AI in M&A: Overcoming Obstacles to Unlock Potential

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AI Boom in M&A

Foreword

The influence of AI is growing in today's M&A market. How can firms overcome the obstacles related to the adoption of AI? This article will explore how to avoid the "fear of missing out" frenzy surrounding AI, whilst offering measured recommendations on how to properly and efficiently integrate an AI system to your M&A structure.

AI in the M&A landscape is gaining a lot of momentum

70%
of dealmakers expect AI to generate higher return on their M&A transactions[5]

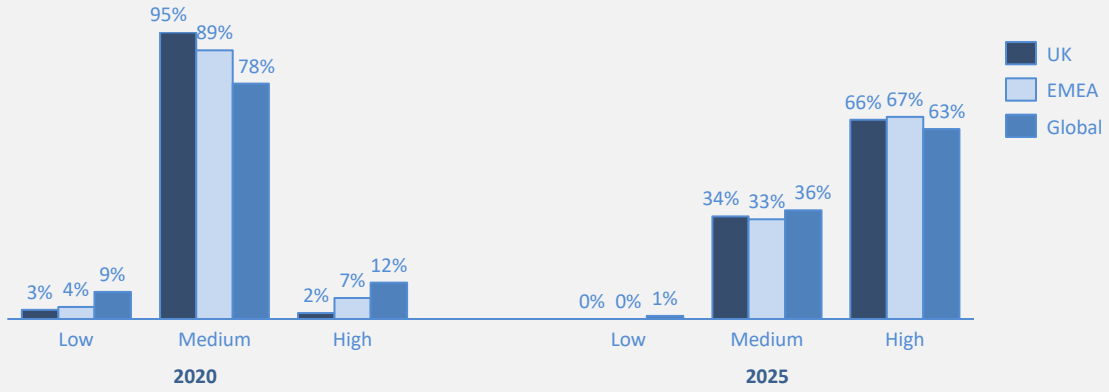
74%
of M&A executives anticipate increasing their spending on data and AI solutions[5]

>50%
of time can be saved during processes when using AI as a target identification tool[6]

M&A dealmakers are assigning increasing levels of digital maturity and technological sophistication to the M&A process in their organisations[3]

This shift reflects the growing recognition of technology's critical role in enhancing operational efficiency, due diligence, and integration processes during the M&A process. M&A practitioners have seen a re-classification in their organizations' digital maturity and technological sophistication from medium to high, underscoring the widespread emphasis on leveraging advanced technologies, mainly AI, to optimize M&A activities.

From 2020 to 2025 (forecast), there is a clear increase in the level of digital maturity and technological sophistication assigned to the M&A process (2,235 M&A practitioners)[7]



Sources: 5. Accenture (2024) 6. Accenture (2021) 7. Datasite (2024)

AI Development Overview

2020

June: OpenAI GPT-3: Released with 175 billion parameters, capable of generating human-like text

2021

December: Sonix Generative AI Summarization Tool: automatically transcribes and summarizes audio and video recordings.

2022

April: DALL-E 2: Improved image generation model by OpenAI, creating detailed images from text

2023

March: OpenAI GPT-4: Launched as a multimodal AI model handling visual and linguistic tasks
June: DeepMind's Robocat: Multimodal model for various robotic tasks
October: Anthropic's Claude 2: Updated conversational AI model focusing on safer interactions
December: Google DeepMind Gemini 1: Multimodal AI system solving visual and linguistic tasks

2024

April: Meta's LLaMa: Introduced large language models with open-source licenses
May: GPT-4o by OpenAI: This updated version of GPT-4 offers improved quality and speed for language processing

AI Development Timeline [2]

2024 AI Trends [3, 4]

Generative AI:
Enhanced automated content creation and more efficient applications in fields like healthcare.

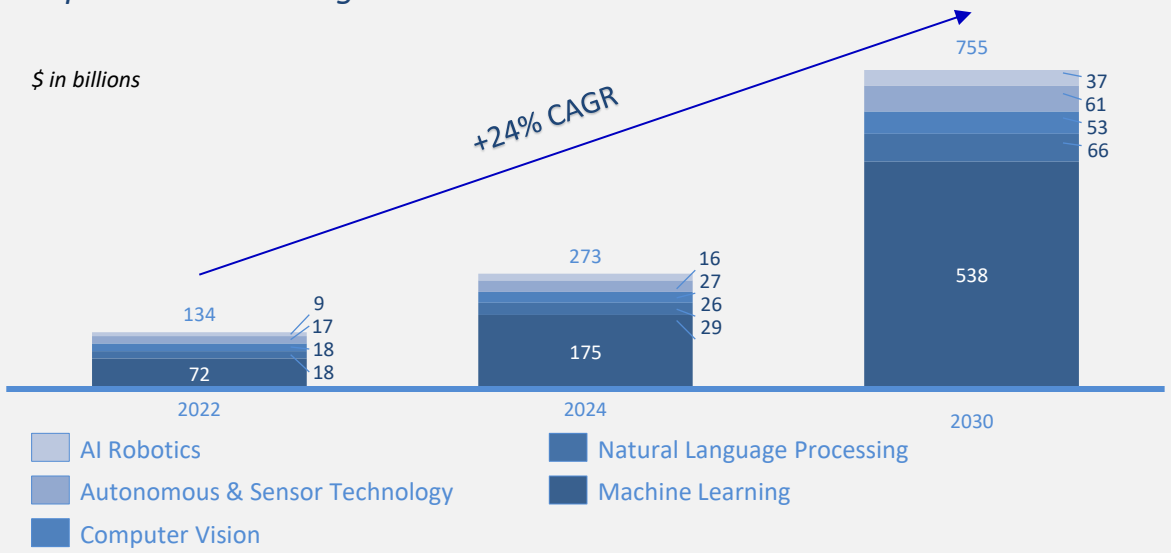
Multimodal AI:
Improved user experiences and decision-making by integrating multiple data types for richer interactions.

Smaller Language Models:
Higher performance AI models that require fewer resources.

Open-Source AI advancements:
Increased innovation and collaboration through accessible open-source AI tools.

Prevalence of Shadow AI:
Need for stronger policies to manage unsanctioned AI technologies within organizations.

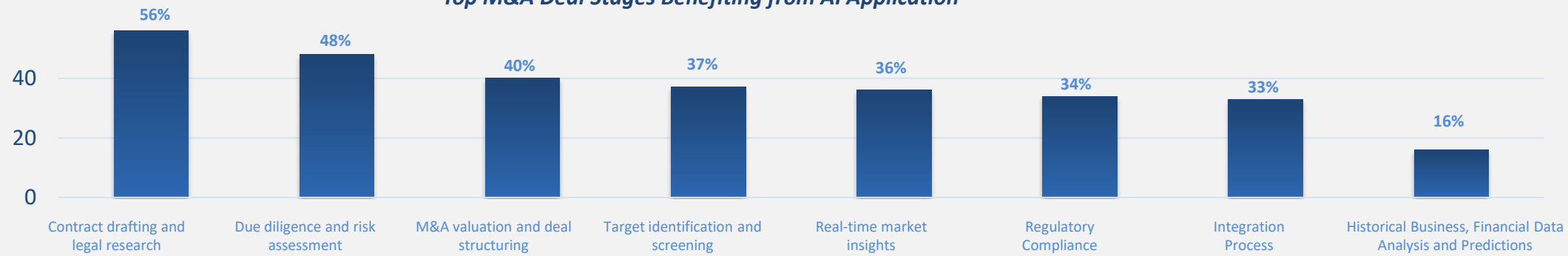
Explosive AI market growth… [1]



Sources: 1. Meridian Capital (2024) 2. Coursera (2024) 3. IBM (2024) 4. Eweek (2024)

AI Tools and Use Cases in M&A

Top M&A Deal Stages Benefiting from AI Application [9]



Risk Assessment:
AI-driven risk assessment models can identify and quantify potential risks associated with divestiture and carve-out strategies. This includes analysing market conditions, regulatory environments, and internal vulnerabilities.

Natural Language Processing (NLP) Applications:
NLP algorithms can quickly process and analyse large volumes of documents, identifying key information, clauses, and risks associated with potential divestitures or carve-outs.

Streamlining Integration Tasks:
AI tools can automate repetitive tasks like meeting minutes, status reports, and summary dashboards, enhancing efficiency in long integration and carve-out programs.

Sell-side	**Divestiture and carve-out strategy**	**Divestiture and carve-out planning**	**Divestiture and carve-out transition execution**
Buy-side	**Acquisition target screening**	**Due Diligence**	**Merger integration planning and execution**

Target Screening：
Zuva uses AI to identify and screen targets based on specified criteria, streamlining the process and efficiently handling large datasets.
Synergy Estimation:
AI improves synergy estimation by analysing extensive data to quickly and accurately assess potential cost savings and revenue synergies.

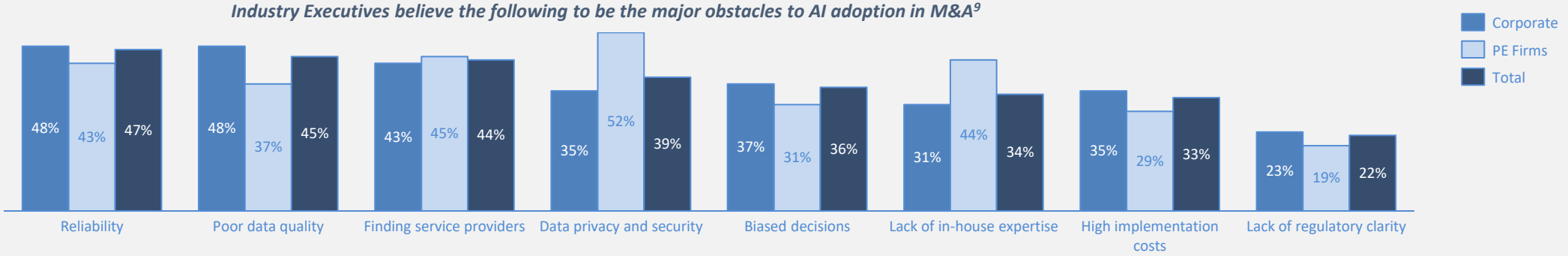
Data Rooms：
Intralinks provides a secure platform for virtual data rooms, file synchronization, sharing, collaborative workspaces, and structured workflows, streamlining sensitive information management.
Due Diligence Automation:
Kira Systems uses AI to automate contract review and document analysis, improving due diligence with faster, more accurate evaluations[8].

Project Management：
Firms like Asana use AI to capture tasks and organize projects, enhancing coordination and management of integration activities. This improves efficiency and oversight in project execution.
Negotiation:
AI aids in negotiation by tracking clauses and details, helping to finalize and integrate agreements more efficiently.

Sources: 8. ABA Technology in M&A Subcommittee (2022) 9. SS&C (2024)

Executive Summary

Industry Executives believe the following to be the major obstacles to AI adoption in M&A[9]



Data Foundation

Technical difficulties encountered with distributed AI systems

Adopting AI tools in M&A requires strategic data management and standardization. High-quality, consistent data is crucial for accurate AI analysis. Robust data governance ensures input integrity, leading to precise outcomes.

Different data collection methods have unique benefits and trade-offs. Choosing the right AI models, especially simpler ones for NLP tasks, is key to building trust. Aligning AI tools with business needs and transaction milestones through strategic data practices enhances M&A decision-making.

Organizational Challenges

How can teams integrate AI to transcend their skillset and capabilities

Identifying and acquiring AI talent for M&A is challenging. Balancing new hires with upskilling existing staff is crucial for successful AI adoption. Many firms and employees are unsure of AI's relevance and have biases that hinder its use.

Addressing AI limitations requires education to foster innovation. Aligning expertise across the firm and M&A stages helps identify optimal AI applications. Improved information exchange and cross-team understanding enhance business processes and streamline AI tool onboarding.

Cost Concerns

Adapting efficiently to energy-consuming and expensive technology

As AI usage scales, managing storage costs is crucial. M&A activities require closed AI tools for confidentiality, raising costs. Commercial AI services are expensive, but open-source resources can reduce NLP application expenses.

Identifying optimal AI applications and measuring returns is key to ROI. Different models offer unique benefits and trade-offs, necessitating careful consideration to choose the right solution for business needs.

Responsible AI

Embracing AI without falling into stereotypical fears and misuses

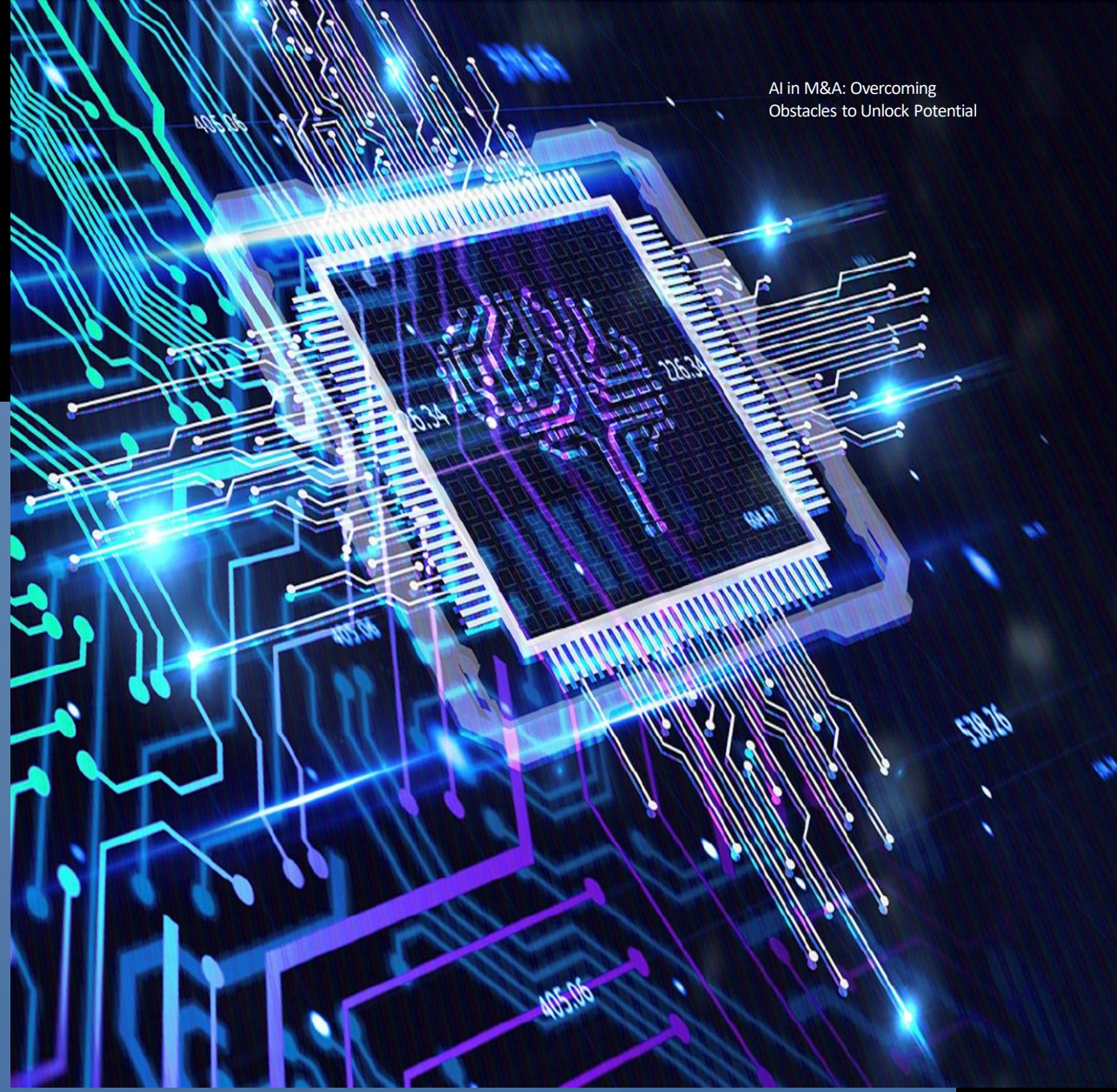
Unclear regulatory environments, reputation concerns, and fear of legal consequences can hinder AI investment and adoption. Clear regulatory and ethical frameworks can address these uncertainties and boost AI tool adoption.

Building and maintaining trust in AI model outcomes is crucial, both internally within the firm and externally with customers and stakeholders. Trust and understanding are central to the effective use of AI systems.

Sources: 9. SS&C (2024)

Data Foundation

Data foundation, AI models and systems significantly impact the application of AI in mergers and acquisitions. However, challenges arise in data management, incorrect application of AI models, and the risk of AI system inaccuracies. These obstacles can be addressed by strengthening data strategy, implementing data quality tools, and simplifying models.



AI Data Strategy

50%

M&A executives in particular see unclear business value and return on investment as a major barrier to the adoption of AI in their deal process[5]

49%

C-suite executives lack of understanding on where to focus and to execute an AI strategy in M&A process[5]

Adoption of AI tools requires strategic direction to realize optimum usage. Data management, and strategic application of the most relevant data in the training of AI models, as well as fitting models to key M&A activities, is paramount to avoiding misleading AI conclusions.

Situation:

AI Implementations Lacking Strategic Focus

Effective AI strategies in M&A processes rely heavily on the quality and relevance of the collected data. When executives and employees lack a clear understanding of where to focus, it often leads to the collection of incorrect data. For example, they might focus excessively on financial metrics while neglecting operational or market data crucial for integration success. This oversight can result in AI models being trained on incomplete or irrelevant datasets, diminishing their effectiveness and accuracy.

Imperative:

Identifying Key Value Drivers in M&A

Determine how AI can enhance key areas in the M&A process, such as due diligence, valuation, integration planning, and post-merger integration. Ensure that AI projects are directly aligned with the strategic objectives of the M&A transaction. This involves understanding the primary goals of the deal (e.g., market expansion, cost synergies, technological acquisition) and tailoring AI applications to support these goals.

Guidelines for Data Management

Clearly outline the appropriate types of data needed to support AI applications in the M&A process. Ensure that the AI guidelines are approved by the board and the executive team to enforce top-down commitment. This helps in maintaining consistency and adherence across the organization. For instance, for M&A target identification and screening, selecting financial data such as profit and loss statements, balance sheets, and cash flow statements from the past three years can help AI models predict future financial performance and identify potential risks.

Case Study:

In 2022, Tata Group completed the acquisition of Air India and utilized advanced AI tools extensively in the post-deal integration process. Under the Vihaan.AI transformation plan, AI played a critical role in optimizing Air India's operations. One key initiative was the implementation of Gurukul.AI, an AI-driven learning platform designed to create personalized upskilling paths for employees. This platform integrated over 70,000 advanced learning tools, including just-in-time learning modules, micro-learnings, and mobile learning resources, to enhance employee productivity and skill levels.[10] The AI tools used in Vihaan.AI also collected and analyzed extensive data on operational performance, customer feedback, and maintenance records. This data-driven approach enabled Air India to streamline flight schedules, improve performance by providing more accurate and timely information. The strategic application of AI in this M&A case underscores its potential to improve efficiency, accuracy, ultimately transforming Air India into a world-class airline under Tata Group's ownership[11].

Sources: 5. Accenture (2024) 10.The Economic Times (2023) 11. The Economic Times (2024)

Data Quality

59%

of M&A practitioners cite weak data foundations as a primary barrier to effective use of AI in the M&A process[5]

88%

of data integration projects fail or overrun their budgets because of poor data quality[12]

The quality and format of inputted data can vary across deals and transactions; even between teams and internal processes. Ensuring homogenization of inputted data can lead to more accurate AI analyses, signal credibility to acquirors, and streamline processes across the transaction lifecycle.

Situation:

Data Quality for Effective AI Integration in M&A

AI algorithms rely heavily on high-quality data to provide accurate insights and predictions. In M&A, data from different organizations often vary in terms of format. Merging data from different systems can introduce errors and inconsistencies that complicate the use of AI. This issue affects both the buy side and the sell side. On the buy side, inaccurate data can lead to improper valuations and poor integration strategies. On the sell side, presenting inaccurate data can decrease the credibility of the company being sold. The primary issue causing data inaccuracy is the lack of robust data cleansing and standardizing processes. Without these processes, inaccurate data can easily be applied into AI models, equally accurate data can be misapplied, leading to erroneous conclusions and costly mistakes.

Imperative:

Data Cleansing

Use data quality tools like Informatica Data Quality, Trifacta, and IBM InfoSphere can help in cleansing, profiling, and enriching data foundation to ensure high quality of data inputted to models and other analysis activities.

Data Standardizing Protocols

Develop and enforce a set of unified data standards across all entities involved in the M&A. This includes standardizing formats for dates, numerical values, and other critical data fields.

Implement data integration frameworks that facilitate seamless merging of data from different sources. This can include middleware solutions that translate and normalize data between incompatible systems.

Case Study:

In 2021, S&P Global acquired IHS Markit in a significant $44 billion deal to create a leading financial information and analytics powerhouse. Ensuring high data quality through cleansing and standardizing was critical for the success of this merger. The companies used advanced tools, including the TradeSun platform.[13] TradeSun enhances data cleansing by leveraging AI to correct inconsistencies and ensure data accuracy, crucial for compliance and due diligence processes. It standardizes data formats and structures, facilitating seamless integration and regulatory adherence. The data cleansing and standardization efforts ensured that all integrated data was accurate, consistent, and reliable. These efforts facilitated smoother integration, reducing operational disruptions and enhancing overall efficiency. This case illustrate how improving data quality and leveraging AI can significantly enhance the effectiveness and value creation in M&A activities[14-15].

Sources: 5. Accenture (2024) 12. Ataccama (2023) 13. S&P Global (2022) 14. S&P Global (2020) 15. Gov.UK (2021)

Data Governance

only **8%** of early-stage AI performers have standardized governance policies across all projects[16]

20% of AI initiatives fail due to immature data infrastructure[16]

55% of enterprises say they can't trace the lineage of their data from source to endpoint data management[17]

Establishing robust data governance practices and effective management of data ensures input integrity, providing smooth processing of data throughput resulting in more targeted AI outcomes. Aligning processes and procedures ensures consistency in data handling by directing best use of AI tools.

Situation:

Critical Role of Data Governance in AI-Driven M&A Activities

Ensuring robust data governance practices is crucial for leveraging AI's full potential in these complex and data-intensive activities to achieve best usage, especially in the context of M&A. Poor data governance creates a myriad of issues that compromise data quality, making it difficult for AI systems to function effectively in M&A scenarios, especially relating to proprietary data exchanged during the due diligence process. Effective data governance provides a framework for data assets, establishing clear policies, procedures, and responsibilities related to data management. Key challenges are inconsistent data storage and lack of data monitoring process.

Imperative:

Centralised Data Storage

Implementing a centralized data storage system ensures that all data is stored in a single location, facilitating easier management and integration. Use data lakes and warehouses like Snowflake, AWS S3, Google BigQuery, and provide scalable storage options for vast amounts of structured and unstructured data. Maintaining an organized catalog of stored data helps in quickly locating and accessing the required datasets, improving efficiency and reducing retrieval times.

Real-time Data Monitoring

Using comprehensive monitoring dashboards provides a real-time overview of data quality and integrity, facilitating easier tracking and management. Use tools like Apache Kafka to quickly identify and correct data inaccuracies that may arise during the integration of different data systems. Implementing feedback loops and iterative enhancements based on monitoring results helps in continuously improving data management processes and adapting to evolving business needs.

Case Study:

Microsoft acquired Nuance Communications in 2022 to bolster its AI and cloud capabilities, particularly in the healthcare sector. Microsoft leveraged its Azure cloud platform to integrate and store Nuance's data. This ensured that data was centralised, secure, and scalable, allowing for efficient management and retrieval. Microsoft also employed monitoring tools to oversee data flows and ensure data quality. With robust data storage and monitoring in place, Microsoft was able to enhance its AI-driven healthcare solutions, providing better insights and outcomes for patients and healthcare providers. The integration process was streamlined, allowing Microsoft to quickly realize synergies and improve overall operational efficiency. These cases illustrate how effective data governance, focusing on data storage and monitoring, can significantly enhance the outcomes of M&A activities.[18-20]

Sources: 16. Vmblog (2024) 17. Fivetran (2023) 18. Microsoft (2021) 19. Microsoft(2022) 20. Technology Magazine (2022)

Data Collection

Different approaches to data collection offer unique advantages across different sources, spanning freely available public data, to costly private data products, to primary collection. Navigating decisions about sourcing data types inputted to AI models comes with benefits, trade-offs, and data protection concerns.

	Open-Source Data	Proprietary Data
Advantages	• Publicly accessible with extensive datasets sufficient for training most NLP programs to analyze text • Community contribution, innovation, and peer review[21] creates an inherently transparent nature for OS data • Results in a larger domain of data than proprietary data[21]	• Private data can offer insights into subsets of trends/time while mitigating data security concerns. • Competitive edge through first-mover advantage in use of data unavailable to public domain[23]; function of the due diligence process • Can be used to fine tune open-source models[23]
Concerns	• May be insufficiently specific for bespoke use cases in the M&A process • Public data can vary greatly in both format and quality which may require greater cleaning/standardization practices before use in model training or fine-tuning • Regulatory compliance in relation to public data regarding use licensing for commercial purposes and cybersecurity[22]	• Costs associated with purchasing private data or collecting primary data • Small size of datasets and can be curated to convey an incorrect conclusion • Privacy and transparency concerns can arise regarding confidentiality of proprietary data[23] • Bias concerns relating to small data sizes necessitate data debias, sandboxing and isolation

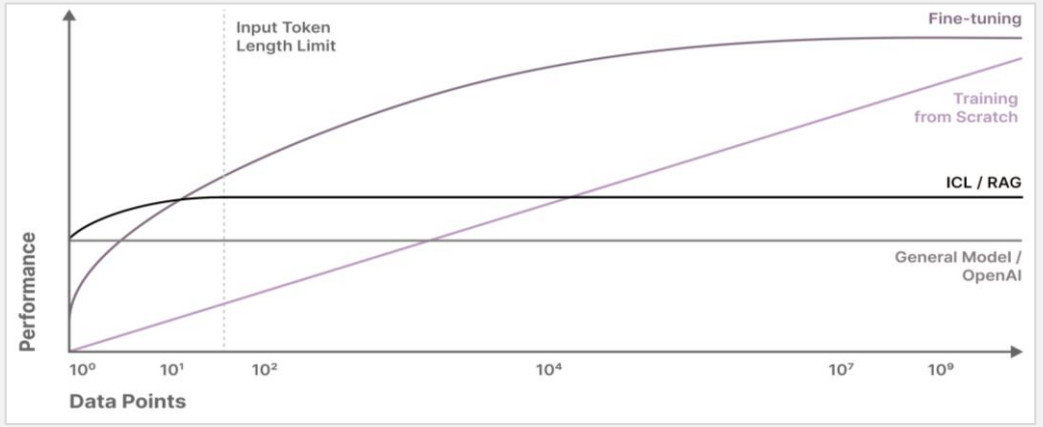
73%

of respondents cite an undisclosed data breach at a target company as a deal-breaker in negotiations[24]

65%

of decision makers express regret post-acquisition due to data security issues becoming apparent after closing[24]

Performance of Different Model Approaches vs. Input Data



Imperative: Balancing open-source model resources with proprietary fine tuning using due diligence data is a promising alternative to proprietary AI vendor services for insular and tailored M&A processes

***ICL = In-Context Learning*

***RAG = Retrieval-Augmented Generation*

Both are methodologies for training models on very little data, often for zero-shot never-before-seen tasks. Used in situations where little to no training data exists.

[Source: Association of Data Scientists/Predibase]

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Sources: 21. ADaSci (2024) 22. Attri Blog (2024) 23. Harvard Business Review (2013) 24. Dealroom (2023)

Transparency & Complexity

AI models vary in computing power, complexity, and transparency of reasoning. Simpler models can suffice for many NLP analysis use cases in M&A business processes. Building trust in model outcomes and peer-to-peer AI use becomes key to the organizational adoption of AI tools.

≤ 1%

difference in performance of black-box and white-box models in predicting loan default and criminality[25]

70%

equivalent performance of white-box and black-box models on 100 benchmark reference datasets[25]

Situation:

Complex Models

"Black Box" – Complex, intricate, large models are difficult to explain and require expertise to understand. These methodologies, including Neural Networks and Random Forests, offer superior computing performance and accuracy[27]. They excel in highly iterative, complex tasks such as medical diagnostics in radiology, materials detection, pharmaceutical discovery, fraud detection, and security screening, where procedural justice concerns are minimal. In M&A, these models could be applied to target identification activities where sequential logic is less crucial.

Simple Models

"White Box" – Transparent, interpretable, and smaller models, such as Decision Trees and Rules-Based Systems, are easily understood by users and administrators. While these models are less computationally powerful than black-box models, they offer advantages in procedural justice, lower computational requirements, and similar performance[25]. They are proven suitable for complex applications like crime and loan default prediction. M&A processes, which require high accountability, may benefit from the clear reasoning provided by white-box AI models.

Imperative:

Attitudes & Adoption

Adopting AI tools can be seen as straightforward and user-friendly, rather than overly technical[27]. Trust between peers is crucial, with a focus on improving productivity instead of replacing people and processes. Recognizing AI's limitations and ensuring accountability in decision-making are key themes.

Keeping It Simple

The comparative accuracy of white-box models indicates a viable path of early adoption of simple AI tools for repetitive tasks in the M&A process such as NLP document analysis, applying valuation models, and homogenizing data throughput across different parties in a transaction[26].

Testing Tools

Pilot teams and management-sanctioned use cases for AI in M&A processes such as due diligence and target valuation can increase trust and AI skills uptake by employees. Confirming expected balance of human decision making and model outputs can create safe boundaries for employee productivity.

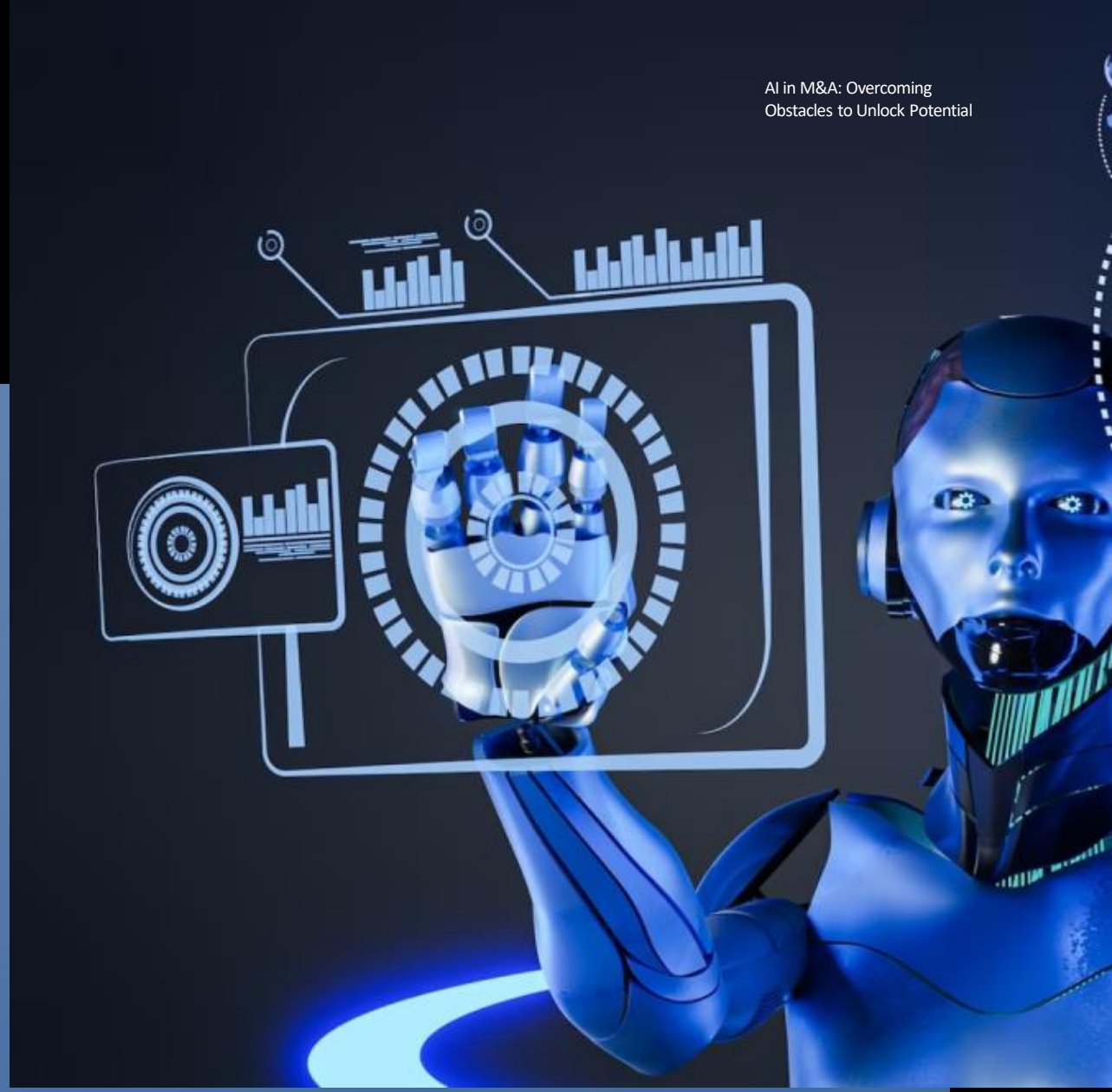
Academic Perspective:

'Building Trust' - HBS & MIT: Use of complex models entails reputational risks of losing trust associated with inability to explain black-box model conclusions to customers, or regulators in the event of investigation. Employee trust in black-box model conclusions can be developed through trust in the peers and developers responsible for creating models, without need for understanding model machinations[27]. Use of simple models entails oversimplification risks, where the simple nature of white-box models may incline users to overrule model output with personal or anecdotal-based judgement, arising from overconfidence in users' own perceived understanding of how simple models function. Building trust in the output of even the simple models is key to addressing this effect.

Sources: 25. Harvard Business Review (2023) 26. IMAA (2023) 27. Harvard Business School (2023)

Organizational Challenges

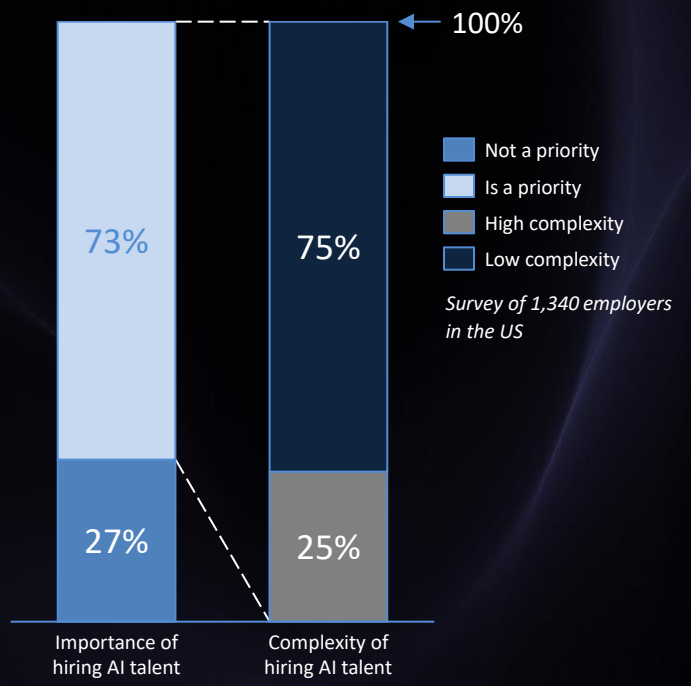
Workforce development and organizational adaptation are crucial for optimizing the use of AI. Many firms face challenges such as talent shortages and inadequate data foundations. However, by investing in the development of existing human capital, M&A teams can avoid succumbing to trends and fully leverage their AI infrastructure.



Talent Shortage

Identifying and acquiring talent can prove difficult in implementing organizational AI adoption, especially in niche use cases such as M&A. Balancing acquisition of new talent with upskilling existing human resources will be key to institutional AI adoption and productive use of AI.

Whilst employers recognise the importance of hiring AI talent, there is clear difficulty in being able to do so in the market [28]



Situation:

Lack of Skills

Talent shortages have become a significant impediment to AI development in M&A practices. A recurring theme in corporate research on AI implementation is the challenge of developing AI practices without sufficient expertise. Additionally, the lack of AI talent creates a bottleneck issue, as M&A processes require AI validation at multiple stages, including pre-deal and post-deal phases. Without the necessary workforce, validation tasks accumulate, exacerbating the problem. This issue is critical as firms aim to use AI as a competitive advantage rather than a cumbersome validation exercise. Consequently, the demand for skilled AI professionals has increased, making AI talent more expensive and harder to recruit.

Growing Demand for Talent

The high growth for AI talent was to be expected in the M&A sector as **84%** of M&A dealmakers believe that AI will help in their day-to-day activities and **70%** believe it will increase their deals' expected returns[30]. Nevertheless, the main reason for the lack of talent is the constant evolution of AI capacities and knowledge. Current AI knowledge has also a higher propensity to lag behind modern evolutions (going from 100 million Petaflops to 10 billion in approximately 3 years[31]). With the popularization of AI and the growing capacity for application in the M&A process, the demand is at an all-time high. However, only a handful of developers get to witness AI development firsthand and therefore the trickle-down effect of knowledge is reduced.

74%

Growth in demand for AI skilled jobs since 2020.[29]

Imperative:

Upskilling Existing Resources

The recommendation would be to leverage existing data analysts and engineers and their understanding of business processes for an easier adoption of AI tools. Current tier one banks have invested into employee training instead of AI hiring[32]. While some are looking at “opportunistic hires” to complement and teach an already functioning team (Morgan Stanley), others invest into employee development and training (JP Morgan, Accenture).

yet only **21%**

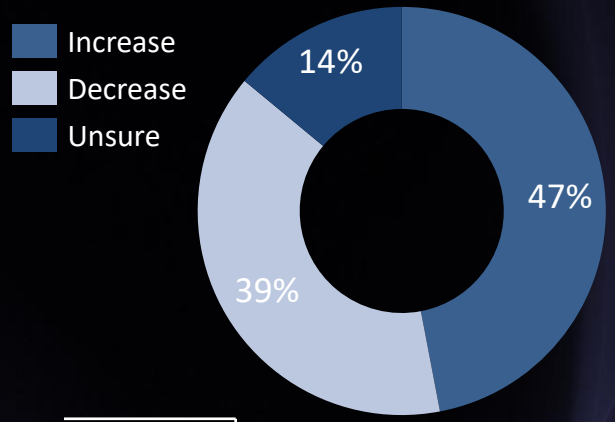
projected growth in AI careers in the US from 2021 to 2031.[30]

Sources: 28. Amazon (2023) 29. Careerist (2024) 30. US Bureau of Labour Statistics (2022) 31. Our World in Data (2022) 32. Finextra (2024) 33. Fortune (2024) 34. Pymnts (2024) 35. Pymnts (2024)

Education & Training

Many firms and employees are unsure of how AI applies to their roles and suffer from inherent biases when utilizing tools. Uncertainties regarding the limits of AI can stall adoption, requiring education at all organizational levels to foster an innovative culture.

Chart 1: *Generally, dealmakers expect AI tools to increase their day-today workload*[38]



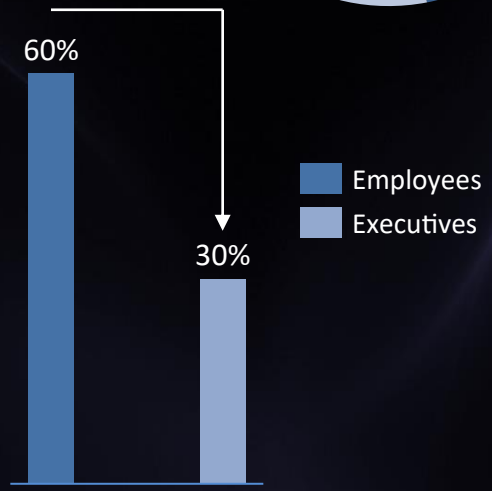


Chart 2: *There is a 30% disconnect between executives and employees who fear AI will eliminate employee jobs*[38].

Situation:

Lack of Education

Insufficient education on AI is a barrier resulting in reluctance towards embracing AI. This fear among employees stems from bias where individuals favor human judgement over AI and rely too heavily on the first information they receive. A lack of comprehensive education amplifies these biases as decision makers undervalue analyses and recommendations from AI along with resistance to integrating AI insights that contradict initial assessments, especially if human. Misperceptions lead to resistance and mis-use of AI, especially when it comes to central tasks like due diligence, where if uneducated, employees may overlook critical assumptions and prolong the process from inaccurate evaluation.

Operational Disconnect

This apprehension is amplified by a disconnect between the perceptions of managers and employees, creating misaligned incentives, ultimately hindering effective AI adoption. While many employees worry that AI will replace their jobs, only a small fraction of C-suite leaders share this concern, indicating a gap in understanding and addressing workforce anxieties, see Chart 2. Despite high willingness among 94% workers to learn and adapt to AI, only 5% believed they have been properly educated on it[36]. This disparity highlights a substantial gap between the recognized need for AI training knowledge and the actual training provided. Executives estimate that 40% of their workforce will need to reskill in the next three years due to AI implementation[37]. This lack of adequate education and subsequent disconnect emphasizing the urgent need for better education and training programs.

Imperative:

Structural Approach

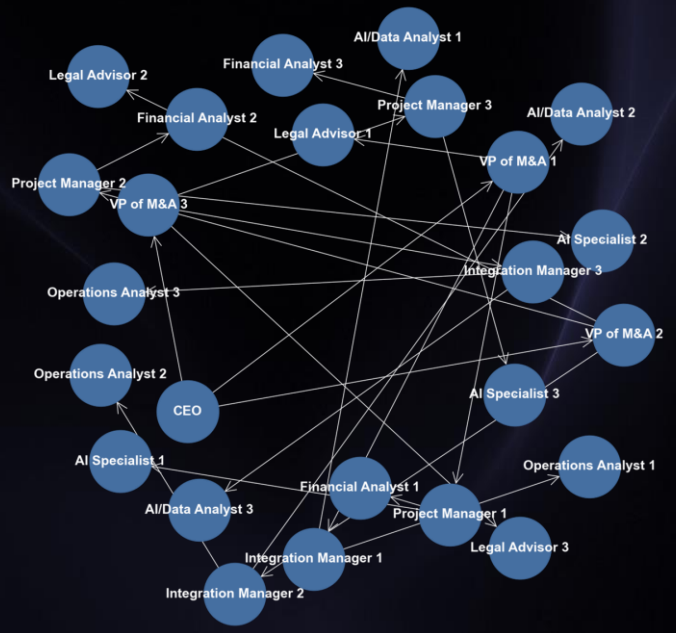
Organizations must adopt a structural approach to AI education and remove frictions. This involves not only training employees on the technical aspects of AI but also tools that mitigate bias. An example of such tool would be implementing "cognitive speed bumps"[39]. Cognitive speed bumps are intentional interventions designed to implement greater review in the decision-making process when AI is used, helping to mitigate the bias mentioned. For instance, before finalizing a valuation, a 'checkpoint' could require the team to explicitly address how the AI data and output aligns or conflicts with the initial assumptions and assessments, then justifying any deviations[40]. This prompts a reciprocal relationship where individuals work with the AI tools rather than resisting or mis-use.

Sources: 36. Accenture (2024) 37. Weforum (2024) 38. Datasite (2024) 39. Accenture Learning (2024) 40. Accenture (2024)

Organigram Adaptation of M&A Team

over **44%**

of CEOs have surveyed and assessed the effect of AI on their organizations structure and workforce.[41]

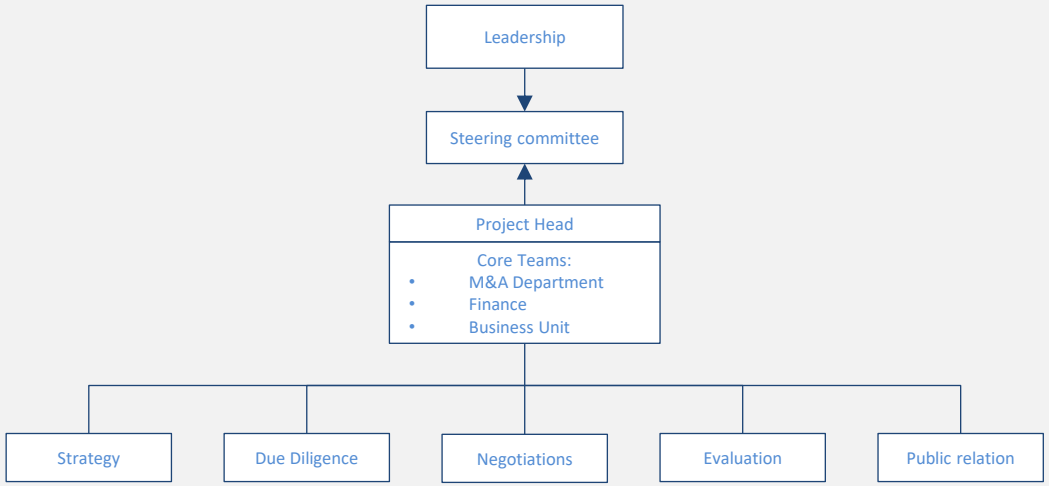


Aligning expertise from across the firm and M&A transaction lifecycle stages builds understanding of where AI can be best applied. Improved information exchange and greater cross-team understanding can streamlines business processes and improve the onboarding of AI tools across teams and functions.

Situation: Current Organizations Lack the Flexibility to Integrate AI into their M&A Teams

Current M&A organizational structure are often mechanistic in their approach to the different roles and processes. However, the separation of the different processes in not suited for the holistic approach that an AI system would offer. One of the main advantages of using an AI system to optimize M&A transactions is the ability to share knowledge across different process and reduce time spent across those same processes. With the current centralized and mechanistic structure as seen on the graph below, the capacity to share information from one process and from one team to another is limited thus increasing time spent and efficiency of said team.

Mechanistic M&A structure[42]



Imperative: Switching to a More Organic Structure

The current recommendation would be to switch to a more organic structure. Current tech M&A structures like Google's are agile with only two definite sectors: deal and integration[43]. Combining AI with that structure, the flexibility enables teams to gain a 360° overview with AI facilitating exchanges between different sectorial expertise. The graph represents an agile structure that potentially enable AI's full potential and increase talents perspective and overview of a deal. Nevertheless, to prevent organizational mistakes, a personalization to each firm's current structure and to their AI model is required.

Sources: 41. Accenture (2024) 42. Mergerintegration (2004) 43. Dealroom (2022)

Cost Concerns

The potential for AI to unlock vast cost savings is immense, but it must be managed appropriately to ensure sustainable benefits. The increasing cost of AI stems from several factors, including software and cloud expenditures, particularly for data storage and cloud services, which limit the wide adoption of AI in M&A. Companies must strategically invest in the early stages to identify and manage these rising expenses.

Software & Licensing

3x

the AI spending per IT budget is expected to triple, from an average of 2% in 2023 to around 6% in 2025[44-45]

21%

of the enterprises face high costs, and an equal % struggle with lack of software tools for AI model development[46]

$6k-500k

is the cost range for custom AI solutions, depending on the complexity and specific requirements of a project[47]

Commercial use of vendor AI services can quickly become costly due to the limited availability of bespoke M&A AI tools. Open-source resources can mitigate cost concerns while still being adequate for many classical NLP applications.

Situation:

Escalating Costs of AI Implementation

The rising costs of AI in M&A stem from several factors. Significant upfront investments in AI software licenses and cloud services are required. Semiconductor shortages have increased prices and delayed AI training by limiting the availability of essential high-performance chips like GPUs and TPUs. This raises AI implementation costs, deterring enterprises and SMEs from adopting AI in M&A processes.

High Costs of Software Licenses

Costs for subscribing to AI software platforms tailored for M&A activities is high due to limited availability of efficient tools for data analysis, due diligence, predictive analytics, and integration planning. Examples of such tailored platforms include DealCloud, Intralinks, IBM Watson and Salesforce. Due to the complexity of the project and the resources required, third-party free solutions cannot meet the business needs, and the cost of developing personalised AI solutions on top of pre-built solutions will be higher.

Imperative:

Cost Friendly Open-Source Alternatives and Keeping a Hybrid-Approach

Leveraging open-source AI frameworks like TensorFlow, PyTorch, and Apache Spark can reduce software license costs and address basic NLP tasks and automation. However, implementing and customizing these models may require expertise, revealing trade-offs in different AI approaches. An effective strategy involves a hybrid approach: using open-source tools for market analysis and preliminary financial reviews, while relying on proprietary software for sensitive tasks such as due diligence, contract drafting, and legal reviews to ensure data security and integration planning. This balance helps manage costs while meeting specific needs.

Case Study:

IBM used PyTorch to streamline and optimize the evaluation of Red Hat's technology and business potential. PyTorch's deep learning capabilities allowed IBM to analyze vast data, predict trends, and assess technology compatibility efficiently. The $34 billion acquisition reduced software licensing costs by integrating Red Hat's open-source frameworks, like Linux and Kubernetes, into IBM's hybrid cloud offerings. Red Hat Enterprise Linux is projected to contribute over $10 trillion in global business revenues. This move enables IBM to offer cost-effective, flexible solutions, eliminate licensing fees, reduce vendor lock-in, and foster innovation through community contributions. The synergy accelerates development cycles and improves infrastructure modernization, driving down operational costs and enhancing performance across cloud environments[48].

Sources: 44. Business Wire (2024) 45. ISG (2024) 46. IBM (2024) 47. Scribe (2023) 48. Red Hat (2019)

Cloud & Storage

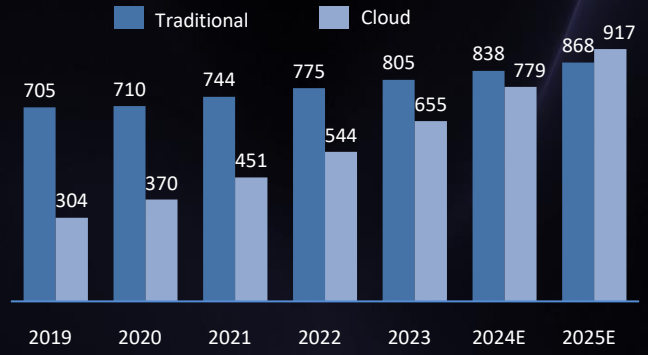
46%

of total cloud spending in US and UK was allocated to storage[49]

≥ 50%

of IT executives from top performing companies state that investing in cloud and AI has become more crucial after the pandemic[50]

Cloud Sizing Shift, Worldwide[51] ($Bn)



More than half of enterprise IT spending will shift to the cloud by 2025. Companies need to keep pace with this trend to avoid becoming obsolete or related to low-growth markets.

Storage costs quickly become a concern as AI scales, in infrastructure investment and cloud storage expenses. Balancing between building storage capabilities and outsourcing to cloud systems is key to managing costs effectively when scaling AI and data use.

Situation:

Transition to Cloud-based AI Solutions

As organizations shift AI workloads to the cloud, managing costs becomes a major barrier to full adoption[52]. High-quality data, including market subscriptions and enrichment services, significantly impacts expenses. Operational costs such as cloud usage, storage, and transfer fees rise with data processing, while ongoing expenses for updates, maintenance, and model optimization add to the financial burden.

Escalating Costs & Operational Complexities

Financial data and M&A-related files require extensive cloud storage for AI services (AWS AI, Google Cloud AI, Microsoft Azure AI). Increased demand for AI-driven analytics exacerbates storage costs. Ongoing improvements and maintenance account for **15% to 25%** of build costs to better meet M&A needs[53].

Imperative:

Hybrid Solutions

Combining on-premises infrastructure with public cloud services to balance performance and cost. This allows sensitive data to be kept locally while leveraging public cloud for scalable AI processing for public financial data and industry reports and non-sensitive customer feedback. If the strength of the self-built data center allows, reduce the dependence on third parties.

Scaling and Standardizing

Investing in scalable and cloud infrastructures, leveraging hybrid cloud solutions can mitigate these challenges. Acquiring companies with advanced infrastructure capabilities can also provide a competitive edge. Targeted and selective AI model application can reduce strain on infrastructure resources.

Case Study:

JP Morgan is leveraging a hybrid cloud strategy to host 75% of its data in the cloud by 2024, balancing public and private cloud infrastructures to optimize data management and security. This approach offers scalability and flexibility, enabling the bank to efficiently handle large datasets during M&A activities without significant upfront investments in physical infrastructure. The hybrid cloud model allows for cost-efficient storage through a pay-as-you-go system and optimized resource utilization by allocating non-sensitive data to public clouds. Additionally, this strategy enhances data analytics, streamlines data integration, and maintains regulatory compliance, ultimately reducing operational costs and improving the efficiency of M&A processes[54].

Sources: 49. Statista (2023) 50. IBM (2021) 51. Gartner (2022) 52. CloudZero (2023) 53. Ever Efficient AI (2024) 54. Data Center Dynamics (2024)

Return on AI Investments

3.5x

times return on AI investment is expected with 5% of the organizations worldwide realizing as much as 8x[55]

56%

of the greatest benefits were found in contract drafting and legal research[9]

20%

of the enterprises are unable to accurately measure different aspects of cost and benefits in AI and Cloud[52]

AI has potential to improve productivity and efficiency, leading to measurable business outcomes. Identifying the best applications of AI in the M&A process and measuring the corresponding returns is crucial for achieving return on AI investment.

Situation:

The Promise of AI

In early AI development, projects face profitability challenges. Yet, leveraging high-quality data and advanced AI tech is crucial. Leading companies report impressive profit increases, estimated at **$4.4 trillion** annually[56]. AI enhances efficiency, customer experiences, and competitive advantages. It has the capability to fully automate **30%** of the tasks involved in due diligence, while also enhancing the efficiency of an additional **20%** of these tasks, greatly cutting down the time spent on manual processes[57].

Implementation Challenges & Opportunities

AI benefits are typically measured in terms of tangible returns like labor cost savings, while intangible benefits such as enhanced customer experience and increased employee efficiency often go unnoticed. This oversight extends to aspects like screening accuracy and error rates in due diligence. Evaluating only the benefits of a specific M&A project can lead to an underestimation of long-term post-merger advantages and AI synergies with other initiatives. The difficulty in accurately measuring these benefits makes companies more cautious about investing in expensive AI tools[58].

Imperative:

Strategic Investment & Optimization

Effective measurement of the ROI of AI tools requires leveraging third-party professional platforms and consulting firms for accurate cost-benefit evaluations and necessary adjustments. Early adoption of pre-built solutions not only provides a competitive edge but also yields long-term benefits. It is essential to establish clear objectives that align with business goals and to meticulously track performance metrics. Refining strategies based on data-driven insights is critical in this process. Continuous evaluation and adjustment are indispensable to optimize the value derived from AI initiatives, ensuring that the investment yields anticipated returns and significantly contributes to overall business growth.

Case Study:

Thomson Reuters invested $650 million in acquiring Casetext, a leading legal AI company, to bolster its legal technology portfolio. Casetext's premier product, CoCounsel, employs advanced AI to execute tasks such as document review, legal research, and contract analysis within minutes. This innovation has transformed legal practice by saving significant time and reducing errors. The AI-driven automation of routine tasks allows lawyers to concentrate on more strategic responsibilities, enhancing productivity and cost-efficiency. The acquisition has extended Thomson Reuters' market presence, drawing in over 10,000 law firms and corporate legal departments, and driving revenue growth through increased subscription renewals and new client acquisitions. The AI solutions from acquiring Casetext has improved service quality, leading to higher levels of customer satisfaction and retention[59].

Sources: 55. Moveworks (2024) 9. SS&C (2024) 52. Cloudzero (2023) 56.V7labs (2024) 57. Accenture (2024) 58. StarMind (2023) 59. Thomson Reuters (2023)

AI Solution Decisions

77.5%

of fine-tuned baseline models outperformed ChatGPT in tasks relating to NLP datasets[60]

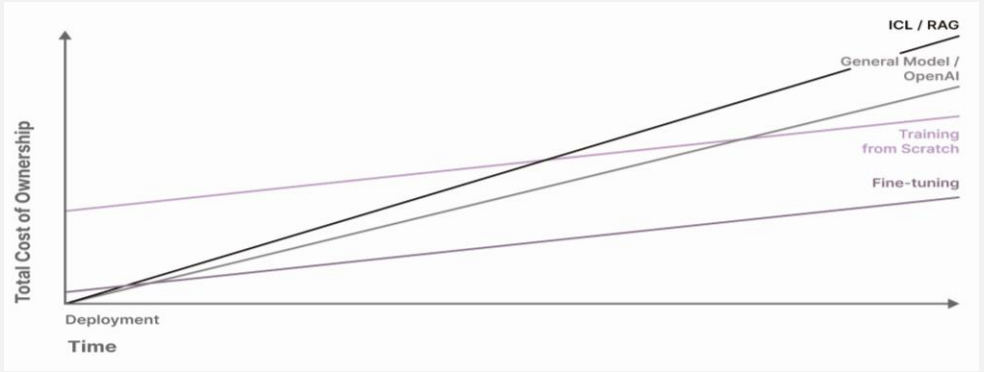
26%

more optimum employee decision making when working with trusted peer-developed & tested models[27]

Different model approaches offer unique advantages and trade-offs, with ease of integration and expertise required for implementation varying widely across models. Choosing an AI solution that fits to the tailored needs of specific business processes is highly subjective and requires careful consideration.

	Open-Source Models	Proprietary Models
Advantages	• Generally free to use, with occasional commercial licensing • Cheaper at scale in production • Tunable to specific task requirements with private data[22] • Benefit from extensive community support, faster innovation cycles, and multiple architectures	• Ease of integration with pre-existing ecosystem (by vendor) and simpler user interfaces • Dedicated support and tunable as per requirements • Vendor responsible for security, performance and optimization updates, and often provides dedicated computing assets or cloud-based solutions
Concerns	• Complexity in fine-tuning can create difficulty of interface for staff [21] • Expertise concerns for adaptation and integration into business processes may require specialist hiring • Data Privacy concerns may be more acute such as cybersecurity responsibility becomes proprietary • Greater level of responsibility assumed for model and data use vs using vendor services	• Potential for high costs over time and risk of vendor lock-in in the long term • Rate limits and shared vendor infrastructure can lead to quotas and potential disruptions during high traffic, increasing with vendor usage [21] • Vendor usage of private data for training their own models and privacy agreements • Respecting all due diligence confidentiality concerns[23]

Deployment Costs of Different Model Approaches Over Time



Imperative: Fine tuning of open-source models with proprietary data for M&A-specific practices presents a cost-effective alternative in comparison to expensive proprietary AI vendor services. Ideally, a balanced and tailored use of both models will best address different use cases.

***ICL = In-Context Learning*
***RAG = Retrieval-Augmented Generation*

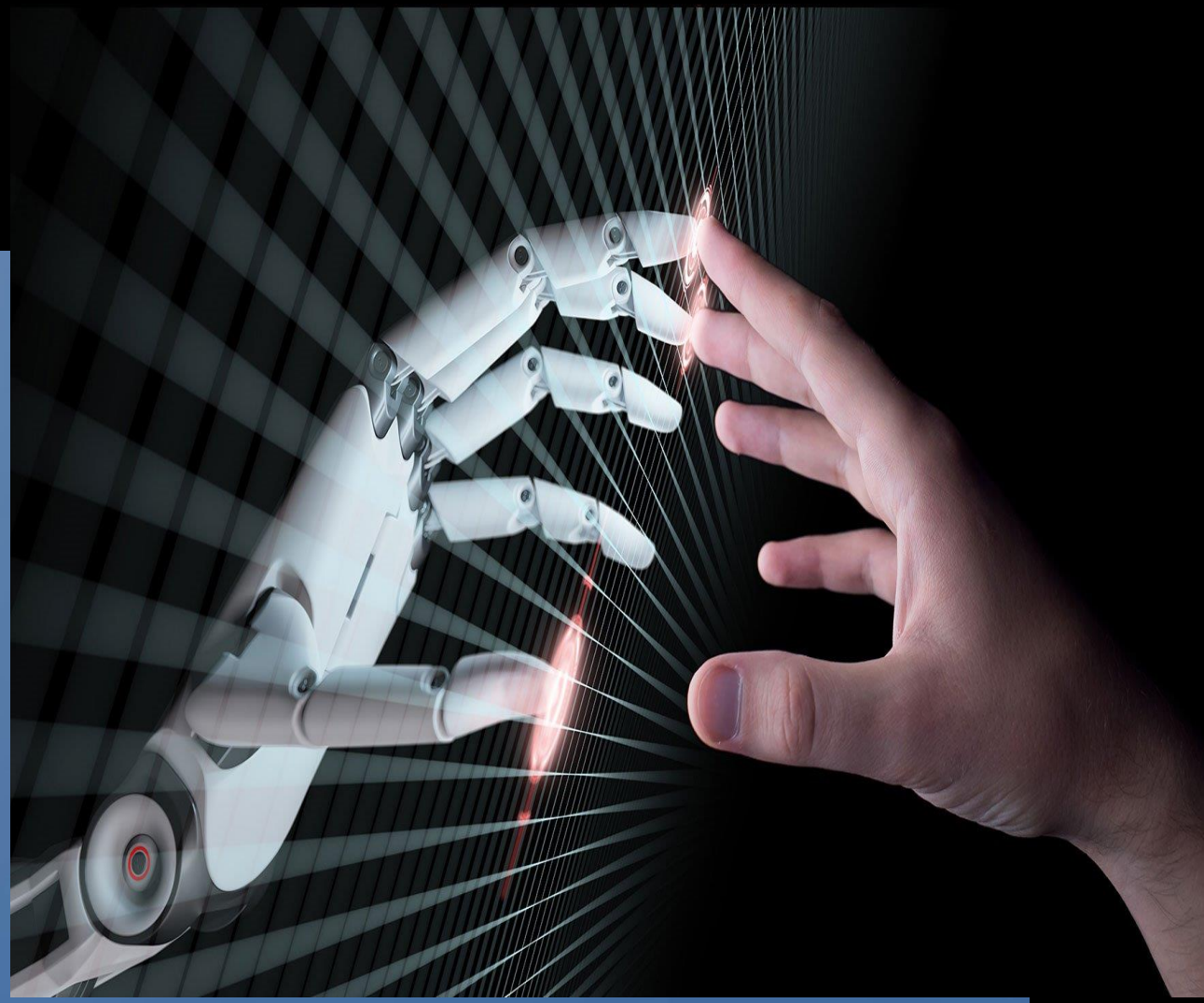
Both are methodologies for training models on very little data, often for zero-shot never-before-seen tasks. Used in situations where little to no training data exists.

[Source: Association of Data Scientists/Predibase]

Sources: 60. OpenSamizdat (2023) 27. Harvard Business School & MIT Sloan (2023) 21. ADaSci (2024) 22. Attri (2024) 23. Harvard Business Review (2013)

Responsible AI

The rapid pace of generative AI innovation has created numerous uncertainties among end-users and administrators of AI tools. It is crucial to address these concerns transparently and build trust with customers, employees, and regulators in the use of AI.



Ethics & Regulation

Unclear regulatory environments, concerns about reputation, and fear of legal consequences can stall AI investment decisions and impede adoption of AI tools. Clear regulatory and ethical frameworks can help to address uncertainties and increase adoption of AI tools and processes.

36%

of corporate leaders believe established AI policy will provide necessary guardrails[64]

Only **2%**

of companies have identified as having fully operationalized Responsible AI across their organization[62]

Situation:

Navigating Uncertainties

The integration of AI in M&A faces numerous challenges due to evolving and unclear regulations, coupled with significant regional differences. Regulatory ambiguity creates substantial uncertainty for managers, who must navigate these complexities to avoid severe legal repercussions. The high stakes of non-compliance, including hefty fines, make this a critical concern for organizations adopting AI in their M&A processes.

Regulatory frameworks for AI are constantly changing, with different jurisdictions implementing varied and often stringent requirements. For example, while 73% of dealmakers support some level of government regulation around AI[61], few have fully operationalized Responsible AI across their operations[62]. This gap highlights a hesitation among businesses to adopt AI without clear, consistent guidelines. This concern is not just theoretical; the UK's call for meaningful legislation before fully integrating AI technologies into the economy underscores the urgent need for regulatory clarity[63].

Compliance & Consequences

The implications of regulatory uncertainty are significant. Managers often pause their AI adoption efforts to monitor developments, with 41% temporarily halting their plans due to these concerns. This cautious approach stems from the fear of hefty fines and legal repercussions. The EU AI Act, for example, stipulates fines of up to EUR 30,000,000 or 6% of the total worldwide annual turnover for severe infringements, such as those under Article 5 regarding prohibited AI practices[65].

Such penalties highlight the high risks associated with regulatory non-compliance, deterring ambitious AI experimentation. The fear of regulatory backlash not only stalls the adoption of advanced AI technologies but also stifles innovation within M&A processes.

Imperative:

Measured Approach

Given these challenges, organizations must adopt a foundational approach to AI implementation in M&A. Focusing on current best practices and trusted methods ensures compliance with existing regulations, such as GDPR, and avoids overly ambitious experimentation that could lead to significant fines and loss of value. Ensuring data security is crucial due to the sensitivity and confidentiality of M&A-related information. Implementing strict access controls specifying who can access data and for what purpose can significantly reduce the risk of breaches. Robust legal expertise and collaboration with regulators are essential for staying ahead of technological evolution and minimizing regulatory risk.

Sources: 61. Datasite (2023) 62. Accenture (2023) 63. IFA (2022) 64. BRG (2023) 65. CMS Law (2024)

Trust & Transparency Cases

A selection of cases illustrating the importance of building and maintaining trust in the outcomes of AI models, both internally within the firm and externally when interacting with customers and stakeholders. Trust and understanding becomes central to the effective use of AI systems.

Customer and Regulator Transparency

Apple & GS vs Equal Credit Opportunity Act[66]

In 2019 Apple and Goldman Sachs issued a credit card, the Apple Card, and soon found that some women were given lower credit limits (up to 20x lower) vs their husbands living at the same addresses, despite having better credit profiles and better credit scores. The credit limit allocation was decided by a "black-box machine learning algorithm". One of the women impacted was Janet Hill, the wife of Apple co-founder Steve Wozniak. This prompted an investigation by the New York Department of Financial Service into gender discrimination, intentional or otherwise, by Apple and Goldman Sachs.

This incident highlighted the risk of being unable to explain decisions to regulators when following conclusions from a model which humans cannot easily rationalize, which can alienate customers and result in legal consequences. Ultimately the Apple Card was nearly abandoned as a product endeavor altogether, likely owing to the reputation damage associated with accusations of gender discrimination.

Employee Transparency

Tapestry Inc. Storefront Optimization[27]

Fashion retailer Tapestry Inc. (owner of Coach and Kate Spade) participated in a study in conjunction with Harvard Business School and MIT on the topic of employee trust in AI tools. Employees responsible for storefront stocking were provided with 2 sets of recommendations by their managers, one from a white-box model and one from a black-box model. Comparisons to the optimum determined allocations were followed for both groups of allocators.

The results from the study highlighted counter-intuitive findings: the white-box allocators who perceived they understood their recommendation algorithm better, were more likely to intervene in the recommendation and overrule it, resulting in suboptimal allocations, whereas the black-box allocators who did not understand their algorithms performed better in the study.

This boiled down to "social-proofing" the algorithm, where black-box allocators had trust in their peers who had helped to test and develop the model, and using this trust as a foundation had followed through on recommendations which they did not understand.

Building Trust is Key

It's All About Trust

Reputational damage through opaque decision making can pose substantial risk to hasty adopters of AI tools, angering customers and attracting regulatory scrutiny. Creating trust with clients through transparent decision making, which can be easily rationalized in terms of procedural justice, will only become more important as greater proportions of client-facing business decisions are informed by AI tools.

Sanctioning clear use cases for AI tools in M&A processes such as due diligence, target valuation, and data management as official policy or guidance can build the trust required to maximize the impact of simple and complex AI tools, with a high degree of peer-to-peer trust and faith in model conclusions required for both white box and black box models.

Developing a proven track record in the conclusions of AI models at management levels through model output validation by pilot teams can help to inform official policy and procedures in relation to AI tools and instilling trust in both clients and employees.

Sources: 66. AI Incident Database (2019) 27. Harvard Business School (2023)

The Potential of AI in M&A

We forecast that over **40,000** M&A transactions will include AI in their deal processes within the next 3 years[68]

Evidently, the integration of AI in M&A holds tremendous potential for enhancing efficiency, optimizing decision-making, and driving value. Being able to speed up the M&A process drastically allows for companies to capitalize on fleeting market opportunities, giving them a competitive edge in the fast-paced global environment. The speed of AI adoption and the degree to which companies integrate it into their dealmaking processes will differ across the board. However, the unchanging truth is that AI is revolutionizing the M&A landscape like no other. M&A practitioners are and will continue to find themselves increasingly supported as adoption grows. However, this potential can only be realized by addressing significant obstacles related to data foundation, organizational challenges, cost concerns, and responsible AI.

High-quality data foundation is crucial for effective AI applications. Organizations must invest in robust data governance frameworks to ensure accuracy and consistency, as exemplified by Goldman Sachs' use of the Legend platform for data quality management.

Addressing the organizational challenges in AI requires upskilling the existing workforce and attracting top talent through continuous education and training programs, a strategy successfully implemented by companies like JP Morgan.

Managing the high costs associated with AI can be achieved through strategic investments in open-source frameworks and hybrid cloud solutions, optimizing costs while maintaining performance and flexibility.

Adopting AI in M&A also requires a commitment to ethical practices and responsible AI. Establishing clear guidelines for AI usage, adhering to regulations, and avoiding opaque decision-making, as highlighted by the Apple and Goldman Sachs incident, are essential. Building trust among employees, customers, and regulators through transparent processes and comprehensive training is crucial for successful AI implementation.

Investing in AI capabilities prepares organizations for future challenges, ensuring they can leverage new advancements and maintain their competitive edge, it is a tool that enhances human capital. The future of M&A lies in the strategic and responsible adoption of AI there is no doubt there and organizations that overcome challenges related to data quality, talent development, cost management, and ethical considerations will transform their M&A activities, digitizing their process, strengthening their edge in this fast-paced business landscape.

Principally, the above requires strong human intelligence, M&A expertise, and experience which remains irreplaceable. No current technology or algorithm can fully automate the sophisticated processes of crafting a successful M&A strategy, negotiating optimal terms, and meticulously preparing a deal. These tasks still demand the nuanced understanding and strategic thinking that human professionals provide.

> 50% of dealmakers believe that AI can help **speed up M&A deals** by up to **50%** [68]

Sources: 67. Statista (2024) 68. FT Adviser (2023)

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