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# Operational Excellence

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## Meet the future operating partner

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KEYNOTE INTERVIEW

# The race for operational alpha





*Longer PE timelines, complex transactions, a difficult exit environment and the rise of AI are upending sponsors' value creation priorities, say KPMG's Brett Shisler and Carole Streicher*

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**Q As hold periods lengthen and exit expectations rise, how is the value creation agenda changing?**

**Brett Shisler:** With longer hold periods, value creation requires more than incremental operational improvements. Sponsors increasingly need to generate operational alpha – differentiated returns created by fundamentally improving how a portfolio company grows and operates – which has outpaced leverage and multiple expansion as a source of value for years.

Sponsors now need to invest in capabilities that create sustainable competitive advantage, whether by building a digitally enabled commercial engine, creating an AI-enabled service model, or transforming a fragmented acquisition platform into an integrated market leader. Private equity is becoming less about financial ownership and more about corporate stewardship.

Longer hold periods are extending investment horizons for technology, data, controls, AI and operating model transformation. The question is not only how to improve next year's EBITDA, but what will make the company disproportionately more valuable five years from now – and how to realise that value during the hold period.

**Carole Streicher:** As more capital has flowed into private markets, private equity firms have been able to invest in larger assets and write bigger cheques. Sponsors can do far more to create operational alpha in a $5 billion business than in a $500 million business.

Larger assets and longer hold periods are also prompting funds to build significant operating teams to support value creation and implementation. Those teams have doubled, tripled or even quadrupled in size over the past several

years, with greater emphasis on experienced implementers who can translate the value creation plan into results.

### How are sponsors adapting their strategies given this shifting agenda?

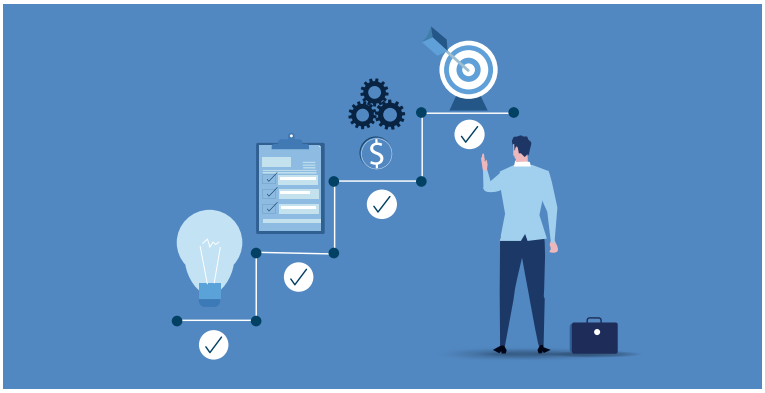
**BS:** Sponsors need to become more sophisticated capital allocators. The question is no longer whether to invest in value creation, but which investments will generate the greatest return relative to alternatives such as debt reduction, acquisitions or returning capital to investors.

Increasingly, sponsors are segmenting their portfolios and making deliberate choices about where to double down and where to harvest cashflow. For high-conviction assets, they are funding larger strategic transformations, including technology modernisation, AI initiatives, commercial excellence programmes and operating model redesigns.

These transformations may take years to materialise. As a result, private equity ownership is becoming more active and nuanced, with sponsors tailoring their strategies asset by asset according to each company's maturity, growth potential, competitive position and ability to absorb transformation.

**CS:** Another important theme is the growing pressure from LPs to deliver differentiated returns. Private markets are expected to outperform public markets, but longer hold periods and a challenging exit environment have made that more difficult. GPs are feeling that pressure, which is intensifying the focus on value creation and operational improvement.

We are also seeing real pressure from LPs on GPs to leverage AI in support of operational improvement and value creation. LPs want tangible examples of how AI is driving results across portfolio companies; without that evidence, they may be less likely to commit capital to a sponsor's next fund. AI has become a specific marker of whether a GP is investing in its portfolio companies to create differentiated returns.



### What can sponsors do to get ahead when preparing portfolio companies for sale?

**CS:** Readiness has to be the first priority. Sponsors are increasingly preparing for dual-track processes, including both an IPO and a strategic sale, to preserve optionality and maximise value. Those paths have different requirements and timelines, and IPO readiness must begin earlier because controls, governance, reporting, finance processes and management readiness take time to build.

Sponsors also need to maintain continuous readiness because market conditions can shift quickly. Cycles that were once relatively predictable over six, 12 or 24 months can now change within three to six months. Maintaining the ability to launch when the market window opens is critical.

**BS:** Sponsors have always planned for the exit as part of the investment thesis. Now, they must operationally engineer towards that exit, building flexibility into the value creation plan and recognising that strategic buyers, other sponsors and the public markets may value different capabilities. Getting ahead means understanding those buyer perspectives early enough to shape the business, rather than trying to repackage it shortly before a transaction.

### What additional value creation levers need to be considered in complex public-to-private and carve-out deals?

**BS:** The source of value differs fundamentally between public-to-private transactions and carve-outs. In a public-to-private transaction, the value creation opportunity is not simply cost removal; it is time horizon arbitrage. Sponsors can pursue investments and transformations that may be difficult to justify in the public markets, including initiatives that temporarily depress earnings because the focus is on maximising long-term enterprise value rather than meeting the next quarterly expectation.

Successful public-to-private transactions do not create value simply by eliminating the costs of being public. They create value by giving management the freedom to pursue strategic decisions and long-term transformations that may have been difficult to undertake under public ownership.

In carve-outs, value comes from freedom from the constraints of the parent organisation. The best sponsors view separation not simply as a value preservation exercise, but as a value

creation opportunity. Historically, many carve-outs focused on replicating inherited processes, systems and organisational structures as quickly as possible. Today, sponsors are asking which elements of the parent operating model should exist at all, using the separation to redesign workflows, simplify decision-making, modernise technology and build a more scalable operating platform.

By clean-sheeting the operating model from the outset, sponsors can also evaluate alternative technology platforms, data architectures and AI-enabled capabilities before legacy processes become embedded in the standalone business. Viewed through an agentic AI lens, the conversation shifts from how many people need to be hired to support a function to which activities require human judgment, which should be automated and which can be orchestrated by AI agents. This creates an opportunity to build a leaner, more scalable organisation with better visibility, faster decision-making and a more deliberate approach to defining the critical capabilities the business truly needs.

**CS:** Carve-out assets have often been non-core businesses that did not receive sufficient investment from the parent. Under new ownership, sponsors can deploy additional capital to unlock growth, whether by entering new markets, launching new products or expanding across the value chain. These transactions are among the most complex and execution-intensive, but when done well, that complexity can create significant return potential.

As a result, sponsors are spending more time upfront defining how value will be created before the deal is completed. In many cases, investment committees are now reviewing detailed value creation roadmaps alongside the transaction thesis, ensuring there is a clear path to growth from day one.

### Q How are the most forward-thinking firms reshaping their operating capabilities to address AI and emerging tech?

**BS:** The most forward-thinking private equity firms are moving beyond isolated AI use cases and building repeatable capabilities that can scale AI-enabled value creation across the portfolio. Rather than asking each portfolio company to experiment with AI independently, they are creating common governance, trusted data foundations, implementation capabilities and technology platforms that can be deployed repeatedly across investments.

The conversation has shifted from pilots to outcomes, with sponsors embedding AI within broader end-to-end process transformations rather than treating it as a standalone initiative.

Measuring the success of these AI-enabled transformations requires a different mindset. Traditional metrics such as headcount productivity, cost per transaction and revenue per employee were designed around human-centric organisations and prove less meaningful when work is performed by a hybrid workforce of people, copilots, automation and AI agents.

As a result, sponsors are placing greater emphasis on metrics that measure how work flows through the organisation, rather than how individuals perform it. Metrics such as process cycle time, straight-through processing rates and human intervention requirements better indicate whether AI is driving sustainable operating leverage. The question is no longer simply how productive the workforce is, but how effectively the combined human-and-digital workforce performs.

**CS:** Operating partners are under growing pressure from LPs to demonstrate tangible value from AI across their portfolios. LPs increasingly want evidence that AI is improving operational performance and creating measurable value, rather than simply being deployed as a technology initiative.

Sponsors that move first will have an advantage. We are still in the early stages of this shift, but the firms building capabilities today will be better positioned to create value across their portfolios and differentiate themselves with investors over the next five to 10 years.

### Q What capabilities are distinguishing portfolio companies that are exiting more efficiently and achieving stronger valuations today?

**BS:** The next vintage of PE funds will evaluate companies through a different lens. AI adoption will be table stakes, and the question will no longer be whether AI exists within an organisation, but whether it has been optimised across the enterprise and whether workflows have been redesigned to maximise its value. The differentiator will be whether the company has reshaped its operating model to capture measurable, AI-enabled operational alpha.

AI readiness is therefore becoming a valuation discussion, not simply a technology discussion. Sponsors need to build the foundations that future buyers will expect, including trusted data, modern technology architecture, clearly defined workflows, strong governance and management teams capable of embedding AI into day-to-day operations.

**CS:** Sponsors need to ensure their portfolio companies are AI-ready if they want to capture that future valuation premium. Companies that fail to invest in the necessary technology, data, infrastructure and operating capabilities risk presenting future buyers with the equivalent of deferred maintenance.

We are approaching the point where sophisticated buyers will be scrutinising those capabilities more closely. Without the right investments, the next owner may be constrained in its ability to create value at speed, and the asset may command less in the market. ■

Carole Streicher is asset management and private equity advisory practice leader at KPMG US, and Brett Shisler is PE transact-to-transform leader at the firm