

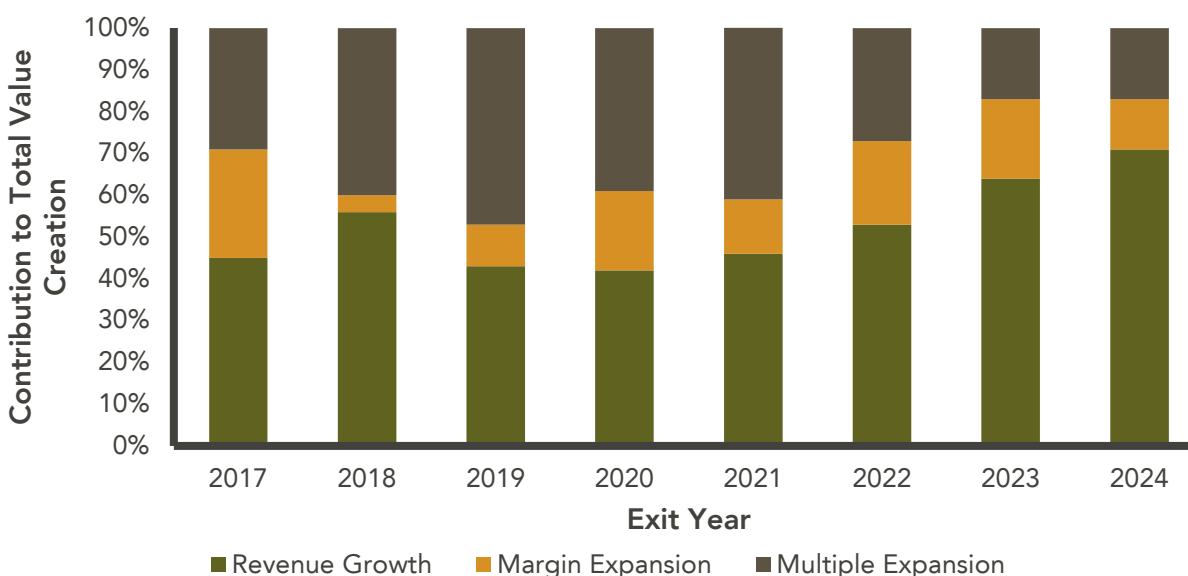
Chart of the Week

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Pulling the Right Value Creation Levers

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▾ As tighter conditions have reduced the effectiveness of financial engineering, private equity managers are increasingly focusing on operational improvements



Source: The Gain Private Equity Value Creation Report as of December 31, 2025

In the period between 2009 and 2022, private equity managers thrived amid an environment of low interest rates and rising asset prices, which led to financial engineering serving as a primary driver of portfolio value. In recent years, however, higher interest rates, elevated valuations, and tighter exit conditions have reduced the effectiveness of this value creation method. As a result, financial engineering has shifted from a core value driver to a supporting tool, prompting firms to increasingly focus on operational improvements within portfolio companies. Indeed, top-line growth and margin expansion are the key areas of value creation today, with revenue growth accounting for roughly 54% of value creation for deals that saw exits between 2017 and 2024. This dynamic can be attributed to the role of revenue growth as a sustainable and longer-term source of value creation, as it supports revenue base expansion, enables EBITDA growth, and facilitates more favorable valuation outcomes.

To drive both growth and profitability, private equity firms deploy a range of operational initiatives, including cost transformation, pricing optimization, technology integration, and supply chain improvements. While studies show that operations and pricing are the most effective levers in value creation playbooks, it is important to remember that execution is just as important as planning. To that point, a recent study found that more than

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half of executives cited poor implementation as a primary and controllable cause of underperformance of their businesses. Ultimately, as operational improvements become more crucial to value creation, private equity firms that can execute with discipline, particularly across revenue growth and margin expansion, will differentiate themselves when it comes to delivering returns and building more resilient and scalable businesses. ■

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