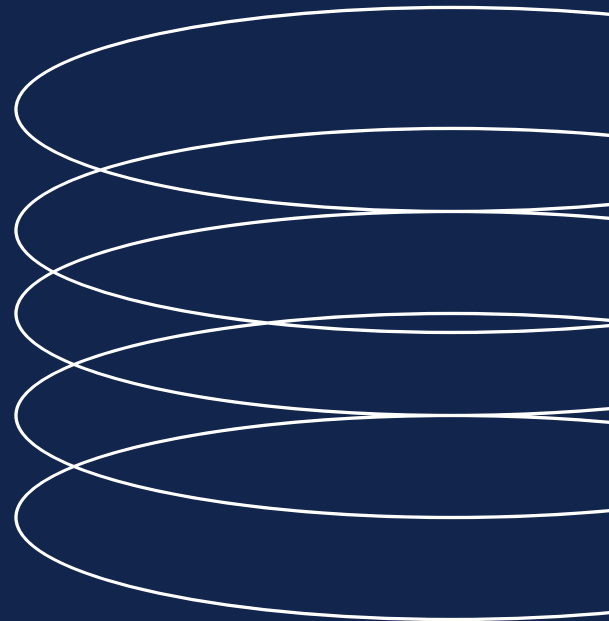


# Navigating the economic downturn with AI

An introduction for private equity investors &  
portfolio company executives



"A powerful tool that can provide private equity investors with a significant competitive edge in 2023 and beyond."



# Executive Summary

Private equity investment is facing new challenges due to the current economic downturn in 2023, with factors like interest rate hikes, market volatility, regulatory changes, increased competition, and supply chain disruptions making it harder for private equity investors to achieve their investment objectives. In order to succeed, it is important for private equity firms and portfolio companies to invest in technologies that can improve their bottom line, with AI being a significant option.

AI can help private equity investors better manage their existing portfolio, conduct due diligence on prospective investments, and collaborate with CEOs and senior executives of portfolio companies to get a better financial grip on their company and expose growth opportunities amidst an increasingly competitive market. By automating manual processes and optimizing workflows, AI can help identify under-performing portfolio companies and increase profitability.

Private equity investors can leverage AI to improve their operations and decision-making processes, such as gathering and analyzing market data, identifying investment opportunities, and performing due diligence. For portfolio companies, AI can bring significant benefits to the c-suite, such as improved efficiency, better decision-making, and increased competitiveness. Surveys show that private equity firms that adopt AI are more likely to see improved performance, with benefits including improved deal sourcing and valuation accuracy, as well as improved portfolio company performance.

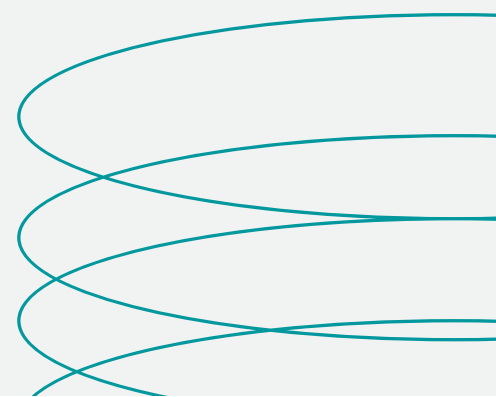
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CHAPTER N.1

# Impact Of The Current Economic Turmoil On Private Equity Investors And Their Portfolio Companies



# Impact Of The Current Economic Turmoil On Private Equity Investors And Their Portfolio Companies

As the economy moves into a period of uncertainty and volatility, investors are faced with a seemingly endless list of potential headwinds that can derail their plans for growth and profitability. The current economic downturn has led to a series of challenges for both private equity firms and their portfolio companies, including:

## Interest rate hikes

The rise in interest rates is increasing the cost of borrowing for portfolio companies, reducing their profitability and making it more difficult for private equity investors to generate returns.

## Market volatility

Economic and political uncertainty leads to market volatility, which can have a negative impact on portfolio company valuations and make it more challenging for private equity investors to exit investments.

## Increased competition

With increased competition, private equity investors may face difficulty in acquiring attractive investment opportunities or they may face increased pressure to exit investments at lower valuations.

## Supply chain challenges

Disruptions in the supply chain lead to increased costs and reduced efficiency for portfolio companies, making it more difficult for private equity investors to generate returns.

Technology is increasingly becoming an integral part of business operations across a variety of industries, helping companies reduce costs and streamline operations while driving revenue and increasing profitability. In order to succeed amidst the current economic climate, it's important that private equity firms and portfolio companies invest in technologies that can improve their bottom line.



CHAPTER N.2

# The Relevance of AI to Private Equity Firms & Portfolio Companies In 2023



# What is AI & why should we care?

Artificial intelligence (AI) is a rapidly evolving technology that is transforming many industries, including healthcare, finance, and retail. For private equity investors, AI can offer significant benefits, including increased efficiency, improved decision-making, and the ability to stay ahead of the competition. Investors should keep an eye on the broader technological landscape and stay informed about developments in AI and related technologies, such as machine learning and deep learning, to ensure that their portfolio companies remain competitive.

According to a report by **Accenture**, AI has the potential to boost productivity and generate economic growth, adding an estimated \$14 trillion to the global economy by 2035. Another report by McKinsey Global Institute found that AI has the potential to create significant value for businesses, including cost savings, increased revenue, and improved decision-making.

## Huge growth opportunities for private equity firms & portfolio companies

Artificial intelligence can help private equity investors better manage their existing portfolio, conduct due diligence on prospective investments and also collaborate with CEOs and senior executives of portfolio companies to get a better financial grip on their company and expose growth opportunities amidst an increasingly competitive market.

The implementation of an AI strategy can bring numerous benefits to private equity firms and their portfolio companies in 2023. As highlighted by McKinsey & Company, private equity firms that adopt AI and machine learning can see up to 4% higher returns compared to their peers (**McKinsey & Company, 2019**). Furthermore, AI can help firms identify under-performing portfolio companies and take steps to increase profitability by automating manual processes and optimizing workflows (**PwC, 2020**).

While the advantages of AI are clear, it is important to note that the technology must be implemented thoughtfully and carefully to ensure that it enhances rather than detracts from a firm's operations. This includes considering factors such as data privacy, cybersecurity, and ethical considerations (**Deloitte, 2021**). A survey by KPMG found that over 70% of private equity firms are already using or planning to use AI to drive growth and improve performance (**KPMG, 2020**), demonstrating the continued relevance of AI in the private equity sector.



## The benefits for private equity investors

Private equity investors can leverage AI to improve the operations of portfolio companies and drive growth. For example, AI tools can be used to streamline processes, such as supply chain management or customer service, or to develop new products and services. Private equity investors can also leverage AI to improve their own operations and decision-making processes. For example, AI tools can be used to gather and analyze market data, identify attractive investment opportunities, and perform due diligence on potential investments.

Additionally, private equity investors can use AI to monitor the performance of their portfolio companies, allowing them to make informed decisions about when to exit an investment or when to provide additional support.

According to a survey by **KPMG**, private equity firms that adopt AI and related technologies are more likely to see improved performance, with 67% of surveyed firms reporting improved deal sourcing, 56% reporting improved valuation accuracy, and 54% reporting improved portfolio company performance.

## The benefits for c-suite executives in portfolio companies

The use of artificial intelligence (AI) in a portfolio company can bring significant benefits to the c-suite, including improved efficiency, better decision-making, and increased competitiveness. For example, AI tools can be used to streamline operations, such as supply chain management and customer service, as well as to develop new products and services. AI can also be leveraged to analyze market data and identify attractive investment opportunities, allowing for more informed decision-making.

In addition, AI can also be used to monitor the performance of a portfolio company, providing c-suite executives with real-time insights into key metrics, such as revenue and customer satisfaction. This allows them to make more informed decisions about the direction of the company, as well as respond quickly to any challenges or opportunities that arise. Additionally, AI can be used to improve the security and privacy of a portfolio company's data, reducing the risk of cyber attacks and other security threats. Overall, the use of AI in a portfolio company has the potential to greatly enhance the ability of the c-suite to lead and manage the company effectively.




CHAPTER N.3

# Getting Started With AI & What You Can Expect







Private equity investors should work with portfolio companies to develop a clear and comprehensive AI strategy, which should outline the objectives, timelines, and budgets for AI implementation. Investors should also consider forming partnerships with AI experts and technology providers to ensure that their portfolio companies have access to the latest AI technologies and expertise.

Additionally, private equity investors should ensure that portfolio companies have the necessary data infrastructure and talent to effectively leverage AI, including data scientists and engineers. It is also important for private equity investors to evaluate potential AI investments carefully, taking into consideration factors such as market trends, regulatory considerations, and the experience and expertise of the management team.

## **Challenges of AI for firms & portfolio companies**

Despite the numerous benefits of AI for private equity, there are also several challenges that investors need to be aware of. One challenge is data quality and quantity. AI algorithms rely on large and high-quality data sets to perform accurately, so portfolio companies need to ensure that their data is reliable and up-to-date.

Another challenge is privacy and security, as AI technologies often process sensitive data, such as customer information or personal health records. Portfolio companies need to ensure that they have robust privacy and security measures in place to protect sensitive data.

## **What can you benefits can you expect using AI?**

### **Improved efficiency and automation of manual processes**

AI can automate repetitive tasks, reducing the need for manual labor and freeing up employees' time for more strategic work.

### **Better decision making & risk management**

AI algorithms can analyze large amounts of data, identify patterns and correlations, and provide insights that can inform better decision making. This can lead to improved risk management and more informed investments.

## Increased revenue and cost savings:

AI can be used to improve operational efficiency, increase sales, and reduce costs. For example, AI-powered chatbots can provide 24/7 customer support, increasing customer satisfaction and revenue.



### Enhanced customer experience & management

AI-powered customer experience tools can analyze customer behavior and preferences, providing companies with insights to enhance customer engagement and satisfaction.

### Competitive advantage and market differentiation

Companies that adopt AI can gain a competitive advantage by being able to make faster and more informed decisions than their competitors.

### Improved data analysis and insight

AI algorithms can process and analyze vast amounts of data, providing companies with insights they may have missed manually. This can lead to more informed business decisions, improved operations, and increased revenue.



CHAPTER N.4

# The Future of AI For Value Creation



# With the increasing use of alternative value-creation strategies, private equity firms will need to adapt to remain competitive.

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Artificial Intelligence (AI) is rapidly changing the business landscape, and private equity firms are no exception. As AI continues to evolve, it will likely play an increasingly important role in shaping the future of private equity and the companies in which they invest. Private equity firms that embrace AI will have the potential to stay ahead of the competition, improve operational efficiency, and drive significant revenue growth across their portfolio companies, preparing them for the best possible outcome as we navigate out of the economic downturn.

With the increasing use of alternative value-creation strategies, private equity firms will need to adapt to remain competitive. It's time to tear up the traditional playbook, we are operating in a totally different market in 2023.

Such shake-ups may include updating their investment strategies, forming partnerships with AI experts, and ensuring that their portfolio companies have the necessary data infrastructure and talent to effectively leverage new opportunities.

Additionally, private equity firms will need to be aware of the broader technological landscape and stay informed about developments in AI and related technologies, such as machine learning and deep learning. By taking a strategic approach to AI, private equity firms can position themselves for success in the rapidly changing technological landscape and ensure that their portfolio companies remain competitive in the future.

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# Navigate The Economic Downturn With Confidence

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