Clipway Insights
powered by ***TESS***

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CLIPWAY

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Seeing Through the Marks: Testing GP Valuations with Proprietary Data

This report is powered by ***TESS****, Clipway's Tech-Enabled Secondaries System –* ***a next-generation investment and monitoring tool that puts data science at the core of LP-Led secondaries investing****. TESS capitalises on the large volume of data generated by diversified portfolios of private equity funds, which has historically been underutilised. These insights are driven by over 1,943 funds and 21,300 underlying portfolio companies currently in the TESS database.*

Executive Summary

- Clipway's latest Insights report, powered by its TESS data platform, shows that while PE valuations remain high, averaging around 15x EV/EBITDA, higher valuations don't always correlate with higher quality assets. In fact, high headline valuations can mask underperformance.

- This report looks at over 1,943 unique funds and 21,300 underlying portfolio companies to reveal how private equity managers are valuing portfolio companies, and whether those marks hold up against real performance.

- Clipway's research shows that whilst average EBITDA CAGR since the GPs' initial entry is over 20%, it is crucial to distinguish between organic and inorganic EBITDA growth, as M&A may not have had an accretive impact on the equity of a company and may not be a repeatable source of growth in the future. Because GPs tend not to systematically split out one type of growth versus the other, this distinction is hard to establish. As a result, Clipway has introduced a new measure to assess if a company is still creating equity value whilst growing inorganically.

- This measure, called the Valuation to Equity Growth (VEqG) ratio, shows how much investors pay for each unit of equity growth. It contextualises valuation multiples against companies' ability to grow equity value, not just EBITDA, over the past two years.

- Using this measure, Clipway's research shows that most companies (77%) cluster between 0–1.5x VEqG, indicating balanced valuations. Those outside of this range tend to look overmarked.

- This data and approach offers a clearer perspective on which assets are creating genuine value versus those merely benefitting from aggressive M&A activity.

Introduction

In this edition of Clipway Insights, we have used TESS' database to analyse how unrealised companies are valued by private equity managers. We look at a large dataset and frame those valuations in the context of business fundamentals, particularly growth, and the company's ability to delever. We also introduce an internal valuation-to-growth metric we have developed, "VEqG" (Valuation to Equity Growth), which helps contextualise the company's valuation multiple as it relates to the growth in its equity value (not just its EBITDA) since FY 2022. Thanks to our scalable database, we can assess this ratio across thousands of eligible companies at recent record dates, and use the conclusions to determine what could be sensible ranges of that ratio, and benchmarks.

Valuation and Growth – a few observations from our proprietary database

From our database of over 21,300 companies, portfolio-level weighted average valuation multiples frequently land above 15x EV/EBITDA. The average across $180bn of secondary deal volume screened by Clipway in the last 2.5 years is 15.1x.

Whilst many of these portfolios are of sufficient quality to still represent reasonable value at 15x EV/EBITDA, it is prudent to assume that some are not.

The second observation is that many (even most) portfolios show average EBITDA CAGR of over 20% since the GP's initial entry, with an often-undeterminable amount of that growth being driven by M&A. It is important to distinguish between organic and inorganic EBITDA growth, as M&A may not have had an accretive impact on the equity of a company, and may not be an ongoing source of growth in the future. GPs tend not to systematically split out one type of growth versus the other. Therefore, a framework is needed to assess if a company is still creating equity value whilst growing inorganically.

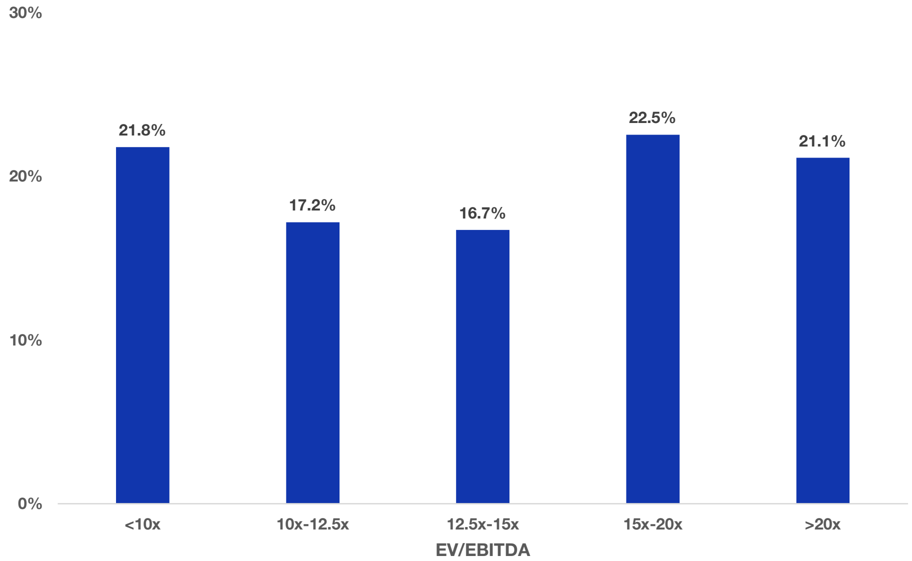
In light of these two observations, we have developed an efficient and repeatable approach to help frame the reasonableness (or not) of valuations. We are able to use TESS to benchmark valuations across a very large number of companies on the basis of the two classic drivers: (i) Comparables, and (ii) Fundamentals.

i. **Comparables:** our system automatically generates three sets of comparables on all PE-held companies in the TESS database: listed, transaction, and private "Clipway" comps (i.e. similar companies held by other private equity funds). TESS uses natural language processing and a large language model (LLM) to identify companies that are most similar by sector, industry, region, size, margin, customer type, etc. This is done leveraging all listed companies in Capital IQ, and all PE-owned companies in the TESS database (21,300 underlying portfolio companies)

ii. **Fundamentals:** As we have up-to-date, bottom up data on thousands of underlying companies, we can effectively benchmark company-level KPIs such as growth and profitability

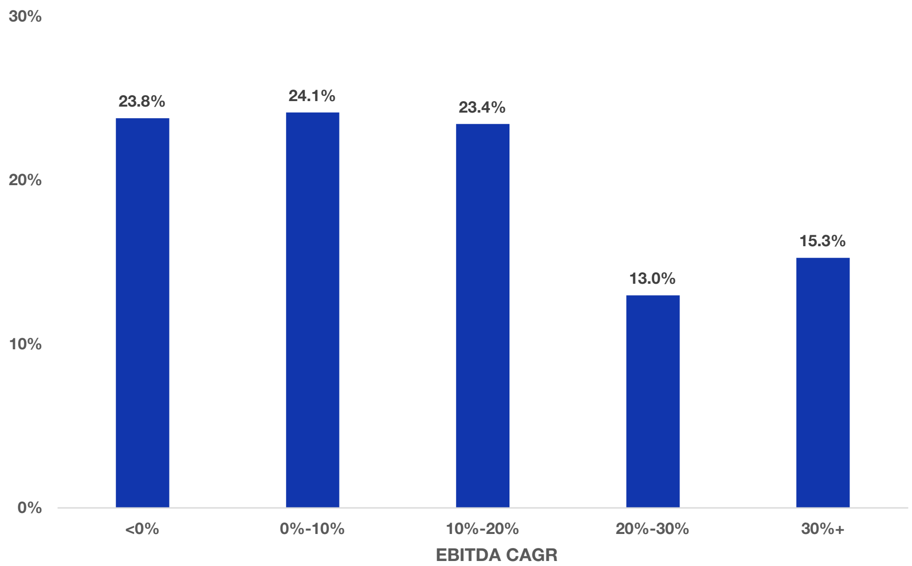
Dataset: Average EV/EBITDA and EBITDA CAGR

Across the dataset for this edition of Clipway Insights[1], the average EV/EBITDA is 15.2x. See below for the distribution of the dataset by EV/EBITDA. This shows that with the average hovering around 15x, there are still many companies (44%) held above this mark.



Source: TESS' proprietary database. Data as at RD

On the subject of EBITDA growth, across the dataset used for this paper, the average EBITDA CAGR from FY 2022 to the latest available record date ("**RD**" [2]) was 11%. See below for the distribution of the dataset by EBITDA CAGR over this period. This timeframe was selected to allow for a consistent comparison of growth across companies and is used as the basis for the methodology henceforth.



Source: TESS' proprietary database. Data as at RD

[1] The dataset for this exercise includes all companies on TESS with a positive EBITDA and valued on an EBITDA multiple

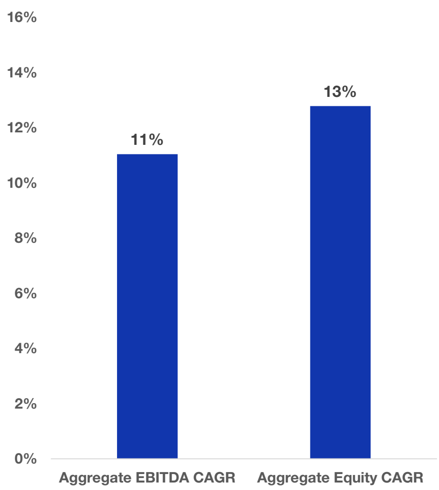
[2] "RD" means the latest available date for which information is available on the company in the TESS database. Across the dataset used for this study, RD is primarily March 2025, though includes some with RD December 2024 and some June 2025. CAGR figures take the different RDs into account.

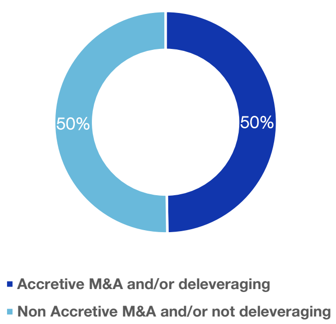
Equity Growth vs EBITDA Growth

Equity Growth rate is calculated over a fixed time period, comparing the absolute equity value creation via EBITDA growth and cash generation based on a fixed EV/EBITDA multiple. Since we are testing the current holding valuation, we keep the latest RD's EV/EBITDA multiple constant across the periods being measured.

A company that grows EBITDA whilst generating cash will see its equity value grow more than EBITDA. However, if, for example, a company saw EBITDA CAGR of 10% since FY 2022 but Equity CAGR of 8%, either its M&A activity has not been accretive to its equity value, the business may not be deleveraging, or it may be reinvesting cash flow into growth initiatives whose benefits are in the future but remain uncertain.

We ran the analysis across all the companies in the dataset and saw that Equity CAGR (13%) in aggregate was greater than EBITDA CAGR (11%), implying that, overall, M&A appears to be accretive and companies are deleveraging. However, on a company-by-company basis, only 50% have Equity CAGR > EBITDA CAGR.





Source: TESS' proprietary database. Data as at RD

See below for real, anonymised examples that highlight the above findings. Companies A and B appear to fit into the Non-Accretive bucket; despite exhibiting EBITDA growth, both saw jumps in their leverage ratios, and saw an equity growth rate below earnings growth. Conversely, Companies C and D saw the opposite.

KPI	Company A	Company B	Company C	Company D
EBITDA CAGR	52%	28%	17%	28%
Equity CAGR	36%	15%	24%	39%
Leverage Dec-2022	3.9x	4.5x	6.8x	5.7x
Leverage at RD	6.5x	5.7x	5.4x	4.5x

Source: TESS' proprietary database. Data as at RD

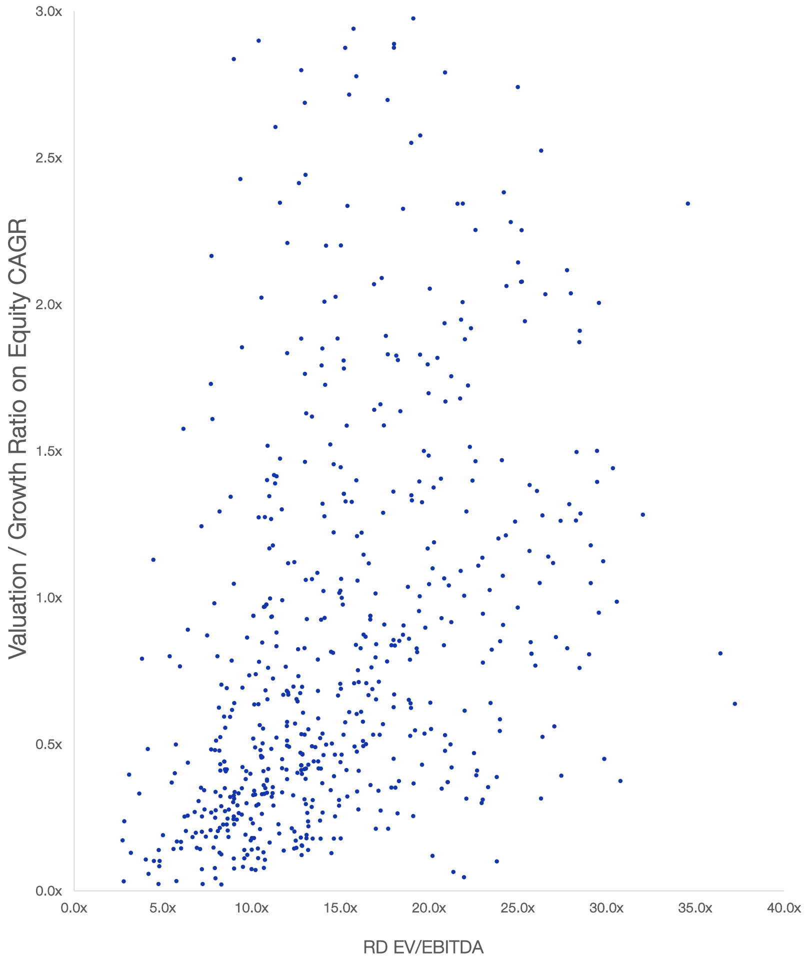
TESS Insights:

- Those with **EBITDA CAGR > Equity CAGR tend to have significant jumps in net debt** (both in absolute terms and as a multiple of EBITDA) across the time period. The opposite is true for the "Accretive" companies, which saw **minimal/negative growth in net debt over the time period, with leverage ratios decreasing.** As it happens, Company C was described in the GP report to have contributed *both* strong organic and inorganic growth to its earnings, the latter of which had a strong fit within the platform company, implying accretive acquisition synergies.
- Similarly, Company D had experienced margin expansion, low working capital requirements and "excellent" cash conversion, allowing earnings to flow much more easily to the company equity.

How much are we paying for a company's ability to grow equity? Assessing the Valuation to Equity Growth (VEqG) Ratio

We developed a metric to assess the valuation of a company (EV/EBITDA multiple) in the context of its equity growth. The Valuation to Equity Growth Ratio (VEqG) divides a company's EV/EBITDA by its Equity Growth rate. This is a simple and practical way to measure the relative value of a company compared to its ability to generate shareholder value growth. Importantly, this is possible to do using metrics that are typically reported to LPs by private equity funds. For reasons made clear above, Equity Growth, not EBITDA Growth was chosen as the denominator to avoid distortions linked to M&A activity that may or not be accretive, or a sustainable source of growth.

If valuation is 12x EV/EBITDA and Equity CAGR is 12%, the VEqG ratio will be 1.0x. The lower the ratio, the cheaper you are acquiring the growth (i.e. the more reasonable the valuation), and vice versa. Whilst this score alone is a fairly arbitrary number, what is shown below is that there are clear trends when multiple companies are assessed together. Plotting the output across the dataset (which excludes outliers above 3x VEqG, companies valued on revenue, and companies with negative growth) shows some interesting results.

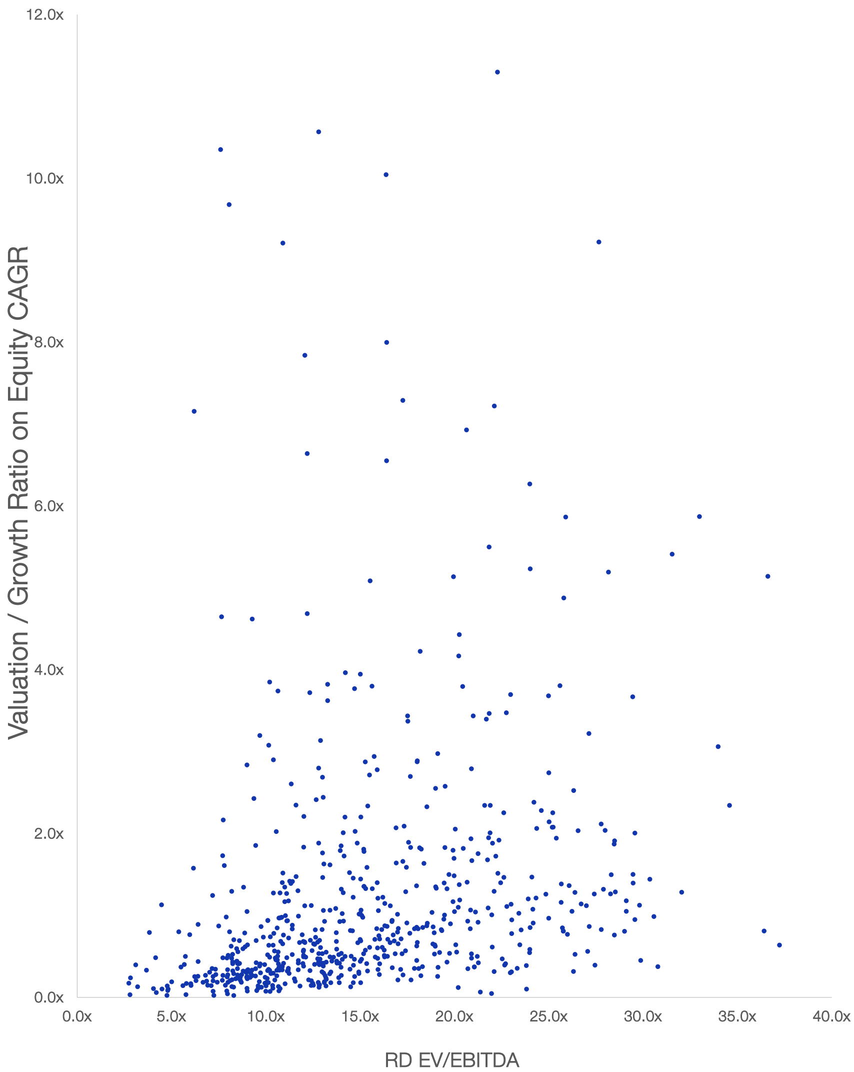


Source: TESS' proprietary database. Data as at RD

TESS Insights:

- **Most companies cluster in a reasonable range of 0-1.5x.**
- **Strong positive correlation between higher valuations and growth**. This indicates that GPs are applying an increasing premium for more growth, implying they believe the eventual buyer of the company should be willing to pay more for the quality, durability, and scalability of the asset. If these are true of the company in question, then this premium could be justified.
- As a general rule, portfolios with higher headline valuations require buyers to have stronger conviction in the forward growth, since one is **likely paying more for each unit of underlying growth being acquired.**

The analysis becomes more interesting when expanding the range to include outliers up to a maximum VEqG of 12x.

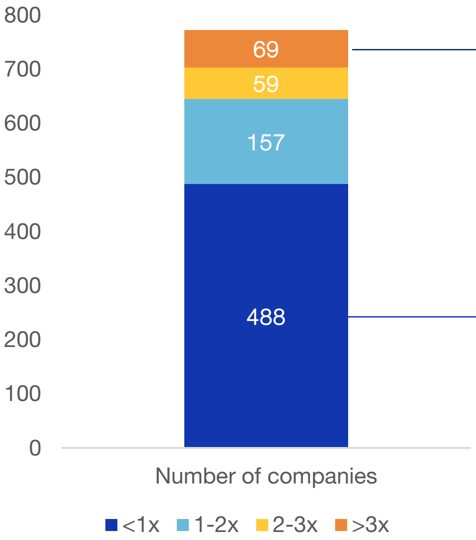


Source: TESS' proprietary database. Data as at RD

We can now see that despite the emergence of companies with extreme VEqG ratios, the vast majority (77%) sit within the range of 0-1.5x, with an average score of 1.2x. Those companies sitting outside that range start to look extremely overvalued.

Unpacking companies based on their VEqG ratio

It should be clear by now that a high VEqG would tend to correlate with underperforming or overvalued companies. The below chart shows the distribution of companies in the dataset by their VEqG, and associated KPIs.



Source: TESS' proprietary database. Data as at RD

9% of companies >3x VEqG

Metric	Average (>3x VEqG)	Average (dataset)
Equity CAGR	8.2%	29.9%
EV/EBITDA	18.1x	15.2x
Net Debt/EBITDA	5.6x	4.4x
EBITDA Margin	28%	26%
MOIC	1.8x	2.2x

63% of companies <1x VEqG

Metric	Average (<1x VEqG)	Average (dataset)
Equity CAGR	40.9%	29.9%
EV/EBITDA	13.3x	15.2x
Net Debt/EBITDA	3.9x	4.4x
EBITDA Margin	24%	26%
MOIC	2.3x	2.2x

TESS Insights:

- Companies in the >3x VEqG range tend to have lower growth, higher EV/EBITDA, higher leverage and lower MOICs, suggesting these companies are probably being overmarked in the face of poor performance.
- Companies in the <1x VEqG range are on average are growing faster and at a lower EV/EBITDA, with lower leverage and held at a higher MOIC.
- **The simple conclusion here is that GPs don't appear to feel the need to push valuations on the assets that are doing well, with the inverse applying to those that are underperforming.**

Let's zoom in on some of the extreme outliers, and pick apart some key company metrics for each.

Company	VEqG	RD EV/EBITDA	FY22 Net Debt:EBITDA	RD Net Debt:EBITDA	RD Margin	Equity CAGR	EBITDA CAGR
A	6.9x	20.6x	6.3x	7.2x	21%	3.0%	6.2%
B	7.8x	12.1x	5.6x	5.9x	9%	1.5%	3.5%
C	16.9x	8.3x	3.6x	3.9x	23%	0.5%	3.7%
D	26.9x	16.5x	7.7x	8.1x	17%	0.6%	2.6%
E	4.5x	10.6x	7.2x	7.9x	13%	2.4%	11.1%
Subset average	12.6x	13.6x	6.1x	6.6x	17%	1.6%	5.4%
Entire dataset average	1.2x	15.2x	5.0x	4.8x	15%	12.8%	11.0%

Note: CAGR is measured between 2022 FYE and latest Record Date. For companies A-D, this is a period of 2.25 years. For Company E, this is a period of 2.75 years

Source: TESS' proprietary database. Data as at RD

The group in the table above is by many indicators one of overvalued, poorly performing companies. A quick check shows no company has proceeds from dividend recapitalisations, which would distort the VEqG ratio. Interestingly, whilst some of these companies have high valuations (>15x EBITDA), company C exhibits a VEqG of 16.9x despite a relatively low RD EV/EBITDA of 8.3x. The reason for this is the stagnant equity growth (0%) since FY 2022.

What is also noteworthy is that Company C has been growing its EBITDA at 4% per year, yet none of this has flowed to the company's equity. Further, its leverage ratio is not even too problematic; it seems the fault lies primarily in the company's ability to generate cash. The same could be said about company B, although this is more easily explained given its low EBITDA margin of 9% and relatively higher leverage of 5.9x Net Debt/EBITDA. Another striking example is company E, which has experienced relatively strong EBITDA CAGR of 11%, yet because it is highly geared (>70% net debt / EV), the relatively modest absolute increase in net debt multiple (+0.7x) has cancelled almost all of the equity value creation, with only 2% equity CAGR being achieved.

This framework allows an investment team during a deal assessment to quickly identify companies that warrant greater diligence, and provides a useful alternative to just assessing portfolios based on EV/EBITDA, or standalone EBITDA growth.

GPs by VEqG ratio

We then conducted an exercise that assessed average VEqG scores by GP.

The below table presents anonymised GPs and their average portfolio EV/EBITDAs, VEG (by EBITDA growth) and VEqG (by Equity growth). Whilst there is a positive correlation between valuation and VEqG (for example there is just one GP with a VEqG below 0.8x and an average company EV/EBITDA above 16.5x), it also shows some GPs (i.e., #13) are able to maintain both a high valuation for their companies (20.3x) and a reasonable VEqG of 0.7x. This confirms our earlier proposition that some companies can be fairly valued despite having high headline average EV/EBITDA.

GP	Region	Average EV/EBITDA	EV/ EBITDA Growth (VEG)	EV/ Equity Growth (VEqG)
1	Europe	13.8x	1.0x	0.3x
2	North America	13.0x	0.6x	0.4x
3	Europe	9.9x	0.4x	0.4x
4	Europe	10.9x	0.7x	0.5x
5	North America	13.1x	0.6x	0.5x
6	Global	8.7x	0.6x	0.5x
7	North America	11.0x	0.9x	0.6x
8	North America	11.5x	1.0x	0.6x
9	North America	14.7x	1.0x	0.6x
10	North America	15.8x	0.9x	0.7x
11	Europe	16.3x	0.9x	0.7x
12	Europe	11.7x	0.7x	0.7x
13	Europe	20.3x	0.9x	0.7x
14	North America	16.3x	1.0x	0.8x
15	North America	15.8x	1.1x	0.8x
16	North America	16.3x	0.9x	0.9x
17	North America	16.3x	0.9x	0.9x
18	North America	21.2x	1.0x	0.9x
19	North America	15.0x	1.0x	0.9x
20	North America	17.6x	0.9x	0.9x
21	Europe	14.8x	0.9x	0.9x
22	Europe	24.1x	1.0x	1.0x
23	Europe	16.0x	1.0x	1.0x
24	Europe	13.2x	0.9x	1.0x
25	Europe	14.5x	1.4x	1.1x
26	Europe	17.0x	1.4x	1.2x
27	North America	16.1x	1.5x	1.2x
28	North America	19.5x	1.3x	1.2x
29	Europe	19.2x	1.3x	1.2x
30	Europe	23.1x	1.3x	1.2x
31	North America	16.3x	1.5x	1.3x
32	North America	17.6x	1.2x	1.3x
33	Europe	20.1x	1.6x	1.6x

Source: TESS' proprietary database. Data as at RD

Limitations

It is important to note that this methodology is not a "solve-all" that can apply to all types of companies. Rather, it is a useful complement to traditional approaches. For example, this analysis treats all companies the same regardless of their size, when in reality a smaller company's VEqG may appear more attractive compared to larger companies, and vice versa, when one considers the growth prospects, risk, resilience and quality of the asset in question.

Another point to consider is the stage of the portfolio company's value creation story. This ratio is using FY 2022 as the starting point of the timeframe, which means the analysis is performed on companies that are at different points on their holding periods. A company that was bought two years ago may still be in its ramp-up phase (initial operational changes, M&A, de-leveraging from entry debt). In this case, Equity CAGR could be very high and VEqG very low. This contrasts with a company bought six years ago, which may have created most of its equity value early on and is in more of a "harvest mode", which may entail relatively slower growth, lower leverage and perhaps higher valuation given its now increased scale. Here, the chance for recent equity CAGR is lower, meaning VEqG would be higher. However, as has been shown above, there is a clear correlation between VEqG and the underlying aggregate performance metrics.

Finally, this analysis could be distorted by leverage to some extent by an individual company's level of EV gearing (debt / enterprise value). If we take two companies with the same VEqG ratio, company A without any leverage and company B with leverage, the levered company B does not need the same EBITDA growth to get to the same VEqG ratio (all other things being equal).

Given the above, the VEqG ratio is not a perfect framework to identify "good and bad" investments, rather, it adds a new reference point to assess a company's valuation in the context of fundamentals, comparables, and all other traditional determinants of quality and risk.

Conclusion

This analysis underscores the importance of contextualising private company valuations within their own fundamental performance metrics and against a robust peer set. Using the depth of TESS data, we have shown a clear relationship between valuation multiples (EV/EBITDA) and equity growth, revealing that higher valuations tend to imply an increasing premium being paid for each unit of growth — but also that inflated VEqG ratios frequently signal underperformance or overmarking. Most companies analysed fall within a reasonable VEqG range, yet the outliers—both high and low—highlight meaningful dispersion in value creation effectiveness. When extended to the GP level, the results reveal similar clustering patterns, offering a useful lens through which to identify managers demonstrating genuine equity value growth versus those relying more on multiple expansion.

We believe this framework represents a helpful complement to traditional comparables analysis. It enables investors to evaluate portfolios through both a micro (company) and macro (fund or GP) perspective, offering a scalable and repeatable method for identifying relative value across large datasets.

For secondary buyers, who often operate under time constraints and limited access to granular company data, the VEqG framework provides a pragmatic way to distinguish resilient value creation from superficial growth. By highlighting both undervalued opportunities and potential areas of concern, TESS enhances decision-making precision and supports more informed, data-driven investment judgment.

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