The AI Valuation Conundrum: Buyers and Sellers Are Both Guessing

17th February 2026

The current dislocation between fundamentals and valuations in public and private markets is being attributed to AI. In reality, it reflects the absence of a credible framework for pricing AI risk. Buyers are applying broad discounts, companies are struggling to defend valuations, and both sides are substituting assumptions for detailed analysis.

James Blackburn
Senior Client Director

AI risk is being priced as a sector-level haircut rather than business-specific exposure. It's indiscriminate, hitting most sectors and companies of all sizes. That's creating mispricing and an opportunity for companies that can clearly explain where they stand to benefit and where they're exposed.

The question that matters isn't "will AI affect us?". A more valuable framing should be: where does it create opportunity? Where does it create risk? By how much, and over what timeframe?

What investors are looking for

Across public and private companies, investors want three things

1. Segmented exposure

Platitudes about "leveraging AI" are hollow. Investors want to see that management teams have thought through the specifics: -

- Which revenue streams are vulnerable, which become more defensible, and which are poised to grow?

- What happens to pricing if AI-native competitors enter, and where does AI allow you to improve unit economics, expand margin or serve new customers you couldn't reach before?
- Where does proprietary data, regulation or physical infrastructure protect you, and where does AI amplify these advantages?

Investors are trying to work out what the revenue and margins will look like in five years, not just next year's earnings. The range of possible outcomes has widened, which helps explain the volatility we're seeing.

2. Scenario planning

Without clear guidance, investors default to worst-case scenarios. Management teams that quantify plausible outcomes can narrow the valuation range.

This isn't about accuracy; it's about bounding the risk. The goal is to clarify the range of possible outcomes by working through realistic scenarios. The market can price risk, but it struggles with ambiguity and a lack of clear messaging.

3. Evidence you can adapt

Uncertainty is expected, but inertia is not. Investors aren't expecting 20:20 vision but are backing management teams that can read signals early, adjust course and allocate capital effectively.

Companies should show what they're monitoring and the metrics they're tracking, and the triggers that would change investment or cost decisions.

Preparedness matters: whether you're reporting regularly or eyeing an exit

If you're a public market CEO, the next results meeting is likely to surface these questions. If you're a private business eyeing an exit, a due diligence process is likely to expose the gaps or opportunities, and a more selective, cautious investment committee will press for answers.

Being prepared means two things: gathering evidence and creating a narrative.

Start with the data. For example, customer retention figures that show stickiness under pressure; economics that demonstrate margin expansion from AI adoption; not just cost-reduction claims; and win rates that show your competitive position is improving. Gather what you can measure now and identify what else you need to start tracking.

Then build the story around the evidence and make it specific. Not *"we're using AI to drive efficiency"* but *"AI now handles 40% more customer queries, and we are tracking resolution time and quality metrics."* Not *"our data gives us an edge"* but "we have years of proprietary transaction data across X customers, and our model is performing Y% better than generic alternatives, and we've validated that through testing."

And it's not just investors who need answers. The same clarity is needed internally. Employees are reading the headlines. Silence creates uncertainty at exactly the wrong time.

Those who get ahead of it, gather the data, build the story, and test the narrative with people who will push back are the most likely to protect the valuation. The pace of AI evolution means waiting isn't an option. In our view, the companies that will come out ahead aren't the ones defending the status quo or hoping it doesn't affect them. They're the ones actively working out where AI creates opportunity, where it creates risk, and how best to position themselves.

The private company challenge: story without substance

In a sales process, the gap between story and substance is becoming more visible. An investment memorandum is the gateway to understanding the story, but companies are finding that investors struggle to get past them when the AI exposure hasn't been adequately addressed. Processes stall—not because the numbers are wrong, but because the base case for AI risk and opportunity hasn't been properly explained.

Multiples compress when structural risk isn't quantified. Buyers discount upside they don't believe and can't verify.

Getting on the front foot: where AI strengthens competitive advantage

The market is focused on AI-related threats and displacement risks, whilst overlooking businesses where AI makes them stronger.

Proprietary datasets and models built over time are clearly more valuable, not less—but only if companies can demonstrate how their data improves outcomes in ways generic models can't. The burden of proof sits with management

What investors are actually backing

Stripping away the noise, the investment criteria don't change: -

- Cash generation and resilience
- Disciplined capital allocation
- Sustainable returns on invested capital
- Balance sheet flexibility

AI simply raises the bar on one more thing: the ability to clearly explain your exposure and quantify both the risks and the opportunities.

If the equity story relies on sustained pricing power in a commoditising market, or on labour-driven growth in a world of rapid automation, it's a tough sell, and the discount might stick. If it rests on durable customer economics, defensible advantage and measured investment, it's much more likely to be defensible.

The mispricing today reflects imperfect knowledge and assumptions. History tells us it will correct. The businesses that reprice first will be those that remove ambiguity, quantify their exposure and demonstrate they can adapt as the landscape shifts.

Very few companies are doing this well. Those who do have a better chance of shaping the valuation conversation rather than accepting one imposed on them. The companies getting it right invite challenge. They stress-test their narrative, anticipate investor objections, and refine the story and the data before it matters.

If this resonates, it may be time to test whether your assumptions can withstand investor scrutiny.

James Blackburn
Senior Client Director
jblackburn@h2radnor.com
+44 (0) 7887 844 864