

# THE VALUE CREATION QUESTION: WHAT INDEPENDENT SPONSORS NEED TO PROVE BEFORE THEY BUY

VALUE CREATION IS NO LONGER A POST-CLOSE CONCEPT. IT HAS TO BE REAL BEFORE THE DEAL GETS DONE.

# EXECUTIVE SUMMARY

For most of the last decade, value creation in private equity was a narrative that got assembled after closing. The deal got done, the 100-day plan got written, and the operating partners showed up. That sequence is no longer adequate. In a market where entry multiples are at historic highs, leverage contributions are declining, and LP expectations have reset, the value creation thesis has to exist before the deal is signed: not as a slide in a marketing deck, but as a genuine operational plan with specific owners, timelines, and assumptions.

McKinsey's 2026 Global Private Equity Report makes this explicit. Operational value creation, which often used to be more a marketing narrative than a true institutional capability, is now likely to be the primary source of returns for GPs and their limited partners. The era in which financial engineering and multiple expansion did the work is structurally over. Bain's 2026 report states it plainly: today's deals demand faster EBITDA growth, and achieving this requires sharper value creation and a clearer, data-backed edge.

For Independent Sponsors, that shift changes the diligence process, the capital partner conversation, and the way deals are won. A sponsor who can articulate a specific, executable value creation plan before asking capital partners for a commitment is doing something different from the norm: and that difference is being noticed.



# FULL POTENTIAL DILIGENCE IS THE NEW STANDARD

Bain's 2026 report introduces a framework it calls full potential diligence: a holistic, multidisciplinary effort that not only produces a viable deal case but identifies the revenue levers, operational levers, and technology levers that will produce a real step change in performance. The premise is that if you understand best what the asset can be worth, you are not only smarter about what to bid for it, but you enhance speed to value by hitting the ground running on Day 1 of ownership.

For Independent Sponsors, this means diligence is not complete when the financial model is validated. It is complete when the sponsor can answer: what specifically are we going to do with this business in the first 12 months, who is going to do it, and what would need to be true for that plan to work? Those are not exit questions. They are entry questions. And they need real answers, not placeholders.

McKinsey's analysis of GP returns reinforces the urgency. Without the tailwinds of multiple expansion and cheap leverage: which accounted for 59 percent of returns between 2010 and 2022: success will depend on what is under the hood rather than the slope of the road itself. Sponsors who cannot answer the value creation question convincingly before closing are assuming a return that the market will no longer provide automatically.





# CAPITAL PARTNERS ARE GRADING THE PLAN

McKinsey's January 2026 survey of 300 global LPs found that 53 percent ranked a GP's value creation strategy as a top-five metric in selecting a manager: placing it third on overall selection criteria, behind performance and quality of investment team and diligence. That figure replaced sectoral expertise as the third-most-important metric from the prior year's survey.

That is a significant data point for Independent Sponsors. Capital partners are not just evaluating the deal. They are evaluating whether the sponsor has a genuine plan to create value and whether that plan is credible based on the sponsor's track record, sector knowledge, and operating relationships. A thoughtful, specific value creation memo presented alongside the deal materials is not just a diligence artifact. It is a capital-raising tool.

McKinsey's pre-close framework supports exactly this approach: managers can use diligence findings to create a compelling value creation plan summarizing near-term improvement opportunities. Managers can also share diligence findings with co-investors and financiers to help boost their confidence in the investment and the associated value creation thesis.

# EARLY WINS ARE THE PROOF POINT

The market has shifted in a way that rewards sponsors who can point to tangible operational improvement early in the hold. McKinsey's exit research shows that assets growing at more than 25 percent CAGR have sold at roughly a 50 percent premium relative to assets growing at less than 5 percent; and higher EBITDA margins also correlate with stronger valuations at exit. That outperformance is built in the first two years of ownership, not in the final preparation for sale.

Bain's 2026 report on private equity returns is explicit: firms must invest in talent and AI, and move from full potential diligence to execution on Day 1. The sponsors who can demonstrate that transition and not just plan it are the ones who will continue to attract capital and win competitive situations.

# WHAT ACTUALLY MATTERS NOW

## 01

Build the value creation plan during diligence, not after close. It should be specific, owned, and tied to the investment thesis before you present the deal to capital partners.

## 02

Treat the value creation memo as a capital-raising document. Capital partners are increasingly grading the plan explicitly: make it worthy of that evaluation.

## 03

Identify two or three operational wins executable in the first 90 days. Early momentum is the most credible evidence that the plan is real, not aspirational.

## 04

Link value creation assumptions directly to exit readiness. The buyers who will eventually pay for this business need to see a company that was actively improved, not just held.

McKinsey & Company, Global Private Equity Report 2026, published March 2026.  
McKinsey & Company, Bridging Private Equity's Value Creation Gap, published April 2024.  
Bain & Company, Welcome to a New Era in Private Equity, published February 22, 2026.  
Bain & Company, Global Private Equity Report 2026, published February 22, 2026.  
McKinsey & Company, Beating the Odds: How Private Equity Firms Can Improve Exit Prospects, published March 17, 2026.

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