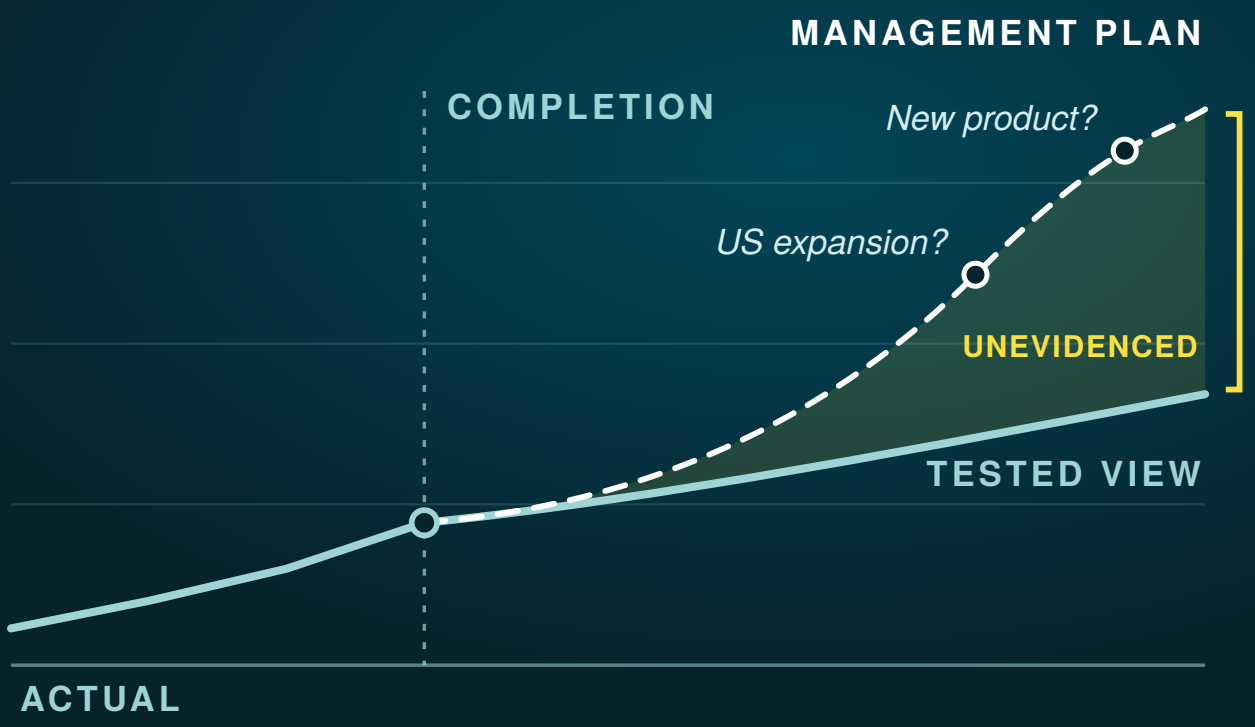


Test the Plan, Not the Market

Commercial due diligence for investors and acquirers in technology.

By Les Elby, Co-Managing Partner

November 2026 · About 17 minutes to read

10% to 12%

annual EBITDA growth a typical buyout now needs, against about 5% in the 2010s (Bain)

20%

median cut PE firms say they make to management's EBITDA forecasts

6 in 100

opportunities the average PE firm goes on to close

27.7%

fall in the S&P North American Technology Software Index, 1 January to 10 April 2026

THE SHORT VERSION

Executive summary

A management plan is a set of claims about the future. Commercial due diligence (CDD) earns its fee when it tells the deal team which of those claims will happen, which will not, and why. Too often it confirms instead that the market is large and growing, which the deal team already believed.

01 The plan now carries the return.

Bain estimates that a typical buyout needs 10% to 12% annual EBITDA growth to deliver what 5% delivered in the 2010s.

02 A flat haircut is no substitute for testing.

PE firms have long cut management forecasts by about a fifth. That says nothing about which line of the plan is wrong.

03 Two plan lines fail more often than any others:

US expansion by UK businesses, and growth ideas with no evidence behind them. We set out the evidence we look for in each.

04 The market has priced in fear of AI without sorting winners from losers.

We give the five questions we use to judge whether AI threatens a particular target.

05 Diligence pays when the deal team stays close to it.

Hand it wholesale to an adviser, or to an AI, and you outsource the understanding your investment committee will test.

06 CDD is only worth what the deal team is prepared to hear.

Deal momentum is well documented. Agree before diligence starts what would stop the deal.

INSIDE

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1 The plan is what you are buying

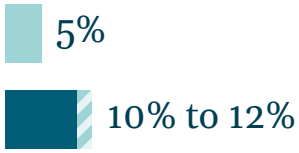
In the 2010s, cheap debt and rising valuation multiples did much of the work in a technology buyout. That support has gone. Bain's 2026 Global Private Equity Report estimates that a typical deal once needed about 5% annual EBITDA growth to return 2.5 times its equity over five years. With borrowing at 8% to 9% and purchase multiples near record levels, it now needs 10% to 12%. Bain's shorthand is "12 is the new 5". Holding periods have stretched too, to around seven years at exit.

The cost of a plan that falls short is already visible in technology. Tech buyouts made between 2020 and 2022 have so far returned a median 2.1 times at exit, against 2.9 times for those made between 2010 and 2019, although many are not yet fully realised (S&P Global Market Intelligence, citing Bain).

PUBLISHED EVIDENCE

The plan now has to do the work that debt and multiples used to do

Annual EBITDA growth a typical buyout needs to return 2.5 times equity over five years



Median multiple of invested capital at exit, technology buyouts



Sources: Bain & Company, Global Private Equity Report 2026; S&P Global Market Intelligence (6 May 2026), citing Bain. The hatched section shows the range of Bain's estimate.

So the plan carries the return. Yet the usual defence against an optimistic plan is blunt. In a survey of 79 PE firms by academics at Harvard and Chicago, respondents said they cut management's EBITDA forecasts by a median of 20% (Gompers, Kaplan and Mukharlyamov). A haircut admits the plan is optimistic without saying where. A plan that is right about retention and wrong about new markets needs a different price, structure and 100-day plan from one with the opposite problem.

That is the gap CDD should fill. A common approach takes each growth idea in the plan, sizes the market it addresses and adds it to the total. The idea is accepted, and the effort goes into how big it could be. We start from the other end. Our partners have run and scaled technology businesses, and we ask the operator's question of every line that matters: will this happen? We look for evidence that it is already in motion, such as customers paying, the

product adapted, people hired and a pipeline converting. A vision is easy to sell. Someone still has to deliver it.

LIGHTHOUSE VIEW

Sizing a growth idea tells you how large it could be. CDD should tell you whether it will happen, and on what evidence.

2 Start from the thesis

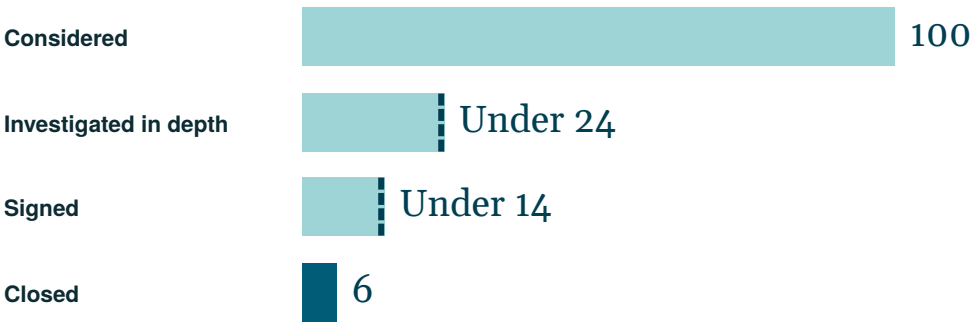
Good diligence starts from the deal team's investment thesis: what you are buying, why, and what you believe it can become. The work then looks for the risks that would undermine that thesis. Everything else comes second.

Most diligence is spent on deals that never close. In the same survey, for every 100 opportunities the average PE firm investigated fewer than 24 in depth and closed six. The sooner the questions that could kill a deal are answered, the less time and money go on questions that do not matter.

PUBLISHED EVIDENCE

Most diligence is spent on deals that never close

For every 100 opportunities the average PE firm considers.



Source: Gompers, Kaplan and Mukharlyamov (2016), survey of 79 PE firms conducted between 2011 and 2013. The dashed ends mark the upper bound reported for the middle stages.

Starting from the thesis also means fitting the method to the business. A company that sells direct fails in different ways from one that sells through channel partners, and both differ from a business where services drive revenue. We work from a bank of about 800 questions, built up over our partners' 20 years of deal work, and choose from it for each target. Issues

that do not touch the thesis are recorded, given an owner and closed, so they do not consume the budget.

Breadth of experience helps in a specific way. In a study of PE investment decisions, judging a deal against a broad set of comparable cases produced better results than relying on a few deals the investor knew well (Lovallo, Clarke and Camerer). An adviser who has seen many deals in a sector brings that reference class with them.

Where the seller has commissioned vendor due diligence, that report sets the opening agenda. It is useful, but it answers the seller's questions. Top-up work should test your thesis.

CHECKLIST

What to give your CDD adviser on day one

- ☐ The investment thesis in a paragraph: what you are buying and why.
- ☐ The three or four plan lines the return depends on most.
- ☐ What would make you walk away, re-price or change the structure.
- ☐ What you already believe, and what you are least sure of.
- ☐ Who in the deal team will hear the findings, and how often.

3 The two plan lines that fail most often

Companies preparing for sale put a lot of effort into their growth plans, and the curve that bends upwards is often built from claims nobody has tested. In our experience, two lines fail more often than any others.

US expansion

For a UK technology business, the US can look like the answer to everything: a huge, English-speaking market that will surely buy what British customers already buy. In plans it is often a single line, and it is almost always overstated and under-invested.

The evidence sits in the detail behind that line.

CHECKLIST

Six questions we ask of a US expansion line

- ☐ **Route in.** Through one anchor customer and its ecosystem, state by state, or through conferences and channel partners?
- ☐ **Footprint.** One city first and then expand, or several at once? Which state first, and why?
- ☐ **Competition.** Who already sells there, and with what market share?
- ☐ **Sales motion.** Can it be sold remotely, or do customers need to meet the seller? Face-to-face selling means an expensive US sales team, and the plan should show what it costs.
- ☐ **Sales cycle.** How long does it take to win a US customer, and what has the company won there so far?
- ☐ **Build or buy.** The quickest route is often to buy a business that already has a US presence.

A plan that amounts to one person on the ground and 10 million in revenue within two years gets written down heavily.

The published evidence is thin but points the same way. A 2026 review of 21 UK companies planning or pursuing US growth found that 15 could describe their US revenue ambition in reasonable detail. Fewer than half had worked out how that revenue would be won: the channels, the people and the cost of acquiring each customer (Allentra USA). The sample is small and its author sells US market entry support, so treat it as a signal rather than proof.

Growth ideas with no evidence

The second failure is quieter. Management lists growth ideas, such as a new customer segment, a new product or a new territory. Some reach the information memorandum. Many have never been tried. In our experience, ideas with no evidence behind them rarely get past the idea stage once the deal completes.

Our evidence bar is simple. If the plan claims a market, whether a customer group or a geography, we ask to see customers in it. Two or three are normally enough, and we then speak to them. If the product has not yet been adapted for that market, there is no evidence, and the revenue does not belong in the plan.

LIGHTHOUSE TOOL

The evidence bar

What we look for before a new growth line stays in the base case.

CLAIM IN THE PLAN	EVIDENCE WE LOOK FOR	IF THE EVIDENCE IS MISSING
New geography	Customers already won there, a defined route to market and a costed sales team	**Write the line down heavily**
New customer group	Two or three customers we can speak to	**Move it to an upside case**
New product or use case	The product adapted, and customers using it	**Move it to an upside case**

4 What customers tell you that the plan does not

The plan describes what management intends. Customers tell you whether the product can carry it.

FROM OUR WORK

Happy customers, and a product that could not stretch

CDD led by one of our partners shows the difference. The target had a good product and was growing. Its customers were happy, but they told us the product needed a lot of configuration to work. That was manageable while the company served one use case. The plan depended on moving into others, and that is where the configuration began to bite. The product became complicated to use, because it had been developed alongside individual customers rather than built as a product and then taken to market.

We made scalability a central finding. The buyer went ahead, for reasons of its own. The weakness we described became the business's defining problem, and ten years on its product is in decline.

None of this showed in the data room. The revenue was real and the customers were satisfied. Only the conversations about how customers used the product, and what it took to make it work, showed that the plan's next step would strain it.

That is why customer interviews sit at the centre of our CDD. Customers speak more freely to an independent interviewer than to the supplier responsible for their problems. We set out why, and how to run the interviews well, in our companion eBook, *What Customers Won't Tell Their Supplier*.

Expert calls cannot stand in for them. Expert networks have grown into an industry worth around $3 billion, built largely on demand from private equity and the consultants it hires (Inex One; Integrity Research). Experts are useful on market structure and competitors. But they are usually former employees, competitors or industry figures. They can tell you about the market. The target's customers can tell you about the product they pay for.

5 AI: sorting winners from losers

Fear of AI repriced software in 2026. The S&P North American Technology Software Index fell 27.7% between 1 January and 10 April. Software M&A, worth $310 billion in 2025, reached only $25 billion between January and 20 April 2026 (S&P Global Market Intelligence). Technology fell from about 30% of global PE deployment by value in 2025 to 12% in the first quarter of 2026, and around 60% of PE firms surveyed said they had stepped up diligence on AI risk (EY).

PUBLISHED EVIDENCE

How fear of AI showed up in software in 2026

Software share prices

↓ 27.7%

Fall in the S&P North American Technology Software Index, 1 January to 10 April 2026.

Technology's share of PE deployment

30% → 12%

Share of global PE deployment by value, 2025 against the first quarter of 2026.

Diligence on AI risk

About 60%

Of PE firms surveyed said they had stepped up diligence on AI risk.

Sources: S&P Global Market Intelligence (6 May 2026); EY, Private Equity Pulse Q1 2026.

The selling was indiscriminate. Morgan Stanley's head of technology M&A said at the time that investors were trading on fear rather than working out who would win and who would lose (Reuters). That sorting is the job of CDD. The market prices a sector. A buyer has to price one company.

Standard software metrics will not do the sorting. Bain argues that ARR, net revenue retention and revenue multiples were reliable guides when software

moats were durable, and are becoming misleading. A business can show strong retention today while its customers work out how to do without it.

Our view is that building an AI product is now easy and disrupting a market is not. We test five things.

LIGHTHOUSE FRAMEWORK

Five questions for AI risk

Each question is tagged with where the answer usually comes from: desk research, or conversations with customers and the channel.

1	**Can AI build it?** Simple point applications, such as a document reader or a file utility, can now be cloned quickly. If that is what the target sells, the threat is real.	DESK RESEARCH
2	**Can a new entrant reach the customer?** A simple app can spread through an app store and a social media campaign. Enterprise customers are harder to reach. AI voice agents, for example, are multiplying among small businesses, but at scale they run into telephony systems, where resellers control access and are building their own.	CONVERSATIONS
3	**Will customers accept it?** Trust varies by sector and by task. In legal technology, we found customers willing to hand some tasks to AI and unwilling to hand over others at all. The only way to map this is to ask the target's customers.	CONVERSATIONS
4	**Is know-how a barrier?** A tool built without deep knowledge of the work is shallow. The harder the domain, the longer an entrant takes to catch up.	DESK RESEARCH
5	**Is data a barrier?** Decades of proprietary data cannot be conjured up. Where an incumbent holds it, entrants have to license it or do without.	DESK RESEARCH

The first, fourth and fifth questions can largely be answered at a desk. The second and third need conversations with customers and with the channel, and that is where most of the diligence effort should go.

The adoption data supports some scepticism about the panic. The share of UK businesses with 10 or more staff using any AI technology rose from about 12% in late 2023 to about 35% in mid-2026, but only 10% of those report using it extensively (ONS). Our own AI readiness work, with more than 100 companies, found the main barrier was staff nervousness about what they could use AI for and what they could safely put into it. Customers

who adopt slowly replace embedded software slowly. That does not make any target safe. It means the risk has to be tested rather than assumed.

6 Don’t outsource the understanding

The strongest academic evidence on diligence carries a warning for anyone who sells it, ourselves included. A study of 178 Italian PE investments found that more time spent on diligence went with markedly better performance over the following three years: an extra four weeks was associated with roughly double the return on assets. But where outside consultants, lawyers or accountants did most of the work, the link disappeared. The authors put it down to the cost of delegation (Cumming and Zambelli). The deals are old and from one country, but the lesson travels: diligence pays when the deal team stays close to it.

PUBLISHED EVIDENCE

About 2×

Roughly double the return on assets over the following three years, associated with four extra weeks of diligence. Where outside advisers did most of the work, the link disappeared.

Study of 178 Italian PE investments (Cumming and Zambelli, 2017).

We think the reason is simple. The most valuable output of diligence is the deal team’s own understanding of what it is buying. The investment committee will test that understanding, and the first year of ownership will expose any gaps. A report handed over at the end, with no involvement along the way, leaves the deal team with paper it cannot defend.

So we run CDD jointly with the deal team. We agree the thesis and the questions at the start and hold weekly calls. We share findings as they emerge, including anonymised customer interview transcripts, so the deal team hears customers in close to real time. With the deal team’s agreement, we take findings to management and test their answers. By the end there should be nothing in the report that the deal team has not already heard and challenged. We avoid engagements where the brief is to deliver a report and disappear.

HOW WE WORK

CDD run jointly with the deal team

1	2	3	4	5
Agree the thesis and the questions at the start.	Hold weekly calls throughout.	Share findings as they emerge, including anonymised interview transcripts.	With the deal team's agreement, test findings with management.	Deliver a report with nothing in it the deal team has not already heard and challenged.

The same risk now comes with AI. Platforms are being sold that promise to do the diligence for you. We have not seen one that can be pointed at a company and produce a real understanding of the business and its market, which is hard enough for experienced people. A report written by a machine that nobody on the deal team has worked through also leaves you exposed in front of the investment committee, because none of it is your work.

We do use AI, in specific, staged workflows that took many rounds of iteration to get right. It speeds up desk research, organises the evidence and helps turn a partner's thinking into clear prose. The questions, the evidence base and the judgement stay with people who can defend every line. Bain found that 45% of M&A executives used AI tools in deals in 2025, more than double the year before. The decision that matters is which parts of the work you keep for yourself.

7 Only worth what you are prepared to hear

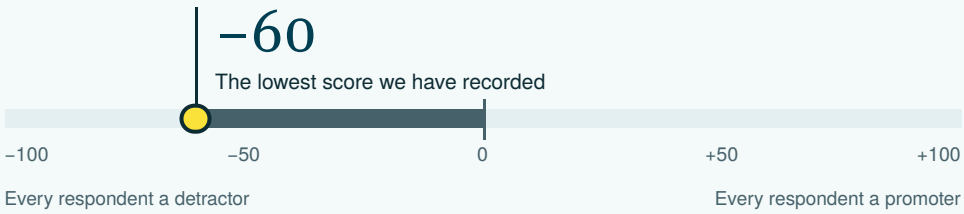
Finding the problem is the easier half of CDD. Getting it heard is harder.

By the time diligence starts, the deal team has usually spent months on the target, and someone has put their name to it. Researchers have documented what that does. In a simulated acquisition, participants who received bad news about a target were more likely to carry on regardless when they felt personally responsible for the decision, when others were competing for the target and when the decision was public. Experience made no difference (Haunschild, Davis-Blake and Fichman). Evidence from real deals points the same way: competitive pressure is associated with less diligence, and less diligence with weaker results after the deal (Wangerin).

FROM OUR WORK

A score of −60, and a deal that went ahead

We have seen it at first hand. In CDD led by one of our partners more than ten years ago, on a fintech business, we interviewed about 20 customers. The business scored a Net Promoter Score of −60, the lowest we have recorded. The problems ran across the product, customer delivery and management. We sent the deal team anonymised transcripts as the interviews happened, so they heard it in the customers' own words. With their agreement, we raised the churn risk in major accounts with management. The deal went ahead. It met its short-term financial goal, but the underlying problems were never fixed and became someone else's to deal with.



Not every warning goes unheeded. In the case we describe in *What Customers Won't Tell Their Supplier*, customer interviews and the technical diligence pointed the same way, and the deal did not go ahead.

CHECKLIST

Two practical steps

- ☐ **Agree walk-away conditions before diligence starts.** Write down what would stop the deal, or change its price or structure, while the team is still neutral.
- ☐ **Have someone outside the deal weigh the findings.** The researchers suggested separating the people who choose a target from those who run the diligence. In a PE house, that might be a partner outside the deal team, or the investment committee itself.

LIGHTHOUSE VIEW

The most useful finding in a CDD report is often the one the deal team least wants to hear. It is worth something only if someone acts on it.

8 How Lighthouse helps, and where we fit

Our CDD is partner-led from start to finish. It starts from your thesis, runs jointly with your deal team and draws on customer interviews wherever they can answer the questions that matter.

We are not the right choice for every deal.

Where we fit

- Private equity and venture capital firms, especially smaller and mid-sized houses
- Corporate acquirers buying technology businesses
- Deals with an enterprise value of £50m to £100m, our sweet spot
- Deal teams who want to stay close to the work

Where we don't

- The largest transactions, where investment committees often want a large-firm name on the report
- Briefs to deliver a report without your team's involvement
- Targets outside technology: we work only in technology

Talk to us

If you are weighing a technology deal and want the plan tested line by line, email info@lighthouse-advisory.co.uk or use our contact page. You can read more about our commercial due diligence work on our website.

About Lighthouse and the author

Lighthouse Advisory Partners

Lighthouse Advisory Partners is a boutique growth strategy advisory firm based near Cambridge, working only with technology companies. We advise on growth strategy, buy-side M&A including outsourced corporate development, selective sell-side M&A, commercial due diligence, Voice of the Customer and AI readiness. Our partners have run and scaled technology businesses, and the team has worked on well over 100 transactions.

Les Elby

Les Elby is co-founder and Co-Managing Partner of Lighthouse Advisory Partners. He has around two decades of experience in strategy and M&A, including as Chief Strategy Officer of a FTSE 100 company.

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LIGHTHOUSE ADVISORY PARTNERS

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