KPMG

The Impact of AI on the Deals Market

Is the hype warranted, and will investments pay off?

May 2025

Introduction

There is palpable excitement, anticipation, and trepidation regarding the potential for AI to transform our world, with much discussion regarding the impact in the deals market. The capabilities for AI to differentiate and drive deal value through operational efficiency, innovation, and new revenue streams have garnered substantial attention from investors.

The technology has already triggered significant interest and adoption, with numerous new ventures emerging in 2024, driven by substantial capital market commitments in this developing sector. The strategic emphasis that AI has evoked in the market can be seen to have reshaped organisational priorities, redirecting significant expenditure to technology. Organisations are investing heavily, in the hope of benefiting from strategic early adoption. However, the key question remains: to what extent will the benefits materialise, and will this investment pay off?

We are seeing our clients transition from initial fascination with AI to a demand for tangible, delivered value.

This report aims to elucidate the current impact of AI, exploring how trailblazing organisations are identifying and claiming market value, whilst explaining ways that we are using the technology to enhance deal value in diligence and post deal services.

VC investments in AI exceeded

$111 billion

in the 12 months ending Q3 2024

Artificial intelligence will have a more profound impact on humanity than fire, electricity, and the internet."

Sundar Pichai
CEO Alphabet

Source: Pitchbook AI/ML Report Q3 2024

S&P Global Market Intelligence 451 Research's Voice of the Enterprise: AI & Machine Learning, Use Cases 2024. © 2024 S&P Global.

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Investment Opportunities Driven by Generative AI

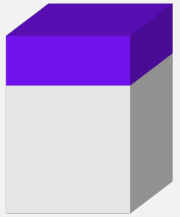
The rise of generative AI has opened numerous investment opportunities. Venture capital firms and private equity investors are actively seeking out startups and companies that specialise in AI technologies. According to a recent report, total VC investment in the trailing 12 months to Q3 2024 exceeded $111b, up 28% from last year and forming over 32% of all VC investment activity globally.

The larger technology giants are investing heavily in this space, highlighting the growing confidence and recognition of AI's transformative potential. Notable examples include OpenAI's $1 billion funding round led by Microsoft, Google's $32 billion acquisition of AI enabled cybersecurity startup Wiz, and Anthropic's $3.5 billion series E round. Historically, groundbreaking technological advancements have been largely dominated by these tech titans. However, DeepSeek has proven that innovation is no longer the exclusive domain of the biggest players.

With a reported $6 million investment, DeepSeek has developed a model that surpasses industry leader OpenAI in computational benchmarking tests. This shift signals a future where the AI landscape is wide open for companies that can provide a platform that harnesses the right talent to drive innovation.

However, AI is also becoming a driving force for investments in more traditional sectors like healthcare, financial services, and manufacturing.

28%



AI investments up 28% from last year

AI accounts for 32% of global VC investment activity

$1 billion

Open AI's latest funding round

$32 billion

Google's largest acquisition

$3.5 billion

Anthropic's Series E funding round

$6 million

DeepSeek delivers GPT-comparable performance at a fraction of the cost

Source: Pitchbook AI/ML Report Q3 2024

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Healthcare

AI-driven platforms are making transformative strides in healthcare, with DeepMind, a Google subsidiary, leading the charge. Their breakthrough technology, AlphaFold, accurately predicts protein structures, fundamentally reshaping our understanding of biology and accelerating drug discovery.

Building on this innovation, Isomorphic Labs, a DeepMind spin-off has secured strategic partnerships with pharmaceutical giants Eli Lilly and Novartis, valued at nearly $3 billion, to harness AI in developing treatments for diseases such as cancer and Alzheimer's. In another testament to AI's growing influence, former DeepMind scientist Simon Kohl founded Latent Labs in 2023, securing $50 million in series A funding to advance AI-driven protein design.

Strategic Acquisitions in Healthcare

In addition to startup funding, there have been several notable acquisitions driven by AI technologies. For instance, Roche's acquisition of Flatiron Health for $1.9 billion, an oncology-focused electronic health record platform leveraging patient data to improve cancer treatment. This strategic acquisition was aimed to integrate AI-driven personalised healthcare into Roche's oncology pipeline, accelerating the development and accessibility of innovative cancer therapies.

Another was the acquisition of Medicalis by Siemens Healthineers, a company specialising in AI-powered support for clinical decision workflow optimisation, and referral management technologies. This acquisition aimed to standardise diagnostic pathways, improve patient outcomes, and reduce costs. This move highlighted the growing potential of AI in streamlining healthcare processes and advancing value-based care, while strengthening Siemens Healthineers' precision medicine portfolio, a major growth opportunity within the sector.

These acquisitions highlight the moves by major healthcare players to harness the power of AI, further accelerating innovation and transformation within the sector to leverage strategic advantage through improved efficiency and new revenue streams.

$3 billion

Strategic investment in Deepmind from Eli Lilly and Novartis

$50 million

Former DeepMind scientist Simon Kohl founded Latent Labs, securing $50 million in series A funding to advance AI-driven protein design.

> **AI will affect every product and every service that we have."**
>
> **Tim Cook**
> CEO Apple

$1.9 billion

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Financial Services

AI has unlocked unprecedented growth opportunities while simultaneously introducing heightened risks for institutions and consumers alike. In the financial services sector, AI is revolutionising the way organisations address these challenges. Cutting-edge fraud detection systems and sophisticated risk assessment models powered by AI are not just protecting corporations, but are setting new benchmarks for safeguarding customers in an increasingly complex and interconnected financial landscape.

The Financial Services sector has seen notable recent acquisitions driven by AI technologies. For example, Mastercard's acquisition of AI-powered cybersecurity company, RiskRecon, for an undisclosed amount was aimed at enhancing its AI cyber risk capabilities. Similarly, PayPal's acquisition of AI-based fraud prevention startup, Simility, for $120 million has bolstered its fraud detection and prevention capabilities. These acquisitions highlight the critical role that AI plays in strengthening the resilience of financial services against emerging risks, while improving efficacy that directly translates to increased revenue and customer value.

In addition to risk management investments, organisations are increasingly adopting generative AI technology, such as AI-powered chatbots and virtual assistant, to enhance customer experience and significantly reduce operational cost. These tools provide instant responses to common queries, facilitate transaction searches, and assist with account management tasks, thereby reducing wait time and offering 24/7 support for greater convenience and reliability. For example, Kore.ai a leader in enterprise conversational and generative AI platform technology, recently secured a $150 million strategic growth investment led by FTV Capital, with participation from NVIDIA. The funding aims to support Kore.ai growth and product innovation to enhance its footprint across financial institutions and global banks.

PayPal's acquisition of AI-based fraud prevention startup, Simility, for $120 million has bolstered its fraud detection and prevention capabilities.

AI is in a 'golden age' and solving problems that were once in the realm of science fiction."

Jeff Bezos
CEO Amazon

Manufacturing

AI-driven solutions supporting predictive maintenance are gaining traction within the manufacturing sector, due to the promise of significant cost savings and productivity improvements. 'Uptake', which provides AI-driven insights to improve industrial operations, recently raised $117 million in a series D funding round. SparkCognition, known for its AI systems that analyse data to prevent asset failures and optimise industrial operations, recently secured $100 million in a series C round.

Notable recent acquisitions include PTC's acquisition of Onshape for $470 million, which significantly enhanced its capabilities in AI-driven design and product lifecycle management. This acquisition aimed to integrate Onshape's cloud-native product development platform with PTC's robust toolset to accelerate the generation, analysis, and optimisation of complex design iterations in real time. PTC hopes to transform development processes by drastically shortening design cycles and driving new levels of product innovation.

Honeywell's acquisition of Performix, a provider of AI-driven manufacturing execution systems, has enabled Honeywell to offer more robust predictive maintenance and quality control solutions.

This strategic move was designed to leverage Performix's advanced analytics and real-time data processing capabilities, further cementing Honeywell's position in the AI-driven manufacturing landscape.

These examples underscore the diverse applications and significant financial backing that AI is garnering across multiple industries, further illustrating its profound impact on modern investment landscapes.

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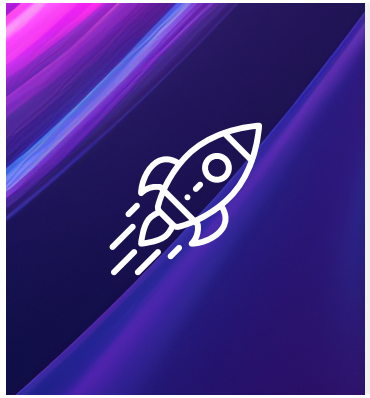


$470 million

PTC's acquisition of Onshape for $470 million significantly enhanced its capabilities in AI-driven design and product lifecycle management.

Ensuring the Realisation of Anticipated Value

Despite the evidence of significant investment and growing credibility, there is still scepticism of this emerging technology in the market. AI has become the latest market buzz word with many companies exaggerating the adoption and potential benefit case of the technology. "AI Washing" has become a recognised term in the deals market, referring to the practice of companies exaggerating or falsely claiming the use of AI in their products or services to appear more innovative, attract investor interest, or gain a competitive edge. This can lead to inflated market valuations, misguided investments, and a general mistrust of AI technologies in the industry. It is also difficult to discredit these assertions without the knowledge to effectively diligence them.

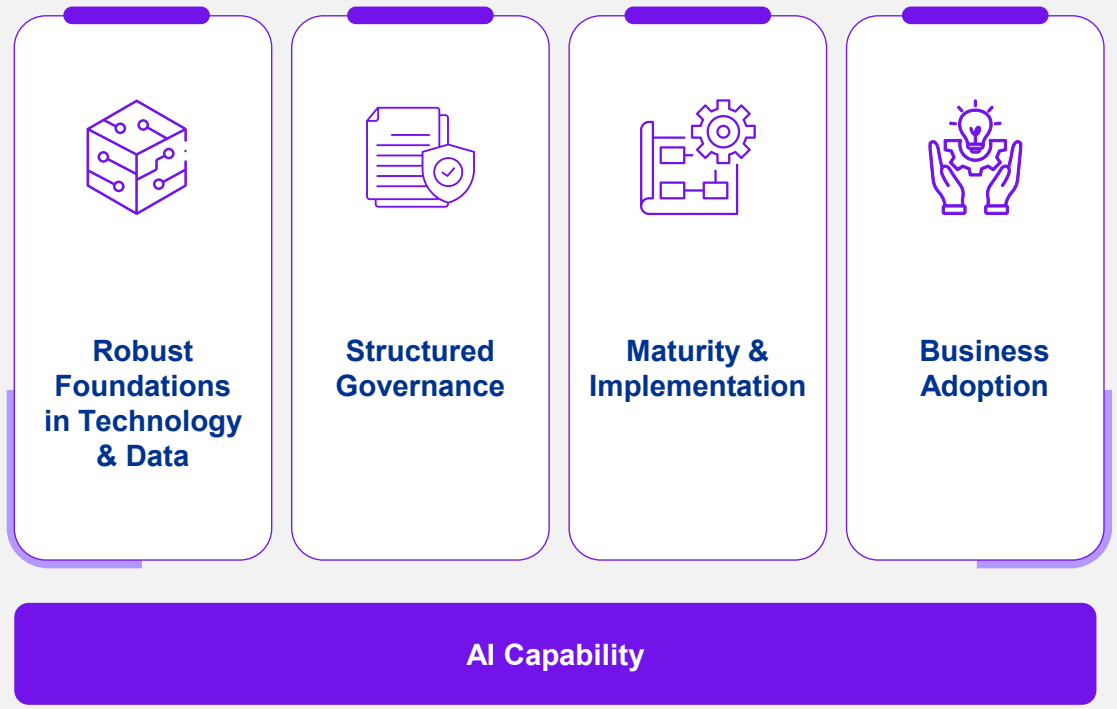
Historically, significant technological advancements have been met with both interest and scepticism in parallel and it would appear AI is no different. But are organisations laying the foundations to achieve the value from AI investment that they are hoping for?

To support meaningful adoption of cutting-edge AI technologies, businesses must focus on the less exciting tasks required to build a solid foundation.

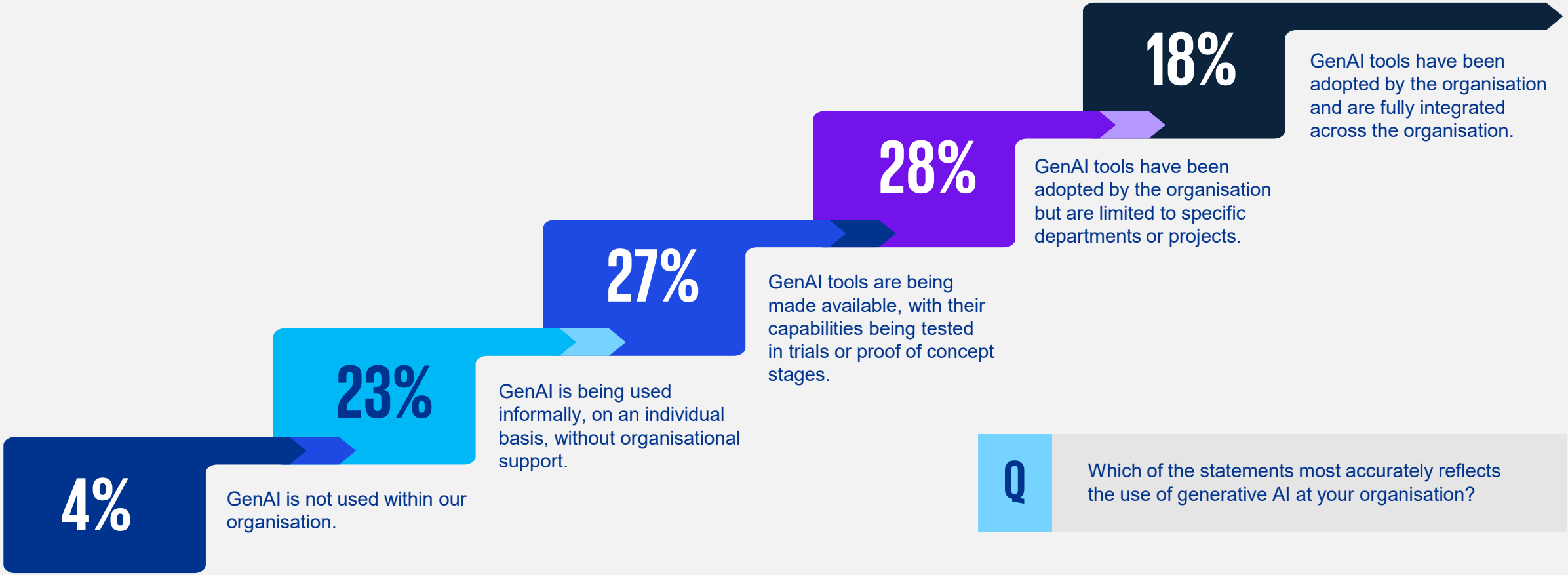
This includes a strong technology foundation, achieving advanced implementation maturity, adopting a phased approach to business adoption, and establishing a structured governance framework to support the successful and compliant management of an AI-enabled business. If these foundations are achieved, organisations can maximise value from AI adoption while staying suitably agile in the face of an ever-evolving regulatory landscape.

There are several factors that support the realisation of value from implementation of AI, underpinned by a strong AI Capability

These factors include:



There is still a broad range of Generative AI integration across the market



Q Which of the statements most accurately reflects the use of generative AI at your organisation?

Source: S&P Global Market Intelligence 451 Research's Voice of the Enterprise: AI & Machine Learning, Use Cases 2024.

Foundations and Enabling Factors

When assessing the maturity of a target organisation or considering investing in broader adoption of AI, it's important to consider the enabling requirements which are often overlooked, perhaps considered the less exciting part of the equation. The additional computational load of AI adoption can drive a considerable increase in supporting infrastructure, whilst data quality concerns, insufficient funding, and regulatory aspects can introduce additional risk to overall success.

A recent study showed that data quality issues are the leading cause of AI project failure, equal to budget issues, followed closely by infrastructure performance.

Infrastructure Readiness

Infrastructure performance plays a critical role in the successful adoption of AI, as it directly impacts the ability to process and analyse vast amounts of data efficiently. Out of box large language models require high-performance infrastructure to ensure that AI models can operate at their full potential, delivering quick and accurate insights.

This has led to fierce competition among infrastructure providers, each striving to outpace the other in meeting the burgeoning demand for robust AI capabilities. Providers are constantly innovating, aiming to offer the most advanced and scalable solutions to support complex AI applications.

Data Quality and Maturity

Integrity of data quality is paramount when implementing an AI project. High-quality data ensures that AI models can learn accurately and make reliable predictions, leading to more meaningful insights and decisions. Poor data quality, on the other hand, can introduce significant risks, including inaccurate outputs, biases, and flawed analyses. Maintaining data integrity safeguards against errors and inconsistencies, thereby bolstering the overall effectiveness and trustworthiness of the output from AI applications.

Poor data readiness can be attributed to several factors, including siloed data sources, inconsistent data formats, and outdated data management practices. Data cleansing is the first step towards building a reliable foundation for AI-driven insights.

Structured Governance for Regulatory Compliance

As AI continues to impact various industries, the regulatory landscape is evolving to address the unique challenges and risks it presents. Governments and regulatory bodies worldwide are increasingly focused on establishing frameworks to ensure the ethical use, transparency, and accountability of AI technologies.

Proactive engagement with regulators, industry groups, and stakeholders will also help businesses navigate evolving requirements while fostering trust, innovation, and responsible AI adoption.

Additionally, adoption of AI presents operational, reputational, ethical, and security challenges. As AI systems become more embedded in business processes, organisations must proactively identify and mitigate risks related to model bias, system vulnerabilities, data privacy, and misuse, while promoting innovation and public trust.

Risk mitigation strategies include:

1. Implementing robust governance structures
2. Enhancing cybersecurity measures
3. Conducting regular audits
4. Integrating AI risk management into enterprise-wide policies

Structured Governance

Embedding robust governance of AI deployments is critical to maintaining regulatory compliance, minimising risks, and ensuring effective realisation of value. AI governance tracks and audits how AI systems are designed, deployed, and maintained throughout their lifecycle. Effective governance models are assessed against the following key criteria:

Regulatory and Compliance Requirements

Regulators are acutely aware of the need for additional regulation for emerging AI use cases. Emerging AI regulations and industry standards require organisations to implement governance controls for compliance, transparency, accountability, and protection of sensitive data.

AI-Driven Risk Events and Failures

Biased model outputs, security breaches, and unreliable AI predictions can expose organisations to financial, legal, or reputational risks. Governance and monitoring can help reduce risk and maintain security enhancements to protect AI-driven outputs.

Maturity of AI Use Cases and Strategic Expansion

Scaling AI from experimental pilots to be effective enterprise-wide requires a framework of centralised governance for risk tiering, lifecycle management, and strategic alignment to ensure realisation of value.

Data Governance and Intellectual Property Management

Structured and unstructured data must be properly stored, labelled, and managed to enable AI models to integrate and deliver business insights effectively. It is vital that these tools deliver robust data protection and compliance to protect IP and sensitive data.

Third party AI and Vendor Risks

Many organisations are outsourcing the design and deployment of AI solutions, creating a reliance on external providers. This can lead to a reduced ability to assess risks related to data security, compliance, and AI usage. Ensuring robust governance and maintaining the requisite internal AI capability helps to minimise these risks.

Need for AI Auditability, Transparency, and Explainability

As the potential of AI grows, internal and external stakeholders are demanding greater visibility into AI decision-making, requiring structured mechanisms for transparent monitoring and accountability.

Maturity and Implementation

Generative AI adoption is rapidly gaining momentum across industries. Recent research reveals that over 18% of enterprises have fully integrated generative AI into their organisations, up from 13% just six months ago. This acceleration underscores a broader trend of AI's increasing role in business strategy. Notably, only 4% of organisations report no adoption of generative AI, while the remaining 78% are using it informally or within specific departments.

However, while adoption rates are high, many organisations struggle to pinpoint specific use cases that drive tangible value. In fact, 49% of respondents stated that their AI investments have not delivered the expected returns. This discrepancy may stem from inflated expectations driven by market hype or a lack of maturity in AI implementation.

Effective AI adoption goes beyond technology implementation. By examining leading practice, we have identified a three-phase approach to AI transformation that allows businesses to prioritise efforts, allocate resources, and align AI initiatives with both short-term goals and long-term strategies. This framework helps organisations navigate AI adoption complexities and move from efficiency gains to new revenue generation.

4%

Report no adoption of generative AI.

78%

Using generative AI informally or within specific departments.

Recent research reveals that over 18% of enterprises have fully integrated generative AI into their organisations, up from 13% just six months ago.

49%

Stated that their AI investments have not delivered the expected returns.

Implementing AI through a Structured Approach

The rapid adoption of AI highlights its growing role in aligning technology with business strategy, yet many organisations struggle to achieve tangible value. Effective adoption requires a structured, three-phase approach – Enable, Embed, Evolve – that ensures alignment with business objectives and delivers tangible value across the enterprise.

Building the AI Foundation

The first phase focuses on enabling employees to engage with AI tools and building AI foundations. Appointing a dedicated executive, crafting a clear AI strategy, boosting AI literacy, aligning with regulations, establishing ethical guardrails, identifying high-value use cases and launching pilots across functions. Our work with clients across various industries shows that those with well-defined use cases are more likely to achieve (and even exceed) their anticipated value from AI investments.

Integrating AI into Core Operations

The Embed phase integrates AI into workflows, products and services. This involves an enterprise-wide review of operating models, re-skilling the workforce, and embedding AI into processes with a strong emphasis on ethics, trust and security. Notably, domain-specific Agentic AI is at the forefront of this evolution, driving the automation of business processes by turning theoretical use cases into concrete, measurable business outcomes.

Transforming Business Models

In the Evolve phase, AI enables the transformation of business models and ecosystems. Beyond 2025, we anticipate a surge in the integration of vertical Agentic AI solutions, capable of autonomous decision-making and continuous learning, redefining operational standards across various industries. This emphasises the need for strong ethics, real-time security and deep workforce training, enabling businesses to innovate and drive long-term value creation.

AI is not just a trend; it's a transformative force. Companies and investors alike need to assess its implications strategically. Companies that proactively integrate AI to innovate, improve efficiency and enhance customer experiences will create additional value and gain a competitive edge.

Those resistant to change or slow to adapt risk being disrupted by more agile competitors. Doing nothing poses a high risk as the movement to AI driven business models evolves. AI is becoming a cornerstone of competitiveness; companies that fail to adapt may struggle to keep up with efficiency and innovation benchmarks set by AI-driven peers.

Business Adoption

Business adoption plays a pivotal role in ensuring the realisation of value from AI to support the strategic priorities of the firm. For organisations to fully harness the transformative potential of AI technologies, it is essential for business leaders to understand and embrace AI-driven strategies. This involves fostering a culture of innovation, providing adequate resources and training, tracking and measuring the impact, and aligning AI initiatives with overall business objectives.

Training is the first step, but measuring value and fostering a culture of innovation is key to broader adoption:

Training

- Transformative AI training & habit building
- Expert sparring and knowledge sharing
- Gamified adoption among employees

Measuring

- Baseline user productivity
- Data-driven comparative measurement
- Adoption risk assessment

Innovation

- Hackathon – collaborative AI ideation
- AI idea prioritisation
- Committing to and scaling impactful business cases

1. Cultivating a Culture of Learning

Organisations often prioritise immediate use cases over nurturing a culture that fully integrates AI into everyday workflows. Our experience shows that investing in robust, continuous training is critical for embedding AI into daily operations. Comprehensive training programs do more than just introduce new tools – they empower employees to understand AI's full potential, its limitations, and the ethical considerations. When training is structured to promote hands-on practice, employees not only learn the technical aspects but also build confidence in applying these tools to their unique tasks. This creates an environment where AI-enhanced processes become second nature, significantly increasing adoption rates and overall impact.

2. Measuring Impact

For AI to drive meaningful transformation, companies must establish clear productivity baselines and continuously measure progress. This dual approach – assessing both initial conditions and ongoing performance – ensures that AI implementation targets key operational areas that truly benefit from enhanced capabilities. This disciplined, data-driven approach not only validates the operational lift achieved through targeted AI initiatives but also aligns these advancements with strategic business goals.Fostering a culture of measuring AI deployment against its potential to create high-value impact and deliver a quantifiable return on investment.

3. Empowering Employee-Led Innovation

Success in AI adoption hinges on democratising the technology across the workforce. Empowering employees with intuitive, out-of-the-box AI tools encourages them to craft unique solutions tailored to their specific workflows. When employees actively engage with these tools, they not only improve their own productivity but also generate innovative use cases that can be scaled company-wide. Furthermore, when management participates in using these AI tools, they gain firsthand insight into the technology's potential, making it more likely that the strategic business objectives will be shaped and empowered by AI in the future.

Leveraging AI to Enhance Value During the Transaction

KPMG Advisory has invested heavily in AI tools, processes, and enabling factors to allow us to leverage AI to enhance our M&A advisory services, offering clients cutting-edge solutions that drive value throughout the transaction lifecycle. By integrating AI-driven due diligence tools, we can provide deeper and more comprehensive diligence of target companies, helping clients make informed investment decisions based on the true potential for value creation. These tools can uncover hidden risks, assess AI maturity, and evaluate readiness to deliver unrealised value.

AI can be used to

Uncover hidden risks

Assess AI maturity

Evaluate readiness to deliver anticipated value

Providing Strategic Insights

AI is being used to provide strategic insights that guide our clients' M&A strategies. By analysing market trends, competitive landscapes, and technological advancements, AI tools can identify potential acquisition targets and investment opportunities for value creation that go above and beyond a traditional approach. These insights enable our clients to stay ahead of the curve and capitalise on emerging trends.

AI excels in identifying value drivers within a merger or acquisition through the analysis of historical data, market conditions, and industry benchmarks. By processing vast amounts of diverse data – from social media sentiment and employee reviews to vendor contracts – AI uncovers deeper insights that far exceed the analytical depth of conventional methods.

This allows companies to pinpoint key areas where value can be created or enhanced. For example, AI can highlight potential cost synergies, revenue enhancements, and operational efficiencies that could be realised through the integration process.

Furthermore, AI-driven predictive analytics can be configured to forecast the long-term impacts of strategic decisions, helping to mitigate risks and optimise resource allocation. By simulating various scenarios, AI provides a comprehensive view of potential outcomes, enabling stakeholders to make more informed and confident decisions. This level of insight is invaluable in identifying and prioritising the most impactful strategies for value generation.

Post deal, AI can continuously monitor the performance of integrated entities, offering real-time insights into operational efficiency, market performance, and financial health to track against targets identified pre-deal. This ongoing analysis ensures that the strategic goals of the deal are being met and that any deviations are quickly addressed.

Ultimately, the effective deployment of AI in M&A activities not only streamlines the process but also maximises the value derived from these complex transactions.

How AI can Enhance Software Companies Deal Value

AI is transforming software and platform businesses by accelerating product development, leveraging the power of data, and providing automated personalised customer interactions. Correctly implemented, AI can have a dramatic impact on enterprise value.

Machine learning is enriching customer experiences with highly personalised interactions, enabling dynamic pricing strategies that respond in real time to market demand. By redesigning end-to-end processes for the deployment of AI tools, organisations can achieve substantial operational cost savings across development, support, and back-office functions. AI is also enhancing developer productivity, with studies showing that those utilising MS CoPilot complete tasks up to 55.8% faster on average, underscoring the profound impact of AI agents on engineering output.

However, the potential for increased deal value due to these advances has also fuelled “AI washing,” where unrealistic claims mask the reality of current AI capabilities, exposing investors to inflated expectations. It is therefore critical to ensure a robust diligence approach; delivering deep, data-driven insights into a target’s technology landscape, operational maturity, and real market positioning. It is important to evaluate and test critical value themes such as bespoke code utilisation, infrastructure scalability to support growth, skills and resources, and the maturity of emerging technology like Agentic AI. Robust diligence helps to ensure a true assessment of capabilities and future opportunities leading to realistic valuation multiples based on true enterprise value. This ensures that only substantive AI innovations underpin an investment thesis and that long-term growth prospects are credible and verifiable.

Drawing on our work with multiple platform businesses, we have identified four pioneering ways that AI can both drive revenue growth and unlock cost efficiencies:

Revenue Driving

Elevated Customer Experience

Agentic AI is setting a new bar for customer service and digital support. By orchestrating automated workflows that simulate human-like conversations, chatbots and virtual assistants can manage enquiries and resolve issues around the clock dramatically reducing response times and boosting satisfaction.

Data-Driven Engagement

Advanced AI models ingest and analyse vast streams of real-time data to build rich customer profiles. These insights power personalised product recommendations, dynamic pricing and targeted discounting, all designed to increase conversion rates and deepen customer loyalty.

Cost Optimising

Accelerated Product Development

Agentic AI is transforming the development lifecycle into a semi-autonomous pipeline. Intelligent agents can generate code, run tests and debug applications leaving humans to focus on design, problem solving, and review. Tools such as GitHub, Copilot and Google’s AI studios are enabling developers to ship new features faster and reduce cost.

Democratised App Creation

Innovative “no-/low-code” frameworks powered by AI agents are allowing non-technical teams to build niche applications simply by using prompts. Platforms like Warp and Cursor are emerging as virtual foundries, empowering any user to solve common business challenges without traditional coding expertise. This reduces the requirement for specialised resources, reducing cost.

AI in Pre-Deal Due Diligence

AI is transforming pre-deal due diligence, fundamentally shifting how transactions are assessed and executed. It delivers enhanced data analysis, deep market insights and streamlined documentation workflows by rapidly analysing volumes of financial records, compliance reports and operational metrics to uncover potential risks with unmatched speed and accuracy.

By enabling a more efficient, more comprehensive assessment of potential acquisitions, AI not only reduces due diligence costs but also accelerates decision-making, helping organisations realise value more quickly.

Just as electricity transformed every major industry a century ago, AI is now poised to do the same."

Andrew Ng
Founder Google Brain

Enhanced Data Analysis

AI can process and analyse vast quantities of data much faster than traditional methods, uncovering patterns and trends that might otherwise go unnoticed. By sifting through financial statements, operational data, market reports, and other pertinent documents, AI can provide a comprehensive overview of the target company's performance and potential risks. Offering deeper insights for the investor decision-making process based on accurate and up-to-date information. One of the key advantages of AI in pre-deal due diligence is its ability to identify hidden risks. AI models can detect anomalies and red flags in financial data, compliance records, and operational metrics, highlighting areas that require further investigation. This proactive approach helps mitigate potential issues before they escalate, ensuring a smoother transaction process.

AI models can detect anomalies and red flags

- Financial data
- Compliance records
- Operational metrics

Comprehensive Market Analysis

AI also excels in market analysis, evaluating competitive landscapes, customer sentiment, and industry trends. By integrating data from various sources, AI can provide a holistic view of the target company's market position and growth prospects. This information is crucial for assessing the strategic fit of the acquisition and identifying potential synergies.

Streamlined Documentation

AI-driven tools can automate the gathering and organisation of due diligence documentation, reducing the administrative burden on M&A teams. By categorising and indexing documents, AI ensures that relevant information is easily accessible and can be reviewed efficiently. This streamlining of documentation management accelerates the overall due diligence timeline, allowing transactions to progress more efficiently.

Post Deal Integration

Increasingly, AI is becoming a key consideration during post deal integrations of an acquisition or merger, even if this is not a primary value driver of the transaction. Maximising value involves recognising and addressing the complexities associated with AI tools and capabilities across each individual organisation and harmonising accordingly. This technology, while immensely powerful, requires thoughtful implementation to maximise its value. During integration, it is crucial to consider factors such as data compatibility, system interoperability, and the alignment of AI capabilities with business objectives.

A comprehensive approach to AI in integrations involves the following steps:

Data Harmonisation

Ensuring that data from both entities is compatible and can be seamlessly integrated into a single, coherent system. This involves mapping data sources, formats, and structures to identify potential conflicts and create a unified data architecture.

System Interoperability

Evaluating the compatibility of AI systems and tools between the acquiring and acquired companies. This includes assessing existing technology stacks, identifying gaps, and developing integration plans to ensure smooth operation.

Alignment with Business Objectives

Aligning AI capabilities with the strategic goals of the merged or acquired entity. This involves identifying key business processes that can benefit from AI, setting clear objectives, and developing a roadmap for AI implementation.

AI is also playing an increasingly pivotal role in supporting critical integration tasks, especially in the identification and analysis of data. Here are some ways AI can be leveraged:

Data Identification and Analysis: AI can help in identifying and categorising data from both entities, ensuring that all relevant information is captured. Models can analyse data sets to uncover patterns, correlations, and insights that might otherwise go unnoticed.

Risk Assessment and Mitigation: AI can identify potential risks associated with integration, such as data privacy concerns, compliance issues, and operational disruptions. By proactively addressing these risks, companies can ensure a smoother integration process.

Process Automation: AI-driven tools can automate repetitive and time-consuming tasks, such as data migration, system configuration, and performance monitoring. This not only reduces the administrative burden but also accelerates the integration timeline.

Continuous Monitoring and Improvement: Following integration, AI can provide ongoing support by monitoring the performance of integrated systems and processes. Real-time analytics can identify bottlenecks, inefficiencies, and areas for improvement, ensuring that the merged entity operates at peak efficiency. This can be used to support effective management of value realisation post integration to deliver the outcomes expected when the deal was signed.

By effectively leveraging AI, companies can navigate the complexities of integration, uncover hidden value, automate integration tasks, identify hidden risks, and ultimately have a higher chance of achieving a successful merger or acquisition that delivers anticipated value.

Facilitating Technology Separation

When separating an asset for sale, AI can play a crucial role in ensuring a smooth and efficient process. The complexity of disentangling systems, data, and operations can pose significant challenges. AI can streamline this process by providing critical support in tasks such as data identification and separation, enabling a seamless transition and reducing risk.

Data Identification and Separation

AI can be instrumental in identifying and categorising data specific to the asset being separated, reducing manual intervention. Advanced models can sift through vast amounts of information to pinpoint relevant data sets, ensuring that critical information related to the asset is accurately captured and separated. This precise identification minimises the risk of data loss or misclassification, which is essential for maintaining the integrity of both the separated asset and the retained organisation. By comprehensively categorising relevant data the risk of inadvertently transferring non applicable sensitive information is greatly reduced. This is one of the most common issues associated with manual processes for data migration during a separation or carve-out.

Monitoring and Proactive Response

In addition, AI can provide continuous monitoring throughout the separation process, offering real-time insights into data integrity and system performance. This ongoing analysis helps identify potential issues early, enabling proactive mitigation and ensuring that the separation proceeds without significant disruptions. This is particularly important if the buyer will maintain access to your systems for a period under transitional service agreements, where advanced monitoring and automated responses can limit the impact of a breach.

By leveraging AI, companies can navigate the complexities of asset separation with greater confidence and efficiency. The precise identification and separation of data, combined with the automation of critical tasks, ensures a smoother transition and a higher likelihood of achieving a successful carve-out.

Summary

The impact of AI on the identification and realisation of deal value is profound and far-reaching. As AI continues to evolve, its influence on these domains will only grow; it will impact valuation models and diligence frameworks, it will impact deal rationale through value creation potential, and it will drive new efficiencies through digitised operating models.

At KPMG advisory we are on the forefront of AI and can see through 'AI Washing' in prospective deals. We are using AI to enhance diligence processes, focusing on the value creation potential of digitised business models and readiness to scale. We are using AI in our day-to-day processes to support post-deal activities, increasing success rates, and reducing time to value.

We are progressing towards a future where workflows across various industries are not merely supported by artificial intelligence, but are actively facilitated and streamlined by advanced AI agents that dynamically pursue specific, human-defined objectives. These agent-driven workflows will enhance efficiency and transform numerous sectors. We anticipate that more organisations will develop and adopt sophisticated AI solutions to support both internal processes and customer solutions, and that these organisations will become strategic targets for acquisition.

AI is expected to become ubiquitous, though the complexities of adoption and enabling factors will mean some organisations will succeed more than others in implementation. The next significant challenge for investors will be the ability to measure value effectively and avoid "AI-washing" attempts of potential targets. At KPMG we are investing heavily in diligence services to ensure that the true value and impact of AI in potential targets for our clients is both visible and quantifiable.

In conclusion

The rapid advancement of AI is not just a trend but a transformative force that demands immediate attention and strategic action. Business and technology leaders should be focused on the benefits and risks that market adoption of AI could bring to their organisation:

- To what extent can integrating AI into your current capabilities improve efficiency?
- Have you already invested in AI, but the benefits are being limited by lack of adoption?
- Is there evidence in your sector that disruptive AI driven business models are coming to market?
- Do you need to look at disrupting your own business model to capture a competitive edge?
- Do you need to review your targets and valuation models to consider AI and the potential for value creation?
- Could the acquisition of proven strategic assets speed up your transformation?

Finally, can you really afford the risk of doing nothing?

Contacts

KPMG's Technology Centre of Excellence sits within the Deal Advisory division, providing pre-deal diligence and post deal advisory support across all sectors to leading global organisations. As the largest technology deal advisory practice of our type, we are uniquely positioned to support you on your next transaction.

If you would like to discuss an upcoming project, please contact our specialist team:

Authors

Ed Foxwell
Head of HLS
Deal Advisory Technology CoE

Ashish Sarkar
AI Lead
Strategy Performance & Transformation

Yimika Adeyinka-Oni
AI SME
Deal Advisory Technology CoE

Contributors

Leanne Allen
Partner
FS Consulting Technology and Data, Data Science & AI Capability Lead

Bent Dalager
Partner
Nordic Head of NewTech, Global Head of KPMG Quantum hub

Sunil Harji
Partner
Deal Advisory Technology CoE

Andy Leslie
Partner
Deal Advisory Technology CoE

Tom Morris
Partner
Deal Advisory Technology CoE

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