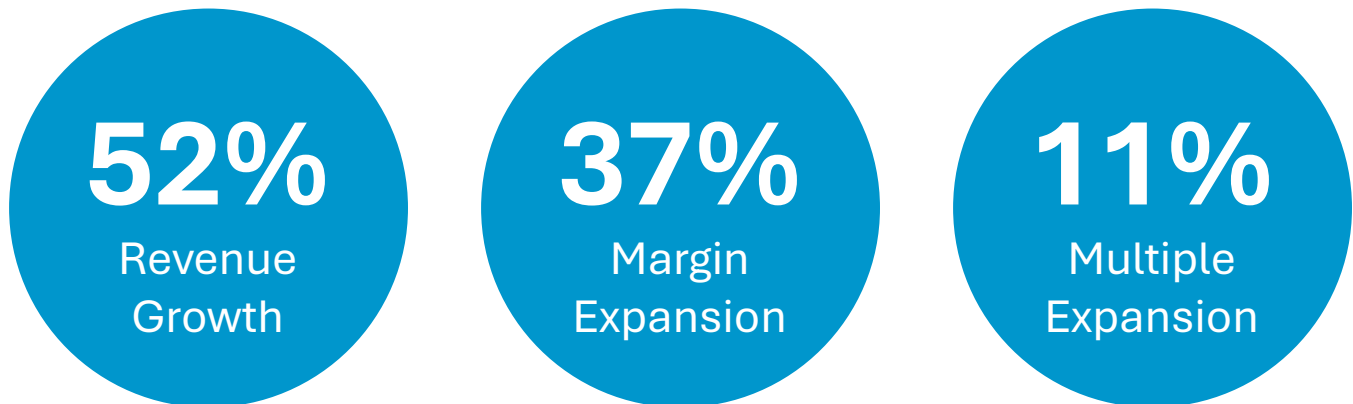


Operational Alpha: PE's New Frontier

After decades of strong performance, the traditional private equity playbook of financial engineering and multiple arbitrage is showing signs of fatigue. Today, operational improvement is emerging as the driver of value creation.

Share of Current PE Value Creation by Source



Sources: Gain.pro – Value Creation in Private Equity Report (2025). Comprehensive analysis of over 10,000 global private equity deals.

Key Highlights

- **Declining Role of Debt and Multiple Expansion** – Falling entry/exit spreads and tighter capital markets have compressed the role of multiple expansion and leverage in generating returns.
- **Operational Alpha is Key** – Revenue growth and margin improvement now account for majority of value creation, placing a premium on operators, not just capital allocators. The current generation of PE outperformance will be earned via operations.
- **Buy-and-build is a superior PE return generator.** Funds with a buy-and-build strategies tend to deliver higher returns.
- **Buy-and-build tends to maximize all three value creation drivers** – Revenue growth, margin expansion, and multiple expansion.
- **Tech, Data, and Talent** – Managers with expertise in the use of real-time data, business intelligence, continuous improvement and six sigma methodologies will tend to outperform on both EBITDA growth and exit multiples.
- **Implication for Allocators** – LPs must scrutinize GPs' operational toolkits, industry expertise, and portfolio governance structures, not just IRRs and vintage-year multiples.

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