



2026 GLOBAL CONFERENCE

LEADING IN A NEW ERA



MIDDLE MARKET PRIVATE EQUITY: COMPETING FOR GROWTH NAME

Announcer 00:00

Thank you for joining us. Please welcome the panel to the stage.

Marco Masotti 00:11

Well, thank you everyone for joining. This is a brief discussion of “Middle Market Private Equity: Competing for Growth,” which is really the heart and soul of the private equity business. My fellow panelists bring a lot of different perspective to the issues that we’re going to discuss. And to my left is Alisa Amarosa Wood, who’s a partner and co-CEO of KKR Private Equity Conglomerate, and organizes and assists with a number of the retail products that KKR is creating. Then David Andrews, who’s the founder and co-CEO of Gryphon Investors. And I just learned we go back to 1995 together, so he has a very long and storied career in the industry. Scott Spielvogel, who’s the managing partner and founder of One Rock Capital. Carol Streicher, who’s deal leads the advisory team at KPMG. And Andrew Weinberg, who’s the founder and co-CEO, co-chair of Brightstar Capital Partners. So thank you very much for joining us, and maybe why don’t we talk a little bit more generally about the middle market, then talk about AI and tech, and finally, some of the liquidity issues that are raised in the market. This is a trying time for private equity. We certainly have a bit of a PR problem. But fundraising is a grind. By some estimates, we have 20,000 to 30,000 portfolio companies still stuck in the ground, representing over \$3 trillion of value. We’re not putting enough cash into the hands of LPs so they can recommit to new funds. And we’re doing all of that in an environment where there’s a war, where there’s political and macro issues, and where the business itself is challenged. So let me start with you, Scott. How is the environment, the war, the unexpected of this year impacting investing in the middle market?

Scott Spielvogel 02:42

Well, thanks, Marco, for the question. It’s definitely a mixed market out there. There are certain industries where assets are being snapped up at pretty attractive prices, and there are certain industries where it’s really hard to find a price at which buyers and sellers agree to be able to have that transaction. It depends a little bit on whether those industries are being affected by things like wars and tariffs and things like that.

I can think of the chemicals industry, which is one of the areas that we focus on that's particularly challenged at the moment. And then there are certain industries like industrial services, especially anything that's touching the AI ecosystem or the infrastructure, that is pretty hot right now. And so it's very much a mixed bag. And the other thing that we're seeing is that at the higher end of the middle market, it's a little bit less certain than at the mid to lower end of the middle market. So super small deals are still challenged. I would say that the deals that are several hundred million of enterprise value, those are also challenged. But there is kind of a sweet spot in the middle where there's lots of activity. And so it's very much a mixed market, I would say. If you were to contrast from where we were a year ago, it's maybe slightly better in some ways. And yet, given the backups in the private credit market, financing is a little bit more difficult. So it's kind of a mixed bag.

Marco Masotti 04:21

David, do you have any perspective on just more generally the environment?

David Andrews 04:25

I think mixed is a great soundbite. I believe that there is this pent-up supply of companies. Buyers and sellers have had a hard time coming together. We track failed deals, and in 2025, '24, and '23, an incredible 60 percent of companies that came to market with a CIM did not sell within a year. And I think the dislocation is driven by what we labeled in January of '19 as pro forma EBITDA madness. There's always appropriate pro forma adjustments, but then there's inappropriate, and people holding on their books perhaps too much pro forma and not being able to get those prices to sell. Now, this war, it felt like we've been saying for a few years now, "This is going to be the year. It's coming back," right? And a year ago, of course, we're sitting here, Trump tariffs were being implemented, and we actually had a strong second half. The market was up about 30 percent in the second half, and then the first quarter was flat, quarter over quarter. I'm talking 100 million to one billion. The big boys call middle market much bigger. But we also know that NDAs are up 35 percent right now in Q1. So at some point, we think there's going to be a steady rebound. Financing costs are higher than the last crazy period of rebound. But there'll be good deals to be done.

Marco Masotti 05:54

Are we playing by the wrong rules? Are we expecting the middle market to come back to the way it was, but is it now a different market, a transformed market? Have we gone through secular change and it's sort of flushed out, it's created more competition, flushed out a lot of firms across the marketplace? Or what's going to give?

Alisa Amarosa Wood 06:22

Maybe I can jump in with that. I think we look at the world a little from a bit of a different perspective on all of this, which is, I think we are very much in a world today where we're long complexity, we're long volatility. We've moved from a world of benign globalization to great power competition and nationalism. And all of those things are going to impact how you put capital to work, right? I think the one thing we probably could all agree on is if you're trying to time vintage years, it's foolhardy and you probably can't do it. By the time you realize it's a good one, it's too late. By the time you realize it's a bad one, you're too far in. So making sure, and I think this really speaks to the market as a whole, there has been a shakeout. We do understand what good looks like today. We do understand what it takes to make good investments, to

drive bottom-line alpha, to drive that value and deliver returns, right? This is not 1985. We don't buy low and sell high and hope for market trends to take care of your return. That's not where we are. So there is going to be competition, but in this type of environment, I think some of what we're seeing is—is it harder to do maybe than what it was in '21 or the first half of '22? Of course it is, and it will be. But we'll take this any day over what we were seeing back then. Because if you can find a good company that you believe you can make great, you're going to pay a fair price, right? There's transparency in the market where, once again, you're not going to get things for, "a steal." Maybe you'll pay less than what you would expect, but you're going to pay a fair price. You've got to rely on what you can do with that. And I think if you are a cycle-tested manager, if you've done this before, if you have the playbook, you can run the plays. It really doesn't matter what the outside world is doing. Now, we're living in a world today where competition is a lot less. Fewer people—back to your point, you said all of this before. There is a lot less capital in the market because capital's been slower to be returned, which means that the cycle is lasting longer. I think Bain just came out with a report saying the average hold period for a company went from five years to seven years. It might even go further, by the way. Let's be honest about that. And that's impacting ability to raise capital, and that's going to impact ability to go and reinvest that capital. So I think we all need to just really think long and hard, not just about what is the market doing and how do we all react to that, but the experience is very, very barbell right now. You've got the experienced managers who are actually very active, putting capital to work, and actually returning capital, too. And you've got other managers where maybe their portfolios and maybe their skill set is not as attuned and positioned well for this type of environment, and that's where you're going to see the swing. The last point I'd make is the difference in returns that we're seeing is widening. That spread is widening more than ever before. So right now, the spread between top quartile managers and third quartile, not even fourth quartile, it's 1,400 basis points of return. If you go down to the fourth quartile, it's 1,800 basis points of return, almost 2,000 basis points, depending on who you invest with. So we all talk about the industry as like, what is the middle market doing? It is so manager specific that I think that's where we all have to focus our attention a bit, which is we're all going to have very different experiences, and as long as you're with that cycle-tested manager, you're going to have an experience that hopefully delivers for you.

Marco Masotti 09:54

Look, there continues to be LP appetite for the asset class, but it's going to fewer and fewer managers. right? There's consolidation not just by the GPs, but by the LPs, and it seems to be going to the managers that are on the stage. Carol, maybe I could turn it over to you. I know you see a whole cross-section of the marketplace based on the work that KPMG does focusing on data. How does the current M&A environment compare to prior cycles? Like, what has changed the most about what it takes to generate returns?

Carol Streicher 10:34

Yeah, absolutely. And we started to touch on it a little bit on the panel. It's really moving from the era that we had where interest rates were very low and ability to do the financial engineering to have the return. That is gone, and it's the new era of really operational excellence and value creation and thinking about that really early on in the investment life cycle. And so the ability to just buy in low, sell high is not the era we're in. And so as you think about what that means and the number of assets that we have sitting on the sidelines ready to be deployed, I look at it as we have a parking lot of assets that are ready to sell. It's really around those A+ assets, like you said, are selling, they're transacting, they're transacting at really nice multiples. But there is the seven-year, longest in history hold period that we have, and there's a lot of

assets that are good assets, but they're really not operationalized in their most efficient way, and they might not be able to demand the return that they need and want in the marketplace. And so what we're seeing in this era and whatnot is really around that value creation and that operational excellence and that rigor around it. We see that playing out with, I think probably everyone in this panel is—how are they further developing their operating partner structure? What have they done? And if you talk to everyone in this panel, their structure is probably different, right? There's no one exact answer, but the through line in all of that is that operational excellence and however they need to bring that to bear for their portfolio companies to drive those returns and improve their EBITDA is really the era that we're in, is that operational excellence. And the other thing I would say is there is a more, we've seen this in the past, but more of a desire to really lean into complexity. Thinking about what are those really complex transactions like a carve-out or bringing two businesses together where they believe that they can bring their expertise to bear on those complex transactions, and that they can win out with a higher return on investment for their stakeholders because of that ability to drive that complexity. So we're seeing a little bit more of that desire to lean towards complexity.

David Andrews 12:53

Mark, this might be a little controversial, maybe not anymore, but in January of '23, and I wish you would've said I was 16 when we met. But this is the third or fourth cycle, depending on how you count them, I've personally been in, and we started saying this is going to be extraordinary, that this was not like any we've seen before. And one of the most fundamental, you can go to the great financial crisis, which many of us can remember. The Feds always bailed us out. The Fed provided liquidity, lower interest rates with the inflationary concerns, and they're back. That put new pressure on this cycle, in addition to the very frothy pricing that occurred, late 2018, 2019, 2021, put just that much pressure on the equation. And then you've got societal changes going on, Zoom being a working functionality, that affects operational effectiveness in some ways, and now you have AI. And then the facts are in the longer hold periods. So I think this cycle's going to be tough for a while. DPI is the new IRR. I think the middle market is scoring better on that than the big firms. It's hard to get the data. They don't report too frequently many of them anymore. But as we meet with investors around the world that when they first came in to the market, they're going to go with the big old names, of course, but now they're definitely looking for middle market firms, and there's a lot of us, so we're not brands like KKR.

Alisa Amarosa Wood 14:32

Yeah. I mean, listen, I think I'll jump in on that point. You left me open on that one. I think—

David Andrews 14:38

You're friends.

Alisa Amarosa Wood 14:38

Yeah. No, we're good friends. I think the issue that we're seeing is it takes more talent, more resources, more skill sets to drive the same returns that you drove 25 years ago. Okay? So when I started in the business right as the dot-com bubble was about to burst, a deal team was probably three people. Today, a deal team maybe is 30, right? When you think about the dozens and dozens of people that you need, capital markets experts to get the best financing and to get financing to begin with, especially when banks wake up on any given day and go risk-off and stop lending. The operational resources, geopolitical

resources, how do you assess risk? How do you assess your license to operate? Where you're operating? Can you operate there? Should you operate there? How do you actually expand and grow? How does all that work? Do you have industry experts? Being a generalist doesn't work in the same way anymore. So I think right now, I think the problem as an industry, and by the way also is what's middle market, right? I'll be honest with you, we buy companies that are enterprise—I'm probably on the outer end of this panel. Our sweet spot in private equity is about one to four billion of enterprise value. Is that middle market? Some would say that. If you're Cambridge or Prequin, you could say that. Is that large? Yes, some would say that, too. If you're in the public markets, that's small cap, by the way. Okay? That's not large cap. So when you think about all those things, I think regardless of the size, regardless of the opportunity, it's what resources are you bringing to bear? I think as you just said before, it comes down to what are you going to do to make a good company great? And that's where the value is. If you're relying on financial engineering, good luck, right? We don't have cheap debt in the system anymore. That's not where this is going to go. You've got to grow the bottom line operating performance. And so I think that's where this model has shifted, and as I think allocators are spending more time, they're looking behind what does make a manager different? What resources are they bringing? How do they invest? How do they drive value? What is the repeatability of that? And so if you could figure out that equation—investing is all about pattern recognition. You find the pattern, and you do it again and again and again, right? That's where this is more science than art form. And I think that's what's really changed in the world. To do that, you just need a lot more resourcing.

Marco Masotti 17:09

Andrew, I'm going to bring you. What makes you different? Physical proximity?

Andrew Weinberg 17:15

Right, yeah. So, first of all, thanks for the opportunity. So at Brightstar, look, I think I'll cover two areas. One is what we do every day, and maybe one from the lens of an allocator looking at the middle market. In terms of what we do every day, there's a lot of middle market firms out there, and I think the opportunity for all of us is, again, that differentiation. I think I'm a bit fortunate, again, probably like Scott, which is building a firm in the era when operational value creation came at a premium relative to what the Bain report said, that if you could grow a business 5 percent a year, you can still get two and a half times your money. That went out the door, okay? That was the old era. It also means that anyone's vintage, probably between '01 and '20 or so, it was a different operating environment than the one we're actually in today. So we focus on a few things. We focus on being disciplined in our sourcing, I'm sure like all the other panelists. And again, there's a tremendous wealth transfer, more than \$100 trillion in the US, that we're looking to tackle. Number two is we really generate our alpha from operational value creation. So I miss the era of multiple expansion, right? That was my prior firm. Now we're in the era where operational value creation, I think, takes twofold. One is the simple nuts and bolts of identifying great businesses, bringing something to the table, having our operating partners and advisors really work on those opportunities. And it comes to the third leg for us, which is we aim to be the leader in the middle market in applying AI. We have 30 people of our 100 that are employees of ours that are dedicated to applying AI, both internally and externally. That means with our portfolio companies. We think that's worth probably 500 to 1,000 basis points of incremental return or alpha at our portfolio companies, and we're already applying use cases today. It required us internally to redesign our firm from our sourcing funnel to our diligence and execution, to how we go about value creation, okay? That's not easy. It's actually when we hire people, looking to hire people with slightly different characteristics than myself, who was an analyst so many years

ago, in M&A. If I look at it from an allocator perspective, I think it's the best time to be an allocator. I think as other panelists have mentioned, you really get to see what you're buying. I think 10 years ago everyone looked great. Grow the business a few percent a year organically, do the M&A accretively, multiple expansion, A asset sell, B asset sell. You could be the 18th strategy in the same sector. That would sell. That doesn't work anymore at all. So from an allocator perspective, I do agree with Liz. I think the dispersion of returns will be significant. I think from an allocator perspective, you can choose some firms that offer a menu of a lot of products, which is great, and that has different liquidity characteristics, and I think that's a nice optionality. And then there's sort of other firms, again, where what makes our day is going to be our GP commit and carried interest, right? That's our alignment with our investors who we work with. And we think the opportunity's great. We're seeing tremendous dispersion of opportunity by those that are conversant in applying AI and those that aren't, and management teams that are open to new ideas and ones that aren't. So for us, it's fairly exciting.

David Andrews 20:33

Andrew is a friend now, and he kind of hurt my feelings [laughter] to not include us with Scott. Gryphon was a true pioneer in an in-house ops group. My first partner was the number two executive at Clorox. We even had a ops group before KKR, which of course, can go and build a great, strong, bigger one. We have 42 full-time employees, and half our partners are ops partners. Each of our six industry groups, nine industry groups when you include our area, is co-led by a deal and ops partner. So we agree that it's all about operational value creation, and now we have a five-person AI group, full-time employees, plus hundreds of folks they're used to working with to leverage. But alpha, I didn't know what alpha was even when I went to business school. I call it operating value creation. And that is, I think, the prime spot is the middle market, where you can find well-positioned companies that are not optimized from a management perspective.

Scott Spielvogel 21:32

We're all sitting up here saying, "Oh, it's so much harder today." It's supposed to be hard. Yeah. That's what it is we do. We buy these businesses that we think set up really well for our skill sets, and we try to make them better. And so one of the ways that we have attacked the market through the cycle is by saying super disciplined on price, because we don't know when the Fed's going to raise interest rates and the cost of capital is going to rise. And so fundamentally, if you're buying a business at the price that makes sense and you're improving the operations based on the capabilities that you have in-house, it should all work out, and it has been. So I don't know. I'm not implying that it's this group, but sometimes when I interact with other peers among the private equity industry, "Ah, it's so much harder today than it was." It's always been hard.

Alisa Amarosa Wood 22:33

Can I double-click on one word a few of us have used so far? And I think it's probably one of the most misunderstood words and least used words in—whether it's middle market, large cap, small, pick whichever piece of it you want, but it's the word alignment, okay? And I think that is the difference between good and great or mediocre and great. You need alignment in a lot of different ways to make all of what we're saying, and I agree with you, it is hard, and it's going to get harder, right? And that's why the economics look like the way they do in the industry. There is a lot of sweat and tears that go into this. But at the end of the day, you need to have alignment of interest in order to drive the velocity of change, and then in

turn, drive the velocity of returns that you need. Where does the alignment sit? It sits with the GP. Do they have skin in the game? Are they aligned to be, we're the largest investor in everything we do? We don't take that lightly, right? We're not playing for the carry, we're playing for the 100 cent dollars? That we're writing checks alongside all of our clients. That matters. The second thing is you need to have alignment with your workers. The same reason why, and I'm assuming most of our firms work this way, where everybody shares, right? If you're all sharing, think about that at the companies you own. If everyone, including the workers on the factory floor, are sharing in that outcome, they act like owners. They drive results differently. They raise their hand when they see something that could be done better. They say, "Wait a minute. Why are we doing it this way? Could we do it that way?" Have transparency of information. Data sets you free, right? It gives you the power to make relevant decisions if you're a line manager, not just if you're C-suite. So I think at the end of the day, this is a big trend that we've seen. I view private equity in chapters. I've only been looking at this private equity world since the '90s. It dated well beyond that. We celebrated our 50th anniversary at KKR on Friday. So we've been doing this since the '60s and the '70s. But when you think about it, there are lots of chapters in this. The early chapters was you could lend against cash flows, not lend against hard assets. Great, that's bootstrap investing. We figured out chapter one. Chapter two was being industry experts. Chapter three was this operational value creation. I think this next chapter, if we're writing the history book of private equity, it's alignment. And it's at the manager level, but it's also at the asset level and the employee level, and this whole concept of broad-based equity ownership, I think is where the world is going. We need to go there faster, by the way. I think it's better for everyone. We have better companies, we have better employees. But I think that's the exciting part of what we're doing. By the way, that creates better returns, but it also creates a better world for us all to live in if we do that the right way.

Marco Masotti 25:27

Just following on from that, David, you mentioned that you have six industry verticals.

David Andrews 25:33

In our flagship fund, and three in our heritage fund.

Marco Masotti 25:36

Yeah, and is that the better way to compete, to be multi-strategy than pursue.. a single in terms of—

David Andrews 25:43

It's a great question because one of our strongest verticals, and still is strong, and I didn't even know how bad at times people were having at consumer—we have a consumer group, okay? We've done a lot of food deals, private label, some beauty, skincare, and I'm like, "Thank God we're not a consumer-focused fund right now," as you go out in the world. So we've always liked the diversification across business services, healthcare, industrial, software, and technology solutions and services spun out of the business services group, which provides growth opportunities for people in our firm too, because our origination strategies are proactive and thematic, and they develop their own networks of relationships with alignment that then become people that as we align with the equity programs of the companies, our board of directors are writing co-investment checks and align there as well. And we do believe and we have a lot of service businesses, like I think some others do, of having those pools go—we have 80 people in the carry at Gryphon. But then you get down to a certain level that they just don't value it, so you need to have profit-

sharing interests aligned with the equity value creation, too. So I entered the industry when we were generalists. I entered in '89, the Robert Bass group, Oak Hill. There were not even financial sponsor coverage groups then. That was the beginning of the troubles, making markets more efficient. And you could be a generalist. And in the early days of Gryphon, we would say we can be generalists, but we do this thematic investing, partner with the former president of Pinkerton to go after unarmed guards and build a company from 75 to 500 million and have a very successful exit. Now I think it's extremely difficult not to be a specialist. And so we have specialists, but we're not wedded to it as a firm to any one area. And they all have to meet the same underwriting standard.

Marco Masotti 27:50

Scott, can you maybe talk a little bit about carve-outs? Is that an opportunity in the middle market?

Scott Spielvogel 27:57

We think it is a very fertile ground for—to the point earlier of leaning into complexity, it's an area that we have found— because we also operate with some industry expertise in-house. We focus only on industrials, a few segments within industrials, in fact. And so when assets come available and these carve-outs, they often don't come with a full management team. They're oftentimes contractual relationships with the former corporate parent that need to be worked out, transition services. You've got to basically set up IT infrastructure. There's all kinds of extra work streams that happen when you do a carve-out. And just under half of our deals since inception have been carve-outs. It's been an area that we like a lot because we're very valuation sensitive. So the more complexity in a deal—

David Andrews 28:52

And that is hard work.

Scott Spielvogel 28:53

It's hard work.

David Andrews 28:53

So you've been doing hard work.

Scott Spielvogel 28:54

Absolutely. And there's just lots of extra work to do, and I know each one of us up here, I'm sure, dreams of being able to buy for four times EBITDA the business where it's 10 percent CAGR forever and increasing margins and all of that. That just doesn't exist. That gets arbitrated away, and the price goes up. So we try to pick the spots that set up well for the operational expertise we have in-house and carve-outs we find there to be lots of opportunities. And if you think about the big public companies out there, they're always trying to shed the non-core assets, the ones that don't fit with their growth strategy going forward, and we think it's a robust market.

Marco Masotti 29:40

So you closed your flagship private equity fund last year at \$4 billion.

Scott Spielvogel 29:46

Yeah.

Marco Masotti 29:46

And now you've pivoted to organizing an inaugural lower middle market fund. What drove that decision-making?

Scott Spielvogel 29:56

That was more LP driven. So we had certain LPs in our investor base that came to us and said, "Gee, your flagship is getting a little bit big for us. We'd really like to lean into having exposure for those assets that are requiring a smaller equity check." And so after having some of these conversations, we decided that we would create a product that would allow LPs to lean into the lower end of the middle market, whatever fits their portfolio. So they could either go all in on the flagship, they could go all in on the lower mid-market, they could split their commitment between the two. We gave the LPs the option. And for us, whether it's a small company in the same four verticals that we operate in, or it's a large company, as long as it sets up well for our skill set, that's what we're looking for.

David Andrews 30:51

And we did that in our 2020 fundraise, and the synergies that exist are really profound. Between the flagship industry specialty groups, their networks of executives, and then we find deal flow that's just not quite large enough, but now it has a home to go to and a lot of resources that go with it. And then like Scott said, there are LPs that prefer that size fund, under a billion, including for co-investment dollars, bite sizes that they can handle. So I think it's a real synergy if you have a team orientation like KKR does and we do. I think you'll see more of them. And our LPs didn't lead us there, it was elegant. We did ask them, and a number of them said great, for the reasons you said.

Marco Masotti 31:44

So I'm trying to get you in the conversation here, Carol, and we've touched upon these issues, but I'm going to ask it anyway because it is an audience question. Because you sit from the advisor perspective, what do you see being the biggest challenges and opportunities within the middle market?

Carol Streicher 32:06

Well, that's a big question. That's a big question, right? I think a little bit of what we talked about in regards to the leaning into the complexity. I think as we haven't touched on as much is AI, and I think you have some questions potentially, Marco, around AI, but really how AI is going to really have an opportunity for improvement and the robustness of what we're seeing. Maybe I'll share a little bit of— we do a quarterly survey around AI for asset management, private equity, and our most recent quarterly AI survey was really showcasing three trends that I would say that we're seeing within the adoption. So first is just around adoption of AI. And so when you think about the initial question is opportunity, right? What we've seen is that there is an increase in adoption of using AI at both the fund level to have middle back office

operations better, but also clearly at the portfolio companies to drive some of that improvement. And while we're seeing that increase in adoption quarter over quarter, which is great, there is definitely a theme around not enough adoption and the desire to have more adoption. And 99 percent of the respondents said that they're getting pressure, of course, on getting the return on investment for AI. And so that pressure is showcasing that while adoption's improving, it's not where it needs to be yet, and they need to continue to push on that. And so I think there's a lot of theme around that adoption and being able to do it. David, you shared before this some of the things that you guys are doing, so maybe you could follow on with some of that adoption of great things that we're seeing. The second thing that we saw as a theme coming out of it was just the shifting of the use of AI. And so instead of one item that you're taking a task and you're using AI to help drive that task, it's really using AI to do more of a workflow. How is it that you can really automate things and drive more things? To be able to do that, one of the things that is really key is around data, and I think probably most of the people on this panel and the audience that are in private equity, they've spent a lot more time around how do they get their data in order using Snowflakes and Databricks and whatnot within the organizations, because that's the fundamental key to be able to drive some of the more robustness. AI is changing every week, it feels like every hour, around what it can do, and so that shifting of how you're using it. In private equity, we also saw initially it was how we're sourcing deals versus now it's using it to say, "Okay, we can do a lot more than just sourcing deals using AI." We can do things in our portfolio companies to really drive some of that value creation and see some really great stories around that shifting usage. The third theme I would say is all around risk, and the concern around having that human in the loop and how are they balancing that risk, the boundaries, and rules, discipline that needs to be around these agentic agents that can make decisions. Where do you draw those lines for decision-making? And so that's a third theme. So, that's a lot around the AI world, but I share all that information from the standpoint of I see AI as an opportunity to really drive outsized opportunities. And if you're adopting it, you're really thinking outside the box in regards to how you can utilize it and you're managing your risk. It's a good opportunity, and we're on that journey.

Andrew Weinberg 35:43

So I was lucky in the sliding doors of life and picking up your comments on AI. About 20 years ago, I made an investment in an entrepreneur, and the gift I got a year later was having to go to the company to help him turn around in the GFC or the crisis of '08. And because of that relationship, and I think the best bonds can be formed, frankly, in times of crisis, not in the good times. You learn a lot about yourself and your colleagues. And as we fast-forward, that colleague, that partner, that entrepreneur went on to be the CEO of Sprint and the CEO of SoftBank International, Marcelo Claure. And Marcelo sort of hung up his cleats for his family office to come back to work full time to be my partner and co-chair with the backdrop of being a zealot in applying AI. He had been incredibly helpful working on the AI committee at T-Mobile, where he's on the board, which is one of the most documented transformations in the world, most valuable telco, chairs Harvard's AI Institute or D3 with Karim. And about three years ago, as he got more involved with us, just said "Andrew, I think if we don't pivot the business to be much more AI and forward-thinking, we're going to get left behind." And so we went all in. About two years ago, we did sessions with our LPs on what we were doing in AI, and I should probably go back and look at those videos because I'll probably laugh, frankly, as I think about like where we are now and where we were then, and where the technology was. So we love the fact that there's hundreds of billions or trillions of dollars being spent on LLMs and power and data centers and everything else, and we're going to ride that wave. We celebrated recently our AGM by spending the next day in an all-day hackathon in groups. A couple of my teammates from the hackathon are in the audience. They're better at building agents, but I know how to build an agent now. And we have about 100 of them working as I sit here today for our firm, which outnumber our

colleagues at Brightstar. When we did it internally, it was really taking tools and not trying to redevelop it, but linking together different agents and putting them in a chain. Better sourcing, better risk management, better decisions, and better outcomes, we think. At our portfolio companies, we've taken a number of companies. I'll give you one specific example. We always talked about our auto auction business. We sell a million cars a year. It's a marketplace. We don't own them, so it's a fee-based business. And we train the agent to activate buyers that hadn't been active with us before. Those are mostly dealers. It generated what became effectively a 20 percent uplift in the value of the business, or 0.2 on MOIC by building an agent. So we think the power of AI, frankly, is what will define this next generation of private equity. We're excited about it. In a lot of ways, it democratized the world, and so you don't need to be the biggest asset manager in the world to get the biggest opportunities.

David Andrews 38:40

Can I just throw in a caution on it?

Marco Masotti 38:42

Yes, please.

David Andrews 38:43

In that—went to ChatGPT, what percentage of America's employees are in companies of 500 or fewer, 40 percent. If you go to 1,000 employees, it's at 60 percent. And there's a very, especially in the world of tech, exceptions, there's others, except most of these are not tech-savvy businesses. We bought a company that we just sold to Blackstone, named Shermco, and we bought it from a much bigger private equity firm than us. And the right ERP system was in there, but nobody was using it, okay? And it's a cultural shift. It takes leadership, developing trust of their sales force, in that example—many supply chain, everything, how to use it. So, one of the reasons we were able to attract a man named Pavan Arora from Cerberus, where he headed a 40-person IT AI group, is the belief in this model that we have has a level of trust with the managers, and we're hearing more and more about the CEO needs to believe in it, and I can now do one too, barely. I went and took a weekend course, and it's scary to a lot of middle-market CEOs. So as we're implementing our rollout of specific initiatives, the readiness factor—and it's first the data. The data has to be accessible, clean, etc., and then it's the leader and the culture second, and then you evaluate impact and speed to impact. So it's a lot easier said than done, and most of the press is about what I view as huge companies on leading edge with massive resources. And again, many middle-market firms don't even know how to use their ERP system.

Scott Spielvogel 40:29

I would agree with that.

Andrew Weinberg 40:30

I think I'm hearing that next year—

David Andrews 40:30

You agree with that, Scott?

Andrew Weinberg 40:31

I think I'm hearing next year we're going to do a hackathon on this panel.

David Andrews 40:34

Yeah, let's go now. Let's go, bro.

Scott Spielvogel 40:35

I would agree with your comments, but sometimes it only takes one use case to really change the mindset. And I'm thinking of a chemical company that we own, and it used to be the case where if you wanted to formulate a new molecule, you would have a guy in a lab mixing things together, testing the use application, and then seeing what happens. And with AI, you can run a bunch of virtual experiments at the same time, narrow down the molecules to the two or three candidates that are going to have the characteristics that you're looking for, and just do it much faster. So you don't have to do them in serial, you can do them all at the same time. And if one of those hits, what we see is there's often a big mindset shift. And when you think about industrial middle-market companies that we typically invest in, they're not always the most sophisticated, but sometimes it only takes that one use case to really have some—

Andrew Weinberg 41:33

That first one you've got to make sure you nail.

Scott Spielvogel 41:36

That's right.

Marco Masotti 41:38

Let's stick with AI. Private equity, we're in the world of predicting what the future looks like in five to seven years' time, and this is AI as a transformational moment for the world, for the industry. It impacts your business itself, so there's that level of looking at AI, as well as the portfolio companies you invest in. How are you organizing around it in terms of the business itself?

Alisa Amarosa Wood 42:12

Listen, I think from our standpoint, I think you've got a couple ways you have to think about it. I think, one, how does it impact your investment themes? Two, how does it impact your ability to create value? Three, how does it impact your ability to get scale in your own business, right? In functions, your compliance functions, your legal functions, your finance functions, your associates, how are they using AI? And you need it across all of those things. And I personally think, I liken this AI rush to the gold rush of the 1800s, is the way I think about this. You could have, one, been a prospector. Where you were trying to—it was very binary. You either struck gold or you didn't, great. That's where we are today, trying to decide which model is going to be the winner, okay? That's not the business I think any of us are invested in. There are lots of people who do that. That's not what you invest with us for. The second is you could've been the picks and shovels guy. And by the way, if I had a dollar for every time someone said picks and shovels lately, I think we'd all be very rich because that's apparently what everyone's focused on. We are net

sellers there, we're not net buyers. It's really, really expensive there, right? The fact that we announced our exit in CoolIT, where they use a liquid cooling system to cool semiconductor chips and data centers, use 40 percent less energy. Same technology in a gaming computer, by the way. The fact that that could sell for 15 times its money says something about picks and shovels right now. Rather be a net seller there. But the third piece, and I think this is where I'm hearing some of us all say this in different ways, is the ecosystem around it. Okay, who made the most amount of money in the Gold Rush? The people who built jails, the people who built saloons, the people who built schools. That's where the money was. Because after the gold was gone, they still were there. They were still serving the community. So how do you invest behind those themes? How do you think about educational platforms? How do you think about educating your investor base? One of the topics we all talk about so much is the individual investor base. How do you use AI to make sure investors at the end are actually getting what they need to understand what they invested in? How do we change cybersecurity? That's the jails. How do you optimize for that in our own companies? Think about all the cyber breaches at a private equity firm that you could have. These are the things that I think, the managers and the firms who focus on that piece of the ecosystem, one, they're going to be ahead of everyone else in terms of evolving their own business to have, if you want to fast-forward five years, they're going to be the winners five years from today. And two, they're going to be the ones that will have had very differentiated types of returns because they've taken a very different approach and eye to what they're doing in terms of the value they're creating, and by the way, the themes that they're investing behind. And I think that's the biggest difference maker.

Marco Masotti 45:16

Carol, you see a lot of private equity managers. Just in terms of their businesses—the business of the GP, is there broad-based adoption of AI?

Carol Streicher 45:29

So what we're seeing is that they're in the very early stages of getting the efficiency. So if you're talking about at the fund level itself, where they are at is, generally speaking, getting their data in order. It really starts with data, and they've got lots of different systems. Their technology isn't ideal. Lots of different systems. And so we're working with a lot of the large, significant private equity houses today, helping them get 73 strings implemented, Databricks and Snowflake. All the fundamentals that they can then really use that to leverage the AI. But they're not really leveraging AI in its fullest use yet because the fundamentals haven't been—they haven't invested in the infrastructure, they haven't invested in the technology, they haven't invested in data, and that's coming to roost now.

David Andrews 46:29

I think the important theme for the near term is the human in the loop. We're a very research-centric, thesis development-centric firm. Before we go looking for target companies in the sector and partner with managers from those sectors to do so, it's a lot of research. And so the efficiency of using LLM models, etc., is dramatic and that going into these large investment committee memos, even to approve a thesis, is a real time saver for younger people. However, we're telling them, "You are 100 percent accountable for anything that shows up in there." And I, in fact, had something in fundraising pop up out of AI into one of our decks that came out of our finance group, and thankfully I read it. Because there was a number that did not make sense with what it was stating. And you could kind of see how the machine had put them together. So, humans in the loop are really important. Security is such a big concern of, I think all of us in

private, really private equity. And the data issues that exist in many of these relatively small firms, being able to access all the databases. We think we're well on that journey, but we're not to Bright.

Andrew Weinberg 47:55

I think there's one thing to make sure it doesn't get lost also on this journey, which is all of us are here because, again, we're focused on the middle market. Inherently, businesses that are kind of core to the economy that, as I think we've all identified, have lacked maybe some of the access to the technological innovation that those maybe in Silicon Valley or others had great access to. At the same time, along the journey, if firms like ours don't build the connectivity to the hyperscalers directly, to the next level players, the Globants, the Distils, the Tribes, the others who are kind of the arms and legs in terms of getting at the opportunity. It truly takes an ecosystem that goes beyond the size of most of our firms rooting for us, building use cases. And so as we focus our time and efforts, I'm sure we all do, it goes beyond the traditional sort of operating partner model or how we would typically connect, or the effort doesn't go to the head of IT or the head of technology. It has to start all of our companies at the CEO and really wanting to drive change, and then saying, "Who's going to bring more than capital?" Which again, I think in all the various forms we're doing that. But beyond capital, how are you bringing that connectivity and network? So again, I think for all of us probably, it's an exciting time going back to it. Pre-2021, everybody looked great. I think we're entering a different era.

David Andrews 49:13

And one part of the ecosystem is having a true expert like his partner, or we have in our four-person group, that knows these vendors, that can vet them properly before a big mess is created. So, part of the reason we have an ops group is we value the benefit of having our partners as opposed to consultants on a consistent basis rendering it. But we do use firms like KPMG at times for specific projects. But vetting this ecosystem right now is really hard unless you've been there and done it like our partners have. Not me.

Marco Masotti 49:55

Thank you. I'm going to pivot to Alisa. You had a very different type of firm, and I assume you are taking semi-liquid/evergreen products into the types of investments that the fund managers on this panel make. What does that do in terms of how you think about investing?

Alisa Amarosa Wood 50:24

I think there are two parts of this that we have to think about. And by the way, I don't think these two perspectives are ones that are widely heard, acknowledged, understood in the industry. One is fundamentally who is your end investor? And when you think about that, the end investors historically have been very large institutional investors for decades: pension plans, insurance companies, endowments, foundations. Nothing wrong with that, okay? They're fantastic investors. But when you think about the way they use private equity in their portfolio, whether you're mid-market or you're large or small or whatever it may be. Private equity has a lot of flavors. It's like Baskin-Robbins, right? At the end of the day, you use it because it is a hedge to other parts of your portfolio, as you're seeing a compression of returns, as you're seeing correlations between asset classes change. Historically, private equity is used as that return gap closer, especially in more volatile and complex markets. That's the dirty little secret. Now, with all of that being said, why should an individual, an advised individual, not have access to that same way to win? They don't need the return less. If anything, they probably need it more. But that's not historically the

way it's worked, right? With the way closed-end funds have worked and the access points. So for us, so much of how we've thought about this is we got to create the alignment of interest. How do you give those investors access to the same deals at the same time, at the same price? Those three things are really, really important. Not creating something that's other, but creating something that's institutional quality, but just in a different form that allows for different types of investors who historically have not been able to buy it and access it, to be able to access it. That was the goal. Now, there are a lot of ifs in that statement. The biggest if is making sure you can create that institutional level of quality. How do you give access to the same types of deals? And by the way, are those deals endless? Are you going to have to do more deals as more capital is being raised? And I think what's really misunderstood in this industry is the purchasing power of managers like the ones that are sitting on this stage. Everyone talks about how there's so much capital chasing too few deals. It is just fundamentally not true if you actually look at the math. I think we all like math up here. The math of it is, in the last 25 years, the average company in the world has grown five times. Take out the Mag 7, take out NVIDIA, take out all that. Average company in the world is five times bigger today than it was 25 years ago. To buy a company today, you need three times as much equity as you did 25 years ago. By the way, that means your companies are actually a lot less risky in the buyouts that we're doing because they are more equitized, right? So it goes back to this is a full circle in this question. You go back to the operational alpha because you're not using the cheap debt to generate the return. So are your institutional pools of capital growing at five times or three times? Trick question. The answer is no, it's not. They're growing, but they've kind of tapped out. So what's happened is, how do we all keep buying the same types of businesses that we've liked for decades, in a lot of cases, with more capital being needed and us not growing at those same rates, right? And that's where I think the win-win comes in. You can buy the same companies. You can give these semi—By the way, I hate the word semi-liquid. I think it's the worst word in the English language, probably second to retail. But I think at the end of the day, that's where the win-win is for a lot of managers. Where you can have access to newer pools of capital to keep doing what you're doing, but you also can give access to what we do to people who need that return. And that's I think where the industry is going. If you want my prediction of where we are in 5 years, in 10 years, I think 30 percent to 50 percent of the capital in private equity is going to be more in these vehicles in that period of time.

Marco Masotti 54:32

Will the institutional investor invest in these vehicles?

Alisa Amarosa Wood 54:36

Yes. We're seeing it today already. It's just a different flavor. It's like, do you want vanilla ice cream or do you want chocolate, right? You're choosing that you want ice cream. By the way, they go together. Many of our investors buy both. There's nothing wrong with that. They serve different purposes, right? So I think at the end of the day, you got to think about it more holistically, and I think this is just we're on the cutting edge of this.

David Andrews 54:57

Yeah, and I think it's the right thing to do. Democratization of wealth and providing people the alternative into this long-term premium returning asset category. But the fact we've been marketing semi-liquid in products, well, we haven't, but the market is, is what leads to these Blue Owl storylines. I envision a world

that properly done, 401(k) plans will have a percentage of employees' savings that can go into that. They should be told it's illiquid long-term, but provides alpha.

Alisa Amarosa Wood 55:37

I fully agree.

David Andrews 55:37

So we'll see where we're at.

Scott Spielvogel 55:48

That all makes sense, and that sounds great, and as long as everybody knows what it is going into—what it is—that all makes sense. I think there is some skepticism right now among the institutional investors, to your question, Marco, about what will this do to returns? And notwithstanding the fact that the average company's grown five times and all of that, people worry, institutional investors, I think, worry that if there is too much democratization in the asset class and all of a sudden 401(k)s start to rush in, that equity returns are going to go down across the industry. And then what?

Alisa Amarosa Wood 56:22

Listen, I think it's going to take a long time to get there.

David Andrews 56:23

They're the dog, not the tail. They're going to drive the terms. They're going to be it, so—

Alisa Amarosa Wood 56:27

Well, let's also think about returns for a minute. You have to have alignment of interests.

Scott Spielvogel 56:30

Can I just speak from the manager's perspective, am I much more willing to pay 11 times for a non-growing business because all I need is to target a 10 percent IRR as opposed to 20?

Alisa Amarosa Wood 56:41

But that's not how the math works, right? So I think if you look at these vehicles—

Scott Spielvogel 56:45

Not today.

Alisa Amarosa Wood 56:45

I think if you have 100 cent dollars in these vehicles because we're invested in them as much as we're invested in anything else, I don't want the 10 percent return. I want the 20. And that's where my money is.

So I think if you don't have skin in the game, that is going to drive the wrong incentives. And by the way, I think there are so many evergreen vehicles right now in the market, they're all not created equal, just like all managers are not created equal. And this is going to come down to education and diligence and understanding what you're buying, and there's going to be a separation of this. I actually think there are going to be many evergreen managers that you're seeing today that probably don't exist in the next 5 to 10 years. And I don't think that's necessarily a bad thing, just like I think there's a consolidation of GPs in the market.

David Andrews 57:28

To Scott's point, I don't think a firm should change its investment strategy and its return hurdles due to its capital base. And I also think that firms should be ones that have been through a number of cycles. We've just entered our 31st year. We've made plenty of mistakes along the journey, but we're considered safe hands through three cycles now, four for me. And that's something that a retail investor someday should be more thoughtful of rather than the hottest, newest firm coming out of the last cycle.

Marco Masotti 58:05

Well, it looks like we're out of time. Thank you very much. What an engaging discussion.

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