

MARKET VIEWPOINT

The Digital-AI Convergence: An Investment Perspective

Sai Devabhaktuni

Senior Managing Director, Private Equity

Key Takeaways

AI-enabled digital transformation is reshaping organizational and consumer behaviour, as converging technologies – from cloud infrastructure to data platforms – accelerate productivity and compress decision cycles.

The current AI cycle resembles a modern gold rush, with capital chasing stretched valuations and creating a “math problem” for investors who must reconcile exuberant pricing with the timing and durability of future cash flows.

Foundational infrastructure and geopolitics have become central investment considerations, as constraints in power, connectivity, and semiconductors intersect with evolving regulatory regimes and national security priorities.

Successful investors will balance conviction with discipline, focusing on durable competitive advantages, thoughtful risk management, and creative capital structures rather than simply pursuing every AI-linked opportunity.

Digital transformation, powered by artificial intelligence (AI) and broader technological advances, is driving fundamental changes in organizational and consumer behaviour.

This convergence increases productivity, accelerates decision-making, and reshapes competitive dynamics across industries. While AI represents a critical component of this transformation, success requires integrating multiple technological and strategic imperatives (from cloud infrastructure to data analytics to customer experience platforms) into cohesive approaches that deliver strong commercial outcomes.

The Investment Landscape in Digital Transformation

The current AI investment landscape resembles a gold rush, with capital flooding into anything remotely connected to artificial intelligence, driving significant valuation uplift. While early value creation benefits from AI implementation are materializing, certain investors are chasing valuations for fear of falling behind. This fervor manifests in several ways: pre-revenue startups command valuations historically reserved for mature, profitable companies, while public markets exhibit exuberance with double-digit stock price percentage moves triggered by AI-related news. The true return on invested capital (ROIC) for AI projects remains to be determined, and in the case of Industrial AI – the adoption and productivity impacts has followed a “J-Curve” pattern as cited in recent paper¹ by leading academics.

Notably, certain parallels exist between today’s AI boom and the dot-com era. Both periods feature transformative technologies with grand visions, massive capital deployment, and fierce competition for talent, driven and also significantly by “fear of missing out”. However, today’s AI era differs from the dot-com era in critical ways: capital requirements for AI development create higher

barriers to entry (disproportionately benefiting hyperscalers), top-level infrastructure already exists, productivity benefits are more immediate, and regulatory attention is greater. Perhaps most critically, unlike the dot-com era’s cash-burning startups with unproven business models, many of today’s AI leaders (including hyperscalers and established software companies integrating AI) generate cash flows and operate profitable core businesses. This fundamental difference provides a financial cushion that reduces systemic risk, as these companies can fund AI investments from existing operations rather than relying solely on external capital markets. The key question remains whether current valuations justify both the magnitude and timing of future cash flows. While AI’s utility may provide a higher floor than that which existed for many dot-com companies, that floor might still lie well below current valuations. Investors need to be mindful of this “math problem” in a market that is increasingly being stretched. Indeed, a recent JP Morgan analysis² characterizes the current market by noting that “the generative AI investment theme has smothered the rest of the US equity market.”

1 The Rise of Industrial America: Microfoundations of the Productivity J-curve(s)”, by McElheran, Yang, Kroff, and Brynjolfsson (2025)

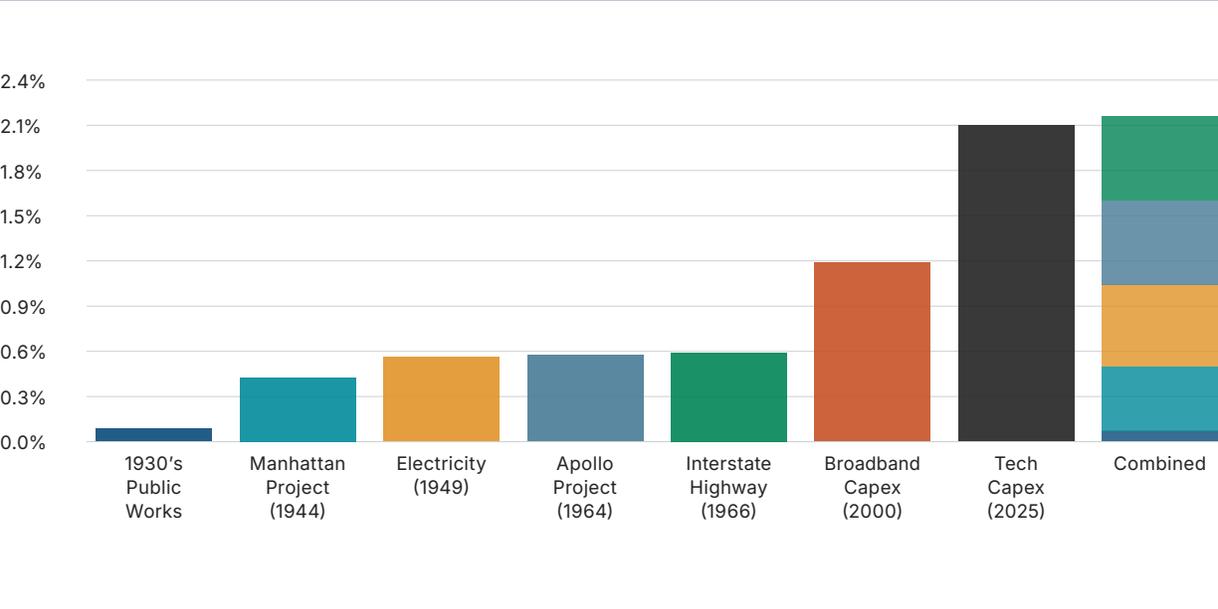
2 “Smothering Heights”, Eye on the Market | Outlook 2026, JP Morgan (2026)

Navigating Change and Capturing Emerging Opportunities

As organizations grapple with comprehensive digital evolution, investors who understand both AI-driven disruption and broader digital transformation can position themselves to capitalize on emerging category leaders and critical enablers. Capital flows toward companies demonstrating innovative leadership across the digital spectrum whether through AI leadership, cloud migration excellence, digital customer engagement, or workforce productivity optimization. A recent report³ by JP Morgan illustrates today's setting as 2025 technology capital expenditures (~ 2.1% of GDP) now exceeds the peak annual spending of many of America's most ambitious infrastructure projects.

Tech Capital Spending In 2025 vs Spending on Major US Infrastructure Projects

Peak Annual Project Percent of GDP



Source: Manhattan District History, BEA, Planetary Society, Eno Center for Transportation, San Francisco Fed, Hoover Archives, Baruch, GoldenGate.org, New York Times, JPMAM. 2025³

3 "Smothering Heights", Eye on the Market | Outlook 2026, JP Morgan (2026)

Foundational Barriers: Critical Infrastructure to the Realities of Geopolitics

While transformation creates uncertainty, it rewards those providing essential infrastructure. Fibre optic expansion remains fundamental, particularly as autonomous systems and real-time analytics demand ultra-low latency. However, AI and data centre growth faces critical bottlenecks: power grid capacity, cooling system limitations, interconnect constraints (spanning processors, storage, and memory), and water resource requirements often conflict with sustainability goals.

These constraints create challenges for hyperscalers while opening opportunities for infrastructure solution providers. According to a recent McKinsey & Company report⁴, AI-related data centre capital expenditures could reach US\$8 trillion by 2030.

Global Data Center Total Capital Expenditures Driven by AI

By category and scenario, 2025-30 projection, US\$ trillion

Scenario	Data center infrastructure ¹	IT equipment ²	Power ³	Total	Incremental AI capacity added, 2025-30, gigawatts
Accelerated demand	2.6	4.7	0.6	7.9	205
Continued momentum	1.6	3.3	0.3	5.2	124
Constrained momentum	1.0	2.6	0.2	3.7	78

Note: Figures may not sum to totals, because of rounding. 1) Excludes IT services and software (eg, operating system, data center infrastructure management), since they require relatively low capex compared with other components. 2) Includes server, storage, and network infrastructure. IT capex also accounts for replacing AI Accelerators every 4 years. 3) Assume \$2.2 billion - \$3.2 billion/gigawatt (including power generation and transmission cost) to account for a range of power generation scenarios (eg, fully powered by gas, a combination of gas power and storage, and solar) and regional cost differences. Distribution cost is neglected, as most AI centers are expected to be >50 megawatt scale and connected to a transmission grid.

Source: McKinsey Data Center Capex TAM Model; McKinsey Data Center Demand Model

Beyond physical constraints lies an equally critical challenge: the geopolitical landscape that is reshaping AI's future. Chip manufacturing concentration has transformed semiconductors from commercial components into national security assets, with governments wielding export controls in their strategic arsenal. This shift fundamentally alters supply chain dynamics that once flowed across borders to what now is a navigation of a labyrinth of restrictions. In addition, regulatory frameworks remain embryonic, with governance structures still evolving in today's digitally transformative world. As a result, investors will need to assess not just technical capabilities and supply/demand factors but also jurisdictional risks and changes in public policy.

4 "The cost of compute: A \$7 trillion race to scale data centers" by McKinsey & Company. (April 2025)

Sector-Specific Impacts

In technology, software-defined networks provide essential scalability and flexibility. Data has become the defining asset; companies with superior collection, processing, and algorithmic capabilities (and those with proprietary data) will flourish. Shortened decision cycles and demand-responsive dynamic pricing fundamentally alter competitive dynamics, amplifying both opportunities and threats.

Traditional boundaries between telecommunications, media, and technology continue to dissolve through digital convergence. Integrated digital offerings dominate strategic discussions, with value creation focused on comprehensive customer experiences that span multiple touchpoints and technologies; cross-selling and upselling are key value creation drivers.

All sectors face common digital transformation forces, and the speed of advancement compels action:

▪ Vertical Software

Digital transformation elevates vertical software from basic workflow tools to comprehensive intelligence platforms. Companies now embed industry-specific capabilities combining AI models with domain expertise, regulatory compliance, and process automation. Legal platforms leverage both AI and traditional analytics for contract analysis, healthcare systems integrate diagnostic AI with electronic health records, and logistics firms optimize through a combination of AI, internet of things ("IoT") sensors, and predictive analytics. Network effects emerge from aggregating customer data to improve both AI models and traditional analytical tools. However, smaller vertical software companies face dual pressures: the high costs of developing and maintaining competitive AI capabilities may strain resources, while the risk of disintermediation by larger platforms with superior AI remains significant. Additionally, as AI lowers barriers to application development and reduces production costs, the defensibility of smaller, specialized tools may erode as competitors can more easily replicate niche functionality.

▪ Office of the CFO (OCFO)

Digital transformation has revolutionized financial planning through cloud-based systems, real-time data integration, advanced analytics, and AI-enhanced forecasting. CFOs now leverage comprehensive digital toolsets for scenario modeling, risk assessment, and strategic planning. The democratization of financial data and analytical tools transforms the CFO's role from gatekeeper to strategic advisor and transformation officer. Modern OCFO platforms increasingly integrate enterprise resource planning, financial planning and analysis, and business intelligence into unified ecosystems, enabling continuous close processes and automated reporting. The emergence of AI-powered anomaly detection, predictive cash flow management, and intelligent audit tools create opportunities for solutions that reduce manual reconciliation while improving accuracy. As finance teams become more strategic, demand grows for platforms that seamlessly connect financial data with operational metrics, enabling CFOs to provide real-time insights on unit economics, customer profitability, and investment ROI across an enterprise.

▪ Regulatory & Compliance

Digital technologies transform compliance from reactive checking to proactive risk management. Automation, AI, and digital workflows enable rapid regulatory analysis and policy mapping. Rapid analysis of regulatory documents enables earlier risk identification. As AI adoption accelerates across industries, significant opportunities emerge for Governance, Risk and Compliance (“GRC”) technology providers to address entirely new compliance challenges. Companies will require sophisticated tools for AI governance, model risk management, algorithmic auditing, and bias detection. The complexity of cross-border AI deployment creates demand for platforms that can navigate multiple regulatory frameworks simultaneously, while the need for real-time compliance monitoring and automated reporting systems presents additional growth vectors for innovative GRC solutions.

▪ Media

Digital transformation revolutionizes customer engagement through omnichannel experiences, data-driven personalization, and AI-enhanced content creation. Advertising continues to shift from 20th century platforms (TV and radio) to modern digital mediums, including digital out-of-home, social media, and other online channels. This evolution combines sophisticated targeting capabilities with programmatic buying, dynamic content optimization, and real-time analytics across all touchpoints. Creative production benefits from both AI tools and broader digital workflows enabling rapid iteration and personalization at scale.

Certain market segments face disruption and warrant caution, including companies built on high-volume, low-quality content production, routine legal document preparation, basic tax filings, and professional services focused on more routine tasks. Customer service call centres face risk, as well as basic medical coding, invoice processing, and document digitization services. These areas face pressure from broader AI automation and broader digital transformation.

Managing Risk in Transition: Reimagining the Possible

AI-driven efficiency gains catalyze workforce transformation, restructure value chains, and compel companies to fundamentally reconsider workforce composition. Organizations that successfully balance technology integration with human capabilities will thrive, but also the degradation of human critical thinking skills is quite possible. Traditional competitive advantages (including specialized knowledge and established relationships) may diminish as AI rapidly learns and adapts, while industry boundaries become increasingly fluid. The emergence of agentic AI workflows poses a challenge to software vendors relying on seat-based pricing models. As AI agents autonomously handle tasks previously requiring multiple human users, the traditional correlation between employee count and software licenses breaks down. Companies may significantly reduce their seat counts while maintaining or increasing productivity, forcing incumbent SaaS providers to rapidly pivot toward usage-based, outcome-based, or value-based pricing models. This shift particularly affects mid-market software companies whose economics depend on predictable per-seat revenues, while creating opportunities for new entrants with AI-native pricing architectures.

Boston Consulting Group (BCG) cites that “Most AI Roadblocks Involve People, Organization, and Processes” in their “10-20-70 model”, with obstacles including alignment on strategy, shortage of AI talent and social resistance.⁵ Organizations must balance the risks of moving too fast (implementation failure) against moving too slow (competitive displacement). Companies may struggle to balance immediate competitive pressures with thoughtful integration needs, while different organizational units may advance at incompatible speeds, creating operational fractures. The transition follows familiar enterprise software adoption patterns (from proof of concepts, controlled pilots, to phased rollout) but with potentially transformative impacts on productivity and workflows. Most organizations will leverage third-party AI solutions through standard SaaS procurement models, treating AI adoption as operational expenditure rather than major capital investments. Managing human capital is paramount during this transition as the skills gap between current workforce and those needed in a world of AI needs to be addressed and may be partially solved by AI education and training.

The Quantum Computing Horizon

Quantum computing represents a potentially transformative longer-term opportunity as an AI accelerator. Though largely experimental today, this technology could solve optimization problems at exponential rates, fundamentally changing the computational landscape. However, quantum computing's ability to potentially break current cryptography systems poses significant security concerns.

Indeed, a recent survey by Bain “on the implications of post-quantum cryptography on cybersecurity found that 73% of IT security professionals expect this to be a material risk within five years, and 32% expect it within three years, though some expect it will take longer.”⁶ How the cybersecurity community responds to this “Q-Day” remains to be seen, but one thing is clear – cybersecurity budgets at corporations and governments will increase over the secular horizon and beyond.

5 “The Widening AI Value Gap”, by Boston Consulting Group (BCG) (2025)

6 “Technology Report 2025, by Bain & Company (2025)

BCI's Disciplined Approach to Digital Transformation Investing

A disciplined investment approach in this environment focuses on companies with sustainable competitive advantages in proprietary data, specialized talent, unique model architecture, or strong network effect rather than products with rudimentary prototype capabilities alone. This requires greater scrutiny of paths to profitability and whether business models can survive when capital becomes expensive and/or becomes scarcer. Building a margin of safety requires healthy skepticism and appropriate time horizons.

At BCI, we evaluate risks and opportunities across the full scope of digital transformation. Our investments in digital infrastructure, media, and vertical software have benefited from comprehensive digital strategies that extend beyond AI alone, notably through cross-selling and upselling opportunities. We maintain strategic flexibility when applying technology to our internal workflows while approaching AI's trajectory with intellectual humility. In maintaining strategic flexibility, we actively seek partnerships with like-minded investors, companies, and management teams who share this balanced perspective.

In an era where AI promises to reshape every industry, success will belong not to those who chase every opportunity, but to those who combine strategic patience with decisive action when genuine value emerges. This disciplined approach need not preclude creative deal structuring. Beyond traditional capital deployment, structured equity investments should be in the investment toolkit – offering compelling mechanisms to navigate valuation uncertainties, preserve upside potential, and capture asymmetric risk-reward opportunities that reflect technology's transformative power. The transformation ahead is real, but so too must be the discipline we bring to navigating it.



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HEAD OFFICE
VICTORIA

750 Pandora Ave
Victoria, BC
V8W 0E4

VANCOUVER

666 Burrard St
Vancouver, BC
V6C 2X8

NEW YORK

16B-767 Fifth Ave
New York, NY
10153

LONDON

35 Portman Square
London, UK
W1H 6LR

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