



CUSTOMER CONCENTRATION

DESCRIPTION

- Customer concentration refers to the percentage of total revenue generated by a small number of customers.
- A business is considered concentrated if a single customer accounts for more than 15-20% of revenue or if the top ten customers account for more than 50%.

WHY PRIVATE EQUITY CARES

- High customer concentration increases risk—losing a key customer can significantly impact revenue and profitability.
- It affects the predictability of cash flow, making it harder to forecast future earnings and service debt obligations.
- Can signal a lack of diversification or customer dependency, reducing overall business resilience.

IMPACTS ON SELLER

- **Discounted Valuation:** A high-risk business with concentrated revenue often trades at lower EBITDA multiples.
- **Deal Structuring Issues:** PE firms may push for earnouts or seller financing to mitigate risk.
- **Post-Close Requirements:** PE firms may require seller involvement post-sale to maintain relationships.

EXAMPLE

Factors	Low	Medium	High
Customer Concentration	<20% Top 10 customers	20-50% Top 10 Customers	>50% Top 10 Customers
Valuation Impact	+0-10% of EV	-10-20% discount to EV	-20-40% discount to EV
Buyer's Risk Perception	Low	Moderate	High

