

KEYNOTE INTERVIEW

Unlocking growth catalysts



*Longer holds demand a sharper strategy, with growth and tech-focused innovation driving lasting returns, say Deloitte's **Emma Cox** and **Venki Seshaadri***

Q How are lengthening hold periods affecting PE's approach to value creation?

Emma Cox: There is no doubt that current market dynamics are challenging and that PE firms are holding on to portfolio companies for longer. In fact, more than half of all PE hold periods have now surpassed five years.

Capital has become more expensive too, and as long as valuation multiples remain high, that means multiple expansion can no longer be a significant driver of value. There is therefore huge pressure to generate post-close value creation.

Meanwhile, the fact that hold periods are often being extended beyond what was originally intended means that PE firms are having to look for value creation over and above their

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original investment thesis. AI has become a natural area of focus in this hunt, alongside all the other levers that are available to PE firms when it comes to driving down costs and increasing margins.

Finally, I would say that, alongside operational improvements, there is now far greater emphasis on top-line growth, especially in the context of this challenging environment and elongated hold periods.

Q What role is AI playing when it comes to delivering top-line growth?

Venki Seshaadri: Unlocking growth

in today's dynamic market demands agile leadership and bold strategies to spark innovation for companies. AI adoption is accelerating beyond large to mid-market enterprises, with renewed focus on strategic investments in products, M&A, sales and operations to drive performance and sharpen their competitive edge.

From a product perspective, unlocking new capabilities to grow market share and protecting moat remain the priority, with a focus on the build-out of value-additive verticalised solutions for the existing portfolio that specifically fit their markets.

AI delivers the most immediate value in operations. We believe PE businesses will benefit from off-the-shelf products that offer AI capabilities. For instance, our recent *Future of Sales*

study revealed that forward-thinking organisations that embed AI, advanced analytics and automation are achieving 3x the growth at half the cost compared to their peers, by embracing customer-centric and experience-driven sales strategies. The commercial models are evolving as well, with the shift in B2B sales – from traditional, product-centric approaches to outcome-based models – highlighting the critical role that technology-led innovation is playing in driving sustainable growth and efficiency.

However, it's worth noting that most organisations are still learning the ropes when it comes to governing, prioritising and measuring the value of their AI investments.

EC: I would add that alongside this investment in AI capabilities, we are increasingly seeing PE firms hire highly specialised tech-orientated operations partners that can really help portfolio companies leverage the potential of this technology and drive value. This is particularly effective where PE firms are investing in multiple portfolio companies within the same sector, because with the support of their operating partners, the AI solutions can be rolled out across multiple businesses operating in the same space.

Q That leads us to the question of talent. How are talent strategies evolving to drive growth and resilience?

EC: Our thesis is that talent is often one of the most underrated value levers. It is execution that drives returns, and execution is all about people. Despite this, human capital continues to be widely underplayed in value creation strategies.

I do think that there is now a broad recognition that effective leadership is paramount. A lot goes into due diligencing management teams and into understanding the leadership capabilities required to drive the investment thesis. This is particularly important

“Forward-thinking organisations that embed AI, advanced analytics and automation are achieving 3x the growth at half the cost”

VENKI SESHAAADRI

amid longer hold periods, as a change of leadership may be required in order to facilitate a new phase of growth.

There is less focus among PE firms, however, on the cultivation of the broader culture and employee engagement required to support value creation, despite the fact that these things are critical to execution. There is still a lot of work to be done in this area.

VS: I agree, but I would add that, given the extremely competitive market for high-performing talent, PE firms are now having to think more about retention.

Longer hold periods and the fact that exits are being pushed back make retention an increasingly challenging issue, especially at a time when the public markets are generally performing well and therefore providing a

competitive alternative for individuals with skills and experience that are in high demand.

Some portfolio company leaders are responding with broad-based equity structures designed to help with recruitment and retention, as well as accountability. The incentive structure has to work.

Q How can GPs communicate their value creation efforts to LPs when hold periods are lengthening and exits remain scarce?

EC: It is important that PE firms are able to tell a positive story around the strengthening of their operating partner and senior adviser teams, for example, and about their ethos around leadership and talent.

PE firms can also amplify the value of their highly specialised, tech-focused operating partners. These experts help portfolio companies unlock the full potential of AI and drive real value. This approach is especially powerful when PE firms have multiple portfolio companies in the same sector, as operating partners can help to roll out AI solutions across several businesses, multiplying the impact.

VS: Absolutely. They should communicate their philosophy around a high-performance culture and on finding new avenues for revenue growth. That could mean being aggressive around add-ons, for example, and driving inorganic value faster.

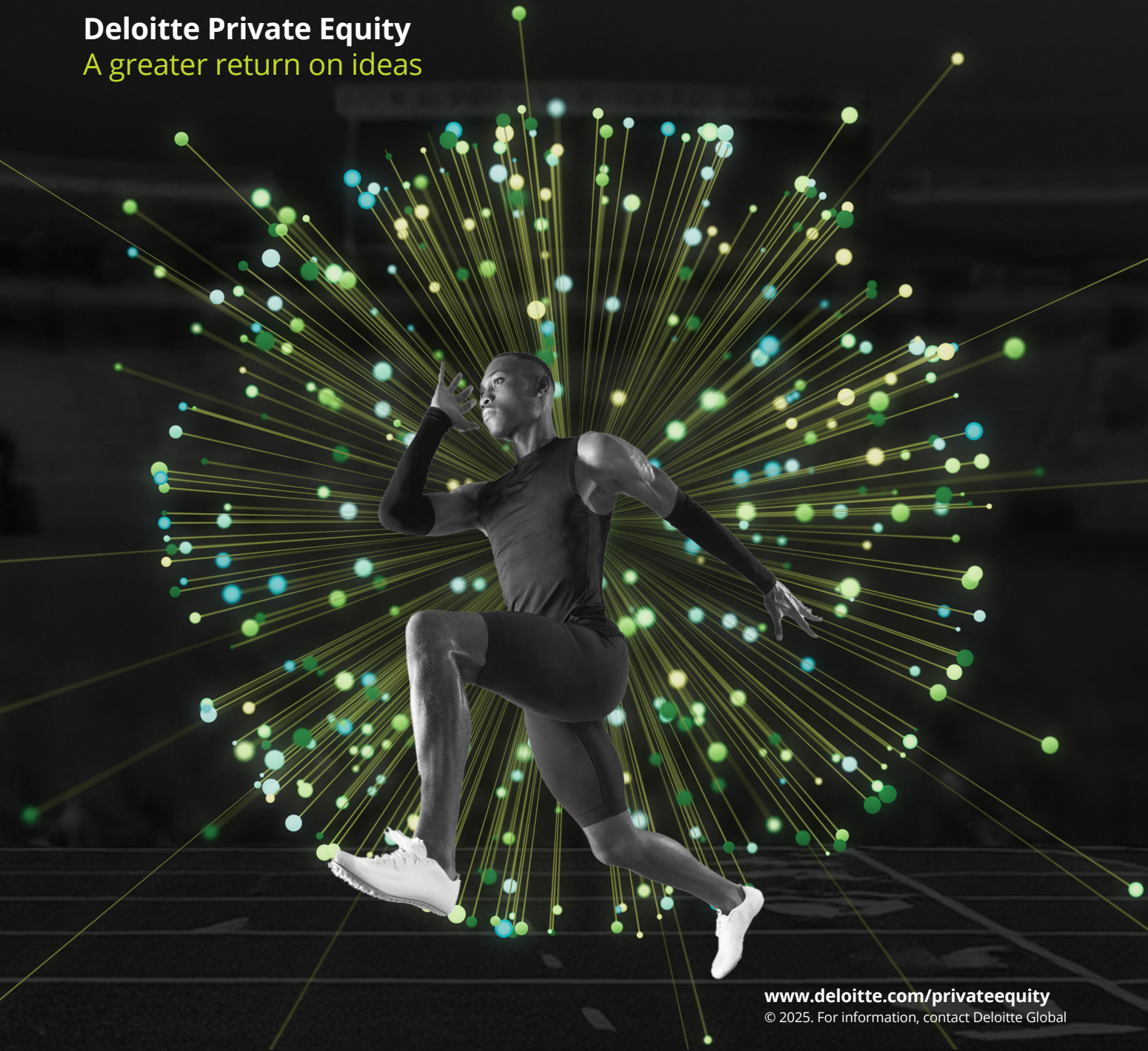
Meanwhile, there is a story to tell around unleashing the full potential of technology and, as Emma says, around strengthening functional expertise. Providing a board member is no longer enough. You need to provide functional support to help management teams deal with all the disruptive forces in the market. With hold periods lengthening, the narrative has to change. ■

Emma Cox is global private equity leader and Venki Seshaadri leads the software sector for Deloitte's private equity practice

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Outperform the market: Unlocking growth catalysts for greater returns

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