‘Obviously the stakes are pretty high.’ Can AI Give Private Equity an Edge?

The private-equity firm had all the numbers it needed—the company’s revenues, its margins, and its bevy of long-term customer contracts—along with an understanding of how fragmented the marketplace was. Its analysts had also met with the company’s CEO and CFO and had talked with former executives. But before the PE firm drafted a letter of intent for a valuation of $84 million, the managing director hesitated. Something didn’t feel right. So he decided to hop on a plane and visit headquarters in person.

One of the shining promises of artificial intelligence is that it can eliminate tedious legwork. Marketers can devise a slogan and activation campaign in a few minutes. Healthcare providers can continuously monitor a patient’s vital signs. And supply-chain leaders can anticipate weather patterns without combing through the *Farmer’s Almanac*. But here’s a key question: What if you’re looking to purchase a company for millions or searching for a secondary-market buyer, and you’re considering using AI in order to avoid all of that “pesky” legwork? Is the technology good enough now? Will it ever be?

Obviously, the stakes are pretty high, given that private equity has more than $5 trillion in assets under management. But in recent months, those stakes have climbed even higher as PE deals take longer to close—and fundraise for—due to market volatility, higher interest rates, and valuation gaps. The challenging deal environment is making it more important for private-equity professionals to pick up the pace. The faster a team of analysts can target companies and provide due diligence, the faster a deal can close—and the sooner the firm can rinse and repeat that process, making AI all the more intriguing.

Yet I suspect from talking to PE leaders that the technology, for all its glory, hasn’t been able to replace good old-fashioned human intuition—and isn’t likely to in the near future. Consider, for example, an activist-takeover battle. These matters are usually driven by traditional activism, legal maneuvering, and corporate governance, with little or no known deployment of AI. Sure, AI probably could help in crafting proposals, simulating voting, and other remedial deal processes. But my point is that it would be functioning as a tool—not setting a strategy—in such a scenario.

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The hard truth about AI is that the toughest parts of PE—understanding a founder’s temperament, navigating board politics, selling a thesis to limited partners—remain stubbornly human. There are so many gut calls and judgement decisions in private equity that AI can’t replace. It doesn’t know, for example, when your firm has something of a legacy relationship with a certain group of activists, having done four previous deals with them. It can’t pivot during a board meeting that’s headed south to inspire buy-in and save a deal. And it can’t hop on a plane and talk face-to-face with a CEO to decide whether to issue that letter of intent.

There’s also concern in some PE circles that overuse of AI in deals could lead to a dilution of innovation. The contrarian thinking that’s led to some of the PE deals most widely studied in business schools hasn’t come from an AI model’s recommendations. And if you and your competitors are mining the same data, a herd mentality emerges very quickly. Think about some of the most contrarian plays PE has made, like deciding to focus on middle-market companies when most firms are pursuing bigger deals. Would PE firms make such moves if they relied entirely on AI?

Sure, AI may allow investment professionals to make judgement calls faster and in greater volume. But—as I suspect many leaders throughout the corporate world may discover—no machine will replace the human element of relationships, nuance, and emotional intelligence, let alone our deeply primal instincts. That’s just my gut call.

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Portrait by ROB DOBI