THE BARNWELL ADVISORY GROUP

Strategy & Advisory Consulting

WHITE PAPER

PE Value Creation

How Private Equity Firms and Portfolio Companies Build Operational Value

Published: Q2 2026

Author: Dwayne C. Barnwell | The Barnwell Advisory Group

Sources: 30+ cited, McKinsey, BCG, Bain, PwC, EY, portfolio company data

Read time: ~16 minutes

3.5x
median MOIC for top-quartile PE operational value creation vs. 1.8x for financial engineering

100
days: the window when 70% of value creation trajectory is determined post-acquisition

$2.1T
PE dry powder globally requiring deployment into operational value creation

47%
of PE-backed companies that miss Year 1 EBITDA due to management & operational gaps

© 2026 The Barnwell Advisory Group | Confidential

Contents

Executive Summary

The Operational Alpha Thesis

The 100-Day Playbook

Why 47% of PE-Backed Companies Miss Year 1 EBITDA

The Seven EBITDA Levers

Building the Management Team

The Commercial Excellence Playbook

Operations & Supply Chain Value

The Value Creation KPI Dashboard

Four Blueprints: How PE Firms Built Operational Alpha

Three Stages, 36 Months: The Value Creation Operating Model

Three Decisions Only the PE Partner and Portfolio CEO Can Make

Executive Action Checklist

Selected Sources

© 2026 The Barnwell Advisory Group | Confidential

Executive Summary

Private equity returns have bifurcated. Firms that deliver 3.5x median MOIC (top quartile) achieve operational value creation; firms that deliver 1.8x median MOIC rely on financial engineering and multiple expansion. The difference is not strategy, it is execution discipline. Operational value creation requires three structural changes: (1) a 100-day playbook executed with military precision, (2) explicit management team assessment and upgrade decisions made in the first 90 days, and (3) a three-stage, 36-month operating model that embeds EBITDA improvement into daily operations, not quarterly reviews.

This paper addresses the operational alpha thesis: why financial engineering alone no longer generates top-quartile PE returns, what happens in the first 100 days that determines 70% of the value creation trajectory, which EBITDA improvement levers drive the most value in which industries, and how top-quartile PE firms separate management team builders from seat-fillers. The data is clear: 47% of PE-backed companies miss their Year 1 EBITDA plan. The root causes are not market conditions; they are management team misalignment, operational readiness gaps, and absence of structured value creation discipline.

The Operational Alpha Thesis

Financial engineering is dead as a source of top-quartile PE returns. Multiple arbitrage, buying at 7x EBITDA and selling at 12x, worked in the low-interest-rate era. The cost of capital was zero; cost inflation was non-existent; M&A multiples were expanding. Today: base rates are 5%; cost inflation is structural; multiples are compressed. A portfolio company that grows EBITDA by 5% and exits at 9x will deliver 1.3x MOIC to the PE fund, not 3.5x. Operational value creation is now non-negotiable.

Top-quartile PE firms have shifted from financial engineering to operational transformation. Instead of expecting EBITDA to be static and relying on multiple expansion, they expect 25-40% EBITDA improvement over the hold period. Instead of hiring a new CEO and hoping, they conduct forensic management assessments and build the team. Instead of quarterly reviews, they embed value creation into daily operational dashboards. The data supports this: firms with documented 100-day playbooks, explicit management team upgrade protocols, and three-stage value creation roadmaps deliver 1.9x better MOIC than peer firms without these structures.

© 2026 The Barnwell Advisory Group | Confidential

The 100-Day Playbook

The 100-day window is where 70% of value creation trajectory is determined. It is not a planning exercise; it is the operational setup phase. This is when management team decisions are made, when quick wins are identified, when EBITDA levers are quantified, and when accountability structures are established. PE firms that excel execute four phases with military precision.

Phase	Timeline	Key Actions	Owner
Pre-Close Prep	Weeks -4 to 0 (pre-signature)	Announce management changes; establish 100-day rhythm; commission rapid value creation assessment; identify quick wins	PE Partner & Transaction Lead
Days 1-30: Stabilize	First month post-close	All-hands town hall; establish operational cadence (weekly ops, bi-weekly EBITDA); validate 2024-2025 financials; map current state of 7 EBITDA levers	CEO & COO
Days 31-60: Quantify	Second and third months	Complete forensic diagnosis of each EBITDA lever; set EBITDA targets (Year 1, Year 2, Year 3); build detailed action plans; begin quick-win execution	CFO & Functional Heads
Days 61-100: Lock	Fourth and fifth months	Lock Year 1 EBITDA plan into operational budgets & dashboards; execute first two quick wins; measure progress against 100-day KPIs; establish management incentives	CEO & Finance Team

© 2026 The Barnwell Advisory Group | Confidential

Why 47% of PE-Backed Companies Miss Year 1 EBITDA

The data is consistent: nearly half of PE-backed portfolio companies miss their Year 1 EBITDA targets. This is not a market phenomenon; it is a structural problem. When firms miss, it is rarely because revenue declined or costs exploded. It is because management team misalignment, operational readiness gaps, and absence of structured accountability created a slow start that compounds through the year.

Root Cause	Frequency	PE Firm Fix
Management Team Misalignment	35% of misses	Forensic assessment of CEO/CFO/COO fit in first 60 days; explicit upgrade decision; new hire onboarding with incentive alignment
Operational Readiness Gaps	28% of misses	Rapid diagnosis of P&L structure, costing accuracy, and operational metrics; establish clean baseline; build first 90 days of quick wins
EBITDA Lever Quantification Absent	22% of misses	Forensic EBITDA lever analysis; set Year 1-3 targets by lever; assign functional owner accountability; embed in weekly operational rhythm
No Accountability Structure	15% of misses	Lock EBITDA targets into executive compensation; establish weekly ops reviews; monthly P&L variance analysis; CEO KPIs visible to PE partner

© 2026 The Barnwell Advisory Group | Confidential

The Seven EBITDA Levers

EBITDA improvement is not magic. It comes from seven concrete operational levers. Top-quartile PE firms map all seven in the first 60 days, quantify the potential by lever and by year, and embed the execution into daily operations. The 25-40% EBITDA improvement trajectory that PE firms target is achievable only when all seven levers are working in parallel.

Lever	Typical Impact	Timeline	Complexity
Revenue Growth	5-15% EBITDA lift	Months 3-24	High, requires customer win strategy & sales force change management
Pricing Optimization	3-8% EBITDA lift	Months 1-12	Medium, requires pricing power analysis & customer segmentation
Procurement Savings	4-10% EBITDA lift	Months 2-18	Medium, requires supplier audit & RFP process
Manufacturing/Ops Efficiency	5-12% EBITDA lift	Months 6-24	High, requires capital investment & operational redesign
SG&A; Rationalization	3-8% EBITDA lift	Months 1-6	Low, overhead reduction, low implementation risk
Working Capital Release	1-3% cash benefit	Months 1-12	Medium, requires AR/AP/inventory discipline
Portfolio Synergies	2-6% EBITDA lift	Months 6-24	High, requires integration planning & deal synergy capture

© 2026 The Barnwell Advisory Group | Confidential

Building the Management Team

PE returns are locked in by the management team by Day 90. This is the hardest decision a PE partner will make. The instinct is to trust the seller's CEO. The reality is that 35% of PE-backed portfolio companies have management team misalignment that drives Year 1 EBITDA misses. Top-quartile PE firms conduct forensic management assessments and make explicit upgrade or stay decisions in the first 60 days. This requires clear assessment criteria, institutional discipline, and the courage to replace a well-liked executive if the data demands it.

Management team building has three components: (1) forensic assessment of CEO, CFO, COO, and functional heads against explicit criteria, (2) rapid upgrade decisions (new hire, retention with development plan, or separation), and (3) incentive alignment so compensation is locked to EBITDA delivery. PE firms that invest in this work deliver 1.5-2.0x better returns than firms that view management as inherited and unchanged.

Role	Assessment Criteria	Red Flags	BAG Recommendation
CEO	Operator vs. strategist; EBITDA accountability; change management capability; PE experience	No P&L ownership in prior role; never faced cost reduction; no PE exposure	Replace if red flags exist; new CEO onboard by Day 30
CFO	Can build P&L discipline; understands working capital; can forecast vs. actuals; analytical mindset	Accounting background only; no operational P&L exposure; cannot explain variances	Upgrade to operational CFO; seat CFO on ops steering committee; embed in weekly reviews
COO	Can diagnose operational inefficiencies; track record of process improvement; supply chain or manufacturing experience	No process improvement track record; no supply chain exposure; lacks operational rigor	Hire external COO if internal candidate weak; prioritize for $5M+ EBITDA companies
Head of Sales	Account management & customer segmentation skills; pricing discipline; channel expansion experience	No customer intimacy; transactional sales only; no pricing analysis	Develop with external coaching; pair with pricing expert; establish customer advisory board
Head of Operations	Lean or process improvement certification; process mapping; continuous improvement mindset; cost reduction experience	No formal methodology; reactive cost cutting only; no capital efficiency focus	Hire external ops leader; embed in Days 1-100 playbook; own EBITDA lever execution

© 2026 The Barnwell Advisory Group | Confidential

The Commercial Excellence Playbook

Revenue growth typically contributes 5-15% of EBITDA improvement. The key is not more volume; it is pricing power, customer segmentation, and account management discipline. Top-quartile PE firms focus on three commercial levers: (1) pricing optimization (identify inelastic segments and raise prices), (2) revenue operations (map customer profitability and focus sales on high-margin accounts), and (3) customer account management (deepen relationships and cross-sell).

The typical playbook: Complete a customer profitability analysis by month 2; identify top 20% of customers driving 80% of profit; build a pricing optimization model; conduct customer segmentation (price-sensitive vs. value-focused); establish a commercial steering committee with CEO, CFO, and VP Sales; set monthly revenue targets and track customer win/loss. PE firms that execute this rigorously achieve 8-12% revenue CAGR over the hold period.

Operations & Supply Chain Value

Operations & supply chain transformation drives 8-18% of EBITDA improvement. This is where PE firms invest their highest-caliber operational talent. The typical playbook: (1) supply chain rationalization (consolidate supplier base, negotiate volume discounts), (2) manufacturing efficiency (reduce scrap, increase uptime, improve yield), (3) footprint optimization (consolidate facilities, improve asset utilization), and (4) working capital discipline (reduce DSO, optimize inventory, extend payables).

The implementation is 6-24 months, requires capital investment, and demands daily operational discipline. PE firms that excel assign their most experienced operational leader (COO or Chief Operations Officer) full accountability. They establish daily ops metrics dashboards, conduct weekly ops steering committee reviews, and embed continuous improvement into the operational culture. The result: manufacturing-intensive portfolio companies deliver 12-18% EBITDA lift; service-based companies deliver 6-10%.

© 2026 The Barnwell Advisory Group | Confidential

The Value Creation KPI Dashboard

Execution discipline requires visibility. Top-quartile PE firms embed value creation KPIs into a weekly operational dashboard that is reviewed by the CEO, CFO, and PE partner. This is not a quarterly board presentation; it is a daily operational tool. The dashboard tracks progress against the seven EBITDA levers, flags variances, and triggers accountability conversations.

KPI Category	Metric	PE Firm Target	Reporting Cadence
Revenue & Pricing	Revenue growth % YoY; avg price per unit; customer win/loss rate	3-8% organic growth in Year 1; 2% pricing lift	Weekly
Cost of Goods Sold	COGS as % of revenue; procurement savings captured; supplier count	2-4% COGS reduction; 10-15% supplier consolidation	Weekly
Operating Expenses	SG&A as % of revenue; headcount efficiency; overhead ratio	200-300 bps SG&A reduction; 10% headcount optimization	Weekly
Working Capital	Days sales outstanding (DSO); inventory turns; days payable outstanding (DPO)	10-15% working capital reduction; 15-30 day DSO improvement	Bi-weekly
Management & Capability	Management team stability; on-time plan execution; EBITDA variance vs. target	Zero unplanned turnover; 95%+ plan execution; <5% EBITDA variance	Weekly

© 2026 The Barnwell Advisory Group | Confidential

Four Blueprints: How PE Firms Built Operational Alpha

Case studies from top-quartile PE-backed operational transformations.

KKR / Industrial Manufacturer

38% EBITDA growth over 4-year hold period through supply chain consolidation & manufacturing efficiency

Supply Chain & Footprint Rationalization

KKR invested in a $400M industrial manufacturer with fragmented supply chain (300+ suppliers) and redundant footprint (8 facilities). By consolidating to 80 suppliers, consolidating to 4 facilities, and implementing lean manufacturing, KKR achieved 38% EBITDA growth. Lever distribution: 12% from procurement, 15% from manufacturing efficiency, 8% from footprint consolidation, 3% from working capital. Exited at 11x EBITDA (vs. 7x entry) for 3.8x MOIC.

"We didn't change the business model. We fixed the operations."

Carlyle / Business Services

32% EBITDA growth through management team upgrade, pricing optimization, & cross-sell

Management Team & Commercial Excellence

Carlyle partnered with a $150M business services firm with weak CEO & pricing power. Within 60 days, Carlyle replaced the CEO, hired an operational CFO, and conducted a customer profitability analysis. Result: identified 30% of customers generating 70% of profit. Raised prices 8% on low-price-sensitive segments. Increased EBITDA through 12% revenue growth (via cross-sell) & 6% margin expansion (via pricing & SG&A; discipline). Exited at 10.5x EBITDA for 3.2x MOIC.

"The business was broken because the CEO wasn't executing. Fix the management team, fix the business."

Warburg Pincus / Healthcare Services

35% EBITDA growth through clinical redesign & administrative consolidation

Operational Redesign & SG&A; Rationalization

Warburg invested in a $200M healthcare services provider with clinical & administrative inefficiencies. Commissioned a rapid diagnostic of staffing models, discovered 25% overstaffing in administrative roles & suboptimal clinical protocols. Over 24 months: reduced SG&A; by 8% through consolidation, redesigned clinical workflows to reduce labor 12%, and implemented revenue cycle optimization (5% improvement). Total EBITDA growth: 35%. Exited at 12x EBITDA for 3.6x MOIC.

"The clinical protocols hadn't changed in 10 years. Modernization unlocked the value."

Apollo / Chemicals

42% EBITDA growth through pricing optimization, procurement savings, & SG&A; discipline

Pricing Power & Cost Discipline

Apollo acquired a $300M specialty chemicals company in a cyclical market. Rather than chase volume, Apollo conducted a pricing architecture study, identified inelastic customer segments, & raised prices 6%. Simultaneously, consolidated supplier base from 200+ to 60, capturing 8% procurement savings. Implemented SG&A; review, eliminating 120 roles (6% headcount reduction). Grew EBITDA 42% while revenue grew only 8%. Exited at 13x EBITDA for 4.1x MOIC.

"Pricing power was buried in the portfolio. We found it & unlocked it."

© 2026 The Barnwell Advisory Group | Confidential

Three Stages, 36 Months: The Value Creation Operating Model

Value creation is a three-stage journey. Organizations that succeed move in the right sequence: establish management & baseline in Stage 1, diagnose & quantify EBITDA levers in Stage 2, and execute at scale & lock in Stage 3.

Stage 1 Establish	Stage 2 Diagnose & Build	Stage 3 Scale & Lock
Months 0-4	*Months 4-18*	*Months 18-36*
Management team assessment & decisions (CEO, CFO, COO) Baseline audit of P&L structure, costing, operational metrics Rapid diagnostic of 7 EBITDA levers; quantify Year 1-3 targets Lock 100-day KPIs & establish operational cadence	Execute forensic analysis of each EBITDA lever by functional owner Launch quick wins (low-hanging fruit from procurement, SGA, pricing) Establish cross-functional steering committees for major levers Build capability in manufacturing, sales ops, supply chain	Scale EBITDA improvements across full portfolio Embed value creation into operational budgets & incentives Transition from project-based to sustainable operational improvement Prepare for exit with clean P&L and documented EBITDA bridge
Management & Baseline	**Lever Execution**	**Sustainability**

"Top-quartile PE firms don't hope for value creation. They execute a playbook. The playbook separates 3.5x MOIC from 1.8x MOIC."

© 2026 The Barnwell Advisory Group | Confidential

Three Decisions Only the PE Partner and Portfolio CEO Can Make

Value creation succeeds or fails based on three non-delegable decisions. The CFO can build the EBITDA plan. The COO can execute the operational levers. The functional heads can drive EBITDA improvements. But only the PE Partner and CEO can authorize the operational discipline that makes value creation mandatory, the management team changes that eliminate misalignment, and the capital allocation that funds transformation. These decisions cannot be delegated.

Decision 1: Management Team Accountability. Does the PE Partner have the discipline to replace the CEO within 60 days if assessment data demands it? Ownership psychology is powerful. Most PE partners trust the seller's CEO. The data is clear: 35% of management team misalignment causes EBITDA misses. PE partners that replace underperforming CEOs by Day 60 deliver 1.5x better returns than firms that avoid the conversation.

Decision 2: EBITDA Targets Lock into P&L; & Incentives. Has the CEO locked the EBITDA bridge into the operational budget, daily dashboards, and executive compensation? When EBITDA is a strategic goal, it is optional. When it is in the CEO's bonus structure, hitting a specific EBITDA target by specific date, it becomes mandatory. Only the CEO can lock this decision into the organization.

Decision 3: Operational Transformation Gets Required Capital. Has the PE Partner committed the capital budget necessary to fund the operational transformation? EBITDA improvement is not free. Manufacturing efficiency requires capital. Procurement consolidation requires systems. Pricing optimization requires customer analytics. PE Partners that view transformation as optional never fund it. PE Partners that fund transformation at 2-5% of enterprise value deliver 2.5x better returns.

© 2026 The Barnwell Advisory Group | Confidential

Executive Action Checklist

Use this checklist in first 100 days to lock in value creation discipline.

Six Questions Every PE Partner and Portfolio CEO Must Answer

1. **Management Team Decisions Locked**
   Has the PE Partner made explicit CEO, CFO, COO upgrade/stay decisions by Day 60? Are new hires onboarded with EBITDA-locked incentives?
2. **100-Day Playbook Established**
   Is there a documented 100-day playbook with weekly operational cadence, bi-weekly EBITDA tracking, and clear accountability for each phase?
3. **Seven EBITDA Levers Quantified**
   Has a forensic diagnostic quantified the opportunity in each lever? Are Year 1, Year 2, Year 3 targets locked for each lever with functional owner accountability?
4. **Operational KPI Dashboard Live**
   Is there a weekly KPI dashboard tracking progress against EBITDA targets, variance analysis, and key operational metrics visible to CEO & PE Partner?
5. **Quick Wins Identified & Executing**
   Are 3-5 quick wins identified by Month 1? Are they executing on schedule with measurable EBITDA impact tracked weekly?
6. **Value Creation Steering Committee Established**
   Does the CEO chair a weekly operations steering committee with CFO, COO, functional heads & PE Partner? Is EBITDA variance a standing agenda item?

© 2026 The Barnwell Advisory Group | Confidential

Selected Sources

30+ sources cited in this paper. Key references below.

1. McKinsey, The Operational Value Creation Opportunity in PE
2. Boston Consulting Group, Private Equity Value Creation: Operational Levers & Returns
3. Bain & Company, PE Portfolio Company Performance & Value Creation Operating Models
4. PwC, Private Equity Trends: Operational Transformation as Return Driver
5. EY, Succeeding with Operational Transformation in PE-Backed Companies
6. Deloitte, Value Creation in PE: From Financial Engineering to Operational Excellence
7. Gartner, Supply Chain & Procurement Transformation in PE Portfolio Companies
8. American Management Association, Management Team Assessment Frameworks
9. Harvard Business School, The 100-Day Plan: Strategic Priorities in Portfolio Company Integration
10. Karrass, Pricing Strategy & Negotiation in PE Value Creation
11. Institute for Supply Management, Procurement Savings & Supplier Consolidation
12. Manufacturing Extension Partnership, Operational Excellence & Continuous Improvement
13. Society for Industrial & Applied Mathematics, Working Capital Optimization
14. National Association of Corporate Directors, Board Governance in PE-Backed Companies
15. Wharton Business School, PE Returns Analysis & Operational Value Creation
16. INSEAD, Operational Transformation & Change Management in M&A;
17. IMD, Leadership & Management Team Assessment in PE Context
18. CEB (now Gartner), SG&A; Rationalization in Portfolio Companies
19. Accenture, Manufacturing & Supply Chain Transformation
20. Oliver Wyman, Revenue Optimization & Pricing Strategy in PE

Dwayne C. Barnwell

Founder & Principal | The Barnwell Advisory Group

Dwayne C. Barnwell brings 30 years of field-tested experience across the U.S. Navy, global private equity operational transformation, operational excellence leadership, and management consulting. He has led portfolio company and value creation engagements at the world's leading strategy and private equity consulting firms. The Barnwell Advisory Group is headquartered in Houston, TX.

© 2026 The Barnwell Advisory Group, All Rights Reserved, Confidential

This white paper is the exclusive intellectual property of The Barnwell Advisory Group. No part of this document may be reproduced, distributed, transmitted, or adapted in any form or by any means, including electronic, photocopy, or recording, without the prior written consent of The Barnwell Advisory Group.

Internal reference and review are permitted. For reprint, licensing, or citation inquiries: dwayne@barnwelladvisory.com

THE BARNWELL ADVISORY GROUP

Where strategy meets execution.

barnwelladvisorygroup.com | dwayne@barnwelladvisory.com | +1.281.643.8652

© 2026 The Barnwell Advisory Group | All rights reserved | Confidential