



Finding Generative AI's place in the art and science of M&A

Where can new technologies
enhance the process?

There's no single answer.

There's plenty of hard arithmetic in mergers and acquisitions (M&A)—from vetting to valuation to integration. As technologies have grown more capable, they've taken their place in that process to add speed and accuracy to what humans can accomplish on their own. It's only natural to assume that Generative AI will take its place alongside machine learning (ML) and big-data analytics in that mix.

But hold on: M&A isn't all math. There's art alongside the science, and parts of the life cycle depend more on heuristic judgment than on quantifiable metrics. There is a role for Generative AI, but it may not always be a starring one.

Introduction

M&A processes are inherently complex and multifaceted. They require a deep understanding of both the target and acquiring companies. Alongside discounted cash flow (DCF) analysis and other factors, it takes a human eye to gauge things like culture fit, market trends, and innovative potential. There's a point at which machines can measure risk; but, before that, people need to define and identify it.

Where does that leave us? Organizations can consider Generative AI as an ally in the M&A life cycle. A challenge in doing so is not to automate as much as possible, but to blend the precision of data-driven insights with the intuitive judgment it takes to navigate the intricacies of M&A and valuation.

This fusion of technology and human acumen can be like the interplay of musical notes. When inputs from different sources come together in just the right way, the result is a symphony. Change things just a bit, however, and the melody turns to cacophony. How can your Generative AI approach keep in tune?

Where AI needs *human* help



Strategic alignment

Identifying a target that fits within the acquiring company's long-term goals is important. What are the target's market position, competitive advantages, and potential synergies? Do acquisition goals envision market expansion, diversification, or new technologies or capabilities?



Due diligence

Financial analysis is critical—but so are potential risks and liabilities. It takes an eye for legal, operational, and strategic detail to perceive what hasn't happened yet.



Valuation assumptions

Gauging future cash flows, growth rates, discount rates, and other variables requires a blend of analytical skills and informed judgment. Historical performance, market trends, and economic conditions all factor in.



Cultural fit

The two companies and their people need to mesh for integration to work. Differences in management styles and expectations can breed conflict and dilute synergies.



Valuation method

Machines can add up the elements, but first people need to define the purpose of the valuation and judge which method captures the asset's value on those terms given market conditions and industry trends.



Perception and sentiment

Understanding how the market views an asset's growth and risk potential requires a deep understanding of market dynamics and the ability to interpret qualitative information.

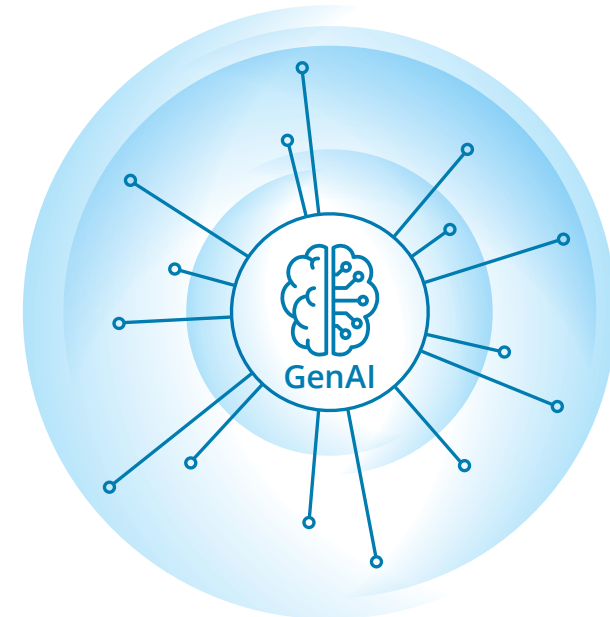
Where AI fits into the arrangement

M&A and valuation processes make up a life cycle; in a broader sense, they are also traveling *along* a life cycle, in which they have evolved significantly over time but aren't finished doing so. Where is it at the moment?

Manual analysis and subjective judgment were once the order of the day—mainly because they were the only options. The advent of technology and data analytics have made M&A and valuation gradually more data-driven and objective over time.

Enough time has passed, in fact, that it's now common to refer to some technologies as "traditional AI," which may be a shock to those who remember the moon landings. ML, for example, falls into this category. It and tools like it have played crucial roles in transforming (here's that word again) traditional M&A by automating aspects such as risk identification, identifying customer and employee sentiment, and planning and managing the integration process.

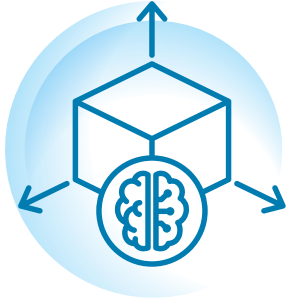
Now it's Generative AI's turn to carry this evolution further. But technology still has its place. You may look up a pancake recipe on a tablet, but you don't use the tablet to flip the pancakes. The role of art is persistent—and invaluable.



The M&A life cycle

Here is a look at places in the life cycle where Generative AI can further enhance processes by providing more sophisticated analysis and insights—along with the controls that should accompany the innovations.





Formulate

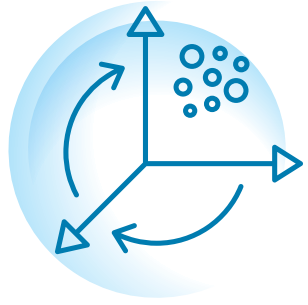
Market research and strategic planning typically form the basis of an M&A roadmap even before any specific targets come into focus. This is when an acquirer determines why to pursue a transaction, not where.

AI can help automate market research by complementing human awareness. In analyzing market trends and identifying potential growth areas, it can help set clear business objectives and growth strategies.

AI can also enhance strategic planning. If people define various potential scenarios, AI can simulate them to help evaluate courses of action.

Example

A technology giant might use AI to analyze market data and identify a niche market with high growth potential. The expected result is a defined strategic objective to acquire a startup in that space.



Locate

With the opportunity defined, an acquirer moves to identify specific potential targets and use competitive and market intelligence to evaluate them.

AI can bring speed and greater accuracy to target identification by scanning vast amounts of data to lead them to entities that meet defined criteria. This ability far exceeds what humans can do in the same amount of time, but it complements the qualitative assessments that count alongside the quantitative ones.

In a similar way, AI can process large volumes of competitive and market information to vet potential targets for their competitive impact.

Example

AI might sift and process a high volume of corporate or patent data to pinpoint a two-year-old startup with an innovative technology that complements a larger, more mature acquirer's product line.



Investigate

With a target in sight, it's time to dive deep into everything the acquirer can responsibly learn, and AI couples well with human insight in turning over the right stones.

AI can help to automate the due diligence process by reviewing and reporting on financial, legal, and operational documents—not only summarizing their contents and tallying quantitative elements from within them, but also highlighting potential risks and opportunities that humans may then evaluate.

AI can further contribute to target risk assessment by analyzing historical data, extracting patterns and anomalies, and flagging areas of concern.

Example

That two-year-old startup doesn't have a century's worth of financial statements, but what it does have is detailed and merits close analysis. AI reviews the documentation and identifies a handful of potential legal liabilities for the human team to investigate.



Negotiate

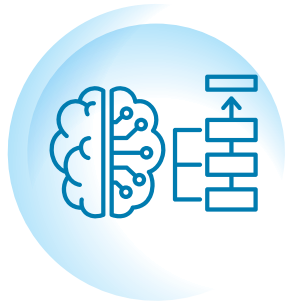
Now the sides are engaged in discussions, and it's time to see if they will end up joined for real. Coming to a mutually satisfactory arrangement is a human process informed by massive data volumes.

In crafting the structure of a potential deal, AI can simulate potential options and their likely outcomes to illustrate which set of terms may work for both parties.

Valuation is an indispensable element of this step, and AI can help automate the valuation process not only by processing data that's already prepared for analysis, but also by extracting information from unstructured documents and feeding them into the analysis.

Example

Faced with a large volume of legal contracts and financial documents, a human team scans them to find the occasional insight. But AI extracts information from them to turn unstructured input into structured data, ready for analysis that can help shape the valuation and the deal.



Integrate

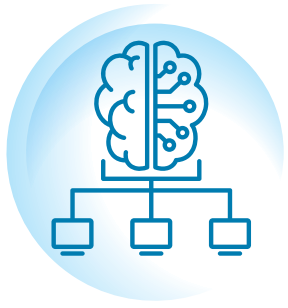
Once the parties agree to a deal, there's plenty of work ahead to turn two entities into one. Integration planning and project management typically require a dual focus on the big picture and the smallest details.

AI can assist integration planning by spotting potential value-creating synergies—and potential risks—where they might be difficult for humans to uncover given the time and scope of their work.

Managing the many individual projects that make up an integration effort is another area where AI can complement people by helping them keep tasks on time and on budget.

Example

AI identifies key areas where the target startup's technology can be integrated into the acquirer's product line in ways that not only combine value but create it to form measurable synergies.



Monitor and refine

Just as M&A doesn't begin with the "A," it doesn't end with the "M," either. Once the formerly separate companies have merged, integrated, and settled into combined operations, it's still vital to keep watch on how well expectations are panning out and performance is living up to them.

AI can enhance performance monitoring by continuously reviewing operational data in ways that outperform human capability, flagging areas in which reality is falling short or improvement may be possible.

Real-time data analytics can help identify these opportunities to improve, define them, and suggest steps to carry them out.

Example

With the former startup now fully integrated into the new parent, AI continues to monitor key performance indicators such as revenue growth and client retention. Where adjustments to improve performance appear likely, it calls them out.

Key controls and procedures

Having AI run amok is a science-fiction trope. But in the real world, keeping it within guardrails is a business responsibility. Some of the key controls and procedures that should be enabled to oversee this process include:



Governance and oversight

A governance group responsible for trustworthy and secure AI policies and procedures should continuously review Generative AI output to verify regulatory compliance. This includes independent validation of AI findings, detailed documentation, and ethical guidelines for fair treatment of stakeholders. Such a group should maintain documentation of AI generated models and assumptions.



Human oversight

Humans should maintain explainability for Generative AI responses, tracing back to source documents and referring to information that resulted in each outcome. A team should review these outcomes regularly and comprehensively.

Actively seek and gather feedback from end users who interact with the AI. This helps in understanding real world impacts and user satisfaction, allowing for adjustments that enhance the AI's effectiveness and user experience.



Data integrity

The data used by Generative AI should be kept accurate and up to date.

Ensure that all data sources are credible and verifiable. Regularly audit and update these sources to maintain the integrity and trustworthiness of information used for contextualization. Implement stringent data validation and cleaning protocols to ensure that only verified, accurate, and high quality data is utilized. This minimizes errors and enhances the reliability of the AI's contextual understanding.



Training

Staff should be trained on the effective use of AI tools and especially Generative AI prompting, along with the importance of maintaining human oversight.

Provide continuous support through resources like user manuals, FAQs, and dedicated help desks. Regular updates and refresher courses are needed about new features and improvements.

Conclusion

Technology, process, and people are the foundational elements of any organizational alchemy, and this is no less true in M&A and valuation. Machines may become more and more indispensable, but they never make humans expendable—rather, it's the two of them working in tandem that drives results greater than the sum.

The efficient integration of innovative technology, meticulously crafted processes, and human perception and experience has the potential to unlock new frontiers of value and efficiency in M&A. Generative AI is ready to enhance the efficiency and effectiveness of M&A processes, from formulating strategies to monitoring post-merger performance.



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