AI IN PRIVATE EQUITY

Building Intelligence into the Industrial Lower Middle Market

Anurag Sachdev | Head of Data & AI | May River Capital

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PE firms have a structural AI advantage most haven't operationalized

Not because of Scale, because of

- Concentrated ownership
- Direct operating influence
- Portfolio of businesses built for pragmatic execution

The same constraints that make lower middle-market industrials hard to run are exactly what make them a better proving ground for applied AI than most enterprises

A Different Starting Point Than the Tech-Company AI Narrative

- Most AI narratives are from companies with unlimited engineering budgets and AI-native products
- Lower middle-market industrials have neither, and that is the more common starting point for most businesses
- Constraint is a friend

Not "What can you build with unlimited resources"
But "What can you build without them"

01

Why Smaller Portfolio Companies Change the Playbook

The Structural Difference

No Dedicated Data Team

Most lower middle-market industrials have no in-house data functions

A Different Budget Reality

Headcount and budget look nothing like an enterprise AI deployment

Closer to the Consequences

Decision-makers sit closer to the data and closer to the operating outcomes

Constraint as Discipline

Outcome-First Thinking

Constraints force outcome-first thinking instead of platform-first thinking

No Budget for Novelty

There is no budget for AI that doesn’t change a decision or a number

Pragmatic Over Sophisticated

Pragmatic beats sophisticated when resources are limited

The absence of a data team isn’t a gap to fill, it’s a forcing function for discipline

An Illustrative Example

The margin leak no one saw

THE SETUP

- A representative industrial manufacturer
- Years of standard monthly margin reporting
- Nothing in the numbers ever raised a flag

THE DISCOVERY

- Someone started asking the underlying data direct questions instead of waiting for the monthly rollup
- A quiet margin leak across specific product lines surfaced
- Hidden in plain sight the whole time

At a large enterprise, this is one more item on a long optimization backlog. At a company with lean margins and no analyst bench, catching it can be the difference in the entire investment thesis.

Illustrative composite, not a specific named company

02

From Raw Data to Decision Intelligence

The Starting Point Is Fragmentation

Different Systems

Different ERPs and charts of accounts across the portfolio

Different Cadences

Reporting cadences vary from company to company

No Shared Standards

No common data standards between portfolio companies

This is the normal condition at this end of the market, not a failure state

A Three-Layer Model, Built Without a Data Engineering Team

DOCUMENTS

Unstructured source material
(reports, contracts, board decks)

e.g., a supplier's price increase letter, buried in an inbox

→

STRUCTURED RECORDS

Standardized, queryable data
(financials, KPIs, operating metrics)

e.g., a standardized margin-by-product-line table, refreshed daily

→

REASONING LAYER

AI-assisted synthesis and decisioning
(insight, alerts, recommendations)

e.g., a flag that catches the problem before the number moves

One architecture. Every portfolio company.

Lean-record-first, enrichment-on-momentum: one technical resource can run this across a multi-company portfolio

Why This Scales Without a Big Team

Start Narrow

Pick the handful of metrics that actually drive decisions, not everything you could track.

Build Only for Those

Structured records get created only for what's been chosen, not a fully modeled schema across the business.

Expand Only Once It Proves Out

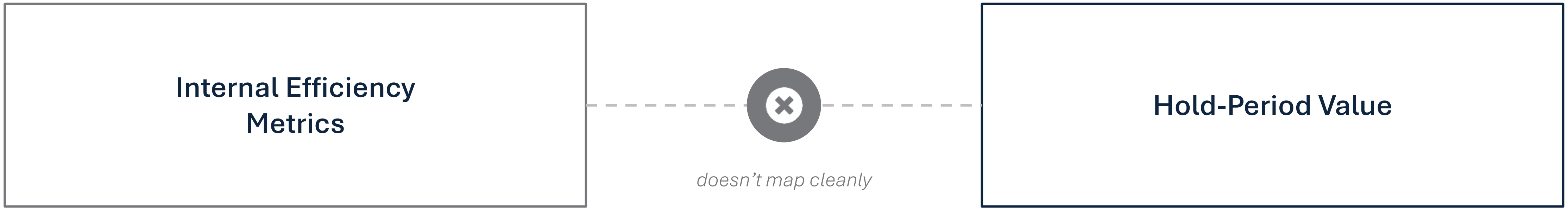
Scope grows only after the narrow version earns its keep, not before.

03

Measuring AI ROI in a PE Context

The Wrong Framework

"Efficiency gains" is the default AI ROI framework, borrowed from enterprise IT



- Internal efficiency metrics don't map cleanly to what drives hold-period value
- Time saved internally doesn't automatically translate into value at exit

The Right framework: Reverse-Engineered from Hold-Period Value

01

Capacity Unlocked

FTE-equivalent time recovered across the portfolio, tracked via monthly pulse survey

02

Hard Savings

Verified, interview-sourced cost reductions tied to specific initiatives

03

Decision Impact

Interview-sourced examples of AI changing a specific investment or operating decision

The wrong question for us: "what did AI save internally?"
The right question for us: "Did it change value at exit?"

Who Should Own This

CFO

Recommended sponsor

Keeps the initiative tied to measurable outcomes and hold-period value

CEO

Often the default choice

Sponsorship often tracks general enthusiasm rather than a measurable outcome

CFO sponsorship gives the initiative direct line-of-sight to hold-period value creation

PE firms have a structural AI advantage most haven’t operationalized

The constraints that make lower middle-market industrials hard to run are the same constraints that make them the better proving ground for AI

Thank You

Anurag Sachdev

Head of Data & AI | May River Capital

Questions welcome