AI-READY OR AI-EXPOSED? THE NEW DILIGENCE QUESTION FOR EVERY DEAL

WHAT SEPARATES COMPANIES THAT BENEFIT FROM AI FROM COMPANIES THAT ARE MERELY EXPOSED TO IT

isn
INSIGHTS

EXECUTIVE SUMMARY

AI has moved from a talking point in the investment committee to a line item in the diligence checklist. The question worth asking about any target is no longer whether AI matters to the business. It is whether the business is positioned to benefit from AI, or exposed to being disrupted by it, and increasingly, whether it is both.

EY's Private Equity Pulse for the first half of 2026 shows this shift happening in real time. Sixty percent of PE firms report increased diligence specifically on AI disruption risk, sixty four percent report increased overall selectivity, and technology's share of global PE deployment by value fell from roughly 30% in 2025 to just 12% in the first quarter of 2026. Capital is not avoiding AI exposure. It is pricing it more carefully.

For Independent Sponsors evaluating lower middle market targets, this means AI diligence can no longer be a single question about whether a company "uses AI." It has to be two separate questions with two separate answers.

TWO DIFFERENT QUESTIONS, NOT ONE

The first question is whether the target is AI ready: does it have the data infrastructure, systems, and processes in place to actually deploy AI tools and see a return. The second is whether the target is AI exposed: does its business model, cost structure, or competitive position face disruption from AI adopted by competitors, customers, or new entrants.

A company can be AI ready and still AI exposed. A company can also look unaffected by AI today and be highly exposed within a single hold period. Bain's 2026 Global M&A Report, based on a survey of roughly 300 senior M&A executives, found that AI tool usage in M&A more than doubled year over year, with a third of firms now using it systematically rather than experimentally. That pace of adoption on the buy side is a signal of how quickly the underlying businesses themselves are being reshaped.

THE GAP BETWEEN ADOPTION AND INTEGRATION

Enthusiasm is not the same as capability. FTI Consulting's 2026 survey of 200 fund and operating leaders found that only 36% of respondents say portfolio companies actually use AI in day to day operations, and just 7% describe it as fully integrated. That gap between stated interest and operational reality is worth probing directly in diligence rather than taking at face value.

A separate industry analysis found a majority of practitioners currently rate AI as ineffective for both deal sourcing and portfolio monitoring, and points to infrastructure gaps as a leading contributor. Firms and sponsors who address that data layer put themselves in a better position to capture value as tools mature, though infrastructure is one input among several, including management capability and sector dynamics.

WHY DATA AND SYSTEMS ARE A MAJOR FACTOR IN READINESS

The gap between AI ambition and AI results often comes down to data quality. RSM's Middle Market AI Survey found that executives cite data quality as the largest barrier to AI adoption, ahead of security, privacy, and legacy systems. A recent midyear industry analysis distilled this into a practical readiness framework: clean data and a modern, connected infrastructure layer are among the conditions that most consistently separate initiatives that work from those that stall.

This has direct diligence implications. A target with fragmented spreadsheets, disconnected systems, and inconsistent records is likely to need real investment before AI can create value, whatever management's stated plans. That is not the only variable that determines outcomes, but it is one diligence can actually verify, which makes it a natural starting point.

WHAT THIS MEANS FOR INDEPENDENT SPONSOR DILIGENCE

For Independent Sponsors, this translates into concrete diligence questions that go beyond the standard financial and operational review. What systems generate the company's core data, and how clean and connected are they. Where is the business exposed to AI-enabled competitors or AI-driven customer behavior change. Where could AI plausibly improve margin or growth within a realistic hold period, and what would it cost to get there.

These questions matter regardless of deal size. EY's data shows increased AI disruption diligence and increased selectivity moving together, which means capital providers are already applying this lens whether or not a sponsor asks the question first.

WHAT ACTUALLY MATTERS NOW

01

Diligence AI readiness and AI exposure as two distinct questions, not one.

02

Treat data quality and system connectivity as a meaningful diligence item, not a post-close operating concern.

03

Assess disruption risk from AI-enabled competitors and customers, not just the target's own AI usage.

04

Size any AI-related value creation plan against realistic infrastructure costs, not vendor promises.

Data and systems are not the whole story of whether a company benefits from AI, but they are one of the few parts of that story diligence can actually test before close.

For Independent Sponsors, that makes AI diligence less about the technology itself and more about a question private equity has always asked in one form or another: is this business actually built to execute on what it says it can do.

EY, Private Equity Pulse, Q1 2026 and H1 2026
Bain & Company, Global M&A Report 2026
Bain & Company, 2026 Midyear Private Equity Report
RSM, Middle Market AI Survey (2026)
FTI Consulting, 2026 survey of fund and operating leaders
PwC, Global M&A Industry Trends: 2026 Mid-Year Outlook

DISCLAIMER

This presentation does not constitute an offer to sell or the solicitation of an offer to purchase any security. Recipients of this presentation agree that none of Independent Sponsor News ("ISN") or its affiliates or its or their respective partners, members, employees, officers, directors, agents, or representatives shall have any liability for any misstatement or omission of fact or any opinion expressed herein. Each recipient further agrees that it will (i) not copy, reproduce, or distribute this presentation, in whole or in part, to any person or party including any employee of the recipient other than an employee directly involved in evaluating an investment in any funds (the "Fund or Funds") without the prior written consent of ISN; and (ii) keep permanently confidential all information contained herein that is not already public. The information contained herein is preliminary, is provided for discussion purposes only, is only a summary of key information, is not complete, and does not contain certain material information about the Fund, including important conflicts disclosures and risk factors associated with an investment in the Fund, and is subject to change without notice. Any offer, sale or solicitation of interests with respect to the Fund will be made only pursuant to the Fund's confidential private placement memorandum (the "Memorandum"), limited partnership agreement, and subscription agreement, and will be subject to the terms and conditions contained in such documents in accordance with applicable securities laws. This presentation is qualified in its entirety by reference to the Fund's Memorandum, including without limitation all of the cautionary statements and risk factors set forth therein, the limited partnership agreement and the subscription agreement related thereto, copies of all of which will be made available in the future to qualified investors upon request and should be read carefully prior to any investment in the Fund. The information in this presentation is not presented with a view to providing investment advice with respect to any security, or making any claim as to the past, current or future performance thereof, and ISN expressly disclaims the use of this presentation for such purposes. Each recipient should consult its own advisers as to legal, business, tax and other related matters concerning an investment in the Fund. Past performance is not necessarily indicative, or a guarantee, of future results. Information about the Fund and prior investments made by ISN is provided solely to illustrate ISN' investment experience, and processes and strategies. Such information is not intended to be indicative of the Fund's future results. There can be no assurance that the Fund will achieve comparable results as those presented or that the Fund will be able to implement its investment strategy or achieve its investment objective. Investors in the Fund may lose part or all of their invested capital. Statements contained in this presentation are based on current expectations, estimates, projections, opinions and beliefs of ISN as of the date hereof. Such statements involve known and unknown risks and uncertainties, and undue reliance should not be placed thereon. Neither ISN nor any of its affiliates makes any representation or warranty, express or implied, as to the accuracy or completeness of the information contained herein and nothing contained herein should be relied upon as a promise or representation as to past or future performance of the Fund or any other entity. Unless otherwise noted, the information contained herein is unaudited and may be preliminary and subject to change, and ISN and its members, partners, stockholders, managers, directors, officers, employees and agents do not have any obligation to update any of such information. Certain figures in this presentation have been rounded. In addition, certain information contained herein has been obtained from published and non-published sources and / or prepared by third-parties, and in certain cases has not been updated through the date hereof. While such information is believed to be reliable for the purposes of this presentation, ISN assumes no responsibility for the accuracy or completeness of such information and such information has not been independently verified by it. Certain information contained herein constitutes "forward-looking statements," which can be identified by the use of terms such as "may," "will," "should," "could," "would," "predicts," "potential," "continue," "expects," "anticipates," "projects," "future," "targets," "intends," "plans," "believes," "estimates" (or the negatives thereof) or other variations thereon or comparable terminology. Forward looking statements are subject to a number of risks and uncertainties, some of which are beyond the control of ISN, including among other things, the risks listed in the Memorandum. Actual results, performance, prospects or opportunities could differ materially from those expressed in or implied by the forward-looking statements. Additional risks of which ISN is not currently aware also could cause actual results to differ. In light of these risks, uncertainties and assumptions, prospective investors should not place undue reliance on any forward-looking statements. The forward-looking events discussed in this presentation may not occur. ISN undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

isn
INSIGHTS