EXIT READINESS

Exit Readiness Customer Evidence

Build the customer evidence layer before the buyer's DD team asks for it.

Natalie McCrae · Founder, Keystone IQ

Approximately 32,000 portfolio companies remain unsold globally. The sponsors who clear exits at the valuations they need are the ones with the most defensible evidence.

Source: Bain & Company, Global Private Equity Report 2026.

WHY THIS MATTERS NOW

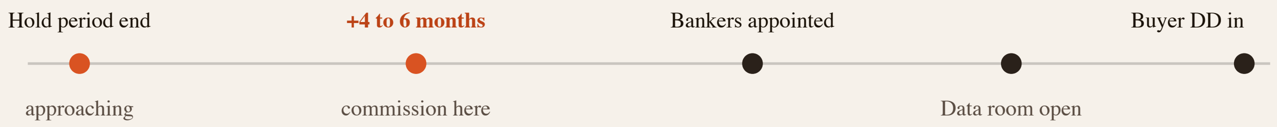
Exits are harder to clear. Evidence has to arrive earlier.

<15%
Distributions as a percentage of NAV for four consecutive years

32,000
Portfolio companies remain unsold globally

6.7 yrs
Average hold period, the longest since 2005

EXIT PREPARATION TIMELINE



Commission the Diagnostic four to six months before going to market, before bankers are appointed.

> *Distributions as a percentage of NAV have held below 15% for four consecutive years. Approximately 32,000 portfolio companies remain unsold globally. The average hold period has stretched to 6.7 years, the longest since 2005.*

WHY THIS MATTERS NOW

The cleanest businesses do not automatically hold valuation.

Exits are harder to clear than at any point in the last decade. Buy-side and sell-side valuation gaps are wide. In the UK mid-market, they are among the widest since the global financial crisis.

These conditions are not a reason to delay going to market. They are a reason to arrive at the exit window better prepared than a buy-side DD team expects.

The sponsors who clear exits at the valuations they need are not the ones with the cleanest businesses. They are the ones with the most defensible evidence for the valuations they are asking buyers to pay. Customer evidence is the most consequential part of that preparation, and the most consistently underprepared.

Where valuation pressure usually lands

The buy-side DD team will ask about the customer base. In every consumer, retail, ecommerce, subscription and financial services deal, those questions determine whether the asking valuation holds or gets renegotiated.

This guide covers

- The four categories of questions buyers ask
- What evidence answers each
- How to prepare that evidence in advance
- What the commissioning process looks like

THE FOUR CATEGORIES OF BUYER QUESTIONS

Buyers ask the same customer questions. Each requires evidence, not assertion.

Buyers ask four categories of customer base questions in every deal where customer behaviour drives enterprise value. Each requires evidence, not assertion. Each has a predictable answer if the evidence is built in advance.

01

Concentration and dependency

BUYER QUESTION	EVIDENCE REQUIRED	RISK IF UNADDRESSED
How exposed is revenue to a small group of customers?	Customer-level concentration across the full hold period.	Revenue fragility becomes a valuation challenge.

02

Cohort quality and acquisition trajectory

BUYER QUESTION	EVIDENCE REQUIRED	RISK IF UNADDRESSED
Are recent customers as valuable as the incumbent base?	Year-on-year cohort quality and acquisition mix.	Growth is discounted as low-quality replacement volume.

03

Retention and value-tier migration

BUYER QUESTION	EVIDENCE REQUIRED	RISK IF UNADDRESSED
Are the highest-value customers stable, expanding, or leaving?	Movement analysis across value tiers, churn, and growth.	The buyer assumes contraction in the most valuable tier.

04

Relationship transfer risk

BUYER QUESTION	EVIDENCE REQUIRED	RISK IF UNADDRESSED
Which revenue depends on personal relationships with exiting leaders?	Relationship transfer risk assessment at customer level.	Non-transferable goodwill becomes a price negotiation.

THE FOUR CATEGORIES OF BUYER QUESTIONS

The predictable questions, and what good evidence looks like.

01

Concentration and dependency

What percentage of revenue comes from the top 20% of customers? Has that concentration changed over the hold period? What would happen to revenue if the top 10 customers reduced spend by 25%?

WHAT GOOD LOOKS LIKE

A documented, auditable statement of customer concentration at individual customer level, covering the full hold period, with evidence that concentration has improved or been actively managed.

02

Cohort quality and acquisition trajectory

Are recent customers coming in at the same spend and frequency as the incumbent base? What is the ratio of high-value to low-value acquisition over the last 24 months? Is the business replacing customers it loses with customers of equivalent or higher value?

WHAT GOOD LOOKS LIKE

Year-on-year cohort quality analysis showing that new customer acquisition has been maintained at or above the quality of the incumbent base throughout the hold period.

03

Retention and value-tier migration

Are the highest-value customers stable or leaving? Is there evidence of breadth contraction in the top tier, which precedes churn? What is the revenue trajectory of the customers acquired in Year 1 of the hold, now in Year 5 or 6?

WHAT GOOD LOOKS LIKE

Individual customer-level movement analysis showing which customers moved between value tiers, which left, and which grew, with evidence that the highest-value tier is stable or growing at exit.

04

Relationship transfer risk

Which customer relationships are personal to the exiting management team? Which are embedded in the business and will transfer with it? What is the revenue concentration in customers with a material personal relationship with the CEO, founder, or key account manager?

WHAT GOOD LOOKS LIKE

A documented relationship transfer risk assessment at individual customer level, identifying which relationships are personal and what the revenue exposure is if those relationships do not transfer.

WHAT EVIDENCE LOOKS LIKE IN THE DATA ROOM

Customer evidence is not a management presentation.

It is a structured, auditable analysis of customer behaviour that a buy-side DD team can interrogate directly. It needs to be built from transaction data, not from management accounts or survey-based proxies.

THE EXIT EVIDENCE CHECKLIST

- [ ] Customer concentration analysis at individual customer level, covering 12 to 48 months
- [ ] Year-on-year cohort movement showing value-tier migration across the hold period
- [ ] Acquisition quality analysis showing the high-value to low-value ratio in new customer acquisition
- [ ] Retention analysis at the highest-value tier specifically
- [ ] Breadth trajectory showing cross-category purchasing patterns
- [ ] 12-month forward scenarios with three outcomes and the customer populations underpinning each
- [ ] Relationship transfer risk scoring at individual customer level

The practical effect is to constrain the diligence conversation.

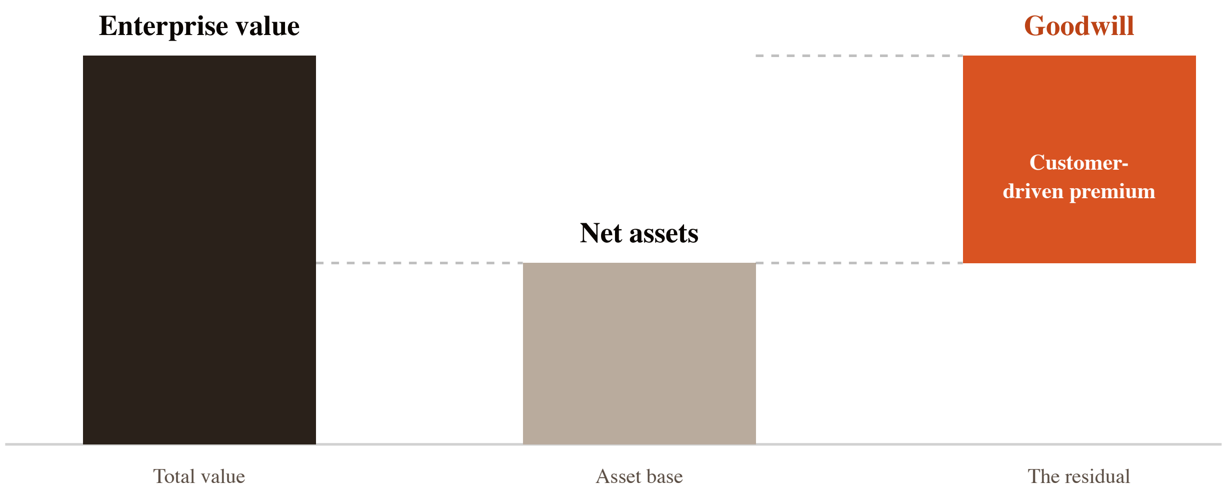
With this evidence in place before the formal process starts, the buy-side team's DD adviser reviews and challenges the seller's customer evidence rather than constructing their own picture from scratch. This is a structurally better starting position: the buyer's DD conclusions are constrained by the quality of the evidence already in the room. The point is not to avoid challenge. It is to make the buyer challenge a structured evidence layer, not an information vacuum.

THE GOODWILL PREMIUM AND CUSTOMER EVIDENCE

Goodwill is the difference between enterprise value and net assets.

The customer-driven component of goodwill, the recurring revenue, behavioural loyalty, and durable relationships that justify a premium above net assets, is defensible when supported by transaction-level evidence. It is not defensible when the evidence is limited to a management assertion that customer relationships are strong.

STYLISED DEAL DECOMPOSITION



Illustrative exhibit. Goodwill is the residual between enterprise value and net assets. The customer-driven component is where evidence must do the underwriting work.

> *Goodwill is the residual. In most consumer-facing PE deals, it is the largest component of enterprise value. It is also the least evidenced.*

THE GOODWILL PREMIUM AND CUSTOMER EVIDENCE

Buyers price uncertainty.

A customer base that is well-evidenced, with concentration, cohort quality, retention, and transfer risk all documented, allows a buyer to underwrite the goodwill component with confidence.

Evidenced goodwill

Concentration, cohort quality, retention, and relationship transfer risk are documented at customer level.

BUYER POSTURE

The buyer can underwrite the customer-driven component with greater confidence.

Unevidenced goodwill

A customer base that is asserted but not evidenced creates an information vacuum that buyers fill with their most conservative assumptions.

BUYER POSTURE

Uncertainty discount. The most conservative assumptions are priced in.

In this market, with valuation gaps wide and buyers deploying disciplined diligence, the difference between evidenced and asserted goodwill is measurable in the final negotiated price.

The Customer Base Diagnostic produces the evidence layer that turns customer-driven goodwill from an accounting residual into a documented, auditable, defensible asset. It is commissioned four to six months before going to market and delivered in ten days from clean transaction data.

HOW TO PREPARE

The four-step process

1 **Commission early**
Commission the Customer Base Diagnostic four to six months before the bankers are appointed. Not during the process. Before it.

2 **Inform the equity story**
Incorporate the findings before the CIM is drafted. The customer evidence should inform the narrative, not respond to it.

3 **Prepare the data room**
Build the customer evidence section from the Diagnostic output. Structure it to answer the four buyer question categories before they are tabled.

4 **Brief the bankers**
Brief the sell-side bankers with the evidence already built. The CIM should reflect observed customer behaviour, not management assertion.

The commissioning process

The Diagnostic requires one input: an anonymised transaction extract covering 12 to 48 months. No customer names. No PII. Most businesses can produce this from their CRM, billing system, or ecommerce platform within 24 hours. We assess data quality at scoping before any fees are committed. If the data is insufficient, we say so first. If it is messy but recoverable, we resolve it during ingestion.

Timeline

Ten days from clean data to delivery. The evidence layer can be complete, incorporated into the equity story, and in the data room before the bankers are appointed, if the Diagnostic is commissioned four to six months before going to market.

> *Exit readiness is not a checklist. It is the decision to arrive at the exit window with the evidence already built, rather than assembling it reactively in response to buyer questions.*

Commission the Customer Base Diagnostic for exit preparation

Four to six months before going to market · Ten days from clean data · Fixed scope · No PII required · 90-minute executive walkthrough included

keystoneiq.co/customer-base-diagnostic

info@keystoneiq.co