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The AI Advantage - Transforming M&A with Gen AI

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Financial sector – Spearheading technology adoption

The financial sector has a proven history of early adoption of technological innovations. From blockchain to IoT-driven solutions, the finance sector has continually experienced and adapted to disruptive transformations. Evolving stakeholder expectations, the rapid proliferation of data, the demand for real-time solutions, and escalating cyber threats have pushed financial leaders to adopt a proactive approach to adopting new technologies. Gen AI has emerged as a pivotal to the sector's pursuit of disruptive technologies as it promises to revolutionize financial functions including personal finance management, fraud detection and prevention, portfolio optimization, document processing, and credit scoring. Among these, mergers and acquisitions (M&A) stands out as poised for substantial transformation by Gen AI.

Gen AI in M&A – A slow start but ready for a big leap

A study of M&A practitioners by Fuld revealed that approximately 24% are currently using Gen AI in their processes. While this suggests lower adoption rates to date, the future seems promising. The study suggests a 90% increase in adoption over the next year, with the total adoption rate expected to reach 85% over the next four years. Complementing this, a survey of 750 global C-suite M&A executives by Accenture[1] found that nearly two-thirds (64%) believe that Gen AI will revolutionize M&A more than other recent technological advancements.

The M&A landscape is evolving rapidly, with exponential growth in data, increasing regulatory and geopolitical risks, shortening deal cycles, cost pressure, and an increasing demand for data-driven predictions of deal outcomes. SS&C Intralinks has reported a significant rise in data volume, with a 70% increase in the average number of pages in virtual data rooms from 2018 to 2022. They expect this trend to accelerate further.

The sheer volume and complexity of data make it challenging for human analysts to process and analyze it effectively. Gen AI has the potential to tackle this issue by interpreting vast datasets and developing algorithms to predict M&A outcomes through scenario analysis. While the possibilities are limitless, understanding Gen AI's role across the deal life cycle is crucial for identifying and exploring untapped areas.

Gen AI adoption across the M&A Process – Early wins and future potential

While Gen AI has the potential to revolutionize the entire M&A process, its current adoption is more pronounced in the early stages, such as target sourcing and due diligence. Multiple surveys identify target sourcing, screening, and deal due diligence as the primary use cases for early adopters of Gen AI. Although these applications offer significant cost savings and efficiency improvements in back-office processes, greater opportunities exist in strategic areas such as M&A strategy development, scenario planning, integration planning, and post-deal integration. The framework below highlights compelling Gen AI use cases and their level of adoption among dealmakers:

Stage	Strategy Development and Target Sourcing	Target Due Diligence	Integration Planning	Post-deal Integration
Gen AI Use Cases: Established	▪ Automated market scan ▪ Target identification ▪ Target screening	▪ Data room management ▪ Document review and analysis	▪ Data integration and harmonization	
Gen AI Use Cases: Emerging	▪ Strategic fit analysis ▪ Target scoring models ▪ Sentiment and market perception analysis	▪ Financial model and valuation ▪ Synergy identification ▪ Risk assessment ▪ Predictive analytics to estimate outcome	▪ Financial forecasting and automated reporting ▪ Process and project management automation ▪ Employee sentiment analysis ▪ Customized communication strategies	▪ Transitional Service Agreement (TSA) design ▪ Change management ▪ Operating model and organization structure design ▪ Data and system migration ▪ Post deal performance assessment
Relative Adoption	High	Medium	Low	Low

Expanding applications in M&A areas have driven dealmakers to invest more in Gen AI. According to the Accenture survey, about three-quarters of C-suite executives plan to increase their investments in AI solutions in 2024. However, this enthusiasm is accompanied by concerns about entering uncharted territory. Executives remain uncertain about the returns on these investments and whether their organizations are mature enough to adopt these solutions successfully.

Gen AI challenges – A promise fraught with obstacles

Despite its transformative potential, Gen AI faces several challenges in M&A adoption. A key issue is the quality of data which is crucial for successful Gen AI and is emerging as dealmakers' greatest concern. Surveys by a number of leading consulting firms indicate that 50-60% of dealmakers view data inaccuracies and weaknesses as major barriers to Gen AI adoption.

Other significant obstacles include data privacy risks, cyber threats, unclear business value or return on investment, and a lack of skilled talent. While technological advancements and improved data capture will help address some of these issues, a formal, targeted organization-wide strategy is also essential. This strategy should clearly outline management's vision and objectives for Gen AI and provide a well-defined roadmap to achieve them.

Despite the challenges, the immense potential of Gen AI far outweighs the negatives. Surveys show that 70-80% of adopters believe Gen AI has either reduced manual efforts or has the potential to generate higher returns on their M&A transactions. This is significant, especially as we have yet to fully explore the Gen AI's potential in the deal-making process.

Conclusion – Gen AI is here to stay

Gen AI is poised to transform M&A processes. Although adoption rates are currently low, future growth is expected as financial leaders recognize its potential to handle complex data and boost efficiency. Gen AI's benefits are already evident in early-stage M&A processes such as target screening and due diligence, with even greater potential in strategic areas such as M&A strategy and post-deal integration. While challenges such as data accuracy and privacy need to be addressed, the promise of Gen AI to improve M&A outcomes and returns is compelling, indicating a transformative shift in the industry.

Fuld is ideally positioned to help organizations navigate this transformation. Our AI Center of Excellence (CoE) continuously experiments with and implements advanced AI solutions throughout the M&A process. By combining our M&A expertise with best-in-class AI capabilities, we help M&A practitioners stay ahead of the AI adoption curve and achieve greater efficiencies. To learn more about how we assist M&A practitioners in adopting advanced technologies, please reach out to us: www.fuld.com/contact-us

1.   Generative AI: revolution and evolution for M&A, Accenture