those growing below 5%.

McKinsey, 2026

07 · THE GAP

the reconciliation nobody runs.

The problem is not too little diligence. Diligence has never been more thorough. The problem is that often no single workstream is scoped to reconcile the question the model actually depends on.

WORKSTREAM	THE QUESTION IT ANSWERS	DIRECTION	WHERE IT STOPS
Financial diligence Quality of Earnings	Are the earnings we are buying real, and what is the sustainable run-rate?	Backward	At the present. It validates history, not capability.
Commercial diligence	Is the market attractive and is customer demand real?	Outward	At the company's front door. Opportunity is not execution.
Operational diligence	How capable are the functions we chose to examine?	Inward	At the edge of scope. Findings need not reconcile to the model.
Technology diligence	Is the platform sound, secure and scalable?	Inward	At the architecture. Rarely priced into the growth case.
The deal model	What growth must occur for the return case to work?	Forward	It is arithmetic on other people's conclusions, not evidence.
Quality of Growth	Can *this* operating system produce *that* growth, at acceptable cost, in the time available?	Forward	It reconciles evidence, capability, cost and time into one verdict.

the practitioners already know

Accenture surveyed 251 senior private equity professionals at firms managing at least $5 billion. **83 percent** said their current diligence approach has substantial room for improvement. **40 percent** named the discovery of unexpected gaps in portfolio company capabilities, processes or technology as a top challenge.

Bain made the structural argument years ago: diligence runs as disconnected silos, and the interdependencies between strategy, operations and commercial execution surface only after the model is locked. West Monroe found **fewer than half** of PE leaders often incorporate diligence outputs into the value creation plan at all.

None of this is a failure of effort. It is a failure of assignment.

Everyone touches the growth number.
Too often, nobody owns the reconciliation.

THE SPEND

Acquirers spend roughly **1% of deal value** on diligence — an estimated $80 billion over five years — and **79%** say more of that effort should target operational value creation.

Accenture, It's Time to Rethink Private Equity Due Diligence, 2024 · n=251

THE SEAM

~22% of firms do not reliably carry diligence findings into the underwritten base case.

EY, 2025 · n=128

03

the standard.

A pre-acquisition opinion on what the current growth engine can produce, what the underwritten case requires, and what must be built to close the gap.

09 · THE DEFINITION

the blind spot is not a missing workstream. it is the space between them.

Quality of Growth is a pre-acquisition assessment of how durable, efficient, repeatable, controllable, scalable and transferable a company's growth really is. It reconciles historical growth, the current operating engine, and the growth assumed in the deal model.

QofG does not add another stack of diligence. It reconciles the existing evidence into one opinion about what the company can actually produce.

five ways a reasonable growth case breaks

- **Opportunity becomes production.** A large TAM is treated as evidence that this company can win.
- **History becomes repeatability.** Acquired revenue, price catch-up or one-time demand is carried forward as organic capability.
- **Initiatives become outcomes.** A list of actions is mistaken for quantified output.
- **Gross potential becomes base case.** Overlapping levers are added before probability, timing and capacity are reconciled.
- **Intention becomes evidence.** A credible story receives the same weight as observed operating performance.

WHAT QOFG IS NOT

↳ A market study
↳ A marketing audit
↳ A sales maturity assessment
↳ A revenue-quality schedule
↳ A list of growth opportunities
↳ A generic value-creation plan
↳ A composite score
↳ A substitute for QofE or CDD

ON THE NEIGHBORHOOD

Blue Ridge Partners has published on *Quality of Revenue* since 2025; Termina markets an automated QofG scan; Craig Group, Coppett Hill and SBI sell GTM diligence. Several capable firms found this problem independently, the best available evidence that it is real. The claim here is the **reconciliation**, not the observation.

10 · THE SIX QUALITIES

fast is a speed. quality is what survives contact with reality.

A company can grow quickly while the economics deteriorate, the system depends on heroics, or the capability disappears when the founder leaves.

01

durable

Customers continue to receive value and revenue persists.

Retention · cohort stability · contract quality · concentration

02

efficient

Growth creates attractive contribution economics and cash.

CAC and payback · gross and contribution margin · cash conversion

03

repeatable

Results come from a defined mechanism, not exceptional events.

Channel stability · rep productivity · consistent conversion

04

controllable

Management can influence the drivers and read leading indicators.

Owned demand · pricing discipline · decision rights · cadence

05

scalable

Volume can increase without disproportionate cost or complexity.

Delivery capacity · technology leverage · management span · ramp

06

transferable

The engine survives beyond a founder, seller, channel or relationship.

Distributed account ownership · playbooks · CRM adoption · second line

the six qualities describe the outcome

A company may be durable but unscalable, efficient but founder-dependent, or repeatable but poorly controlled. QofG preserves those distinctions rather than averaging them away — which is why there is no composite score. A single number would hide exactly the judgment the investment committee is being asked to make.

What causes these six outcomes is a separate question, and it is the one the methodology actually tests.

THE FAILURE THIS PREVENTS

A business growing 15% a year, where four points are acquired, two are catch-up price and one is project timing, is not a 15% growth business. It is an 8% growth business with an acquisition program attached.

11 · THE STRUCTURE

four layers, nine dimensions.

The assessment moves in one direction: from what happened, to how the engine works, to what the model requires, to what must happen on Monday morning after close.

LAYER	OBJECTIVE	DIMENSIONS	WHAT IT PRODUCES
01 · Historical Growth Quality	Determine what produced historical growth, and how much is likely to repeat.	Growth composition · Growth durability · Growth economics	Historical Growth Reconciliation · revenue quality profile · sustainable organic baseline
02 · Growth Engine Quality	Determine how the company creates, converts, monetizes, retains and expands demand.	Demand engine · Conversion engine · Monetization engine	Growth Engine Map · constraint diagnosis · unit economics · Evidence Confidence rating
03 · Underwritten Growth Executability	Determine whether the company can execute the growth assumed in the deal model.	Operating capacity · Plan credibility	Assumption register · capability gap · investment and time bridge · four cases
04 · Value-Creation Readiness	Translate the conclusion into an executable post-close agenda.	Value-creation readiness	Growth Execution Map · operating dashboard · initiative sequence · governance cadence

Retention, delivery and expansion are evaluated across the engine dimensions rather than treated as an isolated end-stage function, because they change the economics of everything upstream.

two rules that keep it honest

The constraint rule. The central question is not “what could this company do?” but “what is currently preventing it?” The assessment names the binding constraint, the next constraint that appears once the first is relieved, the investment required, and the time before that next constraint binds. Without this, a long list of initiatives gets mistaken for a sequenced plan.

The interaction rule. Levers that share a constraint cannot be added. Demand and delivery share capacity. Price and volume share the customer. Hiring and productivity share the ramp. The model must identify shared dependencies and refuse to double-count.

THE MODELING RULE

The visual bridge presents percentage-point additions and subtractions because that is how an investment committee reads. The *underlying* assessment may not rest on an additive maturity score. It must calculate revenue from business drivers: volume, conversion, price, retention, capacity, ramp, appropriate to the model of the business.

The rate bridge summarizes the answer. It does not replace the driver model.

12 · EVIDENCE AND CONFIDENCE

an assertion, a plan, and a proven capability are not the same thing.

The underwriting failure is usually not a bad idea. It is evidence receiving more confidence than it has earned.

LEVEL	DESCRIPTION	PERMITTED USE
0 · Assertion	Management believes an opportunity exists.	Question set only. No base-case credit.
1 · Anecdote	Isolated examples or selected wins support the story.	Hypothesis generation. Limited upside.
2 · Point-in-time	Pipeline, customer research or current performance supports an input.	Conditional case, if ownership and timing are clear.
3 · Longitudinal	Cohorts, repeated periods, channels or teams show persistence.	Base-case candidate, after economics and constraints.
4 · Triangulated	Multiple independent sources support cause and magnitude.	Higher-confidence base-case input.

confidence belongs on the input, not only the output

A single “confidence in the plan” score is too blunt. Retention may be well evidenced while pipeline generation is not. QofG attaches confidence to the assumptions that drive each operating equation, then traces the consequence into the scenario output.

This prevents a polished management narrative from dominating messy operating evidence. It also avoids the opposite mistake: treating uncertainty as automatic rejection. A plausible but unproven lever can remain valuable. It simply belongs behind conditions, or in upside, until the evidence changes.

THE TEST FOR EVERY MATERIAL LEVER

- Which input changes the economic outcome most?
- What is observed, calculated, estimated or asserted?
- Is the evidence representative, or selected because it tells a good story?
- Does it persist across cohorts, teams, channels and time?
- What contradicts the conclusion?
- What would cause the investor to reduce, delay or stop?

The goal is not to make uncertainty look smaller. It is to make uncertainty visible, priced and owned.

13 · HISTORY

the reported number can be accurate while the inference is wrong.

The first job is not forecasting. It is understanding what actually happened, what caused it, and how much of it can reasonably repeat.

REPORTED GROWTH	NORMALIZATION QUESTION	WHY IT MATTERS
Acquired revenue	Would this growth exist without M&A?	Real revenue, but not proof of organic production.
Market momentum	Did the category grow, or did the company gain share?	A rising tide is less controllable than a repeatable share-gain motion.
Price	Was price structural, recurring, catch-up or surcharge?	A one-time reset cannot be compounded indefinitely.
Volume	Which customers, products, sites, regions and cohorts produced it?	Aggregate growth can hide concentration and decaying cohorts.
One-time events	Did projects, backlog release, scarcity or timing move revenue?	Timing benefits should not become a permanent run rate.
Organic engine	What remains after normalization?	This is the starting point for the forward operating case.

reported growth is an accounting result. sustainable growth is an operating conclusion.

Suppose a company reports 15 percent growth. Four points came from an acquisition, two from catch-up pricing, and one from project timing. None of those points is fake. But none proves the company has a 15 percent organic engine. The sustainable baseline may be closer to **8 percent**.

The distinction matters because the forward case is usually built from the reported rate. If the starting engine supports 8 percent and the model needs 12.5, the investment is not underwriting continuation. **It is underwriting a capability build.** That may still be attractive. It simply carries a different risk, cost and timing profile — and a different first-100-day agenda.

DECOMPOSITION FOLLOWS THE BUSINESS MODEL

Recurring: cohorts, gross and net retention, seat or usage expansion, contracted backlog.

Services: utilization, rate, headcount, ramp time, backlog quality, partner leverage.

Multi-site: same-store growth, new-unit contribution, maturity curve, capacity, local density.

Transactional: buyers, frequency, order value, repeat behavior, channel dependence.

Marketplace: active participants, match rate, liquidity, take rate, concentration.

14 · THE OPERATING MODEL

percentages are where accountability goes to hide.

A material growth lever should be translated into an equation. The equation does not prove the forecast. It makes the assumptions visible enough to test.

LEVER	OPERATING EQUATION	COMMON FAILURE
Protect the base	at-risk revenue × preventable loss	Retention target without cohort, cause, owner or intervention evidence
Grow existing	eligible base × attach or expansion rate × value	Whitespace counted without customer ownership or adoption capacity
Acquire new	qualified opportunities × win rate × value × realization	Pipeline target without source, productivity, ramp or capacity proof
Improve monetization	eligible revenue × planned price change × realization rate	List-price opportunity mistaken for realized, retained price
Extend the offer	addressable customers × adoption × value	Roadmap or adjacency treated as launched and validated revenue
Extend the market	reachable accounts × conversion × value	TAM substituted for access, differentiation and local execution

WORKED EXAMPLE · FROM A PERCENTAGE TO A HIRING PLAN

The plan requires $12M of incremental new-logo revenue. The equation converts that into people, and people into time.

REQUIRED REVENUE		WINS NEEDED		QUALIFIED OPPS		PRODUCTIVE SELLERS
$12M	→	**80**	→	**320**	→	**8**
in-year new-logo revenue		wins · $16M signed at $200k, 75% realizing in-year		qualified opportunities at a 25% win rate		productive sellers at 40 opportunities per year

The question changes immediately. It is no longer "can the market support $12 million?" It is **"can this company recruit, ramp, enable, manage and feed eight productive sellers early enough for the revenue to land inside the hold?"**

the six levers are a decomposition system, not a menu

The point is not to find one initiative in every box. It is to give every modeled dollar an address and prevent double counting. Pricing may reduce volume. New-logo growth may consume delivery capacity required for cross-sell. A new market may require the same scarce sellers assumed elsewhere.

THEREFORE

Gross potential is only the opening calculation. Each lever must be adjusted for evidence, timing, overlap, investment and the binding constraint. **The correct answer is rarely the sum of all attractive ideas.**

15 · THE DECISION OUTPUT

one blended assumption becomes four cases with different jobs.

The bridge turns reported history, current capability, new initiatives and evidence confidence into explicit cases an investment committee can debate separately.

CASE	WHAT ENTERS	IC INTERPRETATION	OPERATING TREATMENT
Supported	Current engine plus well-evidenced improvements that fit the hold and capacity.	The defensible base case.	Fund, own and measure from day one.
Conditional	Plausible growth requiring a named capability, investment, milestone or evidence event.	Not rejected, but not yet earned.	Enter base only when conditions are satisfied.
Upside	Attractive opportunities with limited evidence, longer timing or greater dependency.	Preserve optionality without paying for it.	Test cheaply; scale only after proof.
Downside	Performance if critical assumptions fail or constraints bind.	Shows what the deal owns without the story.	Define triggers and protection before close.

conditional is not a hedge. it is a contract with reality.

A condition should name the missing capability, the required investment, an accountable owner, an evidence milestone, a date, and a kill criterion. *"Hire a VP of Sales"* is not a condition. *"Install an owner by day 30, validate two repeatable pipeline sources by day 75, and achieve a defined opportunity-production rate before adding the next hiring cohort"* is closer.

The classification can change as evidence changes. That is a feature. Underwriting should be a living view of the operating system, not a permanent defense of the assumptions made during a rushed process.

THE CHAIN OF CAUSALITY

- ↳ Reported history
- ↳ Normalized baseline
- ↳ Current engine
- ↳ Conditional uplift
- ↳ Underwritten case
- ↳ Execution gap

Each step is separately arguable. That is the point of a bridge rather than a score.

output 01

a bridge the IC can debate.

The gap between history, current capability and the modeled case.

output 02

conditions management can own.

Investment, owner, milestone, date, leading indicator and kill criterion.

output 03

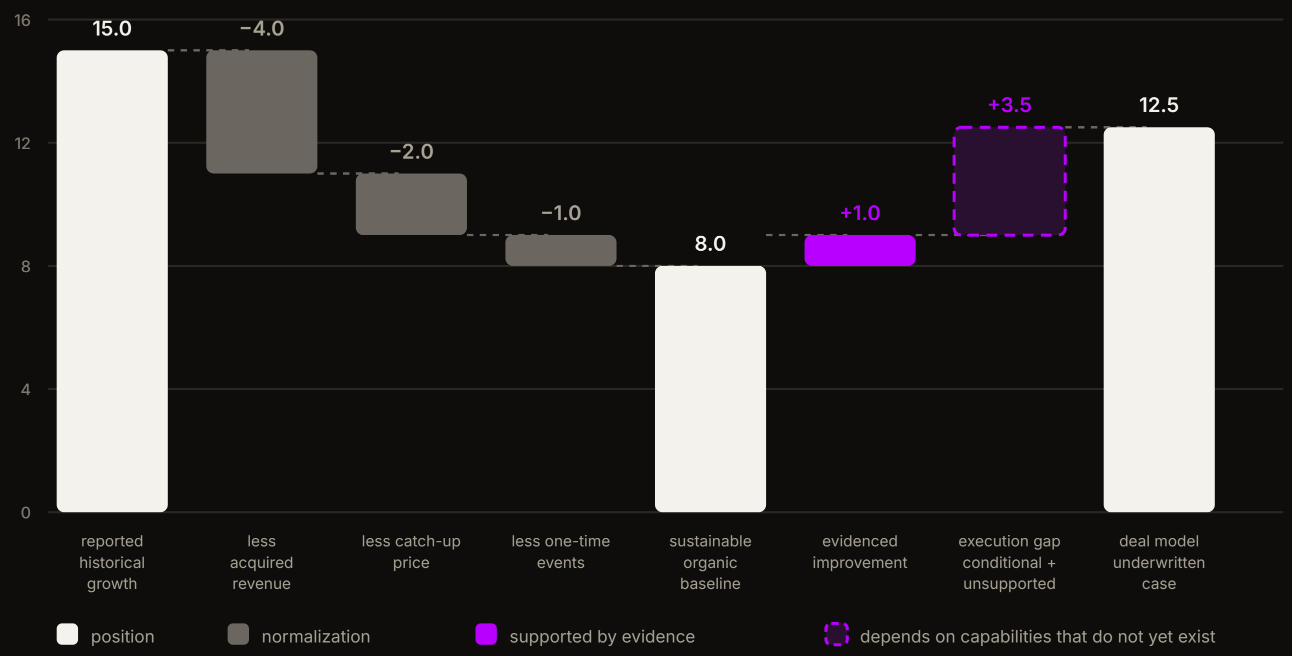
a model that survives the handoff.

The same operating equations move from diligence into the board cadence.

16 · THE CANONICAL ARTIFACT

the growth underwriting bridge.

One picture, reconciling the growth rate management reported with the growth rate the deal model requires, and showing exactly where the difference has to come from.



Illustrative. The dashed bar is the point of the exercise: the portion of the deal model with no operating engine behind it yet, expressed in the same units as the assumption it is testing. Attached to it are the two figures the model usually omits: what the capability build costs, and how long before revenue responds.

how to read it

Left to right, the bridge answers four questions in sequence. What did the reported growth actually consist of? What survives normalization? How much does today's engine support without heroics? And how large is the distance between that and the number in the model?

The final bar is the only one that matters commercially. It is not a criticism of the thesis. It is the part of the thesis that has to be **funded, sequenced and proven** rather than assumed.

WHY A BRIDGE AND NOT A SCORE

A score compresses judgment into a number nobody can argue with. A bridge exposes every step, so an investment committee can disagree with one line without discarding the analysis.

17 · ILLUSTRATIVE COMPOSITE

a good company with an unfinished growth engine.

A regional technical-services platform, five acquisitions deep, growing 15 percent a year — and a deal model underwriting 12.5 percent for five years on an engine nobody had inspected.

ENTRY REVENUE	ENTRY EBITDA	REPORTED GROWTH	DEAL-MODEL CAGR
$72M	$14.4M	15%	12.5%

Project Atlas is an illustrative composite built to demonstrate the method on internally consistent numbers, not a client result, and not a claim of predictive validation.

the investment thesis

- Grow a regional technical-services platform from $72M to roughly $130M in five years
- Build a repeatable new-logo engine and professionalize pipeline management
- Cross-sell four acquired service lines into the installed base
- Realize price across regions and launch digital demand
- Enter one adjacency and preserve strategic exit optionality

what diligence observed

- Four points of historical growth came from acquisitions
- Two points came from catch-up pricing unlikely to repeat at the same rate
- New-logo production depended on two senior sellers and founder relationships
- Cross-sell whitespace existed without ownership or a repeatable motion
- Several regions were already above 80 percent utilization
- CRM definitions, digital attribution and pricing data were incomplete

WHY THIS PROFILE

A lower-middle-market services platform with real demand, meaningful acquisition history, thin commercial infrastructure, and enough operating complexity for the growth case to matter.

Bad companies are easy to question. Good companies invite the model to finish the story.

the six qualities, applied

QUALITY	READ	CASE FINDING	QUALITY	READ	CASE FINDING
Durable	Strong	Repeat demand and genuine customer need	**Controllable**	Weak	Leading indicators and ownership incomplete
Efficient	Moderate	Attractive margin; delivery capacity tight	**Scalable**	Constrained	Utilization above 80% in key regions
Repeatable	Weak	New-logo output concentrated in two sellers	**Transferable**	Weak	Founder and senior-seller dependence

The opportunity was real. The operating system to capture it was not yet built — not a rejection of the deal, but a different deal than the spreadsheet described.

18 · THE LEVERS

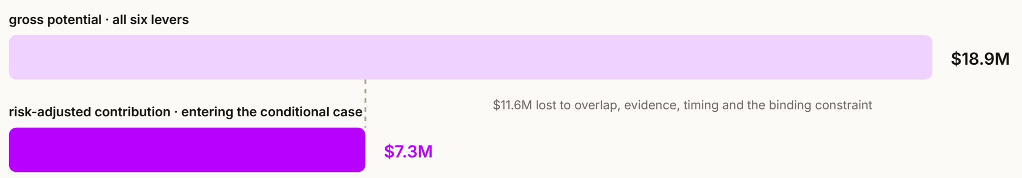
six addresses for the missing revenue. four earned a place in the conditional case.

All values are year-5 incremental revenue, not cumulative revenue across the hold.

LEVER	GROSS YR-5	CONF.	MONTHS	INVEST.	CASE	KEY DEPENDENCY
Protect base	$1.5M	Moderate	6	$0.20M	Conditional	Churn causes and a save motion
Grow existing	$3.5M	Low	12	$0.30M	Conditional	Account ownership and attach proof
Acquire new	$5.8M	Low	18	$0.55M	Conditional	Pipeline sources, hiring, ramp
Monetization	$3.8M	Moderate	9	$0.25M	Conditional	Elasticity, governance, realization
Extend offer	$1.9M	Low	18	$0.20M	Upside	Validated offer and delivery model
Extend market	$2.4M	Low	24	$0.40M	Upside	Access, differentiation, local capacity
Total	$18.9M	·	≤24	$1.90M	·	Gross year-5 potential, before overlap and risk

WHY $18.9M BECAME $7.3M

Gross potential versus the risk-adjusted contribution entering the conditional case.



Illustrative. Not probability-weighted valuation.

the plan looked complete because the arithmetic nearly worked

The six levers sum to $18.9M of year-5 revenue. The distance between the current engine and the underwritten case is $19.0M. Side by side, the plan appears to close the gap almost exactly. **That coincidence is the trap.**

The levers overlapped. Price affected volume. Cross-sell and new-logo growth competed for the same enablement and delivery capacity. New-market entry needed senior sellers already assumed in the core build.

THE BINDING CONSTRAINT

Not market demand, but the ability to install several new motions while operating near delivery capacity. Funding every idea would not create more growth, only more simultaneous failure modes.

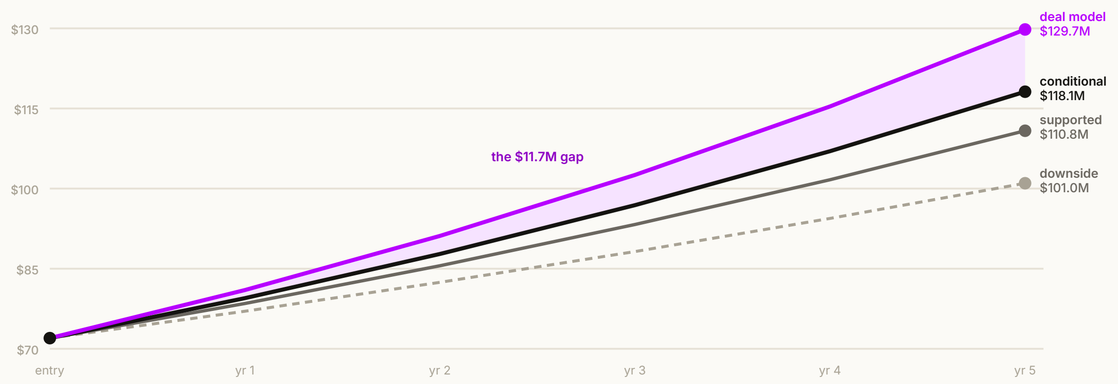
19 · IC IMPACT

an $11.7 million revenue gap is not a footnote.

At an illustrative 30 percent incremental EBITDA margin and an 11.0× exit multiple, it carries $38.5 million of enterprise-value sensitivity.

FOUR CASES · REVENUE TRAJECTORY FROM ENTRY

Revenue in $ millions, compounding from $72M at entry over a five-year hold.



Small CAGR differences compound into large exit gaps. Timing and capability risk become enterprise-value sensitivity. **Illustrative sensitivities, not a valuation opinion.**

SCENARIO	CAGR	YEAR-5 REVENUE	DELTA VS MODEL	INTERPRETATION
Deal model	12.5%	$129.7M	·	Requires nearly all material levers to land on time.
Conditional case	10.4%	$118.1M	($11.7M)	Funded and sequenced, behind named evidence gates.
Supported case	9.0%	$110.8M	($19.0M)	What the current system plus evidenced improvements supports.
Downside case	7.0%	$101.0M	($28.8M)	Capacity and new-logo constraints persist.

REVENUE GAP

$11.7M

Year-5 revenue between the deal model and the conditional case.

AT 30% INCREMENTAL MARGIN

$3.5M

Of exit-year EBITDA riding on the unbuilt portion of the plan.

AT AN 11.0× EXIT MULTIPLE

$38.5M

Of enterprise-value sensitivity, on a business entering at $72M of revenue.

20 · THE VERDICT

conditional

The bridge did not say 12.5 percent was impossible. It said the investor had not yet earned the right to treat it as the base case.

A Conditional verdict names what must be funded, proven and sequenced — and the downside if it is not.

what changed for the investment committee

- **The case.** 9.0% remained supported. 10.4% became the conditional underwriting case, backed by $1.9M of staged investment and named evidence gates. The remaining distance to 12.5% moved to upside, outside the base until the evidence changed.
- **The capital plan.** $1.9M of growth investment entered the model on a staged release, having previously been absent.
- **The sequence.** Delivery capacity was funded ahead of demand generation, because capacity was the binding constraint.
- **The incentives.** Management targets shifted from lagging revenue alone to leading operating milestones.
- **The downside.** Tied to observable triggers rather than a blanket haircut.

the first 100 days became a proof plan.

A QofG should finish where the first hundred days begin. If diligence does not convert into an owner, a milestone and a leading indicator, it will be filed.

WINDOW	CORE WORK	EVIDENCE PRODUCED
Days 0–30	Define metrics, install owners, reconcile pipeline and cohort data, establish the capacity baseline.	One commercial data model; comparable pipeline across regions
Days 31–60	Launch pricing cells, account segmentation, cross-sell tests and pipeline-source experiments.	Realized price versus list; attach rate in pilot cohort
Days 61–100	Validate production rates, revise hiring cohorts, release or withhold capital, update the cases.	Opportunities per seller; utilization by region
Kill criteria	Stop or redesign initiatives that miss evidence milestones before they consume full investment.	Capital preserved rather than committed on story

The objective is not a longer value-creation plan. It is a smaller number of validated, economically material moves, sequenced around the constraint.

21 · THE DILIGENCE PROTOCOL

the output should be an IC decision and the first draft of the growth plan.

A useful process is thesis-led, evidence-weighted and time-boxed. It does not attempt to boil the operating ocean.

PHASE	CORE WORK	PRIMARY OUTPUT
1 · Frame	Extract the deal-model growth assumptions. Identify the value-sensitive growth questions and the business-model equations that govern them.	Growth hypothesis map and initial evidence requests
2 · Reconcile history	Decompose growth by source, cohort, customer, product, price, channel, geography, site and acquisition where relevant.	Normalized growth bridge and sustainable baseline
3 · Map the engine	Trace acquisition, conversion, monetization, retention, expansion, delivery and capacity. Identify the binding constraint.	Current-engine model and constraint diagnosis
4 · Underwrite levers	Quantify each material lever. Test inputs, identify capability gaps, investment, time, overlap and sequencing.	Supported, conditional, upside and downside cases
5 · Convert to action	Define owners, funding, milestones, leading indicators, evidence events and kill criteria.	IC opinion and the first 100-day growth agenda

go deepest where enterprise value is most sensitive

A $75 million recurring-revenue company and a $700 million multi-business enterprise should face the same standard but not the same resolution. The smaller company may need one integrated engine model. The larger may need business-unit bridges, regional variance, product and customer archetypes, and dependencies across a transformation portfolio.

The objective is not equal diligence everywhere. It is enough evidence to decide what the investor is being paid to believe.

HOW THE SPECIALIST MODEL SHOULD WORK

The sponsor owns the investment decision. The operating partner owns the value-creation architecture. Management owns the company. A QofG specialist extends those teams where growth requires deeper functional work, faster evidence production, or an immediate post-close execution arm — time-bound and transparent, making management stronger rather than creating a shadow organization.

canonical artifact

growth underwriting bridge

One view of baseline, current engine, conditional uplift, execution gap and cases.

canonical artifact

lever-level model

Operating equations, evidence confidence, investment, timing, overlap and constraint.

canonical artifact

100-day proof plan

Owners, milestones, leading indicators, capital gates and kill criteria.

The best handoff is not a 100-page report. It is a small number of decisions, models management can operate, and a cadence that survives after the specialist leaves.

22 · BOUNDARIES

a serious category earns trust by explaining where it ends.

Quality of Growth is a synthesis and a decision system. It should not be marketed as predictive science before a body of engagement evidence exists.

WHAT THE EVIDENCE SUPPORTS

- Operating performance must carry more of the return burden as leverage and multiple expansion become less dependable
- Revenue growth is a major source of recent PE value creation
- Diligence leaders see room to improve integration, speed and connection to the value-creation plan
- Market, historical performance, operating capability, investment, timing and management bandwidth can be assessed in separate workstreams
- Growth-system concepts from technology can be translated into PE underwriting when calibrated to the target's business model

WHAT IT DOES NOT YET SUPPORT

- ↳ That funds routinely ignore growth
- ↳ That no existing adviser performs adjacent quality-of-revenue, commercial or growth diligence
- ↳ That the six qualities predict investment returns
- ↳ That a universal benchmark applies across recurring, services, multi-site, transactional and marketplace businesses
- ↳ That Project Atlas validates forecast accuracy

the AI question

AI belongs inside the growth system when it changes an operating equation: more qualified demand per dollar, faster seller ramp, better price realization, lower service cost, greater capacity, higher retention, or a new product customers pay for. **“Use AI” is not a lever. It is a technology choice.**

The diligence questions are familiar. Is the data usable? Does the workflow change? Will customers or employees adopt it? What economic input moves? How quickly does value reach the P&L? AI can multiply a strong system. It can also automate confusion.

THE CATEGORY-BUILDING TEST

The market does not need to accept the acronym for the work to be valuable. The first proof is practical: does the method produce a different and better IC decision, uncover a material condition, improve the 100-day sequence, or prevent capital from being released before evidence exists?

INDEPENDENCE SAFEGUARDS

The verdict cannot be a sales proposal in disguise.

Fixed fee.
The assessment fee is fixed regardless of verdict.

Sequenced.
The growth opinion is finalized before any execution scope is discussed.

Portable.
The sponsor owns the bridge, model and 100-day plan, and may hand them to any operator.

Optional.
Execution is separately scoped and never presumed.

Research cut-off: 24 July 2026. Claim-level sources and caveats follow.

23 · THE NEXT LIVE DEAL

if organic growth is carrying the deal model, it deserves its own workstream.

The purpose is not to add process. It is to decide what the investor is being paid to believe, before the company is asked to deliver it.

a QofG should leave five decisions behind

- **The baseline.** What actually produced historical growth, and what is likely to repeat.
- **The current engine.** What the company can produce with the capabilities and capacity it has today.
- **The execution gap.** The difference between current production and the underwritten case.
- **The conditions.** What must be funded, owned, sequenced and proven before additional growth enters the base case.
- **The first 100 days.** The evidence plan, operating milestones, capital gates and kill criteria.

A good conclusion may support the model. It may reduce it. It may preserve the same upside while changing the base, the capital plan, or the sequence. The value is not pessimism. **It is a cleaner contract between the investment thesis and the operating company.**

BRING US ONE LIVE DEAL

We will pressure-test the growth case before you price belief as fact.

Start with a 30-minute scoping conversation around the deal model, available evidence, and the growth questions most sensitive to enterprise value. No quiz. No generic score. If the fit is real, the assessment is fixed-scope, fixed-fee, and independent of any execution mandate.

nick@dayonegrowth.co
DAYONEGROWTH.CO

primary fit

lower-middle-market platforms

Services and tech-enabled businesses where organic growth is material to the return.

deliverable

an IC-ready growth opinion

Bridge, lever model, conditions, economic sensitivity and first 100-day proof plan.

handoff

yours to execute

Management, the operating team, Day One Growth, or another specialist can own implementation.

Market opportunity tells you what could happen. Quality of Growth tells you what this company can produce, what must be built, and what the investor should underwrite.

NOTES & SOURCES

every external claim, traced.

> HOW TO READ THESE
>
> Parts One and Two draw on the published research below and on one Day One Growth illustrative model, labeled where it appears. Parts Three and Four describe our own methodology and are a synthesis, not a finding; page 28 states what that evidence does not yet support. Project Atlas is an illustrative composite whose figures are internally consistent assumptions, not reported results from any client. Where a study is dated or small, we say so in the body text rather than in a footnote.

THE ARITHMETIC · PART ONE

Figure 01 is a Day One Growth illustrative model: a five-year LBO with annual debt sweep, solved for the EBITDA growth that clears a 2.5× gross MOIC. Its inputs are the observable market data below; its output is arithmetic, not a survey. Assumptions are stated in the figure caption and available on request.

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McKinsey & Company. *"Beating the odds: How private equity firms can improve exit prospects."* Assets growing above 25% CAGR sold at roughly a 50% premium to those below 5%; assets sold in 2024–25 carried median revenue growth 2–3 points above those retained. **McKinsey, Beating the odds** ↗

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THE FAILURE · PART TWO

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Termina. *Quality of Growth scans.* Automated, data-driven use of the term predates this document; Day One Growth makes no claim to having originated it. Termina, Quality of Growth scans ↗

Craig Group; Coppett Hill; SBI Growth. Go-to-market due diligence offerings addressing organic growth assumptions and commercial scalability. Craig Group ↗ · Coppett Hill ↗ · SBI Growth ↗

Figures are quoted as published. Where two sources measure the same phenomenon differently, for example holding period at exit versus median age of the standing portfolio — one measure has been used and named rather than blending them. Corrections are welcome and will be reflected in v1.1.