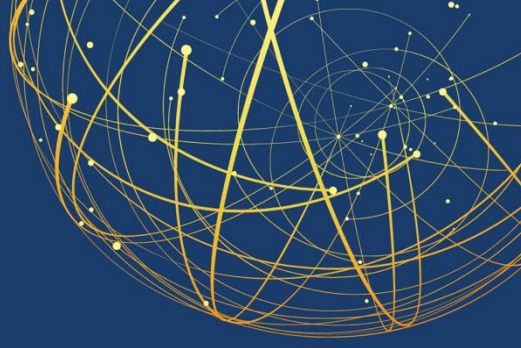

# THE BUSINESS OF AI: WHAT SCALES AND WHAT DOESN'T

**Jared Carney** 00:09

Good afternoon, and welcome to yet another Milken Institute Global Conference. My name is Jared Carney. I'm founder and CEO of Lightdale, LLC. It's a private investment business based in Santa Monica, California, here. And it's my proud honor to also have been affiliated and worked at the Milken Institute for many years. And so seeing the growth and seeing the excitement that this conference has experienced has been really, really gratifying, and we're grateful to the people in the room and also online who are here to help us investigate a topic that is probably the number one topic of the conference this year, AI, artificial intelligence, the business of AI, what scales and what doesn't. From my left, I'm just going to go through our panelists by first name and give them the opportunity to introduce themselves very quickly. There's five of them, and we have a broad and deep conversation that we want to get to. So I encourage you to take a look at everybody's backgrounds online. First, Matthieu, who is the founder and CEO of Sia. That's my left. Then we have Molly Murphy, who is the chief investment officer of Orange County Employees Retirement System. Next to her, Raj Ganguly, cofounder and co-CEO of B Capital. Then we have Lari, senior partner at McKinsey in charge of all things AI for McKinsey & Company. And last but certainly not least, my friend Barbara Nash, who's the head of technology, media, and telecommunications coverage for BNP Paribas, an institution that has had a long affiliation with this conference and the Institute. Barbara, I'll start with you. Just very quickly, could you just give us a perspective on the AI industry, if you will, the business of AI, where it is, and talk a little bit about the business and what you guys are doing in AI?

**Barbara Nash** 02:09

Sure. Maybe as a backdrop, just to set the stage a bit. So as head of technology, media, telecommunications for BNP Paribas, we work with companies across the full spectrum of those segments. Obviously within AI, it touches every aspect of the companies that we're working with. The AI development that we're seeing, and I'm going to focus in on the capital markets. There's just been tremendous, obviously, funding needs there, as well as support from investors across markets. Whether it's the bank market, private credit, project finance, et cetera, Term Loan B, et cetera. So we have seen a tremendous amount of opportunity to partner with our clients, whether it's on the M&A side, whether it's frankly on IPOs, and really digging into helping them either from looking at bolt-on acquisitions where there is opportunity to further enhance the businesses they have, but also to add adjacent opportunities as well.

**Jared Carney** 03:36

Thank you. Lari?

**Lari Hämäläinen** 03:39

So, Lari. I lead everything AI in McKinsey. So I think for us, we look at AI a lot from the enterprise adoption perspective that—what really drives adoption in enterprises? I think where we are today is that the reality is that if you leave the individual tools aside, so the ChatGPTs, Geminis, Claudes of the world, the real enterprise adoption started last October, and that's when the coding models came to a point where I think we were able to see organizations adopt AI at scale. I think today, there's actually—six months after—there's no question anymore whether that will continue. I think the question is how far it will continue. I think the second thing we're starting to look at is that when you look at other workflows in an enterprise, so think of customer care, back-office function, anything that is repeatable. When do we get to a point, and do we get to a point where that coding moment, meaning it was almost like one moment in time when Claude 4.5 launched, when programming exploded. Will we see a similar adoption curve for other enterprise workloads? And that for us, and from a McKinsey perspective, is probably the most fundamental question for the AI companies themselves, but also for any enterprise that is adopting AI.

**Jared Carney** 04:53

Raj?

**Raj Ganguly** 04:54

Thanks for having me, and great to be back here at Milken. Raj Ganguly. I'm a venture capitalist. We invest in AI, and we use a bit of AI in our investing also.

**Jared Carney** 05:06

Molly?

**Molly Murphy** 05:07

I'm Molly Murphy. I'm the chief investment officer for the Orange County Retirement System. Obviously, we're on the same path of any enterprise or institution. We're trying to adopt this technology to help our retirees, our members. But we are also an investor on the entire ecosystem. So whether that's the land development, the data center builds, power generation, credit, as well as venture capital, we're looking at it from all angles right now as an investment opportunity.

**Jared Carney** 05:44

Matthieu?

**Matthieu Courtecuisse** 05:45

So I'm Matthieu Courtecuisse, the founder and CEO of Sia. I founded my firm 20 years ago, a bit more than 3,000 employees in 18 countries today. We are backed by Blackstone. And basically when I started the firm, it was a strategy consulting firm, but we became over time an AI strategy consulting firm, which

means we are more like an applied intelligence platform to support our clients to transition into token-based business models. And we serve both Mag 7 companies. And also a bit more than 1,000 enterprises across the world.

**Jared Carney** 06:24

So let's talk about those 1,000 enterprises using your services right now. What exactly are they doing with AI right now? Are you delivering customized AI solutions? And if you are, how are they transforming businesses? And do you have a standardized, scalable package that is used? Because what I want to get to is what's working and what doesn't work. Is something really one-size-fits-all for those enterprises?

**Matthieu Courtecuisse** 06:53

No, for sure, you need to customize a lot the way you are framing and designing the AI roadmap, because at the end of the day, it's more like how you allocate capital in all of this. Because it's going to require more and more capital in the end. You can outsource the need for capital for that, especially if you go to the Mag 7. As we all know, it's going to be around 1 trillion of CapEx investment this year on AI, and it means that we need to find 5 trillion in revenue.

**Jared Carney** 07:22

5 trillion in revenue.

**Matthieu Courtecuisse** 07:23

Revenue to offset, or let's say, to get the returns on this infrastructure. So it's mostly coming out from the enterprises. And then you can split the projects into, or the transitions into two spaces. One is cost savings, which is more or less what everyone is looking at. So it's basically automation, but also the revenue capture. And that's very important to keep it in mind because, first of all, that's the major concerns in societies now about the scaling effect around unemployment rate. And I don't believe it's going to happen. What's going to—

**Jared Carney** 08:07

You do not believe that there's going to be unemployment?

**Matthieu Courtecuisse** 08:08

No, no—I think it's going to be the end of certain jobs, but it's going to be primarily the end of bureaucracy. And also all the related jobs. So it can affect a lot the middle management layer, for sure. But at the end of the spectrum, we have to focus more on product development and how you can really impact the top line, and to really help the companies to adopt the token-based business models. And we have plenty of examples like this. So typically, I know many people in the room are working in asset management, PE firms, and all this stuff. So you may have seen there is a London-based company, which is called Qube RT. Qube RT in only eight years is now managing 60 billion in their management. So it's big. It's a quantitative asset management firm, and they are the first consumer of tokens across all Europe and in the top three of financial services institutions. So it's remarkable because—

**Jared Carney** 09:11

And when you say tokens, I just want to be clear for the audience.

**Matthieu Courtecuisse** 09:13

Compute.

**Jared Carney** 09:14

Compute. Right. Compute capacity.

**Matthieu Courtecuisse** 09:16

And it's really around capacity. We work also with a very famous company in the cosmetic space. It's a good example of, potentially, a French company, which is [inaudible]. And so we have been helping them to work on scientific reformulation of the 3,000 products we are using. And they are killing the market. So at the end of the day, I know everyone is obsessed with cost savings, the people in back offices, customer care, all this stuff, but the reality, the end game plan is really the top line.

**Jared Carney** 09:54

Excellent. Thank you. So Lari, you're also serving corporates, the enterprise at scale, and helping them think through scale. So build on what Matthieu was saying about what he's doing with his customers in terms of what you see, where the rubber hits the road with adoption.

**Lari Hämäläinen** 10:17

So I think for us, I'll talk in simpler terms, Matthieu. Sorry. I think for us, it's really two things. One is that we so far have been focusing a lot on productivity, and if you look at productivity, what does it mean for AI? It just literally means individual tooling as well as automation suites. And a lot of the AI startups, AI companies today, are focused on either one of those two. So giving tools for individuals or then automating existing workflows. So let's say you have an IT service desk. We automate all the requests, et cetera, quite simple work like that. I think the good thing and the bad thing there is that the positive side is that you'll get productivity benefits. They're very incremental when it comes to especially large companies because the adoption takes time, the implementation takes time and costs, and you get 10, 20 percent productivity benefits. What we're seeing when you look at across the cycles, if I generalize, right? So one is that that's actually something that is required for any company. As an executive or a senior leader in any company, you just need to drive that efficiency because the whole industry goes there. And that's your right to compete. However, I think real differentiation comes when you drive innovation on top of the new technology. Innovation could be product, service, or just channel and business model innovation. And frankly, I think with AI, outside the AI companies themselves, we have not seen it yet. And that rebuilding of business models, I think we're starting to see early lights of the sun is rising. But real examples don't really exist yet at scale.

**Jared Carney** 11:54

Raj, you're in the investing and innovation business. As Lari points out, do you agree that we haven't really seen those examples of that innovation? Matthieu is talking about the top line being the real bogey here, the real opportunity.

**Raj Ganguly** 12:15

Yeah. So I was sitting here, thinking about being here last year, and last year I said that AI has made it such that it's the best time to be a founder and the worst time to be a venture capitalist because we're just seeing so many people build companies without a technical cofounder by vibe coding or whatever you want to call it. And so it's been incredible what founders are able to do. From a venture capitalist standpoint, I think over the last year, and I'd like to think about sitting here as bookends, I think what we've learned at B Capital over the last year is that we need to transform and go from being a venture capital firm to really being in the innovation capital space. Because the amount of capital that's required for innovation is being provided not just by venture capitalists, but by growth equity investors, private equity investors, strategic investors. We've got a set of LPs that includes a lot of big institutions in the US who co-invest with us, who can move incredibly fast. And so I think we've decided that we need to fundamentally transform the way that we think. And that will lead to a transformation in the way we work and what B Capital looks like in the next few years. I think second for us is we're really big believers in eating our own cooking. And so when we decided to invest in AI, we also decided to build an AI. So we built an in-house team, and we didn't go out and hire a chief AI officer. My cofounder, who is definitely not as good of a programmer or coder as me, decided that he would be the chief AI officer. And he's done—

**Jared Carney** 14:01

Well, your cofounder's no slouch. You want to mention who your cofounder is?

**Raj Ganguly** 14:05

I don't want to give him too much credit. He cofounded Facebook 20 years ago with a number of other people.

**Jared Carney** 14:13

Eduardo Saverin.

**Raj Ganguly** 14:14

Yeah. He's not bad. And the reason it was so important that we start at our level was because the biggest resistance we faced in becoming an AI-first investment firm was, number one, the data. So we used a lot of AI to clean up our own data. And then number two was people. Over time, our AI agent, which is called the Bee, if you ask the Bee what's holding the adoption back, it would say, "You are." So our own AI agent started to point to us as the problem. Luckily, it can't get rid of us yet. But we're going through a big transition next week. We are finally bringing in a chief AI officer to the firm. He's going to have big shoes to fill. Eduardo's done an incredible job, and we now today have been able to take our diligence from three to four weeks down to a few days. And really, the first level of diligence is done by—it's called the Bee Hive. The Hive is our ERP, CRM, all of that, and the Bee is the agentic AI. But it really does the first layer of diligence, and now our associates and principals and partners can focus on the second layer. And third for us is, I think we fundamentally realized that we started off investing in LLM models. We're investors in

companies like Reflection, which is a US open-source model, and we need more open-source models in the US. But now we're starting to invest a lot in the AI app layer, and that's where we think the next five years you're going to see a lot of huge businesses being built. We're incredibly excited about continuing to invest in the chip layer and the foundational LLM layer, but a lot of our investing is turning more and more to the AI app layer, and that's where we think the action is.

**Jared Carney** 16:04

Molly, for an asset owner, you've actually done an enormous amount in technology, technology adjacencies for a very long time, directly and with partners. Can you build on what Raj was saying and talk to us about what you have done that you consider to be AI, what's turned into AI investments that maybe you didn't see, starting out, to be that way, and where you think as a plan, if you could prognosticate, where your allocations will take you in the near-term future?

**Molly Murphy** 16:39

So, a little bit of history. 2019, my team got together, and we decided to map out what were going to be our areas of emphasis for the next five years. And we had rationales for each. AI was not in the mix at that point in time. We wanted to put capital in power generation because we just saw a gap in the funding against supply-demand imbalance, which is where you always want to seek to put your investments. We were looking at asset-based financing. We were looking at venture capital, just in general. We were looking at infrastructure. That led us to data centers. Fast forward five years forward, and all of those themes converged around one large theme. So we thought we were in four different lanes and we ended up in one lane. So we do have a very big appetite still for this, but it is an act—I wouldn't say it's a problem. It's a nice problem to have because we can see how much momentum this AI ecosystem has brought to us and will continue, I think, to give to us as investors. But it is something you have to think about because I think we are seeing the convergence of a lot of different opportunities, that if you are running a very large pension plan and you have a real estate team that's not talking to your venture capital team, that's not talking to your credit team, etcetera, etcetera, you can end up just continuing to risk into one theme. So, we do look across our portfolio, but it's becoming bigger and bigger issue to try to figure out where we have overlap. We have, I wouldn't say accidentally, but you end up with—you own the debt and you own the equity in a company. And it's an interesting situation as you try to figure out which side you love more during which point in time or which one is working and which one's not. I think that's where AI adoption for us comes in, because we need AI to see across complex portfolios to even see the forest for the trees at this point in time. We have developed certain areas of expertise, so we're not trying to boil the ocean. We do think the app layer is hard for us, sitting where we are, two steps behind Silicon Valley. It's hard for us to see who are going to be the winners. We are using our VCs that we trust to guide us into the right co-investments in that space. In LLMs and some of the other areas, we're more aware of who the winners and losers are, and we're more willing to go direct in that space because we can see with more clarity. But the story is really messy right now, I would agree, in the app layer.

**Jared Carney** 19:37

Yeah. It's interesting. You also make a really profound point about correlation and the asset allocation mix. Barbara, in terms of public markets, are you finding that AI companies are in a mad dash for the IPO door to either generate liquidity to satisfy investors and give themselves maximum optionality, or are they also trying to go public or at least create large-scale liquidity events in order to legitimize their businesses and

be able to talk to the market differently? And I'm going to ask everybody on the panel to answer that question.

**Barbara Nash** 20:21

I think when you're looking for that IPO window, it's a matter of balancing just events, timing, things that are out of your control. Obviously, getting operations where you want them to be, hitting the milestones that you want. These companies have had tremendous amount of support from their investor base. So, I think it's just marrying up those two elements. What your overall objectives are, your overall general timing, but also market conditions as well. I don't think there's necessarily a rush, but once you get into that mode, then you want to move swiftly forward as best as you can.

**Jared Carney** 21:19

Lari, you want to answer that?

**Lari Hämäläinen** 21:22

I'll take a non-investor lens. So I'll take the utility value lens for these AI companies. So one is that I would make a claim that a lot of the companies are extremely disposable today. And why I say disposable is that if you look at the pricing models of many of the companies, and then you compare the pricing model of the underlying LLM, a lot of the revenues are pass-through revenues. Right? Look at the margins they make on top. We report huge ARR growth, but what is the true value add? Many companies had built harnesses on the top. And what we're seeing when I take my enterprise hat on again, is that the contract lengths for the current generation of AI companies that enterprises are willing to sign are getting shorter. Typical SaaS contract length is about three years. Right? And you price the deal on a TCV. We're seeing some of these AI companies managing to land only six-month deals.

**Jared Carney** 22:16

Six-month contracts?

**Lari Hämäläinen** 22:18

Six-month contracts.

**Jared Carney** 22:18

Wow.

**Lari Hämäläinen** 22:19

So the current direction is six- to 12-month contracts, which is quite a different world from SaaS. I think the second is what I said about their revenue model and the value add they provide. Thirdly, we're seeing, and we discussed this with Raj, we're seeing actually a huge shift from SaaS used to be seat-based. We went to consumption-based. A lot of these AI companies are actually—the customers are starting to demand outcomes. And currently, if you look at, again, the current generation, about 20 percent of the companies have outcome-based models. And I think the winners we're going to see are those who are able

to actually get stickiness at the enterprise workflow level, meaning you're not just selling a tool, but you're able to prove your value for the enterprise. And that takes actually quite deep work in the way you set up your go-to-market. We talk about FDEs, so forward deployed engineers, today—so how you actually help drive the value for enterprises. And I would say from this perspective, the market is super open today, and we shouldn't only look at the high ARR growth rates and what gets reported and how much capital they raise, but really question around what is the underlying business model and how these companies are functioning.

**Jared Carney** 23:00

Well, Matthieu, with 1,000 customers, it seems to me you'd have a view on that. And also the stickiness element that Lari talks about. So what's your perspective?

**Matthieu Courtecuisse** 23:41

Yeah. If I may go back to the capital market question.

**Jared Carney** 22:43

Yeah.

**Matthieu Courtecuisse** 22:44

So I think it's very important. We are coming at a moment where AI is creating a lot of concerns across the population, and to open up the opportunity for citizens to invest in these companies is becoming critical in my view. Because we need to partner with the global society, with the upside opportunities that we can see there, and the valuations we are talking about are very high. For the enterprise and from an adoption standpoint, I would say the AI obsolescence of some technologies is very rapid. So it creates some question marks on the enterprise side because they are slow in terms of adapting. They are taking their time to make decisions. And sometimes the time frame to make a decision is already passed when you have the opportunity to go to the next technology lab.

**Jared Carney** 24:43

What's an example of that?

**Matthieu Courtecuisse** 24:44

So typically, if you decide to make a choice about building your LLM infrastructure from a corporate standpoint with one provider, and you feel like—but the next breakthrough use case is coming from another one, it makes things difficult, right? But at the end of the day, each major enterprise will become multi-LLM, and some kind of a mix between open-source and closed models.

**Jared Carney** 25:15

Interesting.

**Matthieu Courtecuisse** 25:16

And to go to Lari's point, just to make the most rational decision in terms of cost. So because this token economy will cost a lot. And we need to manage really the cost of it versus the returns you can get on.

**Jared Carney** 25:31

Raj, what's a founder to do? How do you find somebody who's actually going to be able to navigate from inception of a business, from a PowerPoint, to being able to compete in this environment where it's sharper elbows, bigger shoulders, competing for the enterprise customer?

**Raj Ganguly** 25:56

Yeah. So we're having a really active debate at B Capital about the consumerization of AI. I'd say our head of AI partners, like Yanda Erlich—Yanda really believes that consumer AI can win in enterprise. I think he's probably right because he's generally just always right and much smarter than me. But I also do think that you really have to build the plumbing of AI to win in enterprise. And what we're seeing is that there's a bunch of SaaS companies that are legacy companies that are really good at plumbing and working with enterprises, and they're all obviously trying to become AI-first companies today. The challenge is, the best AI researchers all want to go to a YC company that was started six months ago—

**Jared Carney** 26:44

—Y Combinator.

**Raj Ganguly** 26:45

—that actually has no enterprise plumbing. And so I think the next couple of years is going to be really interesting to see which of these SaaS companies are able to go AI first and which ones can't and die out. We invest only in three things at B Capital. We invest in tech, healthcare, and energy. And just to go back to Molly's point about the lack of diversification, there's no diversification in what we do. We invest in one thing, AI. Technology is AI. Healthcare is being driven by AI. And energy is ultimately—for us, energy is about powering data centers and AI. Last year alone, about 100 percent of the energy brought online in this country went to AI data centers. So I think it's important for all of us to remember, from real estate to energy, to healthcare, to technology, the diversification is really hard to find. I guess I'd say live sports, if you really want to get into something that's anti-AI, maybe it's live sports. But it is everything right now is being really driven by one thing.

**Jared Carney** 27:52

So that energy, that 100 percent of energy coming online, you meant new sources, new energy coming on?

**Raj Ganguly** 27:58

New sources.

**Jared Carney** 28:00

All right. New wattage. By the way, I do have an iPad that gives me your questions if you want to send in your questions, and I'm happy to get to them if I can. We got a great question here. "What's the clearest signal you look for to tell which AI companies are building durable businesses versus which are riding the hype?" Molly, do you want to take a crack at that first?

**Molly Murphy** 28:24

I guess I'm going to claim ignorance a little bit. I don't know that we have any secret sauce. In fact, we've decided we don't. So when we're looking at opportunities, either there's already been proof of concept and real revenue—think the big LLMs and some of the brand names we all know—or it has to be someone that we want to do business with. So there are a lot of apps that approach us to do very niche parts of our business through a lens of AI. If they're raising an A or a B, we're going to look at that because we know there's a user of that product. It's us. And there's 300 other us's in the United States. So we know that there's a market for it, and we've already tested it. So we're very bifurcated. It's either very, very proven or it's just a use case that we want to invest in.

**Jared Carney** 29:22

Barbara, you want to take a crack at that question, too? From a client perspective, maybe?

**Barbara Nash** 29:29

Yeah. We work from the multitrillion-dollar companies down to the earlier stage, and I think certainly on the application side, there's a lot of testing, a lot of experimentation. I would agree with Molly, it's hard to say what exactly is the right ingredients. There's no, I'll say, one-size-fits-all that's going to lead the way and say, "Okay, that's the solution." I think there's lots of different companies trying lots of different things, and if you look at just on the enterprise side, incumbency and domain expertise, I think those matter a great deal. But it's early days.

**Jared Carney** 30:30

Matthieu?

**Matthieu Courtecuisse** 30:32

The thing is, the AI company is a bit vague in my view. Because it can be infrastructure, it can be models, it can be the execution play. And this market is going to be so vast in the end. Look, I don't believe there will be just one or two major companies that are going to win all of it. So I think it's going to be interesting to see different oligopoly building up. I think also there is no bubble, right? So it's—

**Jared Carney** 31:06

There's no what, sorry?

**Matthieu Courtecuisse** 31:06

No bubble. No AI bubble.

**Jared Carney** 31:08

Yeah. No bubble. You don't think there's an AI bubble?

**Matthieu Courtecuisse** 31:10

No, no, no. And when we see the acceleration of some use cases, if you compare to the debates of last year and even here, I've been here for a few days now, and like 50 panels on AI, so maybe.

**Jared Carney** 31:22

Exactly. Yeah.

**Matthieu Courtecuisse** 31:24

So, I'm not sure I've been hearing a lot this bubble thing, right? So as opposed to maybe one year ago. So maybe if it's a good way to capture the temperature here, I think it's showcasing something. And I think it's also coming out from the use case on agentic engineering, like vibe coding and all that stuff. Even six months ago, we were not totally aware of that. So the problem for all of us is the velocity of these different use cases, and the next ones that are going to have to appear. Because if you want to get some returns of this trillion which is invested you need more use cases like that. So what's the next one? And it's hard to say which company will be the real winner of the next use case we were all waiting for.

**Jared Carney** 32:15

Lari, navigating the complexity. So talk about when you're engaged, and the firm is engaged, who in a client setting is actually part of the task force? Is this coming out of the CEO's office? Is it the CTO's office? Is this the CFO's office? How interdisciplinary is it? How far down in the organization does it go? Because the kind of transformation, the kind of soup, if you don't mind my using the term—my word not yours, Matthieu—of different elements going into an AI recipe potentially is dizzying, particularly for the largest enterprises. At the same time, I think everybody on this panel uses AI every day. And we know it actually can really simplify things and make your life pretty easy, or a lot easier, in some respects. So, what does the actual building and problem-solving look like on a tactical basis inside these engagements?

**Lari Hämäläinen** 33:13

So I think our viewpoint comes from organizations like maybe BNP Paribas and others that are very large enterprise scale clients. That's where McKinsey works. I'll give an example. We have a Scrum team of developers, so 10 developers developing any piece of code, right? I think what we're finding today, and we have enough factual evidence, is that when you build an agentic-first development team, instead of 10—10 people are going to slow you down. Because the way we used to set up agile software development, the whole methodology, the whole philosophy is based on if I simplify, how do you distribute tasks to an individual level and coordinate between the people, right? So if I have this piece of paper, how do I cut this to 10 pieces, give each one of you one piece, and then we align afterwards what each one of us did, right? That's not how you work with AI. If you work with AI like that, you get nothing done. So what we're seeing is that that whole development team, how it works, it might be two guys, it might be three guys, it might

be one guy, so you need to rethink it. What does it mean then, back to your question, when you have 100,000-person organization? I think we're coming to the realization that it's a top-down transformation that only can be driven by the executive suite. We started to use this term that the CEO is the chief AI officer. Unless the CEO owns it, you don't get the change done at the speed and at the magnitude you need to do it. And obviously he needs leverage, and the whole organization gets pulled involved. The other thing we're seeing, two more soundbites. One is around, if we now look at the organization and the employee base, there's about 5 percent of what we classify today as power users of AI. So the AI adoption curve is actually quite steep within any organization. So what you need to do is not try to convince 100 people to come on the journey with you. You convince and take those 5 percent.

**Jared Carney** 35:10

That's against a sample size. What's your population that you've looked at for that knowledge?

**Lari Hämäläinen** 35:16

So pretty much that has ranged from a few hundred to tens of thousands of people.

**Jared Carney** 35:20

Okay.

**Lari Hämäläinen** 35:24

And across McKinsey's enterprise client base. The second thing, once you select those power users, is that I think the mindset to take is a skunk work mindset. And what I mean by skunk work is that what you learn in this profession is that any enterprise is actually bogged down by the existing processes, the culture, the relationships in the organization. Bogged down in a sense that it's very hard to change because we want to do right by the people I work with, right? So skunk working is completely different. What you say is that I build anew at a side. If I have an existing service center, for example, I'm not going to go there and try to change the 5,000 people. I'm going to build a new service center with new processes, and I'm going to have 500 people in there, right? And they're going to run the same scope, and I'll just transfer volumes over. So the way we're thinking about change as an organization, and the way we're driving it, I think it's becoming much more determined than before, much more top-down, and much faster.

**Jared Carney** 36:24

So Raj—

**Lari Hämäläinen** 36:24

I'm simplifying, of course.

**Jared Carney** 36:25

Yeah. No, it's very helpful. Thank you. Raj, what Lari is describing and Matthieu, to a certain extent, sounds a lot like my days being involved in enterprise software and the migration towards software as a service, the SaaS model. Right? But at the same time, what we've heard is that there's a “SaaSpocalypse” going on

here. Where does AI for the enterprise and, as AI businesses try to enter into the enterprise, where does AI start, SaaS stop, or SaaS stop and AI start? And do you believe that there is a “SaaSpocalypse?”

**Raj Ganguly** 37:08

Yeah. Listen, I think the fundamental use case of software of solving problems that we all have remains. There is a little bit of a view that we have, many of us who don't venture out of Silicon Valley, that we're all going to build our own apps, and we'll all get rid of the enterprise software apps that have solved big problems for us. We've definitely done that at B Capital, but you have to keep in mind we're nerdy tech people. We enjoy building our own apps, and yes, and I apologize for, but we got rid of Salesforce last year. We built our own CRM. We've gotten rid of a bunch of other packaged software. Interestingly enough, we can't get rid of email. Email has been around since the 1970s. And it is the stickiest app that anyone's ever built. It is a really bad app and a bad way to communicate, but we're all so brainwashed on email, so I don't know if we'll get there. But yes, for a firm like ours that's small and nimble and run by a bunch of tech people, we are building a lot of our own apps. I fundamentally think for large enterprises, the use case for enterprise software will remain in solving problems. The question is going to be, how does that use case change with the adoption of AI? And I'll give you one very simple example, which will probably hurt us because we've invested in this space many years before, but SaaS had a lot of training, especially at the enterprise. You trained people when you bought a new SaaS application, and you're a big bank, or you're a big pharmaceutical company. You would also buy training modules, or you'd buy a separate training app. AI gets rid of that. Anything which is AI-first, you shouldn't have any training on. It should be intuitive right from the beginning. And I think that's an example of how you'll see SaaS versus AI work. I think the SaaS Armageddon is overplayed. I think that we're going to see winners from legacy SaaS companies, and we're going to see winners from AI-native companies. And I think what's going to determine who wins is fundamentally getting access to proprietary data, being able to take that data and solve the problems that large enterprises have.

**Jared Carney** 39:23

Well, you're the best proxy for the enterprise on the panel. Matthieu, do you have a view on SaaS and the—

**Matthieu Courtecuisse** 39:30

Yeah. So first of all, the software companies, most of them have decided to outsource computing. So except one, which is Oracle. And by the way, Oracle is more like two different business lines and not totally integrated, but that's the first comment. The second one is the R&D amounts that the software companies are investing in, it's too low. And also because over the last two decades or more, there was some kind of a conviction that these companies have to be asset-light and R&D-light. So if we want to capture more value creation in the near future, we need to invest more in R&D. And the last comment is, if I go back to the segmentation of AI markets, so infrastructure, models, execution, and adoption, these software companies are really more in the execution play. And they need to make a decision if they want to invest on the model side, or if they want to go further on the adoption side. And to do that, it means they have to become more outcome-based, more just to stay in a pure execution play. So to really work hand-in-hand with the enterprises that are adopting AI to deliver more value for them, which is more measurable and really more traceable from an outcome-based perspective.

**Jared Carney** 41:04

Barbara, and Molly, given your experience in markets, doesn't this equal a real recipe for M&A? Maybe you have some historical examples that you sort of think back to in terms of your TMT career.

**Barbara Nash** 41:25

Yeah. Without question, I think there's going to be more M&A. I think there's companies, when they look at their R&D plans and make those decisions, they can't be all things to—they can't look at it from every direction. And they will be tapping into the market to complement what they have, and maybe it's time to market issue or other items. And I think at this point, to Raj's earlier comments, there's going to be the winners and the losers, and those that are not as well positioned are going to be looking for another option. You'll have to look at balance sheets as well and see how strong they are and how agile they could be. But I think over time, we're going to see more play out in this area. Certainly across software in particular, but I think it's a little bit of one-size-fits-all in terms of the market taking a step back, and there is opportunity there.

**Jared Carney** 42:55

Molly?

**Molly Murphy** 42:55

I think one of the biggest challenges—there's those rules around market penetration and whoever gets the biggest market share tends to hold it for quite a long period of time. So speed to getting your market share and then protecting your market share is everything. So if I'm a SaaS company, I'm going to want to go acquire, instead of build, I want to buy to get myself at the head of the line. But right now, if you look at the private credit markets where this is going to get financed, software loans are getting crushed. And the people that have been the reliable lender to the software industry, they don't have a lot of balance sheet or a lot of capacity to make more loans because they have redemptions sitting on their doorstep. And so I think that there's a funding mechanism that has to work out through here. But good software companies aren't going to go away right away, and they're going to adapt and they're going to pivot. We are going to see the winners and losers in this game, but I do think that the debt markets are a prohibition to quick and large-scale M&A right now.

**Jared Carney** 44:07

Do you have a timeframe that you're willing to sort of put a pin in at this stage?

**Molly Murphy** 44:12

I think that the debt markets have oversold this space. I'm not a believer in the valuations of 30 percent discount to NAV or whatever is priced into some of these. But when it works itself out, when you see people that have 20 percent to 40 percent of their NAV of a BDC sitting in a redemption queue, they've gated and they're only going to honor 5 percent. So you can do the math on how long that takes to work through the system. So I think if the markets do calm down and people feel like there's a little bit more

positive news coming out of software, meaning it's not an apocalypse, it's a long-tailed migration from one tech solution to a different tech solution, then we might get enough lift that there's some wiggle room or some of those redemption queues skinny down. But the problem is the retail channel that has infested the private capital space. They're not the same logical investor that an institution is, and they're not seeing long-term. They're playing a short-term game. And so I think there's a lot of mismatch of capital right now when we really need liquidity and capital to make the pivot.

**Jared Carney** 45:33

That's a great point. Do you do anything to educate your beneficiaries about this? I know that's not the side of the house that you work on, but does the plan do anything about that?

**Molly Murphy** 45:47

Well, people have to draw the distinction about what is a defined benefit plan versus a defined contribution plan. Our benefits do not tie directly to market performance. So we have a nice communication path that says, "It's your years of service, it's your salary, it's your age of retirement." Nothing in that equation is market performance. Defined contribution plans very, very different obviously.

**Jared Carney** 46:14

Very different. Lari, you wanted to make a point.

**Lari Hämäläinen** 46:17

Yeah, I was going to come to this SaaS point, right?

**Jared Carney** 46:19

Yeah.

**Lari Hämäläinen** 46:20

I love making a salad. When I make a salad, I have a bloody expensive Japanese knife. One of those with a really fine blade when I'm cutting the cucumber, and it cuts really well. But in three years from now, when I buy Optimus from Elon and Optimus comes to my house, do you know what I'm going to give Optimus? I'm going to give him an Ikea knife. I'm not going to let him use my Japanese chef's knife. How does this apply to software, right? What is a software? Software, it's a UI lay—[Laughter]. It actually does apply, surprise, surprise. Software is a UI, it's a workflow layer, and it's a logic layer, right? I'm simplifying a lot. There are obviously a lot of other things. But I think the UI will change, the workflow will change. We still need tools. No matter what we do with AI, no matter what kind of agentic systems we build, we will need a lot of tools that execute things in a very deterministic way. Optimus is not going to come and use the hand to chop the cucumber, right? It will still use a knife. Sorry for the clumsy analogy. I thought it would be fun. But the value of those tools will change, and I think when we talk of “SaaS apocalypse”, especially from an enterprise perspective, I think what will be happening is a revaluing of the software we have out there today, and that can be even quite dramatic in some cases.

**Jared Carney** 47:40

Thank you. We'll get to physical AI before we end this, but I've got a couple of great questions from the audience. Raj, with the amount of capital that takes for the frontier models to stay ahead of open-source models and the rapid pace of movement of those model advances, do you see a risk to the business model of the major frontier companies? Will open-source models close the gap enough where it's not worth using the premium frontier labs, what they charge? You made the statement earlier that we need more open source. So you get that one.

**Raj Ganguly** 48:18

I feel like there's multiple questions in there, so let me see if I can answer them. I think that, are the frontier models at risk of running out of cash? It definitely helps if you're a company like Meta and you have an advertising business that just produces cash. But just keep in mind, up until a few years ago, the biggest CapEx spenders in the world were mainly oil companies, whether it was ExxonMobil or Aramco. Tech companies today spend multiples of what the world's biggest oil companies do in CapEx. It is an incredible amount of money that is being spent in CapEx from companies that really had very little CapEx five, six years ago. And so, the model has shifted, and if you're a frontier model that—I think the concern I've always had is, can you raise $10 billion rounds? Well, they raised $10 billion rounds. Then I was thinking, can they raise $100 billion rounds? And now they're raising $100 billion rounds. So clearly, there is a lot of capital. The question is, at what point do these companies produce enough cash flow that they don't have to keep raising these kind of rounds? And so I think there's risk, but they've proven that they've been able to scale, and now later this year, they'll scale in the public markets, which should give them an advantage. And we'll see how it all goes. I remain a believer that you don't need the latest model. What you really need is the contextualization of AI. And if you look at—I think the last DeepSeek model last week was not as impressive of a drop as we all saw, but it's still pretty good. And you can use the last version of the model from OpenAI or Anthropic. You don't need the latest model. What you really need, especially in the enterprise, is contextualization.

**Jared Carney** 50:09

What does that mean? What does contextualization mean?

**Raj Ganguly** 50:11

It just means that if you ask AI a question with no context, if it doesn't know you, if it doesn't have access to all of your data systems, it will answer it because it's programmed to answer things. But it may not give you an answer that actually does anything for you and solves your problem. And what we found internally from just our little work that we do on AI, building our own AI, is that we can use the last model of whichever these frontier models be cheaper, use less tokens, or use DeepSeek or whatever open-source model, which I would recommend Reflection as we drop our model later this year. But if you give it enough context and access to your data, it will give you fundamentally a much better answer than using the latest Claude model without access to the right data, without the right prompt. And so, I think that we don't need the models to keep getting better and better, but I think we will keep seeing models that get better and better because as human beings, we love to push on the edge, and we want to see how far we can get. And I think we're going to see later this year models that come out that are going to cause real

cybersecurity challenges, that are going to cause a bunch of things that we all believe to be true to maybe not be as true in the enterprise software world.

**Jared Carney** 51:38

And that's just on the model side. We haven't even brought in quantum yet, etcetera, as we've talked about. During the prep session, you mentioned energy and the CapEx that energy companies have traditionally been responsible for relative to the tech companies, as you've pointed out. In the prep session, we talked a lot about upstream in this space, right? We talked about the infrastructure demands. And so far in this conversation, this has really been a usage demand conversation. It hasn't really been a supply conversation. Matthieu, do you see supply constriction in the form of compute and electrons and fiber and construction? And how much time do you spend with your customers thinking about managing their demand in order to meet realistic supply?

**Matthieu Courtecuisse** 52:33

Yeah. This point is totally critical right now, especially because we feel as users of these models already the constraint when you are prompting and when you are coding, whatever. So we already feel the constraint, the physical constraint. And to go back to the previous question, the reality is most of the CapEx coming out from the model providers is related to infrastructure, not that much in terms of the investments—that are still big, but not so huge in terms of building new products, right? But to go back to your point is—I think given also the response of the population about to be very AI, let's say, critical and all that stuff, I think we need to build at the global scale the vision about to compute wherever we can in all the, let's say, the free world countries, right? And that's why the AI sovereignty thing is really not possible and not compliant with the—it's creating a fragmentation in the market from a supply standpoint. It is not sustainable given what is on the agenda for the next years and the need for compute that we're going to have to deal with. So even for the US, we're going to need in the US to manage some compute in Iceland, in Europe, in South America, I don't know where. But it won't be enough from a US standpoint because we have a lack of capacity to follow track.

**Jared Carney** 54:02

Right. Anybody disagree with that on the panel? Anybody think that we're doing just fine and the logarithm obtains? Molly, you want to take a crack at it?

**Molly Murphy** 54:14

I know no more than the person that reads it casually off Bloomberg or Wall Street Journal. But I have noticed that there are already business decisions happening about how to manage the supply shortage of compute or just manage to the projected future need. And so I do think that wiser hands are behind the scenes figuring this out than I am, but you can see people start to make business decisions around how to use what they have.

**Matthieu Courtecuisse** 54:49

Yeah.

**Jared Carney** 54:50

Okay. Wiser hands and wiser people. Has anybody here had first-person experience of that? Been in that conversation? Lari, is that something clients come to you with and ask you about? Because how do we know if we don't know? That's my question.

**Lari Hämäläinen** 55:11

Yeah, I think when we look at the management of agentic investment, et cetera, I don't think from traditional enterprises, but I think when it comes to tech companies, definitely yes. So I think this is the biggest question, and there's no surprises there. I would say it like this: 18 months ago, I think each tech company felt there was one quarter when they felt they were behind, the next quarter felt that they're over-investing, then they were behind, then they were over-investing. So it was almost this panic mode where you were going back and forth. I think right now it's quite the opposite, right? I think the underlying belief is that the ROI is there. The current coding wave that started again last year, that will carry us to '28. After '28, we'll get new workloads from enterprise, so that will continue. I think the bottlenecks are moving upstream, right?

**Jared Carney** 56:04

Yeah.

**Lari Hämäläinen** 56:05

Like discuss energy, water, and that really then almost comes like a federal-level question on the overall competitiveness of US. And I think we just need to unbottleneck.

**Matthieu Courtecuisse** 56:18

Yeah, no, I see some of our clients building up some kind of internal token exchange to manage scarcity, or to sort of—

**Jared Carney** 56:27

Internal within departments.

**Matthieu Courtecuisse** 56:28

Yeah, exactly. Or at the individual level.

**Jared Carney** 56:30

Individuals?

**Matthieu Courtecuisse** 56:30

Yeah, and so you can resell your tokens if you are not using them internally, right? So you can price that, or there's another way to deal with it, is just to determine caps in terms of token consumption, which is quite

basic. But we're going to see that more and more, and it's already happening, not just at tech firms, but also in enterprise companies.

**Jared Carney** 56:53

Barbara, it sounds like a markets opportunity if there's an opportunity to sort of arbitrage the token usage in and between companies.

**Barbara Nash** 57:03

Yeah, I think the bottom line is the race is on, right? Everyone needs or feels they need as much capacity as they can. To Molly's point about making business decisions, scaling back certain applications that they otherwise would've invested in, and I think there are limiting factors there. So, this is going to continue for next few years, without question.

**Jared Carney** 57:40

Next few years, which is a perfect segue into the last two minutes lightning round. And this is really just 15 seconds. I think, Barbara, you let it off. Lari, the next few years, what do you see as the biggest opportunity in terms of AI businesses scaling, and what do you think holds them back?

**Lari Hämäläinen** 58:04

I think really it's this, how do you address the enterprise workloads? That will be the '26 to '30 question. And then holding them back is the ability to deliver the outcomes, not just sell a product.

**Jared Carney** 58:16

Raj?

**Raj Ganguly** 58:19

I think in terms of holding back energy, and finding alternate sources of energy, we're big believers in geothermal as a great alternate source here in the US. And in terms of what propels them, I think it's no different from SaaS or any other era. It's that you've got to build mission-critical AI that customers just absolutely love, and you see that through the usage.

**Jared Carney** 58:45

Molly?

**Molly Murphy** 58:48

I think that from our perspective, just watching the enterprise adoption is going to be fascinating because we're already talking about SaaS as an apocalypse, but I think every industry is going to walk through this. And if you're a first mover in AI, you're going to have advantage in whatever business model you're in. So I think we're going to start to see the second and third derivatives of this, and that'll be interesting to watch. I don't know if we're all going to call it exciting at the end of the day.

**Jared Carney** 59:21

Yeah. Matthieu, the last word.

**Matthieu Courtecuisse** 59:23

The major threat for the next month, and even weeks, is the scaling of cyberattacks. Okay, we have not mentioned that, but it's really something which is becoming systemic. And at the same time, we have a unique opportunity to reinvent business models and to create an abundance of additional GPT.

**Jared Carney** 59:46

Well, we're out of time, but we're certainly not out of thoughts, ideas, and questions. I encourage everybody here to interact with the panelists and help me give them a warm round of thanks for a terrific panel. Thank you very much.

**Announcer** 59:58

We hope you enjoyed the discussion. Be sure to utilize the mobile app to stay up to date on the latest programming changes. As you exit the room, please remember to bring your belongings with you.