



**GEORGIE FROST:** Welcome to The So What from BCG, the podcast that explores the big ideas shaping business, the economy, and society. I'm Georgie Frost. In this episode, AI is no longer optional in private equity. And for investors who get it right, it can be a lever for long-term value creation. I'm joined by Clark O'Niell, Global Lead for AI, Infrastructure, and Cyber for BCG's Principal Investors & Private Equity practice. Clark, welcome. What's your "so what?"

**CLARK O'NIELL:** Over the next ten years, investors and private equity firms that drive differentiated returns are going to do so using applied AI.

**GEORGIE FROST:** From deal sourcing to portfolio management, artificial intelligence is reshaping the private equity landscape. What does this mean for investors and how can firms stay ahead in this evolving environment? Clark, just scene-set for us, if you would. How is AI currently reshaping the private equity environment? And what's so significant about this moment? Why does private equity even need to reinvent itself?

**CLARK O'NIELL:** I think now is the moment for private equity to reinvent itself because the hype of AI is actually becoming the reality. We're at the Milken Conference this week. And if we were to compare the temperature last year and the perspective on AI, it was very much, well, what can this do? Is this real?

If we step back and look at the conversation that we've had over the last several days, it's very much of it's here and now. It's making an impact. And it's not a question of if it will add value, it's when and how. And people are struggling through that, the implementation part of the process, versus the potential "Is this going to add value?"

**GEORGIE FROST:** What makes this wave of transformation so different from what's come before?

**CLARK O'NIELL:** I think this is just an evolution of what's come before. If you go back in the early days of private equity, KKR innovated on the financing of businesses and how you do an LBO. Baine Capital and others innovated on the rise of the portfolio model and driving portfolio value creation.

I think AI is going to be the next tool that private equity leverages to drive value into the businesses that they acquire. And it's going to be a new skill

set and capability that they have to perfect to be able to differentiate in the competitive world of investing.

**GEORGIE FROST:** Why does this matter now? What's significant about this moment?

**CLARK O'NIELL:** Part of the challenge right now is the returns from private capital have really slowed over the last several years. There's been lots of conversations about everyone in '21, '22, over invested at multiples that were too high. And it's been difficult to exit those businesses and return capital to their LPs.

And from that perspective, as you start to think about, well, how do I raise my next fund and what are the ways that I can be relevant to my investors? They're going to have to have a different track record of how can I actually create value in a differentiated way, when historically many are struggling to deliver the returns that they had in the past.

**GEORGIE FROST:** I'm curious, you speak to leaders in this space all the time, what are they telling you? What's the general overarching sentiment around this? Is it excitement? Is it a bit of fear, bit of trepidation?

**CLARK O'NIELL:** One of the things that we see with many of our clients that are struggling to scale their AI investments is they're investing in 100 things, not three. They do proofs of concept across the organization in legal, in finance, in marketing, in sales. The organizations that are truly driving impact with AI, they're starting at the: what are the three things that are going to fundamentally move the needle on the business at the top level of the organization.

**GEORGIE FROST:** Traditionally, though, is it fair to say it's more about cost-cutting? Is now the transformation about growth-focused transformation, or?

**CLARK O'NIELL:** I was in a session yesterday and talking with an AI leader at a hedge fund. And he was talking about dog-walking productivity. And I was struggling to understand where he was going. But what he was saying was, "Look, when we give productivity to our coders, if we don't have a plan to capture that productivity, their dogs get more productive because they get to go home at 4:30 and get walks."



And I was like, OK. So, the cost angle is one that I think a lot of people are thinking about with AI, but they have to have a way to think about how do I capture that productivity and translate that into the P&L. And so, that's one of the things that organizations are really working towards of is, OK, I can get the productivity, but productivity doesn't translate into P&L impact.

**GEORGIE FROST:** Where do you see the next wave of value-creation coming from and where does applied AI fit into that picture?

**CLARK O'NIELL:** A great example of this is we're starting to see some of our private equity clients bending the cost curve. So, they're not taking out costs necessarily, but they're slowing the growth of investment, expecting that the productivity you get from let's say coding tools, AI coding tools, is a fantastic one.

Historically, the benchmarks were 15 to 20% improvements in productivity and coding. Some of the new tools are maybe 50% increases in productivity. But most of our clients are not saying I need less engineers or coders. They're saying I don't need to hire as many next year.

**GEORGIE FROST:** I'm wondering whether AI is affecting perhaps due diligence or how you're looking at companies that you're going to invest in.

**CLARK O'NIELL:** One of the things that we use both in diligence as well as with our clients is within understanding customers and the sales process. So, for example, revenue generation and AI in sales is probably one of the best places that we see to apply AI. If you can accelerate the revenue and the revenue growth of a business, that has dramatic impacts on the growth rates in the multiples of a business for a private equity investor.

The tools that we use for our revenue and our sales AI we also use in diligence, so we can use an understanding of the ideal customer profile. How big are those markets? What is the opportunity? How much runway do you have left in understanding those different types of customers that are ideal for the target that they're thinking about?

**GEORGIE FROST:** Go deeper into that for me. How does that work? What are you seeing? What are you looking for?

**CLARK O'NIELL:** We use lots of alternative data. So, we'll look at alternative data that looks at the number of users in individual companies, in different segments of the market. So, how many customer service reps are there in these types of companies? What is the hiring profile of the job trends? And what are the trends in job posting data in your ideal customers that you've historically served?

Those are signals that we sometimes use in the diligence process to say, hey, how do we think about underwriting and the growth forecasts? Do the user growth that we see in the jobs match the potential forecast of the business that we need to underwrite for this investment? That's one example.

**GEORGIE FROST:** I'm really curious, you mentioned there about there is so much hype around AI. How do you cut through the noise and work out the businesses that are really, really using it well and the one's that are just kind of chasing the buzz, I suppose?

**CLARK O'NIELL:** I always like to look at the teams. What is the teams doing? What is the profile of the team? How are they using it on a day-to-day basis? You learn a lot from looking at the types of profiles of folks. And look, if they have a real data science team and you start to look at, okay, they'll walk you through the way that they're using data and approaching data.

There's a strong correlation with data maturity and AI maturity, and so we've seen that in our corporate clients. We see that in the targets that we look at. And so, I often look for data mature organizations as part of that process.

**GEORGIE FROST:** Does it matter on the sector of the company as whether you have in-house or you bring in that sort of talent?

**CLARK O'NIELL:** I think there's always a question of build versus buy. And for many technologies, the best answer is buy. Buy whatever you can. And I was in a session with some leading hedge funds. And I was surprised to hear how much they say, "Look, our preference is buy." and I think that is the right answer because it's like, hey...

They use the answer, "I'm never going to compete with the model companies on the investment for a generative AI model. It doesn't make sense for me to try to compete there. But it does make sense for



me to understand where do I have a comparative advantage and where are the things that are important to my business, that are strategic. I should invest to create the best technology in the right place."

**GEORGIE FROST:** How much experimentation, I suppose, is involved in all of this as well?

**CLARK O'NIELL:** Look, I think a lot of organizations, whenever they're trying to innovate, there's an expectation that they have to have 100% hit rate in innovation. I think the organizations that are...there's a psychological safety of trying things. Some stuff's not going to work. And if you've got 100% hit rate, you're probably not leaning in hard enough and you're not taking enough risk.

**GEORGIE FROST:** Yeah. It's not to say that you shouldn't, how do I say this, educate yourself in the technology as well.

**CLARK O'NIELL:** Oh, no. It's part of it. The innovation process is part of the education process. You have to know what works and what doesn't. And learning what doesn't work is actually part of the learning process. If you look at science, much of science is actually proving what doesn't work.

**GEORGIE FROST:** I think it is really important to pause and think about things that perhaps aren't spoken about as much with AI and new technology and should be, which is responsible AI. How important is that for private equity to look into these portfolio companies and see that really in action?

**CLARK O'NIELL:** If you're building predictive models for making credit decisions, you really need to understand your bias. And I think there's lots of stories of people that have gotten sideways on those things. So, you've got to be thoughtful about, well, what can this AI know and what are the areas that it's going to be differentiated coming back to me?

As I step back and think about what makes great investors. Great investors are the ones that can take input from a lot of different places and make really hard decisions at the intersections of those things. And AI doesn't always have all of the perspective. And some of the things that I think great investors look at, it's a gut feel of I sat across the table from the leader and is he the leader that's going to take it to the next level? That's never a

question that ChatGPT is going to be able to answer, at least today.

**GEORGIE FROST:** Which leads me on to what private equity firms themselves are doing in terms of using AI to improve current processes.

**CLARK O'NIELL:** So, I think where most private equity is starting is knowledge management. There's a tremendous amount of knowledge and wisdom inside the firms across the deals that they've done. They've looked at hundreds of businesses and understand what drives them.

And so, most organizations are starting with, okay, how do I unlock the wisdom of what they've done before? The other key differentiator that many private equity firms are thinking about is relationships. And how do they use AI to enable them to cultivate and nurture the relationships that help them drive their deal flow?

**GEORGIE FROST:** How many or what percentage would you say are really using the current tools of AI?

**CLARK O'NIELL:** The firms that are leaning in often have leaders that are leaning in hard. And we see that across a lot of our corporate clients as well.

**GEORGIE FROST:** And that's the key? That's essentially what you're saying?

**CLARK O'NIELL:** I think it's important for leaders to understand what these tools can do, but it's also important to understand what they can't do. You cannot outsource your job and your judgment to a ChatGPT. You have to use that as a tool to help you understand, and go deeper and make a better decision. There's a cultural tone that needs to be set at the top to enable that.

**GEORGIE FROST:** I think that's a really important point that you made there. Is there a way that perhaps misuse or overuse almost of AI can actually erode value? And how do you mitigate against that kind of risk?

**CLARK O'NIELL:** You have to raise the bar on insight, and what that means, and going deeper. You can process more information. And so, consulting used to talk about the role of 80/20, of, "Oh, let's do the 20% answer and it'll get 80% of the value." Now, with AI, maybe you can do it 100%, you can review everything. I was talking to some folks in the audit space of like, hey, we used to look



at 5% of the transactions. Now we can look at everything all the time. And so, change the expectation. You have to change the expectation to change the outcome.

**GEORGIE FROST:** So, where does the balance lie between human insight and AI?

**CLARK O'NIELL:** So, it's an experience curve. And the technology gets better. People have to get more familiar with what it can do, what it can't. And I think they also have to just experience it and build that trust of, "Hey, I can rely on it for this. I can't for that. I still need to depend on my judgment."

And so, it comes back to a little bit of judgment. And how do you inform that judgment? I think that comes from understanding and experiencing and failing in places that don't matter, in times that don't matter. You have to carve out time to experiment, because I think that's part of the learning process.

**GEORGIE FROST:** One of the big problems is how do you scale up. That's a big problem. So, what are the barriers that you're seeing the most?

**CLARK O'NIELL:** The technology problems are solvable. You do see...so, there's another challenge, which is pace of change. So, a lot of organizations are experimenting really quickly. And security organizations are struggling to keep up with the new tools that people want to bring out. The new tools don't necessarily have the same security protocols that have existed in other domains. And they're just not mature yet.

And so, we talk about agentic worlds, and how do you protect your organizational data when you give an agent and a robot access to make decisions? That is a new problem that, we were at RSA last week and people are trying to solve it, but it's not a solved problem yet. But the biggest challenge for most is really adoption.

Getting people to evolve the way that they run their business is a change management exercise. And the people often will fund the technology journey, they will not fund the people journey, and they underinvest in the people journey.

**GEORGIE FROST:** Private equity's changing. What's the wider impact on everybody?

**CLARK O'NIELL:** I truly believe that private equity is going to be one of the change agents. They have

a long-term view of businesses. They can invest over years, not quarters. They've got a track record of taking on transformational turnarounds of businesses and experiences.

And so, I think what we'll see is the playbooks are still being written today, because the technology is still being written today. And so, I think there's going to be experimentation with, okay, how do I drive value across this? And I think some private equity firms are waiting for, well, what's the playbook? Just tell me the answer and I will run that play.

The leaders are the ones that are going to get out there and experiment. We're seeing some of our clients start to think about, okay, how do I invest below the line on taking some risks that I historically wouldn't have underwritten as part of the deal process three years ago? Because that is something that they think they can get a differentiated return over time looking at.

**GEORGIE FROST:** So, we've covered the "so what." What about the "now what?" What are the next practical steps that investors can take, private equity firms can take, portfolio companies can take, to really unlock value, I suppose, wherever you are on that journey?

**CLARK O'NIELL:** If I was a private equity firm on Monday, I think they would step back and can I answer the question of where are the risks and opportunity of AI in my portfolio? Do I understand where I'm over investing, under investing, I have risks of not investing? What I underwrote three years ago in the deal memo, the world has changed. And where are there places where I need to double down on investment for the upside? Because I think most of the opportunity is really on the upside.

**GEORGIE FROST:** Clark, thank you so much, and to you for listening. As always, we'd love to hear your thoughts. Drop us a line at [thesowhat@bcg.com](mailto:thesowhat@bcg.com). And if you found this episode useful, do hit subscribe and leave a rating wherever you found us. It helps other listeners find us, too. And if you'd like to dive deeper into how AI is transforming private capital, you'll find more in the link in our show notes.