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Operate to Transform
AI in private equity
accelerates value creation

Private equity (PE) runs
on a simple formula:
buy, improve, and sell.

But what happens when the “improve” phase—a critical technology transformation—threatens to drain the very value you’re trying to create?

This paradox is where transformations can stumble. We propose a new formula in which the transformation pays for itself.

Up-front cost isn’t the only barrier to transformation. Traditional approaches may strain human capacity by calling on business and IT teams to manage the transformation alongside their business-as-usual jobs. They may also call for technology and change management skills that may not exist within the organization.

This scenario may create a challenging paradox for transformation: necessary but difficult and costly. However, an alternative approach may break through those barriers. Using financial engineering, creative engagement models, and a phased, self-funding approach that improves operations and can then return to internal control, companies have an opportunity to reduce a transformation’s up-front investment and see returns sooner.

Why transformation is necessary

By itself, capital is only one of the ingredients it takes to position a portfolio company for a competitive future. The organization should also be able to answer changing customer and shareholder demands—and generate new revenue—by offering new or updated products and services. To develop and support new offerings, and to meet expectations for customer experience, the company can ramp up digital transformation, so it becomes more responsive and resilient.

Even traditional steps a private equity holder may take with a portfolio company, such as cost restructuring, operational efficiency, and margin improvement, are typically more targeted and effective when they're part of a broader digital transformation strategy. That's because familiar methods of pursuing those aims may still involve manual processes, workarounds, and outdated interfaces that cost time and invite error.

However, putting advanced technology capabilities into place—establishing the day-to-day mechanisms of data and agentic systems—can take even more work and more capital. The very operating model of the company often requires restructuring to make the next phase of its evolution possible.

In some instances, the tightening of capital markets, potential changes in tax legislation, or stress within the PE arena may interfere with a fund's exit plans, valuation targets, or both. That often makes the demand for a transformative approach more time-sensitive.

Add up all these reasons, and it becomes evident that enterprise-wide technology transformation is an imperative for most portfolio companies. It's necessary if the PE firm hopes to justify and recoup its initial investment amid rising costs and operating model shifts. It's urgent if a PE firm has a specific exit or IPO date targeted for the portfolio company, if the holding has gone on longer than planned, or if the PE firm itself is under pressure to restructure its portfolio for greater value. That said, while the need for transformation may span a PE firm's portfolio, the ways to apply transformation differ from holding to holding.

What stands in the way

Cost, workforce capacity, and in-house capabilities aren't the sole forces that hamper technology transformations. At the fund level, a PE firm may have experience with familiar management challenges within its portfolio companies, but not with emerging concerns such as agentic artificial intelligence (AI). The range of pressures that make transformation important are also the ones that make it complex: Supply chain disruption, shifts in demand, and changing workplace and workforce expectations all contribute to the challenge.

In general, companies tend to perceive transformation as a high-risk undertaking, even if they also acknowledge that it is necessary. A method that alters the balance—by changing the timing between risk and reward—has the potential to change this perception.

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An effective approach

A portfolio company may be able to reimagine the process of transformation by sequencing the steps that go into it. That includes turning to outside service providers and other collaborators for their specialized capabilities and using the proceeds of early wins and operational savings to fund later steps in turn. Each step contributes to modernizing technology, so the organization can become more agile and resilient to economic volatility.

What makes this transformation approach possible is an up-front service model in which a third party steps in to operate the current technology landscape and critical functions. By combining advanced AI capabilities with deep knowledge of the relevant industry and its processes, such a collaborator can put the portfolio company on a path toward ongoing operational improvements that can continue long past the transformation stage.

While it is possible to use this type of intervention to address standard service-level benchmarks on a superficial level, it is often more effective when the focus is on the business outcomes that lie downstream. By enhancing and managing existing platforms using an AI-first approach and keeping humans in the loop to guide its use, a company may gain not only capability but adaptability that can deliver returns in the long term.

The Operate team at Deloitte is positioned to offer this type of service, taking independence implications into account based on its relationship with each client organization. The operate journey may continue indefinitely as a service, or the function may transfer back to the portfolio company after having been transformed for greater efficiency. As Figure 1 illustrates, this operate-first model flattens the spending curve, reducing the large up-front “investment bubble”

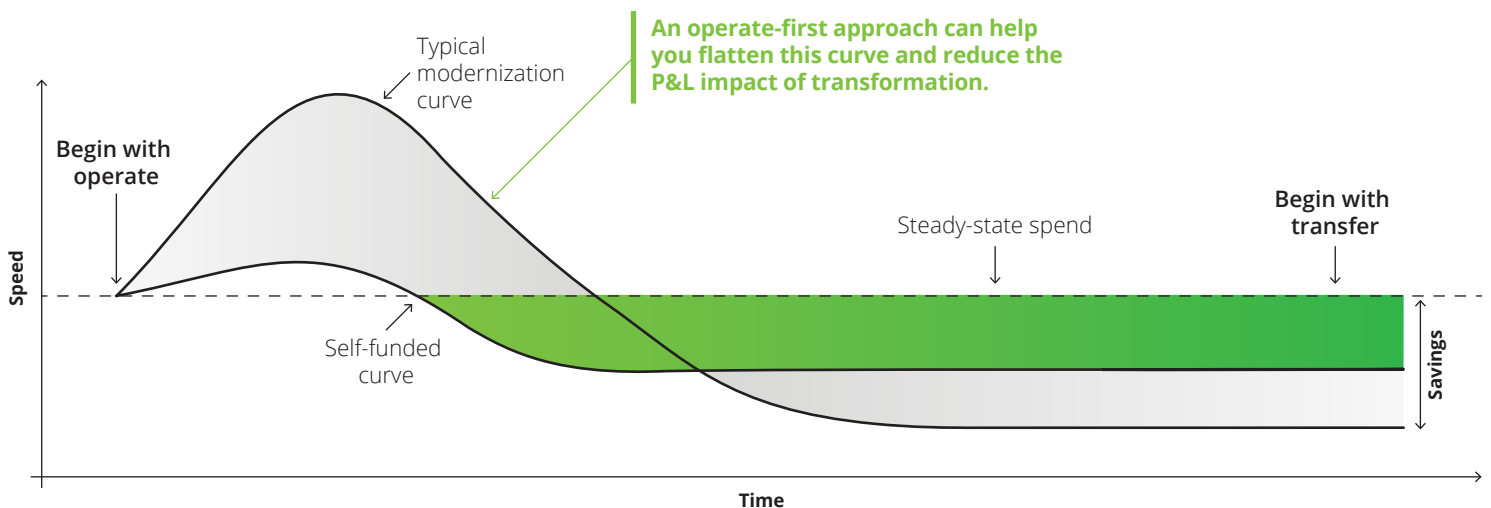
of traditional transformation projects. A modernization process typically imposes larger costs early on and often takes longer to generate savings, while a self-funded approach may reduce the initial outlays and produces useful savings sooner (Figure 1).

The sequential pace of this transformation method makes it possible to use a number of self-funding mechanisms, either individually or in combination.

- **Cost optimization.** The sequence of operate tasks may generate early savings to reinvest in later initiatives. Opportunities for quick wins include sourcing and operating efficiencies leveraging AI.
- **Data center buyout.** Having a third party buy legacy data infrastructure and lease it back to the company can help reduce parallel run costs and ease the constraint of long-term commitments.
- **Tax and accounting considerations** make use of new accounting guidelines or tax mitigation planning, which may reduce the balance-sheet impact of transformation investments.
- **Ecosystem investments** bring the incentives and credits of alliance programs into a transformation, reducing the financial burden and the costs of migration and modernization.

Migration, modernization, and transformation programs that use all four of these mechanisms may be able to achieve a high level of self-funding. However an organization chooses to combine them, it may apply them horizontally across capabilities, focus on a specific domain of operation, or use them vertically along an entire technology stack.

Figure 1: The Operate-Transform-Transfer



The potential benefits

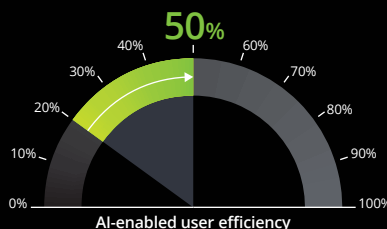
In transforming a portfolio company, the changes a team accomplishes matter to the extent they create measurable value, improve EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization), or increase hold period efficiency. By using an “operate-first” approach that offloads costs and work, achieves quick wins, and generates early cost savings, a portfolio company can gain the ability to self-fund transformation initiatives on a rolling basis—which can pave the way to those ultimate, exit-based wins. What’s lasting is improved processes and a modern, AI-ready technology stack that help transform the pre-transformation company into a refreshed player ready to take on future market demands.

The potential benefits of this approach include:

- Improved IPO or exit readiness;
- Higher valuations and EBITDA improvement;
- Demonstrated readiness for the next phase of the company life cycle; and
- Clearer data and analytics to inform improved financial governance.

When a technology transformation is effective, it may still carry large costs. But if it improves valuation as intended, that positions the PE firm to realize far greater benefits upon exit—and complete the process with a lower degree of risk throughout. Experience also shows that an operate approach that uses modern AI-capable platforms may increase user efficiency from 20 percent to up to 50 percent depending on the role.

In addition, the effect may be serial: An effective transformation that uses this approach at one portfolio company may hone a PE firm’s strategy to carry transformation to its other holdings. At a fund level, the operate-transform-transfer approach may serve as a platform that delivers economies of scale across multiple owned companies, even if they are at divergent stages of transformation. In addition, the approach may help PE firms target new acquisitions with more confidence. **Reducing the perceived risk of a transformation may be as powerful an outcome as any metric.**



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Navigating your technology transformation

If turning to third parties is a way to speed and fund technology transformation, deciding who will accompany you on the journey is important. The work covers a wide breadth of competencies across technology, tax, finance, M&A, change management, and other disciplines.

Because Deloitte’s structure includes this array of disciplines, it is able to effectively navigate transformation and ongoing operations in an integrated way, with teams who are experienced in the investment theses and fund strategies that PE firms need to adhere to. Often, these teams are already engaged with PE firms to assist with valuation, acquisition, and developing full potential plans for new holdings.

All this activity is built around the capability to take on transformation and operational steps to facilitate the savings from the sequential “operate to transform” approach and deliver transformation at scale with measurable business outcomes.

Above all, companies that turn to Deloitte for help with a self-funding technology transformation can benefit from the simplicity and accountability of a single collaborator whose teams remain engaged across the entire process. In its [2026 PEAK Matrix® Assessment](#), the [Everest Group](#) ranked Deloitte as a star performer in private equity services for its combination of vision, capability, and market impact. *Deloitte’s status as a private entity enables us to drive transformation with both flexibility and confidentiality.*

Conclusion

Acquiring a portfolio company with the expectation for it to grow in value and produce a return is a fundamental risk in private equity. Transformation piles on new risks: new skill requirements, new ways of working, new costs, and uncertainty about the value those changes will produce. Instead of letting the perceived risks of transformation dictate your timeline for value creation, it's time to adopt a smarter, self-funding path. Deloitte can demonstrate the potential that path holds for your organization by modeling your specific migration and comparing it side by side with the self-funded alternative.

Authors

Sateesh Gokhale

Managing Director

Deloitte Consulting LLP
satgokhale@deloitte.com

Sarah Corrigan

Managing Director

Deloitte Consulting LLP
scorrigan@deloitte.com

Contributors

Praveen Sankaranarayanan

Senior Manager

Deloitte Consulting LLP
psankaranarayanan@deloitte.com



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