BRIGHTSTAR
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WHY THE AGE OF AI IS THE AGE OF OPERATIONS

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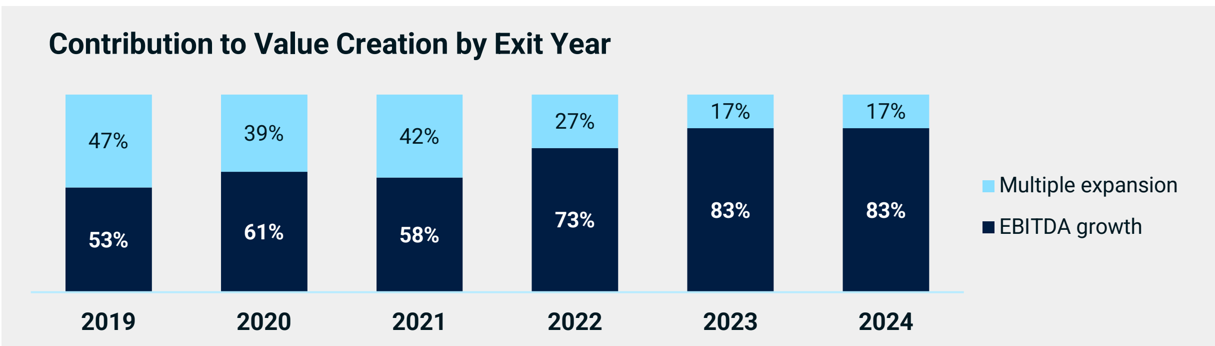
Why the Age of AI is the Age of Operations

Generating compelling returns has become significantly more difficult for private equity firms. A combination of higher interest rates and lower multiple growth means that EBITDA growth must be significantly higher today than last decade – in fact, **nearly 2.5 times higher**.[1] Another study shows EBITDA growth now accounting for **over four fifths of value creation**, up from **half in 2019**.[2]



Source: Gain.pro, The Private Equity Value Creation Report: 2025

We believe growth rates of that magnitude can no longer be achieved by just tracking a growing market. Instead, they require hands-on, operational interventions at the portfolio company level.

Neither does AI on its own offer a solution – and we say this as a private equity firm that has made efforts to build significant AI expertise, with **over 80 in-house built AI agents** available to our own investment teams. Recent real-world studies put median productivity gains in software development (one of current AI's most straightforward use cases) at **just below 8%**.[3] This comes on top of a body of research by McKinsey[4], Bain[5] and BCG[6] stating the vast majority of companies sees no material gains from AI initiatives – **94% in McKinsey's estimates**.

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[1] Bain&Co, Global Private Equity Report 2026, p.32
[2] Gain.pro, The Private Equity Value Creation Report: 2025, https://www.gain.ai/insight-reports/value-creation-2025#chapter-1, retrieved 7/9/2026
[3] https://getdx.com/blog/ai-productivity-gains-more-modest-than-expected/, dated 4/28/2026, retrieved 7/6/2026
[4] McKinsey, The State of AI in 2025: Agents, Innovation, and Transformation (November 2025), and Where AI Will Create Value—and Where It Won't (April 2026). https://www.mckinsey.com/capabilities/quantumblack/our-insights/the-state-of-ai
[5] Bain & Company, Executive Survey: AI Moves from Pilots to Production (November 2025). https://www.bain.com/insights/executive-survey-ai-moves-from-pilots-to-production/
[6] BCG, What's Driving AI Value, the "10-20-70" framework (January 2026). https://www.bcg.com/news/26january2026-what-is-driving-ai-value

How can private equity firms deliver in this tough environment? In our view, the BCG study mentioned above gives a clue. It estimates that **only 10% of AI value comes from algorithms** and **20% from data and technology**, leaving **70% dependent on** something that's been core to operational value creation since long before most people had heard of ChatGPT or agentic workflows – changes to people and process. Without those, AI is simply a shiny façade built on foundations of sand. And this is why we believe that solid operational capabilities in 'old-fashioned' areas like change management and process re-engineering are essential to success, no matter the value creation levers you are trying to pull.

This is particularly relevant for mid-sized and smaller enterprises in the U.S. which, according to research by the McKinsey Global Institute[7], show a **53% productivity gap** to large enterprises, the widest such gap in all advanced economies covered by the study. The gap is driven by areas such as technology (CRM and AI adoption is only half that of large companies), human capital (large companies are twice as likely to provide formal training and are more active in monitoring performance and awarding performance-related bonuses), access to markets and finance. This gap offers natural value creation potential and makes a strong case for the benefits of private equity ownership, a point we have made since Brightstar's inception. But each of the gaps requires significant transformation and change management expertise – a CRM implementation or change in people management practices doesn't happen at the mere stroke of a pen, neither does a successful go-to-market strategy.

Corporate transformation and value creation are complicated processes, whether they incorporate AI or not. Ask the CEO of most companies, and they will tell you that their constraint is not the number of initiatives they want to implement. It is the availability of talent, experience and knowledge of what to prioritize. At Brightstar, we aim to solve for that with a strong team of operating partners and advisors that understand the corporate context from their own careers.[8] They know when and how to engage third parties, and what to hire for when it comes to operational change.

It is also why at Brightstar we usually focus on 2-4 high-confidence value creation initiatives. Pick too many, and the organization cannot deliver due to talent constraints and change fatigue, even with a strong bench of operators. Pick too few, and the company is exposed to concentration risk as markets evolve, particularly with the accelerated pace that AI brings. The discipline of financial milestones and hold period provides a helpful framework for prioritization – making a strong case why particularly in the middle market, the combination of "good

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[7] McKinsey Global Institute, America's small businesses: Time to think big (October 2024), https://www.mckinsey.com/~/media/mckinsey/mckinsey%20global%20institute/our%20research/americas%20small%20businesses%20time%20to%20think%20big/americas-small-businesses-time-to-think-big.pdf

[8] Brightstar Operating Partners and Advisors are generally compensated solely by the companies they serve.

company plus operationally strong PE owner", is likely to create future winners as markets evolve and AI allows strong companies to punch above their weight against larger incumbents.

Two examples shown here illustrate our approach. At America's Group, we have implemented a Program Management Office (PMO) that has delivered in excess of **$12M in operational efficiencies** in the last year (with **a further $3M in clear sight**) and **$15M in revenue uplift** through disciplined pricing and channel strategy. It has also grown through a structured and disciplined approach of acquiring smaller auctions and integrating them well. The company is now in a position to embark on a wider AI transformation, having already seen success in pilots with targeted marketing campaigns enabled by AI tools.

Stratus, another platform, has set up a structure similar to America's PMO to enable the integration of M&A targets. The reality is that **nearly three quarters of acquisitions fail** against their targets.[9] In our view, this is often due to a mindset of "signing the deal is all that matters", leading to two organizations languishing alongside for far too long – and the structure at Stratus is designed to mitigate that.

AI is capturing many headlines today, in our view with good reason. The technology's transformative potential is immense, possibly in line with or even greater than that of previous industrial and economic revolutions. But we believe it will not be unlocked without the less glamorous effort of change management and operational improvement that is needed to make it work – and only in combination will the two levers create the conditions for private equity owners to build great companies and deliver the commensurate returns for their investors. That is why for us the age of AI is also the age of Operations – and with the combination of a strong AI capability plus a **team of 20 Operating Partners and Advisors**[10], we believe we are well positioned to deliver on both.

CASE STUDY

How Stratus Has Built an M&A Integration Function

In February 2025, Stratus acquired BREC, a North Carolina based engineering and consulting firm with strong expertise in environmental services. In order to facilitate this and following acquisitions, **Stratus built and institutionalized an Integration Function, establishing a scalable, enterprise-wide framework across 50+ functional workstreams** that standardizes execution, enhances visibility, and reduces integration risk while accelerating synergy realization across the platform; currently **managing five concurrent integrations through a structured governance model supported by six workstream leads and 30+ task owners**

- **Established a centralized Integration Tracker** serving as a single source of truth across all workstreams, providing real-time visibility into milestones, risks, and dependencies, supported by weekly risk and forward-looking reporting and monthly executive analytics across all active integrations
- **Implemented a disciplined operating cadence**, including monthly cross-workstream reviews to assess integration status and dedicated monthly engagement with each acquisition's integration partners to gather feedback, address open items, and align on upcoming milestones
- **Transformed integration from an ad hoc process into a repeatable, enterprise-scale capability** with standardized playbooks, templates, and phased execution, further enhanced by the launch of a Partner Hub providing acquisitions with a centralized view of their integration roadmap, access to key communications, and direct connection to Stratus resources and support teams

Three workstreams were prioritized for the function

- **One Stratus** -- Led the transition of 8 legacy operating companies into One Stratus, using the rebrand to unify market identity, streamline the client experience, and reinforce Stratus' positioning as an integrated national platform. Five remaining companies to operate under Stratus brand by January 1, 2027, with an additional two to follow
- **ERP upgrade and roll-out across the organization**
  - Led by Integration Function, in collaboration with Brightstar Operating Partner who has decades of experience in IT Enterprise consulting and large-scale platform roll-out
  - While the ERP upgrade represents a system transition at the interface level, its real impact is the enterprise-wide standardization of processes, data, and workflows

across all 15 operating companies. This unified foundation, combined with integrated bolt-on capabilities for analytics and planning, enables real-time visibility into performance, improves operational consistency, and positions Stratus to identify growth opportunities, optimize resource allocation, and drive data-informed decision making at scale

- **Cross-sell as a driver of EBITDA growth and equity value**
    - BREC is a prime example of Stratus cross-sell value creation: the business was acquired because its environmental engineering capabilities and North Carolina footprint were complementary to Stratus, with clear opportunity to introduce Stratus services into BREC's client base and take BREC capabilities across the broader platform
    - BREC's EBITDA more than doubled for the remainder of 2025 post-acquisition as a result of cross-selling services across the platform. This mutual success became a flywheel for M&A origination, as the BREC management team introduced Stratus to the owners of Page Interworks. Stratus ultimately succeeded in acquiring Page Interworks and continues to evaluate opportunities through its strong existing partner relationships
    - Following the 2025 acquisition of Kilian, Stratus has quickly become a top 10 client via cross-selling, replacing external outsourcing with internal demand and demonstrating the platform's ability to capture revenue synergies, enhance margins, and drive integrated growth across the portfolio

[9] https://fortune.com/2024/11/13/we-analyzed-40000-mergers-acquisitions-ma-deals-over-40-years-why-70-75-percent-fail-leadership-finance/, retrieved 7/6/2026
[10] https://brightstarcp.com/our-team/