SHORT-FORM GUIDE · HOLD PERIOD

Closing the MOIC gap: the customer base lever operating partners are not using

What separates a 1.7x fund from a 2.3x fund is increasingly what sponsors change inside the business.

> *Financial engineering tailwinds have faded. Higher base rates have reduced the contribution of leverage. The spread between a 1.7x fund and a 2.3x fund is now what sponsors change inside the business.*

61%
of EV growth in the bottom quartile comes from revenue growth

70%
of EV growth in the top quartile comes from revenue growth

MOIC OUTCOMES BY QUARTILE

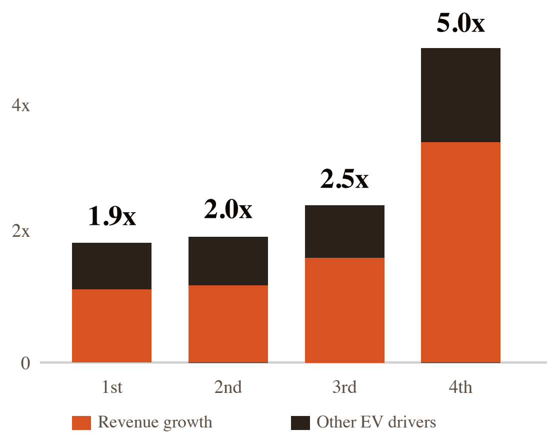


Exhibit adapted from OC&C analysis of deals exited 2017 to present. Orange denotes revenue growth contribution; dark denotes other EV growth drivers.

OC&C's analysis of deals exited 2017 to present shows revenue growth and multiple expansion as the primary drivers of superior MOIC outcomes, not margin expansion. Revenue growth accounts for 61% of EV growth in the bottom quartile. It accounts for 70% in the top quartile. But the top quartile's revenue growth is not the same quality as the bottom quartile's.

Top-quartile performers grow revenue by 170% on average, versus 36% for the bottom. The multiple expansion that follows reflects the market's judgement about whether that revenue is durable. A business that has grown revenue by attracting and retaining high-quality customers gets a higher multiple than one that has grown by acquiring low-value customers or by promotional spend that will not survive under a new owner.

The customer base is the operational lever that closes the MOIC gap. Most operating partners are not measuring it at the level of granularity required to act on it.

CUSTOMER-BASE IMPROVEMENT

The three customer levers

Most hold-period value creation plans identify three to five operational levers. Customer-base improvement is rarely one of them, not because it is unimportant, but because it is not measured with sufficient granularity to produce actionable intelligence.

60 to 70%

of revenue is often generated by the top 15 to 25% of customers

1 Retain the highest-value customers

In most consumer, retail and subscription businesses, 15% to 25% of the customer base generates 60% to 70% of revenue. A 5% improvement in retention within that tier, identified in Year 2 of a 7-year hold, has 4.7 years to compound into the exit revenue base. The same deterioration, if undetected for four years, leaves under three years to remediate. The Revenue Quality Architecture™ identifies value-tier migration at the individual customer level, finding the at-risk high-value customers before they leave the reported numbers.

Action: identify value-tier migration before it becomes reported churn

6.5:1

low-value to high-value acquisition can create structural fragility

2 Raise acquisition quality

Revenue growth from low-quality acquisition dilutes the base. It inflates customer count metrics and early revenue, but it reduces the per-customer revenue average and weakens the retention profile. A business growing by acquiring 6.5 low-value customers for every high-value one is building structural fragility into the exit revenue base. The analysis identifies the ratio of high-value to low-value acquisition over a 12 to 48 month period, and quantifies the revenue impact of raising it by a targeted amount.

Action: quantify the revenue impact of improving acquisition quality

Lower churn

multi-category customers are a stronger base for durable revenue

3 Expand breadth in the existing base

Customers who purchase across multiple categories churn at materially lower rates than customers with narrow purchasing patterns. Breadth expansion within the existing high-value tier is the lowest-cost route to improving retention and increasing per-customer revenue simultaneously. Breadth contraction in the top tier, identified before churn, is one of the most reliable early-warning signals available in the transaction data.

Action: find breadth contraction before it becomes churn

LEADING INDICATORS

What early-warning intelligence looks like

Standard portfolio monitoring relies on management reporting: revenue, margin, customer count, churn rate. None of these measures what is happening to the highest-value customers specifically. None shows value-tier migration, breadth contraction, or acquisition quality. All of them are lagging indicators.

Keystone IQ's Customer Base Diagnostic produces a different kind of intelligence. It tracks how the customer base has moved year on year, at the individual customer level, across the five dimensions of the Revenue Quality Architecture™. It identifies the specific customer populations that carry the exit revenue thesis, and whether they are growing, stable, or already leaving.

If nothing changes

Shows what the existing base is likely to deliver based on observed movement.

If the fund intervenes

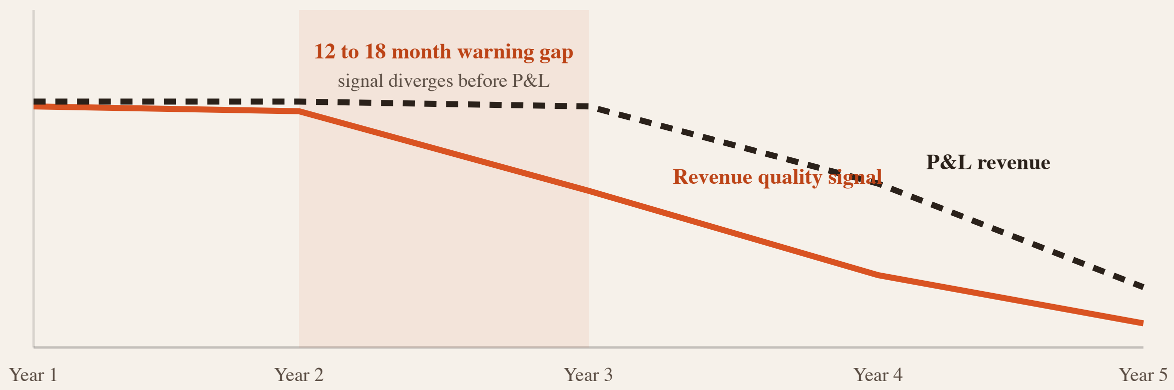
Models the revenue range from acting on the highest-value at-risk customers.

If the next tier develops

Quantifies the upside from improving the customer populations below the top tier.

Not a forecast. A structured range of outcomes based on observed patterns.

REVENUE QUALITY SIGNAL LEADS REPORTED PERFORMANCE



Illustrative exhibit. Revenue quality signals are visible in customer data before reported revenue reflects the underlying movement.

ACTING ON CUSTOMER EVIDENCE

What to do with it

Our Customer Base Diagnostic is commissioned at two points in the hold period: a mid-hold strategic review (Year 2 or Year 4 of a 7-year hold), and in the four to six months before going to market.

MID-HOLD STRATEGIC REVIEW

Inform the value creation plan

At mid-hold, the output informs the value creation plan: which customer levers have the highest addressable revenue impact, where the at-risk populations are, and what specific interventions the operating plan should include.

PRE-EXIT EVIDENCE LAYER

Prepare the answers buyers will ask for

At exit, the same analysis becomes the customer evidence layer in the data room. Buyers will ask about the customer base. The Diagnostic produces the answers before they ask.

> *A sponsor who can answer all four categories of customer questions, with documented evidence at individual customer level, before a buy-side DD team tables a single request, has a structural advantage in the exit process.*

- Identify the highest-impact customer levers
- Locate the at-risk customer populations
- Define interventions before deterioration compounds

- Concentration
- Cohort quality
- Retention trajectory
- Relationship transfer risk

Commission the Customer Base Diagnostic

Ten days from clean data **No PII** required

keystoneiq.co/customer-base-diagnostic

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