



ALVAREZ & MARSAL
SOUTHEAST ASIA & AUSTRALIA

PRIVATE EQUITY PERFORMANCE IMPROVEMENT

AUSTRALIAN PE IN THE PRODUCTIVITY TRAP: DRIVING VALUE CREATION NO LONGER JUST OPTIONAL



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FOREWORD



With productivity taking centre stage in national discussions, Australian private capital faces a pressing question: where will the next wave of growth come from?

Over the past decade, private capital in Australia has expanded and matured. This remarkable growth positions PE funds and their ecosystem of businesses as pivotal players in shaping the country's economic future.

Therefore, there is no better time to examine how Australian-focused PE funds and operators are performing and how their strategies compare globally. This paper offers a timely window into the state of Australian PE in 2025, and two themes emerge very clearly.

First, the turbulence of the past few years has sharpened the ability of funds and portfolio companies to navigate complexity, drive improvements and unlock value from pandemic-era assets. Second, the industry is cautiously optimistic as economic conditions stabilise following a prolonged pandemic overhang, with operators embracing macro-level uncertainty as part of the economic reality. Despite an M&A slowdown in recent years, operators remain focused on operational improvements and strategic initiatives to prepare for eventual exits.

Unlocking value from existing assets and reigniting deal activity have the potential to deliver transformative benefits to the broader Australian economy. By driving operational efficiencies, fostering innovation and driving growth, PE operators can enhance productivity across industries, strengthening Australia's global competitiveness. As deal flow recovers, it can spark further capital deployment, business expansion and economic resilience.

The road ahead will not be without challenges. Operators must balance optimism with a commitment to value creation through impeccable delivery to ensure that the PE industry becomes a catalyst for Australia's next chapter of growth and productivity.

We hope you enjoy reading the insights of this report and welcome the opportunity to discuss these challenges and how we can support your journey forward.

EXECUTIVE SUMMARY



Some of the key findings of our survey:

OPTIMISM ON EXITS IS RISING:

68%

of investors are optimistic about exit potential over the next three years.



OPERATIONAL IMPROVEMENTS TO DRIVE EXITS:

Funds' ability to protect and unlock value in a more complex market can pave way for successful exits.

LONGER HOLD OVER QUICK EXIT:

73%

of investors are retaining ageing assets, and prioritising operational improvements over quick exits.



TARIFFS PROMPT DEEPER DILIGENCE:

More than half the investors are making tariffs a part of essential due diligence in their M&A activities.

VALUE CREATION IS AN "ALWAYS ON" THEME:

95%

of investors identify value creation as the core of their investment strategies.



THE "MAGIC TRIANGLE" OF EXECUTION:

Operating partners, investment teams and portfolio company management are jointly seen as the primary drivers of results.

CAPABILITY GAPS HINDER VALUE CREATION:

82%

of investors cite gaps in expertise and tools as the biggest barriers to success.



AI ADOPTION IS RISING BUT USE CASES REMAIN NARROW:

AI usage is largely confined to diligence and optimisation, with post-deal applications lagging.

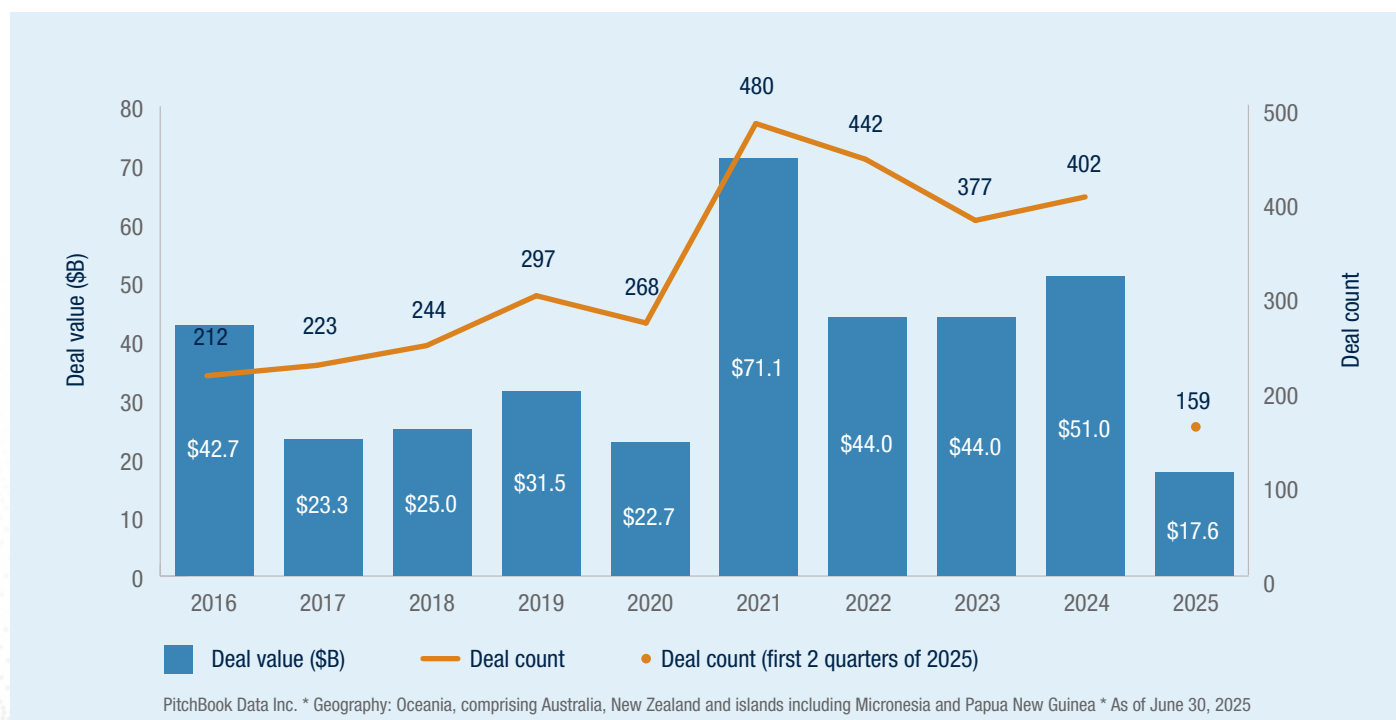
INTRODUCTION

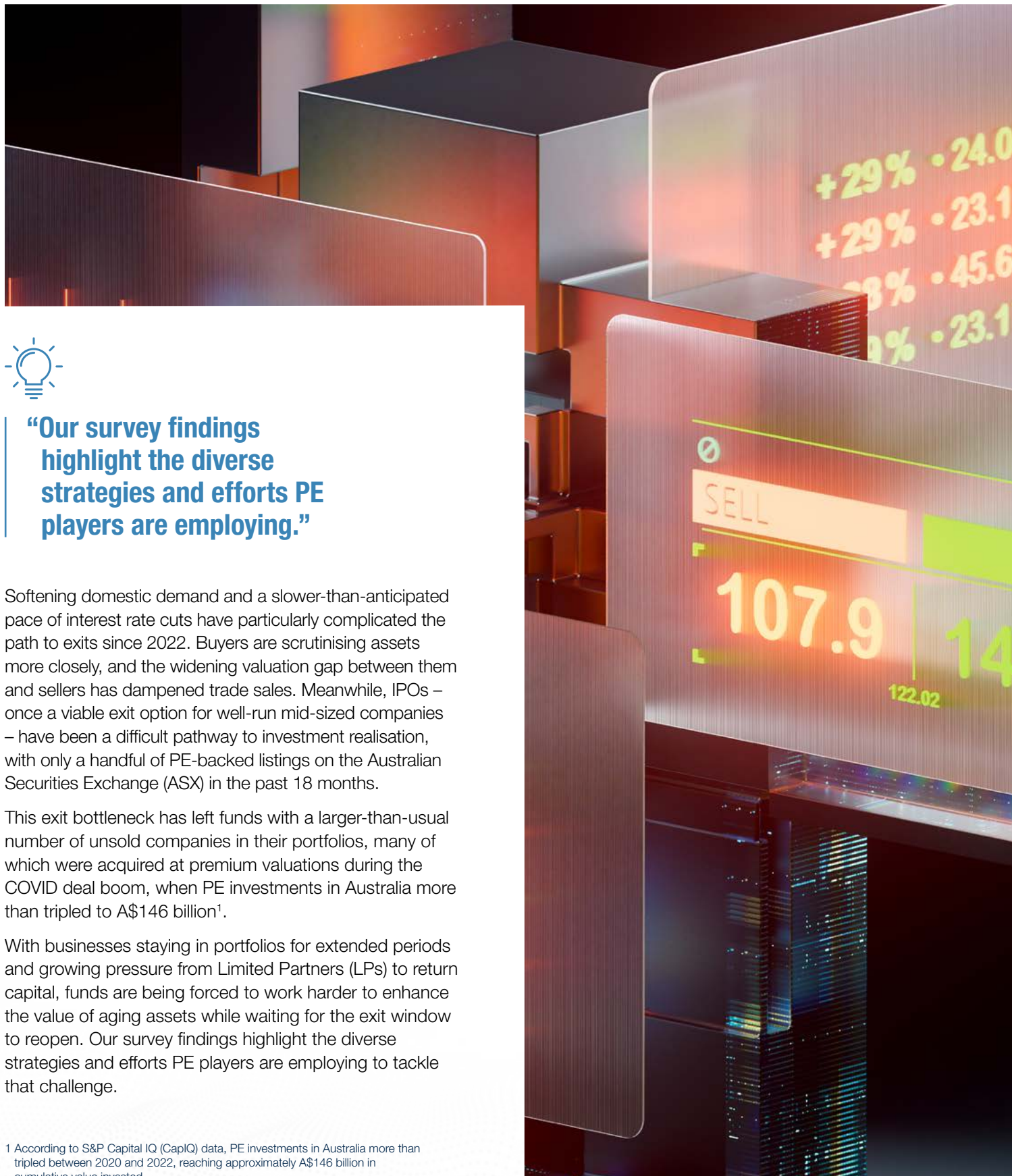


The PE industry in Australia began 2025 with a cautious yet hopeful outlook. After 13 consecutive interest rate hikes, recent rate cuts have breathed new life into market sentiment. Trading conditions are also gradually stabilising, as businesses emerge from the shadows of the pandemic, global supply chain shocks and international trade turbulence.

Yet, unlike the globally driven strategies seen in Europe and the U.S., Australian PE investments are largely rooted in domestic markets. While this focus may have offered some insulation from recent external shocks such as new U.S. tariffs, it has also likely contributed to a slow recovery in deal activity through 2024 and into the first half of this year.

Figure 1
PE deal activity





“Our survey findings highlight the diverse strategies and efforts PE players are employing.”

Softening domestic demand and a slower-than-anticipated pace of interest rate cuts have particularly complicated the path to exits since 2022. Buyers are scrutinising assets more closely, and the widening valuation gap between them and sellers has dampened trade sales. Meanwhile, IPOs – once a viable exit option for well-run mid-sized companies – have been a difficult pathway to investment realisation, with only a handful of PE-backed listings on the Australian Securities Exchange (ASX) in the past 18 months.

This exit bottleneck has left funds with a larger-than-usual number of unsold companies in their portfolios, many of which were acquired at premium valuations during the COVID deal boom, when PE investments in Australia more than tripled to A\$146 billion¹.

With businesses staying in portfolios for extended periods and growing pressure from Limited Partners (LPs) to return capital, funds are being forced to work harder to enhance the value of aging assets while waiting for the exit window to reopen. Our survey findings highlight the diverse strategies and efforts PE players are employing to tackle that challenge.

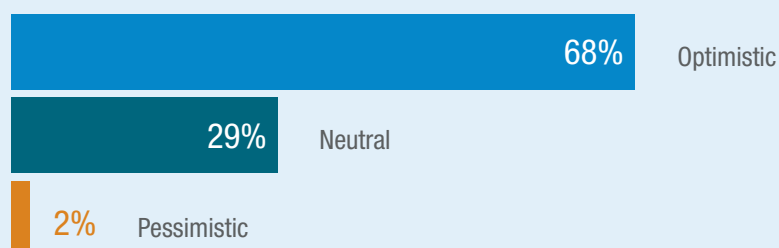
¹ According to S&P Capital IQ (CapIQ) data, PE investments in Australia more than tripled between 2020 and 2022, reaching approximately A\$146 billion in cumulative value invested.



CLEARER PATH TO EXITS EMERGING DRIVEN BY IMPROVED OPERATIONS

Figure 2

Q: Looking ahead to exits in the next 3 years, how would you describe your sentiment for your portfolio companies?



After three years of protracted exits, funds in our survey appear to see the path to divesting clearing – at least in the medium-term. 68% of investors expressed optimism about exit prospects over the next three years, citing improved company performance (e.g. financial metrics, leadership) as the No. 1 lever for successful exits. Additionally, 70% said they don't expect tariffs or geopolitical tensions to impact exit timing.

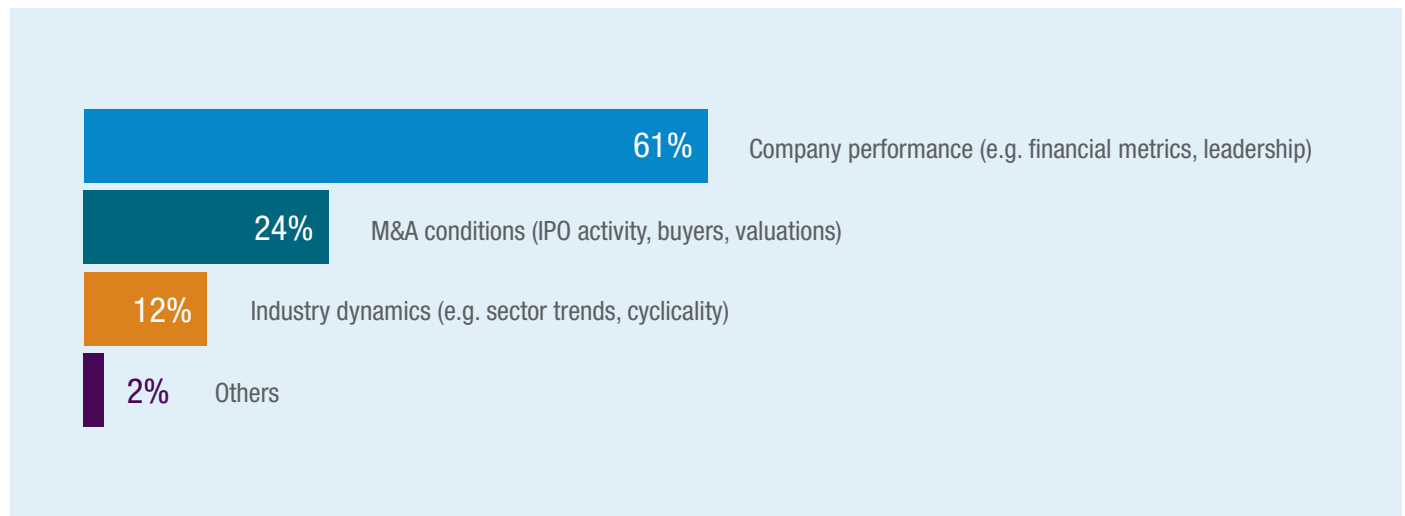
This newfound optimism likely reflects broader macroeconomic improvements, particularly the three interest rate cuts delivered by the Reserve Bank of Australia (RBA) this year, and the fact that many Australian PE portfolios are predominantly domestically focused, which makes them less directly exposed to global tariff impacts.

Nearly four years on, the market also appears to have set aside the COVID overhang, with operating conditions increasingly normalising. Perhaps accepting that some level of global uncertainty is here to stay, funds have grown increasingly confident in their ability to protect and unlock value in a more complex market, thus paving the way for successful exits.



Figure 3

Q: What is the most critical factor influencing exit outlook?



The positive sentiment among Australian PE funds contrasts with the outlook for exits in other key PE markets. In a survey conducted by A&M's Private Equity Services team in April 2025, only 31% of U.S. funds reported a positive or very positive outlook for PE exits, and 36% expected a worsening trend. In the European survey, while optimism was somewhat higher (57%), a third of respondents expected U.S. tariffs to have an impact on exit timelines.²

² European and U.S. surveys asked respondents about the exit outlook in the next 12 months.

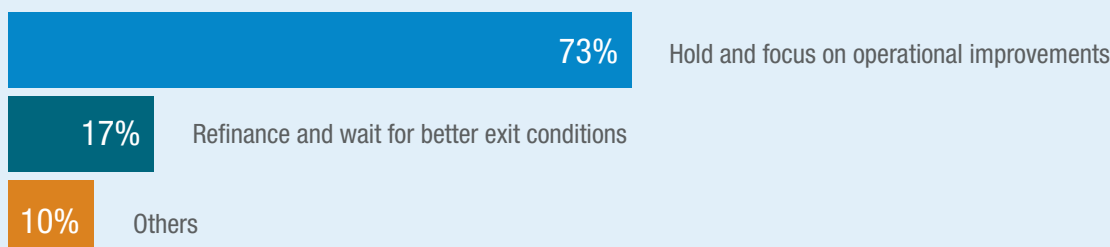




CAUTIOUS OPERATORS “HOLDING AND IMPROVING” ASSETS AMID EXIT BOTTLENECK

Figure 4

Q: How are you managing aging assets in today's environment?



With more funds holding assets well beyond their original timeline, the growing backlog of aging assets is becoming a critical test of portfolio discipline.

Our survey shows that a significant majority of funds (73%) are addressing the exit bottleneck by intensifying their focus on operational improvements for existing assets. Another strategic path, highlighted by 17% of survey respondents, is to refinance the portfolio company's debt, buying time for the business to reposition the exit story while waiting for market conditions to improve.

These approaches mirror strategies used by European General Partners (GPs), 50% of whom reported pursuing debt refinancing, alongside the extension of value creation programmes, in response to protracted exits. Additionally, 25% of European funds are rolling existing investments into continuation vehicles or secondary funds, which in recent years have emerged as an important alternative liquidity exit for LPs and GPs globally in a slow deal market.

In Australia too, and primarily for large, harder-to-sell assets, we have observed a number of PE funds rolling existing assets into continuation or evergreen funds, giving funds and portfolio companies time to improve operational performance and position for future sales.



“73% of funds are addressing the exit bottleneck by intensifying their focus on operational improvements for existing assets.”



A&M PERSPECTIVE: BUILD THE COMPANY TODAY FOR THE BUYER YOU WANT TOMORROW

With longer hold periods and exit windows remaining narrower than usual, aging assets demand a deliberate, portfolio-wide review beyond passive holding.

Too often, aging assets are managed with a one-size-fits-all approach, even when they face constraints and opportunities that are fundamentally different. In a difficult market, funds must focus on aligning their actions with the commercial realities of each business in their portfolio.

As one respondent in the study aptly put it when describing their approach to aging assets, a management strategy should be “more asset-specific than a broad strategy,” revolving primarily around “asset performance and operations, and ensuring the business is efficiently capitalised from both a debt and equity perspective.”



“Exit becomes a strategic direction that guides decision-making today.”



Exit as the north star of capital allocation and operational decisions

When it comes to value creation from operational improvements, most funds are tackling earnings growth through a combination of both revenue and cost levers. However, to bring the investment thesis from good to great, the goal needs to go further and shape the company into something a buyer wants to own, and is willing to pay for, in the next one to two years.

This means making the exit case the strategic north star to guide investments, capital allocation and operational decisions. Starting with an end in mind allows funds to reverse-engineer the path to a successful exit, including:

- Identifying the most likely buyer type:** e.g. trade buyer, PE sponsor, sector roll-up, IPO market.
- Understanding their value logic:** what they care about, their risk appetite, and what premium they will pay for.
- Building a roadmap that aligns with their investment story:** not only improving profitability, but shaping the company into the kind of asset that a buyer is looking for.

This method of working backwards from the desired exit provides a clear framework for managing assets in the final years of ownership. For example:

- If a strategic acquirer values platform scale, prioritise bolt-on acquisitions and the asset's ability to integrate add-ons.
- If a buyer cares about revenue stability, refine the commercial model and go to market approach, not just topline growth.
- If IPO is the target, invest in governance, ESG positioning and investor readiness to meet public market requirements and expectations.

Under this approach, exit becomes a strategic direction that guides decision-making today. This not only sharpens how capital and leadership are deployed, but also aligns stakeholders around a shared path to liquidity.

FINE-TUNING VALUE CREATION STRATEGIES AMID VOLATILITY



Global trade disruptions and geopolitical tensions are introducing a new layer of uncertainty to an already complex macro backdrop. U.S. tariffs on Australian steel, U.S.-China trade tensions, and a more fragmented global trade environment present an opportunity to increase supply chain resilience and rethink investment strategies – and funds seem to be embracing it.

According to our survey, 55% of investors feel the need to expand the scope of M&A diligence to address escalating tariff risks, for instance by running additional simulations and investigating different trade scenarios.

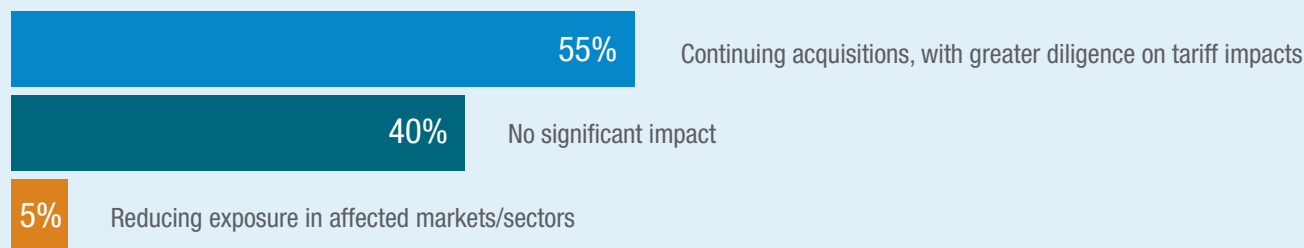
In value creation, tariff disruptions have clearly added impetus to initiatives designed to strengthen asset resilience and mitigate rising costs from trade and other macroeconomic shocks.

For example, 28% of survey respondents said they are doubling down on value creation initiatives to offset cost increases from higher tariffs. Funds are proactively building buffers against sudden spikes to companies' cost bases – whether driven by tariffs, supply chain disruption or other shocks. Additionally, a significant proportion of respondents are actively exploring alternative supply chain strategies, such as reshoring and “China plus one”, in response to tariff shifts.

Only 13% of funds said they are delaying planned investments (e.g. bolt-on acquisitions) in affected regions or sectors because of tariff risks.

Figure 5

Q: How have recent tariff announcements affected your investment activity?





“RBA forecasts modest growth for Australian Gross Domestic Product (GDP) in the next two years.”

PE funds in Europe and U.S. were less optimistic. When surveyed in April 2025, just weeks after President Donald Trump’s major tariff announcements, 85% of U.S. respondents said they were unprepared to manage the challenging tariff environment. To counter tariff disruptions, they highlighted strategies such as cost pass-through via pricing adjustments, exploring alternative sourcing options, including U.S. manufacturing, and strategic competitive repositioning.

In Europe, around 80% of PE investors in May 2025 reported that they had already adjusted or were planning to adjust their value creation plans to mitigate the impact of tariffs, through actions such as international expansion redesign and the ramping-up of value creation initiatives. Similarly, 70% of respondents in a separate A&M survey in South East Asia have already adjusted or are planning to adjust their value creation plans due to tariffs.



MARGIN HEADWINDS ARE INTENSIFYING

While Australia’s domestic economy remains broadly stable, underlying margin pressure persists.

Although the RBA has initiated interest rate cuts this year, the pace of monetary easing has been slower than expected. Amid a “new normal” of continued macro and geopolitical uncertainty, and persistent domestic struggles, questions remain around both the timing and quantum of further reductions, and where rate levels will finally settle. This lack of visibility limits the ability for debt-driven value creation.

Secondly, operating costs are still elevated. Headline inflation is moderating (~2.1% year-on-year as of Q2 2025), but core cost pressures (e.g. wage growth, energy and logistics prices caused by global supply chain disruptions) continue to squeeze business margins. Many companies remain unable to fully pass on the cost increases to customers, eroding their earnings performance.

Thirdly, the growth outlook remains patchy. The RBA recently downgraded its economic growth predictions over the next two years, forecasting Australian Gross Domestic Product (GDP) of 2% in December 2027³, noting a weaker outlook for productivity growth and the impact of higher tariffs and broader policy uncertainty on global activity.

Finally, the Australia’s productivity record continues to be a source of concern for business leaders, politicians and the wider society. Australia’s labour productivity has declined by 1% in the 12 months to March 2025⁴, a reality that has translated into higher business costs, reduced profitability and limited capacity for innovation.

3 <https://www.rba.gov.au/publications/smp/2025/aug/outlook.html>

4 [Quarterly productivity bulletin – June 2025 – PC productivity insights](#)





IMPLICATIONS FOR AUSTRALIAN PE

As the operating environment is reshaped by global macro and trade pressures, the traditional value creation strategies centred on leverage, valuation multiple uplift and cross-border expansion are being replaced with a more practical approach of focusing on business fundamentals.

We observe three strategic responses emerging:

- a. **Doubling down on operational upside:** With assets staying in portfolios for longer and cost increases from tariffs, funds are prioritising margin improvement, cost optimisation and revenue resilience measures within their value creation plans.
- b. **Treating supply chain as a key value lever:** Embed trade and tariff risks in the diligence process. Within value creation, build contingencies and align supply chain strategy with localisation trends to improve resilience.
- c. **Bringing exit planning forward:** To manage valuation risk and keep sales options broader for when exit conditions improve, start exit readiness programmes and engage with potential buyers earlier.

Funds that adapt early and build flexibility into their strategies, will be better positioned to outperform in the long run. In an environment where volatility persists, sustained returns will come not just from identifying the right assets, but from managing them with greater agility and discipline.



“Funds that adapt early and build flexibility into their strategies, will be better positioned to outperform in the long run.”

BACK TO BASICS: DELIVERING VALUE THROUGH OPERATIONAL EXCELLENCE



With macro conditions clouding the growth outlook, funds are returning to first principles. Survey results highlight a decisive pivot back to fundamentals, where operational value creation takes the centre stage and becomes a growing source of differentiation.



VALUE CREATION AT THE CORE OF INVESTMENT PLAYBOOK

Survey data supports this shift: an overwhelming 95% of respondents say that value creation is core to their investment thesis. This reflects a global structural shift in how PE funds are investing and managing their portfolio companies, with less reliance on multiples expansion and more emphasis on the levers they can control post-acquisition.

For instance, over the past few years, our European survey has identified a clear shift from multiple expansion toward more sustainable revenue and operational margin improvements. Insights from this year's study show a move away from short-sighted cost-cutting and M&A-fuelled growth to more sophisticated operational transformations using levers such as AI and technology, and commercial excellence.

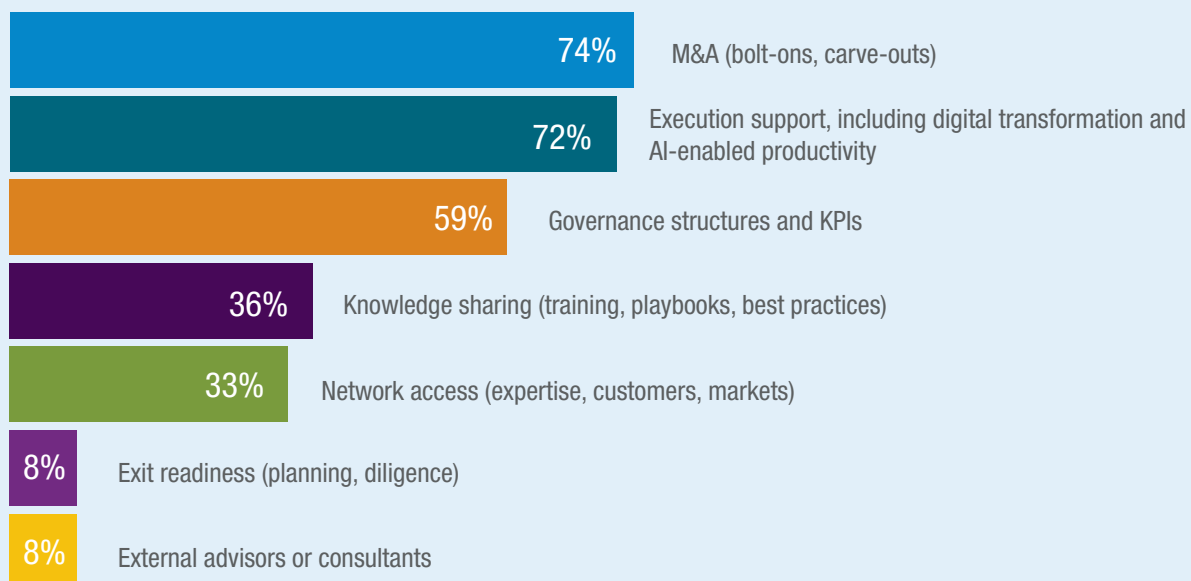


FUNDS ARE DEPLOYING A BROADER MIX OF VALUE CREATION APPROACHES

When asked about how they create value post-acquisition, funds cited a wide range of approaches – blending traditional levers with newer capabilities.

Figure 6

Q: What are the main ways you drive value creation?





Growing topline through M&A remains the most important lever, cited by 74% of respondents, revealing the relevance of buy-and-build and carve-out strategies in the current market. Bolt-on acquisitions have dominated PE deal activity last year, while corporate carve-outs became more prevalent, with 19 deals completed in 2023 and 2024.⁵

Execution support, including for digital transformation and AI-enabled productivity initiatives, was mentioned by 72% of PE funds as a main value creation driver. This demonstrates a growing focus from sponsors on equipping portfolio company management teams with the resources and tools needed to drive improvement initiatives, particularly as AI-driven tools gain traction within value creation playbooks.

Governance structures and Key Performance Indicators (KPIs) are also viewed as critical, as highlighted by 59% of respondents. Increasingly, management teams are directly reporting on these KPIs to sponsors, fostering real-time insights and a more collaborative approach to driving change.



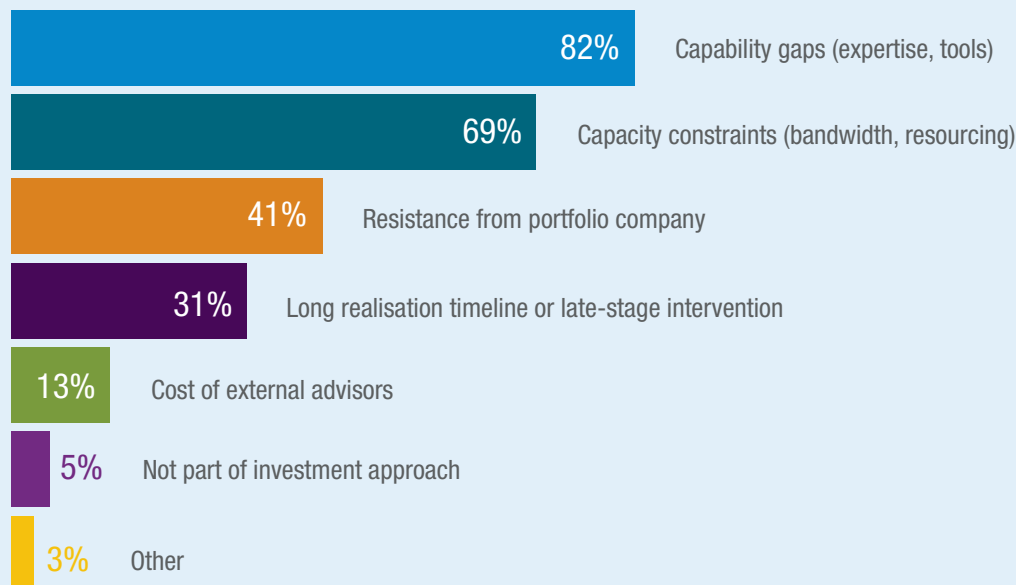
CAPABILITY GAPS REMAIN KEY BARRIERS TO EXECUTION

Despite the growing emphasis on value creation, execution remains difficult. A striking 82% of respondents identified capability gaps as the main barrier to execute value creation plans. These gaps often stem from a lack of deep functional expertise in specific industries, or limited access to digital and technology tools that are increasingly essential for optimising processes. Capacity constraints are another major hurdle, with 69% of funds reporting challenges in this area.

⁵ <https://www.preqin.com/insights/research/reports/australian-private-capital-2025-yearbook-a-calm-port-in-a-wild-storm>



Figure 7

Q: What are the main barriers to value creation plans?

Deal and portfolio teams frequently find themselves under-resourced or stretched across multiple assets – an issue that has been exacerbated in recent years by a shortage of high-calibre, PE-ready talent, particularly in specialised roles (e.g. technology or finance leaders) or industries. The importance of talent also underscores a new logic in PE, where multiple expansion can no longer be counted on to deliver returns and gains can only be achieved through improving businesses' revenues and margins.

Resistance within the portfolio was the third most-cited barrier (41%). This resistance is particularly common in rapidly changing businesses, regulated industries, or in cases where alignment between investor and management is weak.

Finally, 31% of respondents pointed to late-stage intervention as a detriment to value creation. In many cases, value creation initiatives are only launched after problems have become apparent, rather than proactively during the early hold period.



PLANNING STARTS EARLIER, AND EXECUTION STARTS ON DAY 1

According to the survey, 70% of funds typically develop value creation plans during the diligence phase, and 86% start to execute them either within the first 100 days or the first 12 months of ownership.

Funds are using this early window to launch cost programmes, align on KPIs, build execution governance and de-risk growth plans. Several now treat Day 1 readiness as a formal workstream in their investment process.

This front-loaded approach not only builds early momentum, but also sets a clear foundation for delivery, especially important given longer exit timelines and volatile markets.

The emphasis on Day 1 execution of PE funds in Australia aligns closely with the practice of their counterparts in South East Asia, where 65% of respondents in a survey said they craft their strategy within the first 100 days or first year of investments. In the U.S., this percentage rises to 85%.

While Australian funds are showing agility in designing and implementing value creation strategies, exit preparation emerges as a notable gap. According to our survey, very few PE funds incorporate exit readiness into their value creation plans. This is consistent with our experience working with clients on the ground, where we see Australian funds often lagging their global peers in exit strategy and planning.

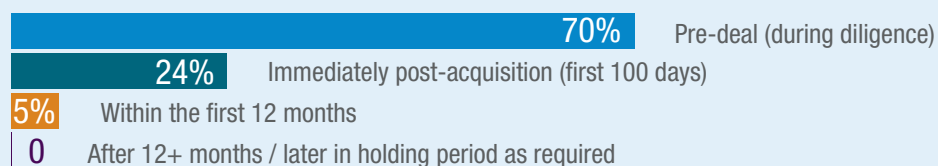


This can be attributed to the relative immaturity of the Australian market compared to the U.S. and Europe, which is evidenced by the different levels of adoption of global best practices. For example, the pool of operating partners available to Australian PE funds remains limited, with the concept – long-established in the U.S. and Europe – only introduced at scale less than a decade ago.

Figure 8

Q: When do you typically plan and execute value creation?

Plan Development



Plan Execution

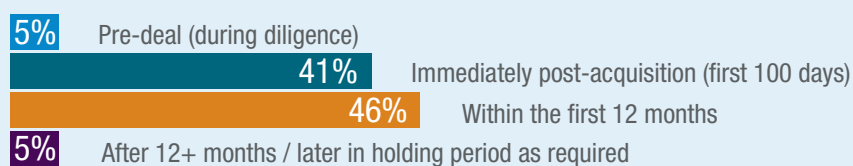
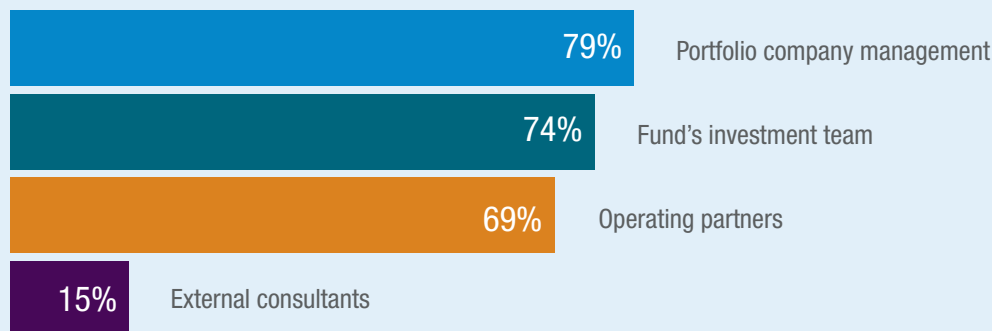




Figure 9

Q: Who drives your value creation programmes?



THE “MAGIC TRIANGLE” OF VALUE CREATION EXECUTION

Large-scale operational transformations have become a cornerstone for value creation, but executing and delivering these increasingly ambitious projects is no small feat, especially in the volatile macro environment of late.

Our survey reveals that PE funds increasingly recognise the power of investment teams, operating partners and company management working shoulder to shoulder to deliver on such complex transformations.

The importance of this “magic triangle” of collaboration is clear, with respondents citing portfolio company management, operating partners and the fund’s investment team as the top drivers of value creation programmes.

Aligned with trends in more developed PE markets, the relevance of operating partners in post-deal transformation has gained momentum in Australia in recent years, particularly as funds find themselves stretched and under pressure to deliver high-impact change across their growing portfolio of assets.

The expertise of these hands-on leaders is most valued in the following areas:

- Operating improvement:** 93% of funds rely on these professionals to drive initiatives and provide functional expertise in areas including finance, commercial and supply chain management.
- Leadership support:** coaching and support senior leadership, cited by 59% of respondents.
- Performance management:** 41% say operating partners contribute to implementing performance management systems and KPIs.



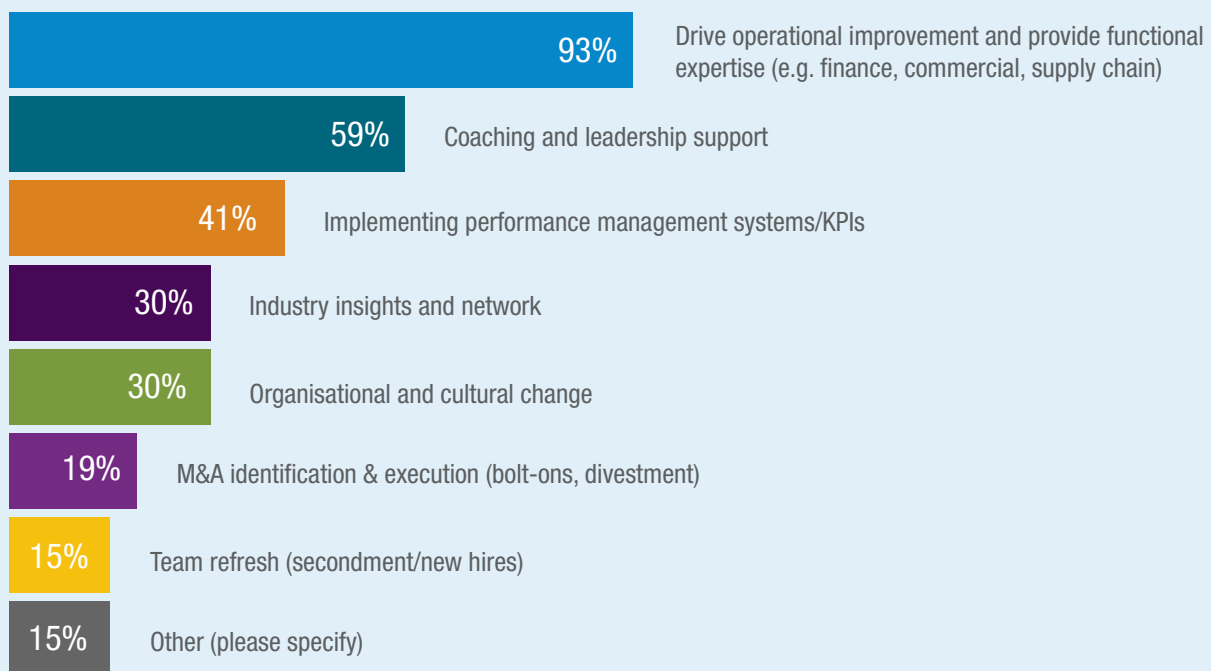


“Some respondents highlighted the support of operating partners for strategic planning and governance.”

Other less-cited expertise includes industry insights and network (30%), organisational and cultural change (30%), M&A identification and execution (19%) and team refresh (15%). Some respondents highlighted the support of operating partners for strategic planning and governance.

Figure 10

Q: How do operating partners contribute to value creation?



VALUE CREATION AMBITIONS ARE EXPANDING



In a world with expensive capital, extended hold periods, and more scrutiny from investors, delivering tangible EBITDA impact has never mattered more.

This is reflected in funds' shift to a more balanced approach to value creation, in which both cost and revenue levers are activated simultaneously, and often early in the hold period.

Beyond the traditional value levers, areas like AI and ESG are starting to appear more frequently in value creation plans. These newer tools are often ambition-led but execution-light. While execution plans are expanding, the ability to deliver consistently and at scale remains patchy.



REVENUE GROWTH GAINS PROMINENCE IN VALUE CREATION PLAYBOOKS

The data suggests that PE funds in Australia are moving beyond traditional cost-out models. When asked about their value creation priorities, 74% of those surveyed reported a dual focus on revenue growth and cost reduction initiatives.

This reflects a broader trend among PE funds globally – evident in our surveys across South East Asia, U.S. and

Europe – toward a more balanced approach to value creation that combines sustainable revenue growth and cost improvement measures.

Among those focused on growth, the most cited initiatives include market expansion (76%), pricing optimisation, and market and customer acquisition (both 73% of responses).

Figure 11

Q: What type of initiatives do you prioritise in value creation?

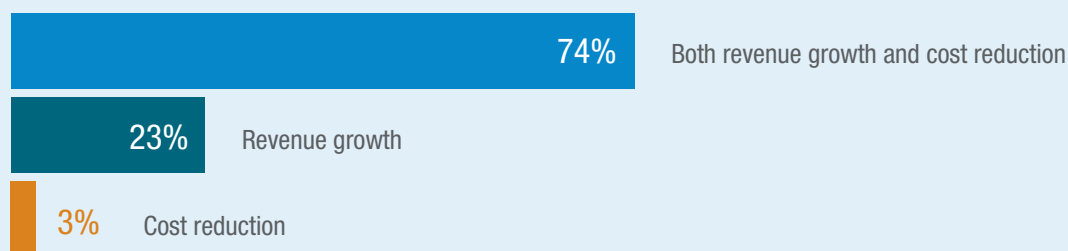
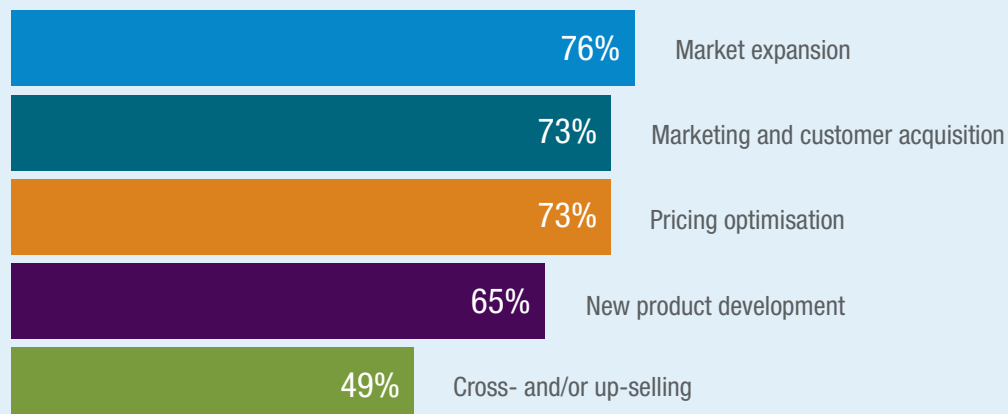




Figure 12

Q: What revenue growth initiatives are being deployed?

“Growth initiatives tend to rely more heavily on existing management capability or founder-led intuition.”

In our work with clients, we have found that revenue growth initiatives are often more difficult to institutionalise and scale consistently than cost-out initiatives. While most PE funds have tried-and-tested playbooks for procurement or Selling, General and Administrative Expenses (SG&A) optimisation, fewer have institutional tools for pricing, commercial execution or go-to-market strategy. As a result, growth initiatives tend to rely more heavily on existing management capability or founder-led intuition, thus making outcomes less consistent and repeatable across the portfolio.

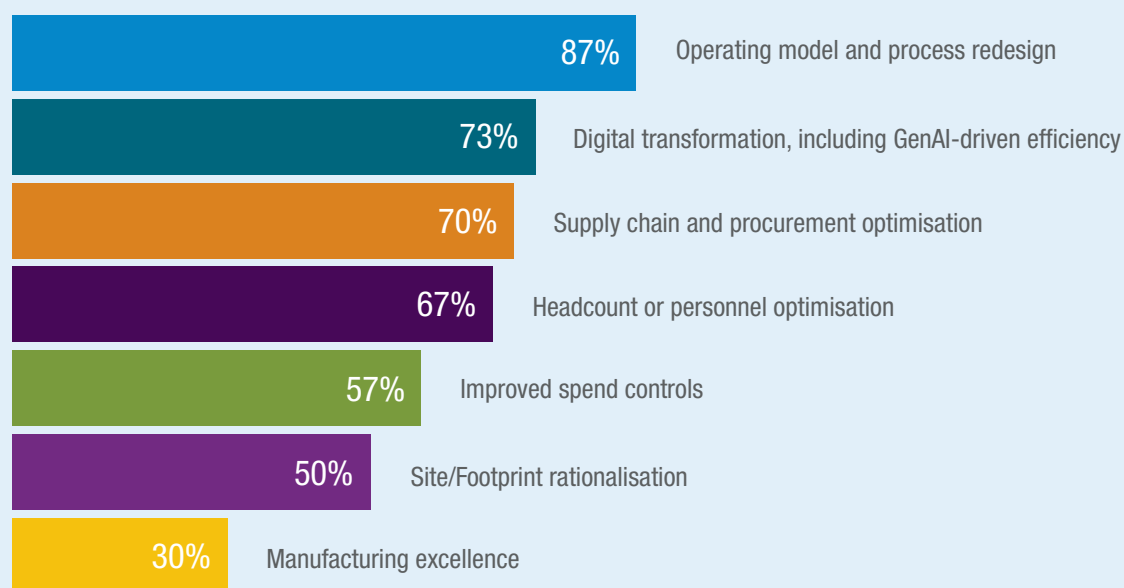




In contrast, cost programmes remain more codified and widely deployed. Common levers include operating model and process improvement, cited by 87% of funds, digital transformation, including Generative AI-driven efficiency measures (73%) as well as supply chain and procurement optimisation (70%). Based on our observations, these initiatives tend to be launched within the first 100 days post-close and can be more reliably scaled across different assets.

Figure 13

Q: What cost reduction initiatives are being deployed?





AI IS ALREADY A REALITY (AT LEAST IN PRE-DEAL DILIGENCE)

The wave of AI has been building steadily across the PE and corporate landscape for years since its early breakthroughs. What has changed is the urgency. With rising cost pressure and promising productivity gains potential, AI has moved from a talking point in investment thesis to a serious part of the value creation agenda.

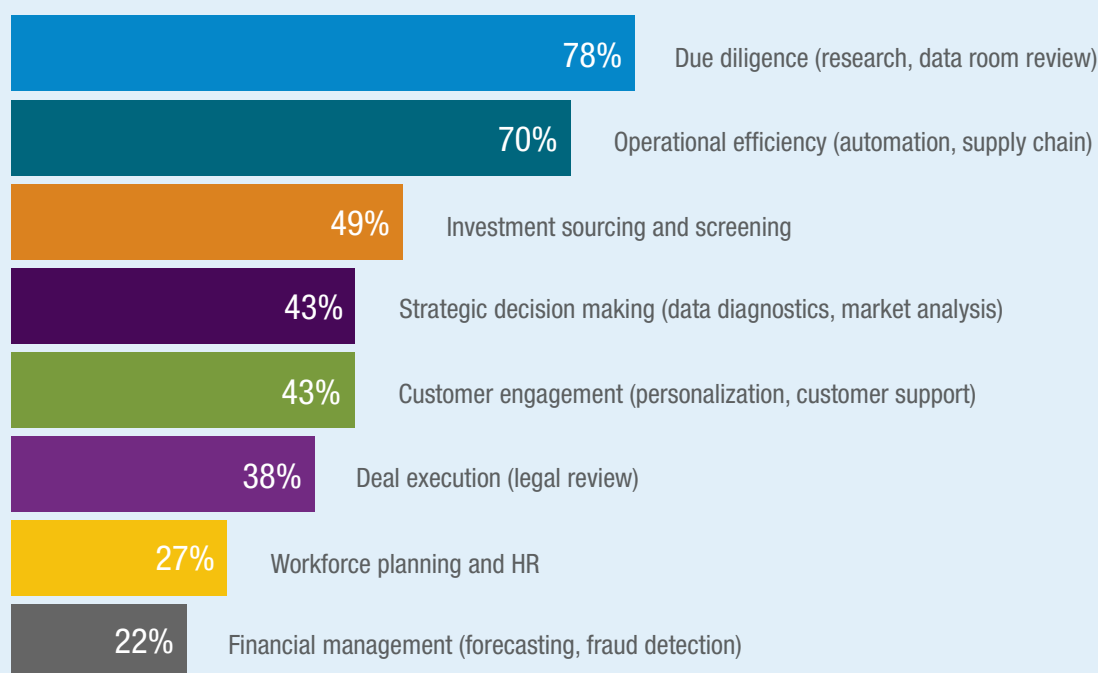
In our survey, 50% of respondents say they are currently using AI in both pre-deal diligence and post-deal value creation, suggesting Australian funds are just as advanced

as more mature PE markets like the U.S. and Europe in embracing AI. Also, encouragingly, 37% said they were exploring AI even if not implementing it just as yet.

With an additional 11% of PE funds already using AI for diligence but planning to expand to value creation, the survey suggests most adoption has been concentrated in pre-deal work, where the technology has solid applications in red-flag identification, memo drafting and market scanning.

Figure 14

Q: How are you using or planning to use AI in your diligence and post-acquisition value creation plans?





Indeed, the most common AI use case identified in the survey, cited by 78% of respondents, is in due diligence (e.g. research, data room review), with investment sourcing/screening and deal execution also highlighted as relevant applications (49% and 38% of responses, respectively).

Post-acquisition, AI deployment is concentrated in operational efficiency initiatives, including automation and supply chain management, highlighted by 70% of respondents. Strategic decision-making, where AI is used to support data diagnostics and market analysis, is another important application. Fewer PE funds cited financial management, or workforce planning and HR, as typical use cases.

These findings reflect our experience working with PE funds and portfolio company teams in Australia. Having seen AI's well-established use cases in pre-deal, operators are eager to use AI to realise value from assets after completion. However, many teams still struggle to identify the exact and most impactful use cases in post-deal value creation. This is partly explained by the lack of proven, scalable AI use case models with clear ROI, as well as the need for significant customisation (and often investment) to suit the specific context of each portfolio company.



ABILITY TO EXECUTE WILL DICTATE SUCCESS

From our work with clients, we see a clear divide in the ability to execute. On the one hand, more established or traditional businesses often grapple with fragmented systems and legacy data, limiting them in turning AI ambition into value. Implementation here requires a patient, incremental approach that focus on modernising the existing infrastructure to enable AI deployment. A shortage of delivery talent and lack of clarity on where and how AI can truly move the needle can also be hurdles in the way of translating concepts into concrete, high-ROI (return on investment) use cases.

On the other hand, digital native or carve-out assets offer a blank canvas. AI use cases like dynamic pricing, forecasting engines, or AI-driven customer segmentation can be deployed much faster in these cases, especially when paired with modern cloud infrastructure and embedded digital leadership.



ESG: NOT JUST A BOX TO TICK

ESG has become a standard part of the private equity investment playbook. Most PE funds now consider ESG in their value creation plans, and 47% in our survey do so driven by value, and less for compliance (16%) or specific business needs (37%).

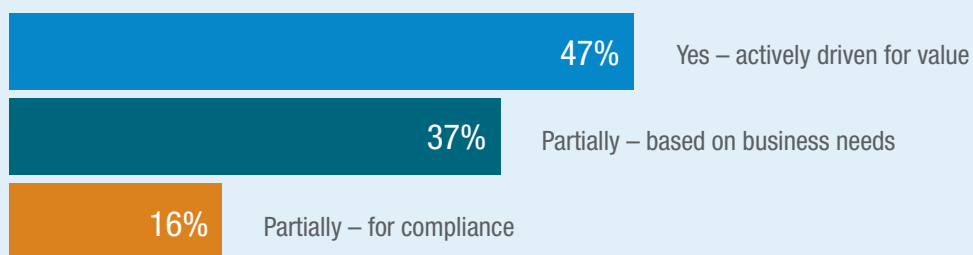
This underscores a significant shift from the days when ESG was only treated as a checklist item to meet investors' expectations or exit due diligence. As such, ESG considerations were rarely integrated into day-to-day operations, and largely disconnected from the commercial levers that drive performance.

That's starting to change in certain sectors, for example infrastructure, energy, healthcare, and education, where ESG credentials are becoming a key part of the exit narrative. Leading funds in these spaces are moving beyond disclosure and using ESG to strengthen pricing, reduce regulatory risk, and improve asset positioning. Some examples we have seen include:

- Linking ESG performance to board KPIs and incentive structures.
- Using sustainability metrics to support procurement decisions or pricing models.
- Embedding ESG targets directly into operational scorecards (e.g. workforce safety, diversity targets).

Figure 15

Q: Is environmental, social and governance (ESG) considered in value creation plans?





In a market shaped by extended hold periods, trade disruptions and geopolitical uncertainty, Australian PE funds are operating under a fundamentally different mandate compared to even five years ago. In this new context, the role of value creation has fundamentally shifted from opportunistic uplift to a core driver of enterprise value.

Four themes emerge:

- a. **Value creation cycles are being extended.** Amid an exit logjam, PE funds are having to hold on assets for longer, but they are not staying still: most funds are intensifying their focus on operational improvements to unlock value and be ready to sell when the market improves.
- b. **Planning for “certain uncertainty”.** Tariff disruptions have added impetus to initiatives designed to increase assets’ resilience and mitigate rising costs from trade and other macroeconomic shocks. Funds are also expanding the scope of M&A diligence to address escalating tariff risks.
- c. **Operational levers are returning to the centre stage.** In times of limited multiple expansion and higher cost of capital, funds are doubling down on the fundamentals to enhance the value of aging assets. This is being done by driving margin improvement and commercial excellence, often supported by AI, and is increasingly jointly delivered by company management, investment teams, operating partners and advisors.
- d. **Newer themes like ESG and AI are entering the value creation agenda, but execution remain a challenge.** While most firms recognise the potential and importance, only a subset have the infrastructure and capability to turn ambitions into value delivery.

Looking ahead, discipline matters more than ever. The most successful players are not those chasing the most levers, but those focusing on a few material ones that truly move the needle, and executing with clarity, speed and alignment.





HOW A&M CAN HELP

We provide an integrated approach for private equity firms to improve performance across the PE investment lifecycle. Pre-deal, we assess the value generation potential of target businesses. Post-deal, we develop 100/200-day plans; enhance reporting; provide cash and working capital management; 18 months to exit planning and implementation support; plan and execute carve-outs; design and initiate performance improvement programmes; execute value-critical changes and get your business ready for onward sale.



06/ METHODOLOGY

In July and August of 2025, Alvarez & Marsal (A&M)'s Private Equity Performance Improvement team in Australia conducted a survey targeting 120 fund managers and operating partners from the top PE funds active in the Australian market, spanning a mix of globally and domestically focused firms across different investment mandates. Responses and insights from over 40 market participants were benchmarked against those from over 300 funds surveyed by A&M in Europe, the U.S. and South East Asia earlier this year.

The survey predominantly contained closed questions and was conducted through an online questionnaire. Results were collated and analysed by Alvarez & Marsal and are presented here anonymised.

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