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Generative AI and changing M&A landscape

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Generative artificial intelligence or GenAI as it is widely known, is emerging as a powerful tool revolutionising the way businesses strategise, innovate, and adapt. While AI is a broader category of systems with human-like intelligence, GenAI uses prompts to generate original content.

The primary difference between AI and GenAI lies in their capabilities and execution. AI systems are used to analyse information and make predictions, while GenAI goes a step further by creating new data in multiple forms.

While GenAI is at a nascent stage and its potential economic value across industries is unpredictable, this paper explores how GenAI could change the M&A landscape. It also provides a brief context that can serve as a starting point for visualising the potential that GenAI holds within the M&A lifecycle.

Introducing GenAI in the M&A lifecycle can unlock cost benefits in back-office processes, including market sensing, document synthesis, and financial valuation.

It can boost efficiency across due diligence, personalise communication, and reduce the deal turnaround time.

How GenAI can potentially transform M&A execution

Strategy shaping and deal identification

- Help develop successful deal strategies backed by market data.
- Optimise target screening.
- Aid document synthesis.

Deal preparation and execution

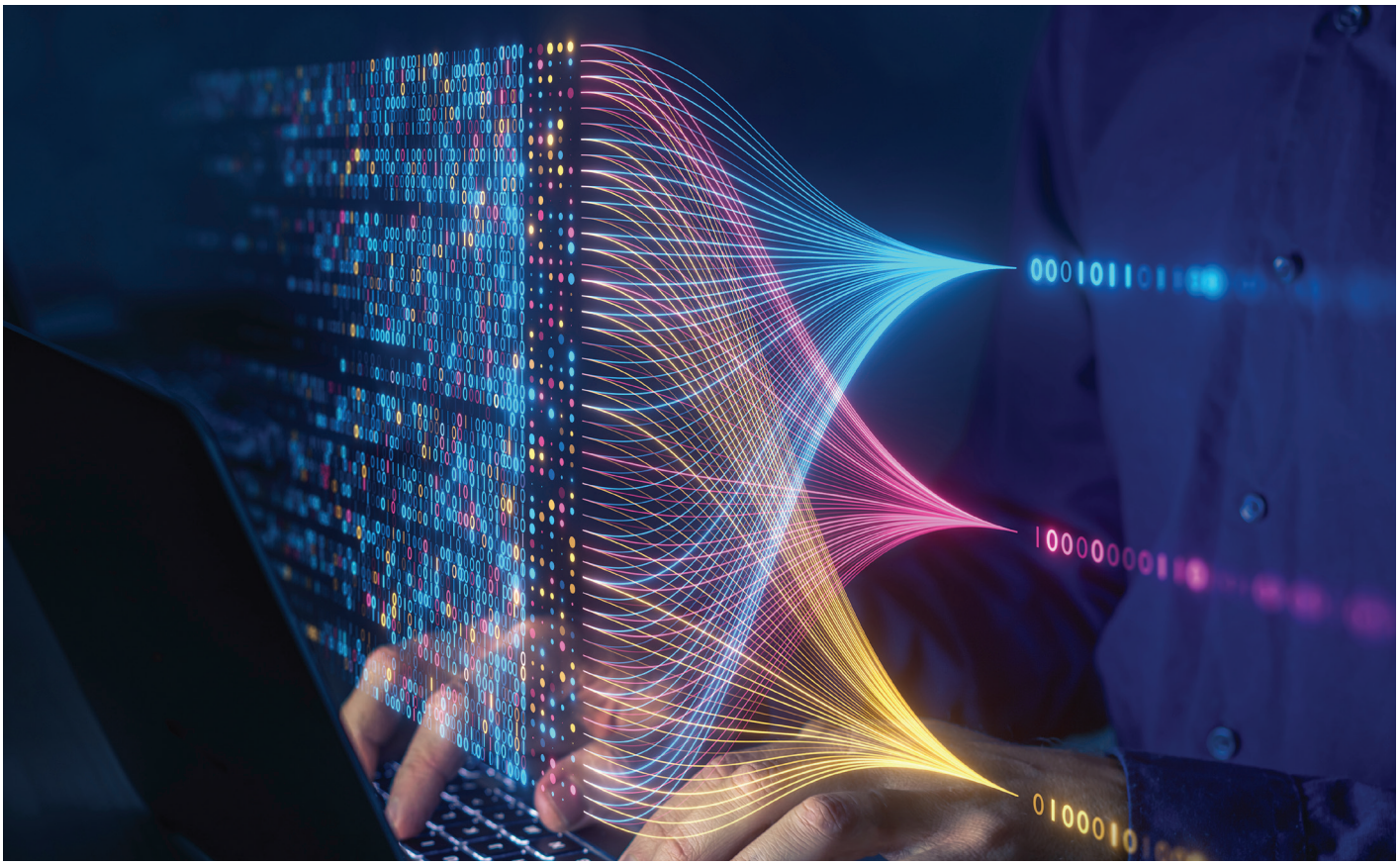
- Expedite due diligence.
- Provide support in deal structuring and valuation.

Delivering promised returns

- Optimise business activities and identify additional value-creation prospects.
- Provide support for day 1 readiness.
- Conduct a cultural fitment analysis.

Transformation and value realisation

- Conduct a trend analysis.
- Infuse with another technology to provide insights on synergy achievement, exit scenarios, and TSA execution.



Imagining a transformed M&A lifecycle with GenAI

Strategy shaping and deal identification

The first stage involves identifying opportunities and growth targets while aligning with the organisation's corporate strategy. Traditionally, identifying potential acquisition targets involves extensive manual research and market analysis.

However, GenAI could enable professionals to derive data-driven insights across the company's financial health, market positioning, and growth trajectory, thereby providing support in developing successful deal strategies. The models can help conduct a data-backed opportunity assessment and suggest whether the organisation should buy, invest, or collaborate.

The models could combine and compare multiple sources of structured and unstructured data to identify attractive and potential acquisition targets, encompassing options to diversify or increase market differentiation.

GenAI models could be used to develop continuous screening systems that scan the market for targets and synthesize documents and external communications. They could evaluate the target fitment with the organisation's vision, thereby providing a sense of direction to portfolio rebalancing and investment of growth capital.

Deal preparation and execution

The second stage involves preparing for the transaction and navigating the complexities throughout the deal process for the deal closure. GenAI could help simplify deal structuring and expedite due diligence.

Due diligence is an expensive yet valuable and time-sensitive process that demands extensive data collection and analysis. During the process, organisations need to scrutinise a wide range of documents, including contracts, customer data,

financial statements, and operational records. GenAI could help automate the process by comprehending and summarising documents, identifying key points, and drawing patterns that might be overlooked by humans. Trained GenAI models could flag potential risks associated with an M&A deal, analyse historical data to identify red flags, and highlight financial irregularities or compliance issues. They could also help perform a data room scan, perform contracts and value chain analysis, and analyse proposals.

GenAI could also help determine the fair market value of the target company, considering factors such as its assets, liabilities, future cash flows, growth potential, and current market landscape. It could also be used to prepare an executive briefing plan and board paper to ensure senior stakeholders understand the rationale behind the deal and its implications, including closing risks.

Delivering promised returns

The third step involves setting up for success after the deal is executed. It includes delivering on the anticipated business synergies, both in case of integrating or separating an entity.

GenAI could be used to optimise business activities and identify additional value-creation prospects from Day 1. It could help develop Day 1 readiness checklists, prepare the executive summaries for meetings, and support cutover planning by providing the first draft of organisation design and recommendations.

It could support in driving effective change management, stakeholder communications, cultural fitment assessments; consolidating data; and mitigating post-merger contingencies. Based on the insights and analysis, the organisation can create and run workshops to assess how sales teams, suppliers, employees, systems, and processes will integrate. The insights can also help design talent retention programmes, and manage change and communication initiatives to drive a smooth and successful transaction.

Transformation and value realisation

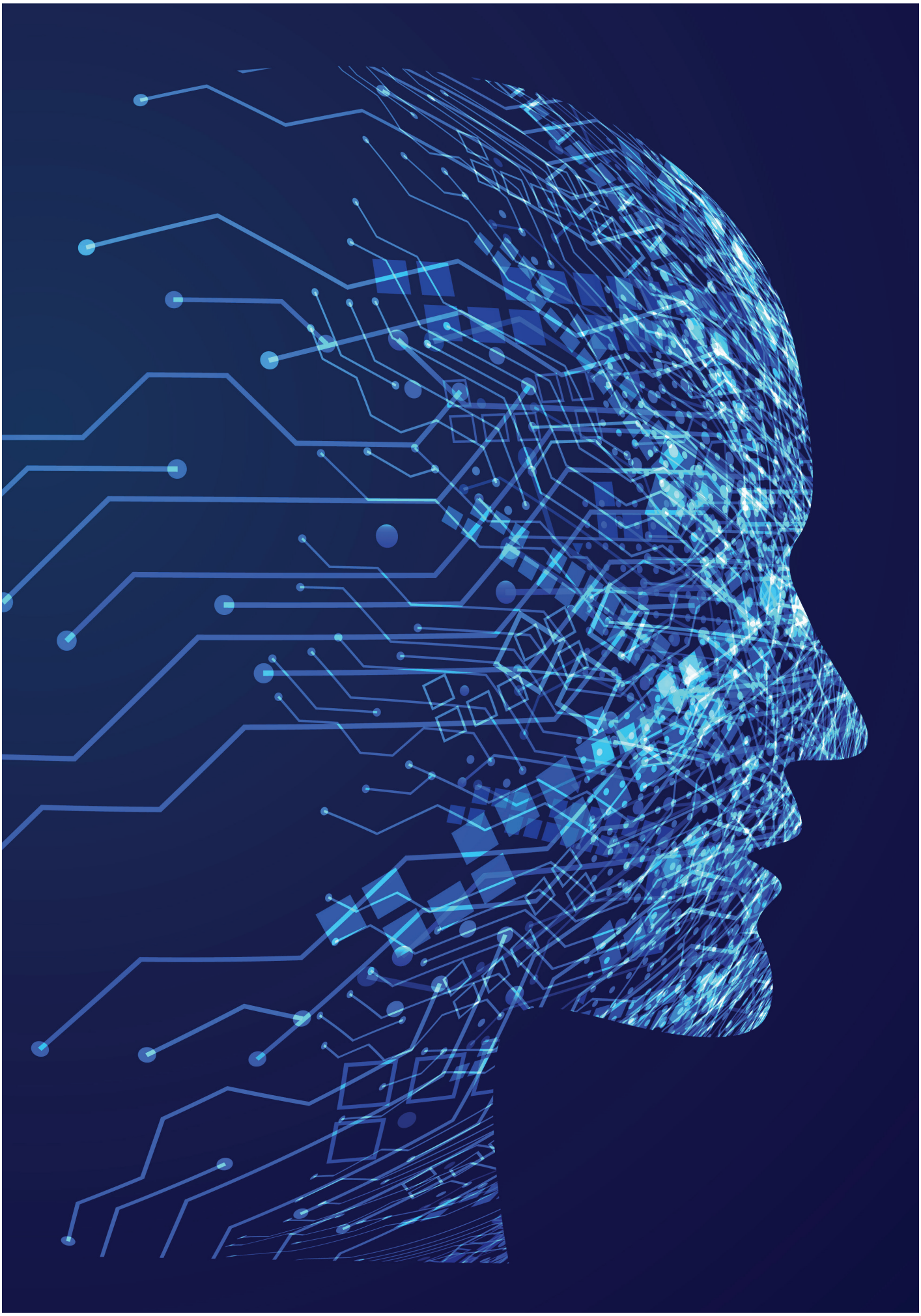
The fourth step involves evolving for the future by assessing potential disruptors and transformational opportunities. It includes assessing actions for value creation, process improvements, and readiness to disruptive market forces.

Using trend analysis, GenAI could simulate various scenarios and assess their potential impact after the M&A. These scenarios could help predict the financial performance of the merged entity under different growth assumptions, market conditions, and cost structures.

Additionally, GenAI models, coupled with analytics platforms, could help track and monitor the synergy achievement, generate exit scenarios, and develop playbooks for success. They could also provide inputs for Transition Service Agreement (TSA) generation and governance.

Although early traction has been through consumer releases, GenAI has the potential to add contextual awareness and human-like decision insights to enterprise workflows. This could radically change how we do business.

GenAI can create a profound relationship between humans and technology – even more than what cloud, smartphone, and the internet did in the past. Adding GenAI capabilities to M&A execution could result in additive value creation and successfully crafted acquisitions.



Will the implementation be easy? Well, it would be too early to predict as GenAI comes with its own set of challenges

Front-office employees spend an enormous amount of time creating pitch books, industry reports, investment theses, performance summaries, and due diligence reports. GenAI can help reduce the cost of content creation, enhance analytical capabilities, and improve electronification processes. Deloitte predicts that the top 14 global investment banks can boost their front-office productivity by 27–35 percent using GenAI.

Although GenAI has the potential to transform the M&A lifecycle, it comes with its own set of challenges, including those related to data privacy, bias, regulatory compliance, data quality, and high implementation costs. It is essential to consider the ethical and regulatory implications of using GenAI in sensitive and high-stake areas, such as M&A. The transactions involve sharing confidential financial, legal, and operational information amongst transacting parties. Additionally, these deals come with a plethora of regulatory requirements that vary by industry and geography. Moreover, GenAI models are only as impartial as their training data. If consumed input data contains inherent biases, the models can infer those biases and deliver skewed outputs that lead to unfair assessments.

Traditionally, M&A has been pro-technology with reliable applications across M&A processes, such as target screening and due diligence. However, GenAI adoption may face resistance as GenAI reliability is questionable due to nascency and quality assurance.

Connect with us

Rohit Mahajan
Partner,
South Asia E2E Merger & Acquisitions Leader
rmahajan@deloitte.com

Bimal Modi
Partner, Service Line Leader,
Financial Adivisory
bimalmodi@deloitte.com

Sumeet Salwan
Partner, Offering Leader,
Consulting
sumeetsalwan@deloitte.com

Vishal Jain
Partner,
Risk Advisory
jainvishal@deloitte.com

Madhu Sudan Kankani
Partner, Chief Growth Officer,
Audit & Assurance
mkankani@deloitte.com

Anil Talreja
Partner, Service Line Leader,
Merger & Acquisitions Tax
atalreja@deloitte.com

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