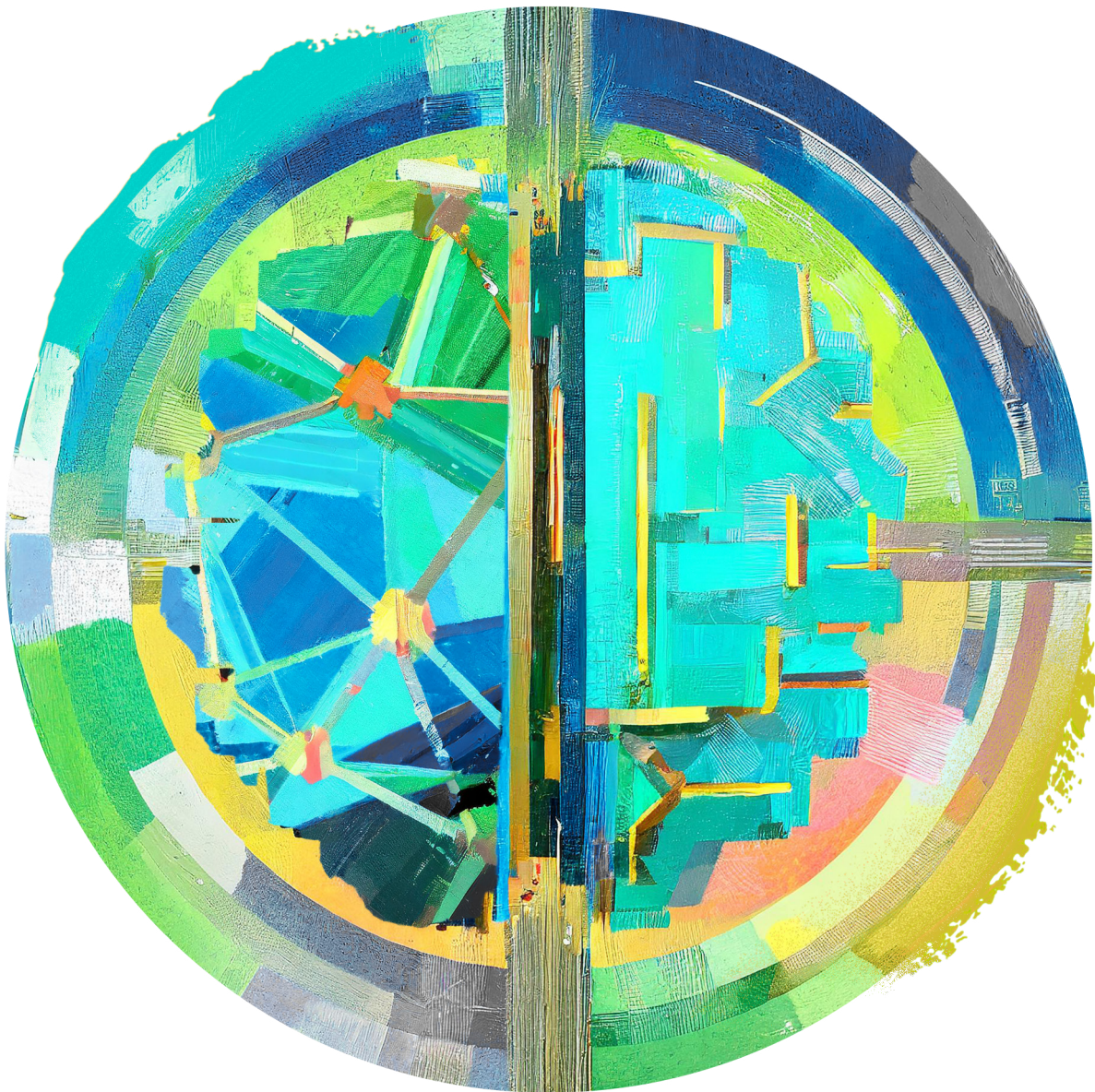




Artificial intelligence and mergers and acquisitions

Observations from the frontlines and how to prepare for the coming shift



Artificial intelligence (AI) has a powerful new variant, Generative AI (GenAI). GenAI shows promise as game-changing technology given its combination of novel features, accessibility by nontechnical users, and scalability across an enterprise. This combination of traits has the potential to unlock new sources of value across the enterprise.

Unsurprisingly, organizations want to know what this all means for dealmaking and, most importantly, how to realize its value to mergers and acquisitions (M&A).

In an M&A context, it is easy to see how GenAI could create a competitive edge for early adopters. Its ability to ingest, interpret, and summarize significant quantities of data; automate manual and labor-intensive processes; and uncover new insights and questions are all potential avenues for enhancing returns during M&A. The opportunities are numerous, but there is a clear risk: Leaders who choose to defer action may lose ground to those who seize first-mover advantage.

Before diving in headfirst, M&A leaders and executives should ask: **How will GenAI affect M&A**, and **how can we capitalize** on this opportunity?

To answer the first question, four key predictions are well-founded:

- 1. Deals will increasingly focus on (i) the acquisition of AI- and GenAI – capabilities, assets, and data, and (ii) the divestiture of business models vulnerable to AI disruption.**
- 2. Meaningful application of GenAI will enhance the M&A process across the entire life cycle**, improving speed, quality of insights, and financial outcomes during execution.
- 3. GenAI will continue to gain momentum in M&A** as early adopters employ it as a key lever to create value from the top line to “heart of the business” functions.

- 4. This is only the beginning, and when it comes to GenAI, winners will be defined by their ability to navigate early challenges and identify the right choices needed to win.**

What about the second question: How can enterprises capitalize on this opportunity? Given the indications above, we recommend serious consideration of the following actions:

- 1. Stand up or strengthen sensing capabilities** using internal and external resources, to keep a pulse on AI and GenAI activity, considering direct and indirect competitors and partners.
- 2. Recast the M&A strategy** by taking into consideration how AI and GenAI might affect existing value chains and opportunities to capitalize on disruption and drive greater growth and value creation throughout the portfolio.
- 3. Identify and invest in experts that can help validate and amplify AI and GenAI opportunities** and that bring a blend of commercial, operational, and technical perspective.
- 4. Prioritize and test AI use cases** to develop a deeper understanding of capabilities and limitations and to aid with identifying the most promising opportunities to implement across the enterprise.

With the stage set, let us dive into the details.

Four key predictions

1. Deals will increasingly focus on (i) the acquisition of AI- and GenAI – capabilities, assets, and data, and (ii) the divestiture of business models vulnerable to AI disruption.

Private equity and strategics are increasingly buying AI and GenAI capabilities. According to Crunchbase, GenAI and AI startups raised almost \$50 billion in 2023, a 9% increase over 2022 levels.¹ Furthermore, we see AI and GenAI deal activity across nearly all sectors. See below for recent industry examples:

- **Technology:** Acquisition of AI based capabilities to enhance AI Business offerings to improve customer experience and productivity.
- **Life sciences:** Acquiring products from a clinical-stage drug discovery firm, which uses AI for a proprietary drug discovery engine.
- **Insurance tech:** Acquisition of AI-driven cyber risk analytics and GenAI-enhanced underwriting and quoting.
- **Oil and gas:** M&A and investment in AI-enabled digital models that can increase operational efficiency by enhancing reservoir characterization.

As these acquisitions show, AI and GenAI are a rising trend in multiple sectors. Goldman Sachs Research predicts that AI investment could approach \$200 billion globally by 2025,² which is likely to set the stage for future business strategies in an increasingly AI-driven global market.

Additionally, there has been a significant increase in private equity deal activity focused on AI and GenAI, considering rapid growth potential. To avoid being left behind, industry leaders will need to create or defend competitive advantage with new investments in assets, data, and AI capabilities. We are already seeing the first signs of disruption across multiple sectors, which creates opportunities for the disrupters and potentially significant challenges for the disrupted.

As the promise of GenAI becomes more real, new entrants will pose competitive threats for incumbents

and look for ways to further exploit opportunities. Similarly, for enterprises that find the basis of their competition has fundamentally changed, some may elect to divest noncore businesses to reinvest in new and differentiated capabilities.

2. Meaningful application of GenAI will enhance the M&A process across the entire life cycle, improving speed, quality of insights, and financial outcomes during execution.

With its ability to digest large quantities of data, synthesize and summarize findings quickly, develop quantitative and qualitative analyses, provide recommendations and predictions based upon pattern recognition, and refine outputs through deep learning, AI and GenAI can make an impact across the full M&A life cycle.

To date, much of the focus has been earlier in the life cycle. This is likely driven by companies starting to apply it where they are most comfortable and feel the least risk. Key examples include using AI and GenAI to evaluate markets, products, and technologies to inform strategies, identify gaps or vulnerabilities in product portfolios, and prioritize targets that fill those gaps. In fact, several private equity funds are already engaged in exercises to understand how GenAI could have an impact on their portfolio of investments.

AI is also helping to identify targets in a novel way. In place of typical screening tools and criteria, AI and machine learning (ML)-enabled screening tools help uncover previously “hidden” options by presenting new targets that resemble their short list of top targets. In fact, one client is training AI on what “successful” portfolio companies look like—without defining inputs or outputs. Instead, the AI has established its own criteria to uncover targets with a higher probability of value capture. Lastly, GenAI is helping clients review and summarize critical supplier or customer contracts to inform execution, integration, or separation strategies.

Figure 1 shows the five key stages of the M&A life cycle and associated key use cases identified by Deloitte.

Figure 1: AI and GenAI use cases across the M&A life cycle

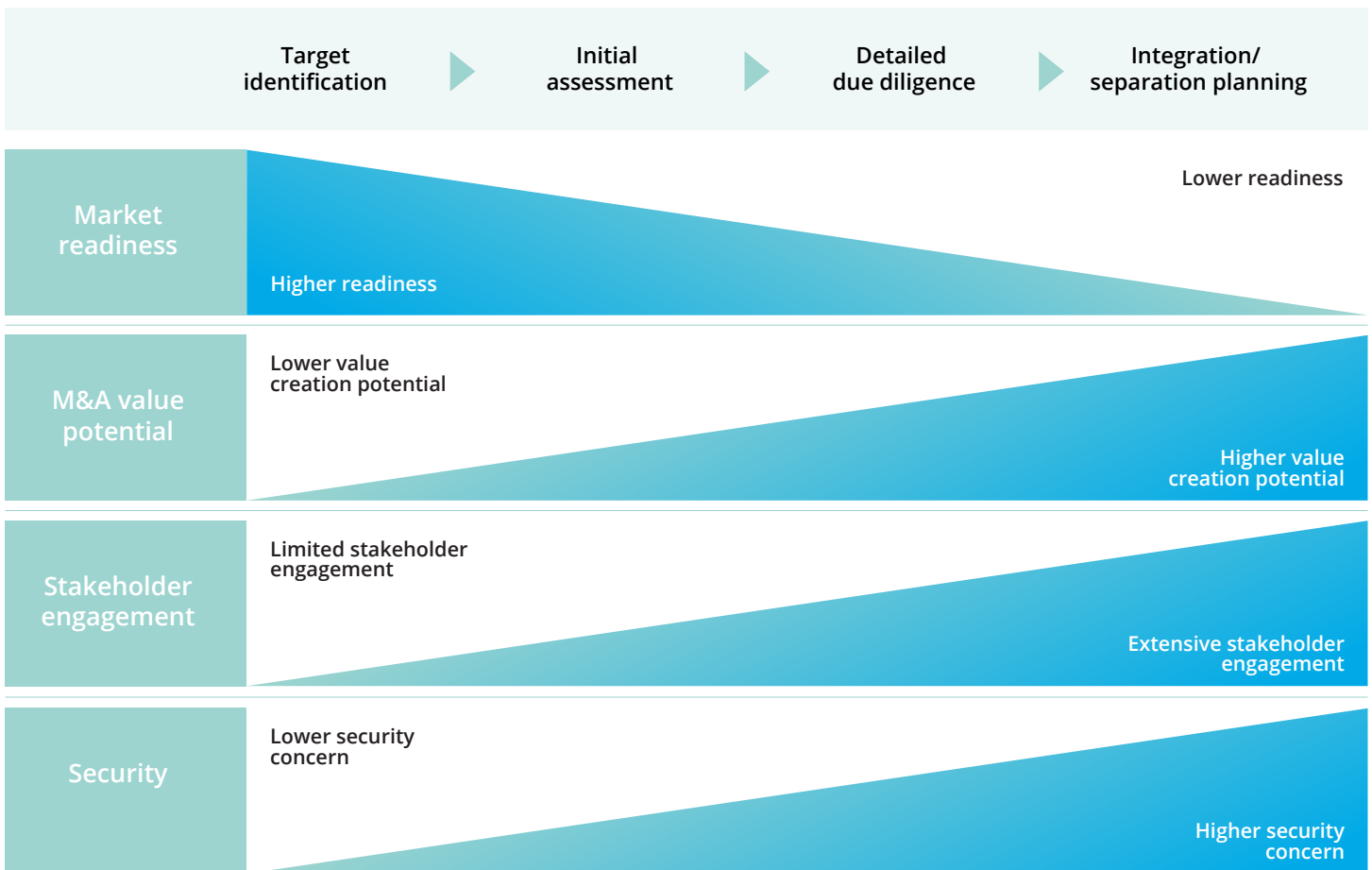
Examples of AI and GenAI M&A use cases

<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Pre-deal</p> <p>Target screening/M&A strategy & valuation</p>	<ul style="list-style-type: none"> • Product portfolio analysis: Assess product mix and recommend growth strategies • Nested wargaming: Game out competitive moves and counter-moves by a key competitor • (Un)structured data analysis: Automated data extraction and transference of deal financial data into analytics and tools • Market sensing and analytics in PE: Identify and summarize PE investment thesis, leveraging market research and planning • Deal sourcing/target screening: Identify and prioritize high performing assets for future deals to correlate with investment strategy • Valuation global standards chatbot: GenAI Engine that answers valuation questions based on global standards
<p>Due diligence</p>	<ul style="list-style-type: none"> • Diligence observations/focus: Evaluate financial and operational data to identify key risks • Management interview preparation: Prepare management interview guides and additional data requests • CDD prep and voice of customer execution: Examine target customer segments, preliminary trends and summarize themes • Functional due diligence (HR, IT, Ops, etc.): Analyze and compare HR practices and policies (e.g., leaves, severance) • Culture diligence: Use public data sources to gather information on the target company's culture • Management EBITDA drafting: Create management adjusted EBITDA build and draft description of adjustments • Report tie-out: Compare draft report with finance workbook schedules, and note where values do not reconcile • Working capital optimization: Generate insights about payment terms for customer/vendors and working capital
<p>Negotiations & deal structure</p>	<ul style="list-style-type: none"> • Term sheet analysis: Analyze and summarize key agreement and financing terms • Deal closing conditions: Draft Day 1 criteria and closing conditions based on sell-and buy-side objective
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Post-deal</p> <p>Post-deal planning & execution</p>	<ul style="list-style-type: none"> • Blueprinting, Day 1 checklists, TSAs: Automate operating model designs and draft of Day 1 planning deliverables • Benchmarking analysis: Prepare benchmarking of financial and operational KPIs • IT landscape analytics: Generate summary of comparison between seller and buyer applications, infrastructure and IT services • Contract analysis: Encapsulate key terms in contracts for contract harmonization • Day 1 communications: Generate Day 1 communications (e.g., deal announcements, stakeholder FAQs, and social media posts) • Culture analysis: Synthesize survey and focus group data and recommend actionable steps to address culture differences • Chatbot for Day 1 support: Leverage GenAI chatbot to answer questions related to deal and Day 1 readiness
<p>Restructuring & transformation</p>	<ul style="list-style-type: none"> • Synergy assessment: Quantify operational and financial synergies through transformation initiatives • Value creation and synergies: Analyze value creation levers, and prioritize cost savings initiatives • Critical path management: Develop and track critical path for transformation and value realization

While much of the focus has been on the earlier stages of the life cycle, companies will build on early learnings and apply those learnings to reduce the risk and increase the value during downstream M&A activities.

As summarized in figure 2, the degree of readiness, value potential, stakeholder engagement, and security reaches its greatest strength at various parts of the M&A life cycle.

Figure 2: Focus areas for GenAI in M&A based on Deloitte’s sponsored survey of M&A executives



Early developments in GenAI have created a higher readiness in early M&A life cycle use cases. While there may be higher value creation potential in later life cycle use cases, there are also additional considerations with stakeholder engagement and security.

Note: Figure 2 includes responses from a brief study conducted with M&A executives across industries.

The costs, risks, and rewards of building and executing GenAI use cases are still taking shape. But the instances that produce meaningful return on investment in the form of better insights, increased productivity, and accelerated execution will emerge as real differentiators—and likely pave the way for applications later in the M&A life cycle.

3. GenAI will continue to gain momentum in M&A as early adopters employ it as a key lever to create value from the top line to “heart of the business” functions.

While we anticipate acquisitions of AI- and GenAI-augmented business will continue to be a focus, we also see that early experimentation with AI is uncovering opportunities to improve top-line growth, reduce costs, and minimize execution risk. In fact, a recent Deloitte survey³ found that 79% of CEOs believe AI will increase efficiencies, and 52% believe AI will drive revenue growth for their enterprises.

As the survey signals, top-line growth is not the only consideration coming into focus. The associated cost opportunities and operational benefits are becoming clearer as well. Some buyers are already incorporating modest cost savings associated with more well-founded use cases such as deploying advanced chatbots to reduce customer service costs, automating coding and documentation tasks to lower software development costs, or even personalizing marketing content while trimming associated spend.

We anticipate that as buyers gain more experience, they will likely gain confidence in their ability to estimate and deliver the impact of these use cases. With that confidence, they will naturally expand their AI repertoires to more “heart of the business” functions, such as cost of goods sold, along with back-office functions such as IT, finance, HR, and legal.

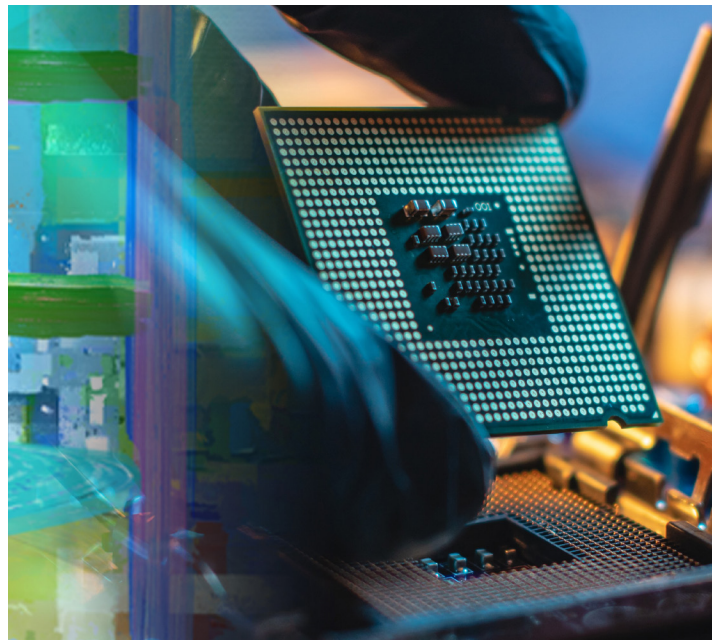
4. This is only the beginning, and when it comes to GenAI, winners will be defined by their ability to navigate early challenges and identify the right choices needed to win.

The question is not whether GenAI will affect M&A, but rather at what pace? The technology's potential to recast the look and feel of dealmaking is significant, but several challenging headwinds must be navigated to bring that potential to fruition.

GenAI suffers from hallucinations: making incorrect inferences from its source data that may seem correct. As with any tool, results and quality must be validated. GenAI is likely to open a gap and lag in understanding and development for the average or early career employee. Additionally, regulatory and ethical complexities continue to evolve and at a seemingly slower pace than AI. We also see access to or ownership of large, high-quality, proprietary data increasing in importance as a source of advantage.

Perhaps GenAI will come to differentiate M&A winners from laggards. On the other hand, AI technologies may simply become mission-critical capabilities that all companies adopt equally—tomorrow's analog to the internet or electricity.

Having sketched the likely developments and the remaining areas of uncertainty, what should an M&A-oriented organization do today to prepare for an AI-fueled future?



From strategy to action: Four steps to take now

Strategy and deal teams that have not yet acted should consider four moves to inform their strategy. We see each move as a “no regrets” decision that can help position a company for effective and sustainable growth in parallel with the AI revolution.

Step 1. Stand up or strengthen sensing capabilities.

In a world of increasing “unknown unknowns” and accelerating rate of advancement, companies can benefit by formalizing their approach to sensing.

For example, companies should examine sources of new potential threats that may arise from GenAI disruption. Such sources may expand the definition of competitors to include smaller, nontraditional entrants and markets beyond existing products and offerings. New technological developments should be tracked and “scored” to indicate level and type of impact on existing businesses or relative attractiveness of new opportunities. Additionally, insights from secondary sources should be validated through firsthand knowledge of developments, either via third parties or direct conversations with those who possess knowledge of emerging capabilities. Increased awareness will not only provide valuable perspective on the current state of play but should enhance abilities to see where things may go in the future and better position companies to make smarter bets earlier.

Step 2. Recast M&A strategy through an AI lens.

Companies should reexamine their industry structures and reimagine their business models through an AI lens.

The first consideration is to understand and challenge existing assumptions that the industry will operate in the future as it does today. The second consideration involves disaggregating the value chain and pushing on it: Where could AI both disrupt the chain and create shifts in power? Lastly, given these dynamics, companies should make deliberate choices in a “where to play and how to win” strategic choice framework. This approach can assist with uncovering the specific AI capabilities or data

an enterprise needs, what businesses or capabilities it no longer needs, and what to acquire or divest based on that intelligence.

Step 3. Identify and invest in experts that can help validate and amplify opportunities.

As companies pursue AI acquisitions, they will have to identify internal talent or access external expertise, or both, to assess AI and GenAI targets.

That expertise will be critical to evaluating the quality of the underlying technology and impact to existing assets. Increasing the level of understanding across business leaders, including commercial and R&D will be critical to identifying new internal diligence leads and sourcing deals.

In tandem, diligence teams will need to build and employ a framework that evaluates the suitability of a target’s AI capabilities and its potential as a disrupter or enabler of enterprise strategy. Teams will also need to evaluate and quantify future investment needed to enable their strategy. This can include detailed software due diligence, including evaluation of source code and data, and product testing for accuracy of underlying technology.

Step 4. Prioritize and test M&A AI use cases.

Planning can only take you so far, and we believe that “learning by testing” is critical in this early stage of new technology adoption.

Companies should leverage a cross-functional team’s perspective to assist with prioritization of AI and GenAI use cases. Regarding prioritization, teams should consider evaluation of use cases based on their customer value, business impact, feasibility, and investment needs. Teams will also need to establish measures of success and identify learnings that will help make use cases effective at scale. Lastly and most importantly, teams should begin to test these use cases and avoid analysis paralysis. The key is to get started on the journey and not to overthink which foot to make the first step with.

New tools, new rules

AI presents unparalleled capabilities that can supercharge productivity, identify value in novel ways, generate rapid insights, and assist with identifying and mitigating risks. These capabilities are likely to rapidly change the work we do today and reshape how we think about M&A. GenAI not only has the potential to change M&A from a process standpoint, but to also influence the deals we seek, the way we compete, and the sources of value we identify across the enterprise. Lastly, the pace of adoption is increasing, and those who wait face disruption from those who act.

Deloitte has seen these shifts at work as we advise and serve our clients during this technological revolution. As we have observed these trends and forces firsthand, it seems certain that enterprises across all industries will have lessons ahead. They will come from experience, not theory—and those who learn them earliest stand to reap the greatest benefits.



Endnotes

1. Gené Teare, "[Global startup funding in 2023 clocks in at lowest level in 5 years](#)," Crunchbase, January 4, 2024.
2. Abhinandan Jain, "[2023: The year AI took over investments – What to expect in 2024?](#)," *Alltech Magazine*, January 6, 2024.
3. Deloitte, "[The majority of CEOs surveyed believe Generative AI will increase their organizations' efficiencies: 'Summer 2023 Fortune/Deloitte CEO Survey'](#)," press release, July 24, 2023.

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