Generative AI
It's what you make of it

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Contents

GenAI – the top line

It can compose a Bob Dylan song that Bob never actually sang. It can draw your portrait in the style of Leonardo (either Da Vinci or DiCaprio). It might even be writing this introduction – you can never be sure. And now it's poised to transform the world of M&A.

Artificial intelligence (AI) – and especially generative AI (GenAI), the technology that can conjure rich content from a few simple prompts – is the sorcery of the modern age. Decades in the making, its recent rise has been meteoric. But is it Aladdin's lamp, or Pandora's box – or maybe a bit of both?

Beyond any doubt is the huge potential impact of AI and GenAI across society and business – which inevitably will include M&A. In this report, we explore this impact, and how well the industry is prepared for it. Datasite surveyed 500 dealmakers around the world, to examine what kind of changes they anticipate from this fast-evolving technology – and what challenges, too.

Here we bring you the key findings from our survey, along with some provisional analysis that explores the implications for global dealmaking. Even though this report has in fact been made entirely without the use of GenAI, it contemplates a future in which this practice may become increasingly rare.
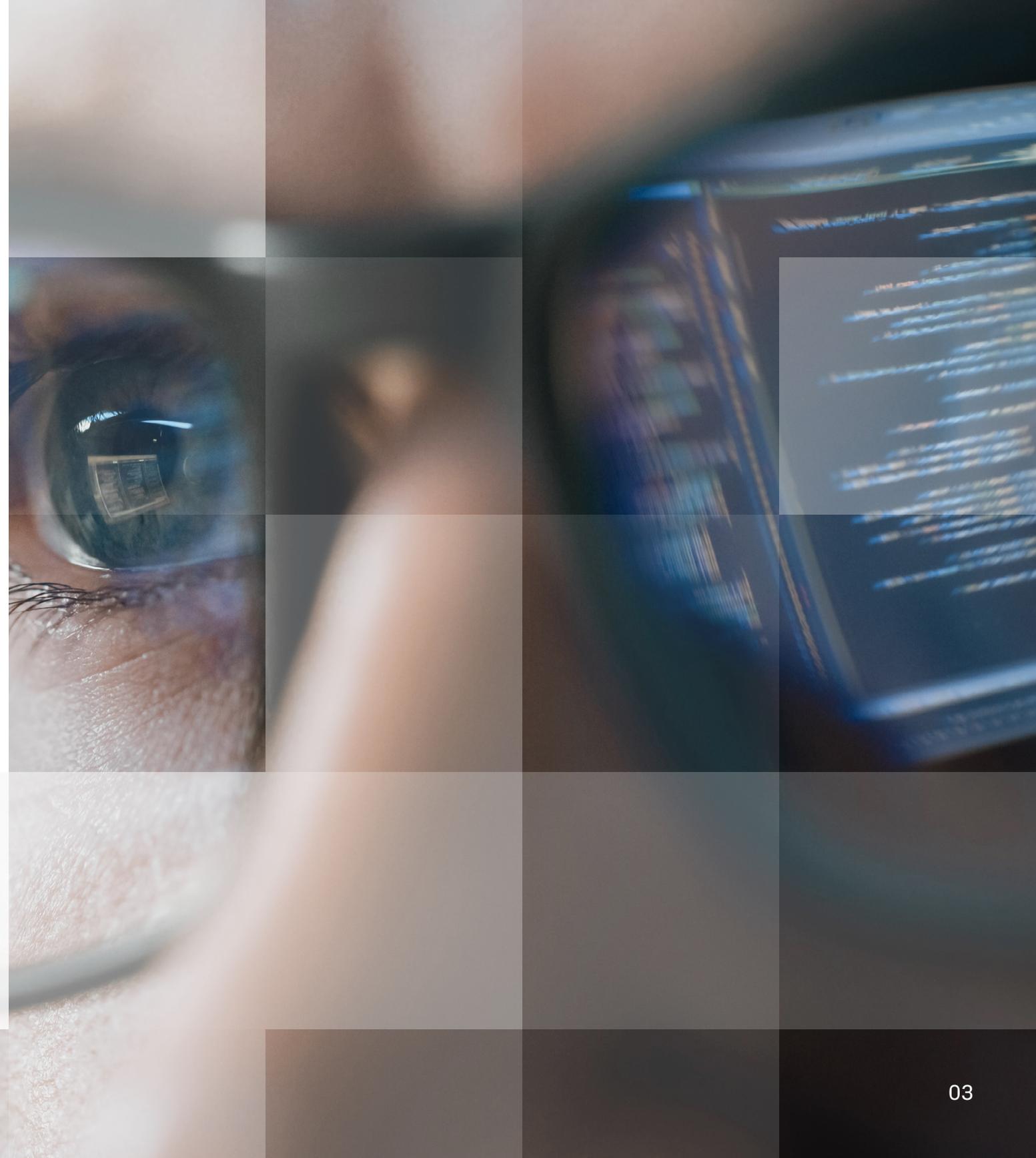
Methodology

Datasite's global survey spotlights attitudes, behaviors, and forward-gazing predictions from 500 dealmakers around the globe, exploring their perspectives on AI's impact on disruption and innovation in M&A. The survey was conducted in August 2023.

Generative AI – it's what you make of it

In December 2023, the EU drafted a provisional agreement on establishing harmonized rules for the use of AI. Earlier this year, President Biden issued an executive order to establish new standards for AI safety and security. The EU and the US are currently leading the way on laying the groundwork for AI legislations, and other jurisdictions are certain to follow their example. Such a move looks set to be welcomed by a sizeable majority of dealmakers, with nearly seven in 10 respondents in our survey being in favor of AI/GenAI regulation. And although European dealmakers are keener than their US colleagues, few seem strongly opposed. M&A demands certainty – it's clearly no place for an unregulated technology of unmeasured potential.

Dealmakers expect the AI shockwave to shake up the whole business landscape. Though the obvious epicenter is in technology, media & telecommunications (TMT), dealmakers with particular specialisms are quick to spot the AI potential in those areas. Germany has its eye on manufacturing; investment bankers are scrutinizing financial services. As for where the biggest M&A opportunities might be found, our respondents focus most on software engineering, but many other industries are ripe with possibilities.

What's an example of an interesting AI M&A trend that you are tracking?

Software engineering	Research & development	Marketing & sales	Customer operations
33%	25%	24%	17%
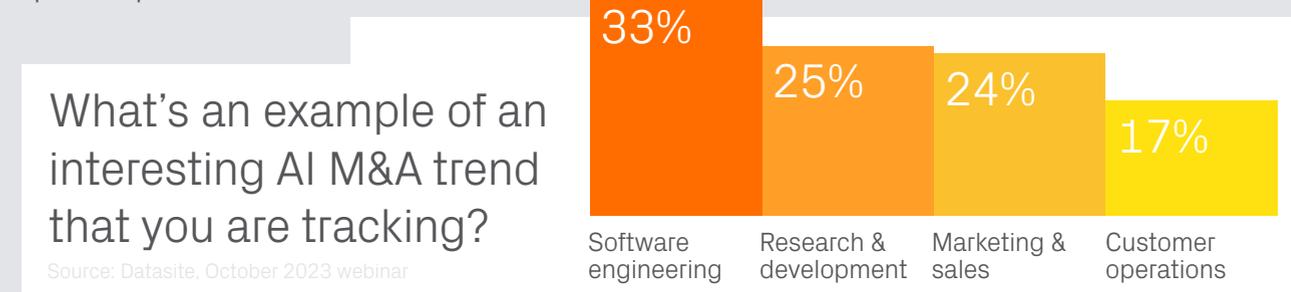
As for the impact on M&A itself, dealmakers are acutely conscious of both opportunities and risks. The most anticipated benefit is improved productivity – capitalizing on the ability to generate ideas and groundwork for a huge range of project types, and to assimilate, analyze, and summarize data at superhuman speed. Another eagerly awaited benefit is better market intelligence – something that is even now being trailblazed by Datasite's own AI search engine for M&A, Datasite Intelligence.

One burning question is whether AI could bring down deal costs. Our respondents seem unsure. Although few (14%) think costs will fall, the vast majority expect AI to speed up the deal process. And in the world of M&A, time is money. With predicted acceleration of up to 75%, AI could save a lot of both. Or else it may simply enable deeper due diligence over similar timeframes – and to some extent, its very presence might make that deeper diligence necessary. There are signs this is already happening, as (despite faster tech) average due diligence times have increased over the past year.

For AI's wish-granting powers may come at a cost. In deals, the prime concern is security – and security is seen as the number one risk of incorporating GenAI into business processes and workflows. It's also cited as the most common reason for deals involving GenAI to collapse – something that 14% of our respondents have experienced in the past two years.

There are also significant fears over AI's potential use in cyber-attacks, and over ethical concerns such as privacy and data protection. Many are also unclear about how well AI might fit into the world of M&A; dealmakers will likely crave the reassurance of AI tools specifically developed to those rigorous security standards.

Another cloud in the sky is job security. Dealmakers rate it the second-highest risk, and yet they also tend to believe that AI will actually increase their workload. This apparent paradox suggests that dealmakers, for all their know-how, are still very hazy as to what the future of AI will bring.

All of which brings us back to the calls for AI and GenAI to be regulated. Uncertainty is the mortal enemy of the deal – and if buyers don't know what lurks in their target's AI assets, or if dealmakers' AI creates security loopholes, then the trend for collapsing deals will intensify. Nevertheless, within a sturdy regulatory environment, the potential for purpose-built AI tools to enhance the M&A process cannot be overstated.

Charting unexplored territory
Getting to know and trust GenAI

How well do you know GenAI? We asked our dealmakers much the same question; their answer was, essentially, 'Pretty well.' Nine out of 10 (90%) claim moderate to extensive knowledge. At first glance, nearly everyone is on familiar ground here.

But if we drill deeper, we might question that confidence. Just 39% profess extensive knowledge, while 51% say their knowledge is 'moderate.' And let's face it – both those descriptions are subjective. What does 'moderate' really mean? It might help to gauge dealmakers' actual practical experience of this technology. Does this make the picture any clearer?

How would you characterize your knowledge of GenAI?

Minimal — 10%

Moderate — 51%

Extensive — 39%
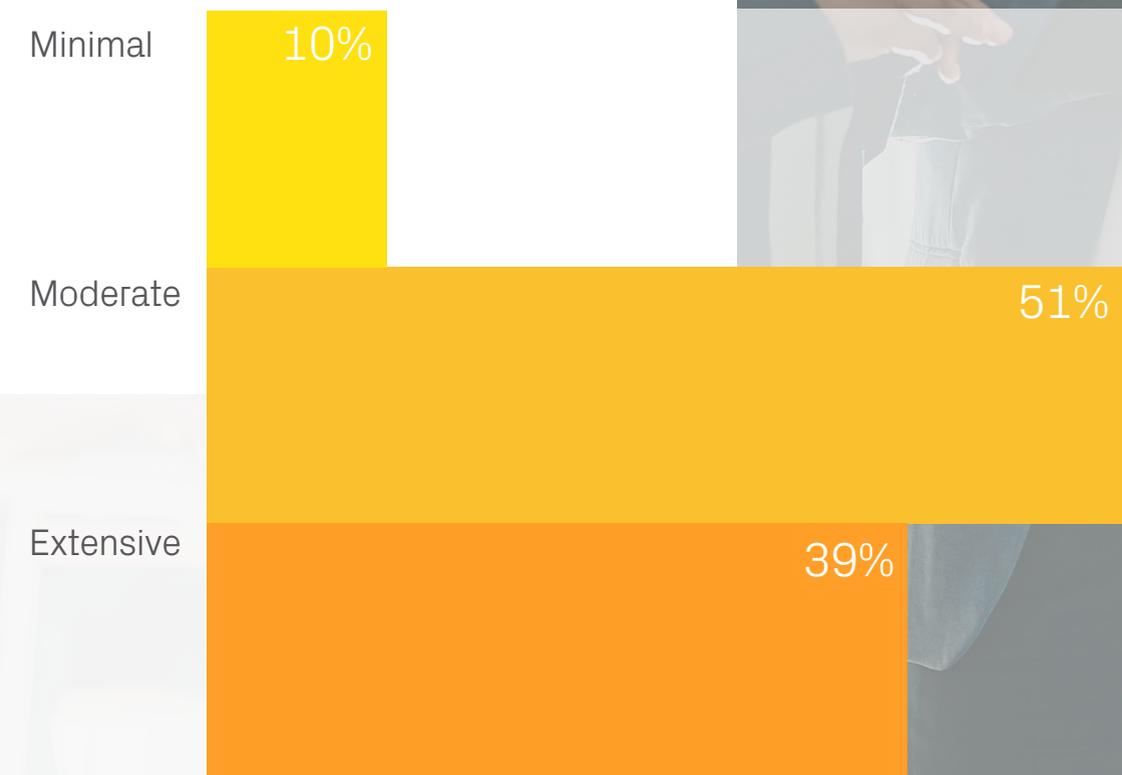
Well: one in three respondents (31%) say their firm's use of GenAI is in its infancy. A further 30% say they are experimenting with it. One in 10 (11%) say their firm has not yet started using it. Already, that's 72% of respondents acknowledging minimal practical use of GenAI in their business. One in five (19%) claim 'intermediate' adoption – a sharp contrast with the 51% claiming 'moderate' knowledge – and just 7% claim 'high maturity' usage, a mere blip next to the 39% citing 'extensive' knowledge. In short, whatever GenAI knowledge dealmakers believe they have, it has mostly not been tested at a professional level.

Which of the following maturity levels best reflect the current stage of GenAI adoption in your firm?

- ■ Low / still in its infancy
- ■ Implementing solutions experimentally
- ■ Intermediate
- ■ Adoption not started
- ■ High maturity

31%

30%

19%

11%

7%
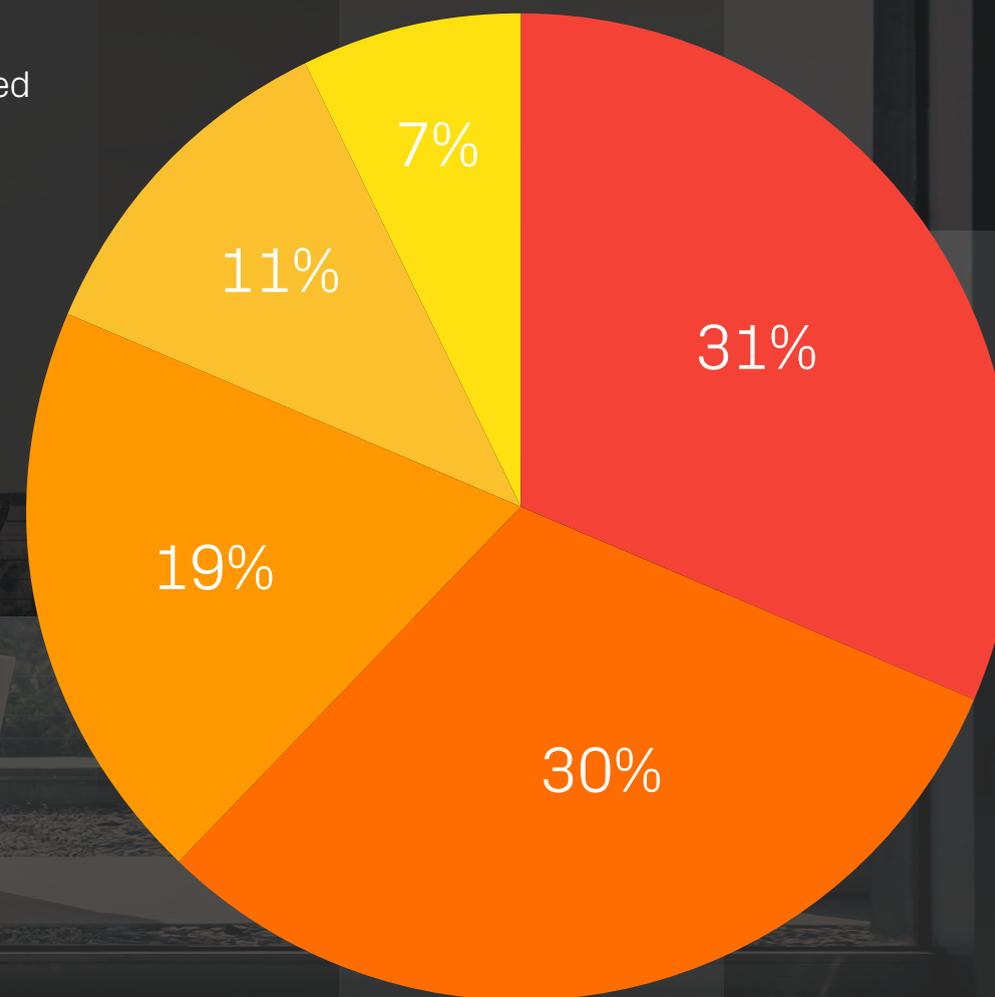
Why this mismatch between (self-professed) knowledge levels and adoption? We asked our respondents what they saw as the biggest obstacles to incorporating GenAI in their business. And the second-biggest reason – behind security and privacy concerns – is 'lack of competence and expertise' (26%). A further 20% say GenAI is 'too immature' and 'requires more validation'. Meanwhile 12% cite 'unclear use cases or applications.'

What is the top obstacle to incorporating GenAI in your business?

| Obstacle	%
Culture	6%
Unclear use case or applications	12%
Lack of competence and expertise	26%
Data security and privacy concerns	36%
GenAI is too immature / requires more validation	20%
Other	1%
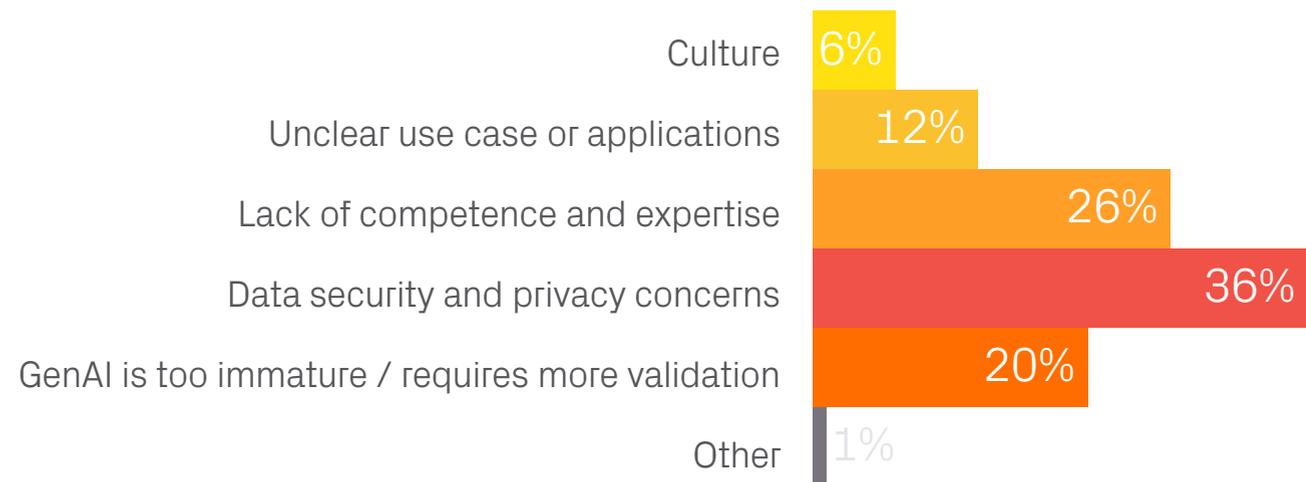
Source: Datasite survey, August 2023

These findings give a more concrete insight into dealmakers' knowledge of GenAI. Most don't yet use it routinely; many worry about a lack of expertise; a significant number believe the technology has yet to prove its worth. The reality is that, for the majority, GenAI remains an 'unknown unknown' – dealmakers simply don't know how much they don't know.

This is hardly surprising, given that nearly three quarters of dealmakers make no regular use of the technology. What is interesting is that almost the same number (73%) support government regulation of AI, including GenAI. For all their professed confidence, dealmakers accept that AI is largely unexplored territory for them – and what is unknown may hide dangers as well as buried treasure.

'We want regulation'
Should governments regulate AI, including Generative AI?

Source: Datasite survey, August 2023

73% Yes	14% No	12% Not sure

Such a widespread call for regulation is remarkable in itself. Even the US – traditionally the least in favor of government interference, and holding true to form here – still has a massive 68% majority supporting the idea of regulation. The call is even stronger in Europe, with France loudest of all at 84%.

Glancing across the different dealmaking players, we see interesting variations. Legal advisors are almost unanimously (93%) in favor of regulation – understandably, since it gives them a framework in which to operate. By contrast, the least keen on regulation are private equity (PE) professionals (65%) – perhaps reflecting their more 'adventurous' personas. Even so, it remains a clear majority, even in this field that prizes agility and freedom of opportunity.

Investment bankers (84%) share much of their legal colleagues' caution, while corporate development teams (like PE) are slightly more gung-ho, with 'only' 71% wanting regulation. Nevertheless, the demand seems overwhelming: GenAI is too powerful and unpredictable to be let entirely off the leash.

Far-reaching potential
AI's impact on business

What seems like the simplest question is perhaps the most revealing one: Which sectors will be most transformed by AI?

The most popular (and obvious) answer is the TMT sector, picked by 43% of respondents. AI is, after all, a technology, and one that can be used in both media and comms. It's the other answers that offer deeper insights.

Which industry do you think will be the most disrupted by GenAI in the next five years?

- 43% TMT (Technology, Media, and Telecom)
- 24% Financial services
- 9% Consumer goods and retail
- 12% Healthcare and life sciences
- 9% Industrials and manufacturing
- 3% Energy and power
- Other
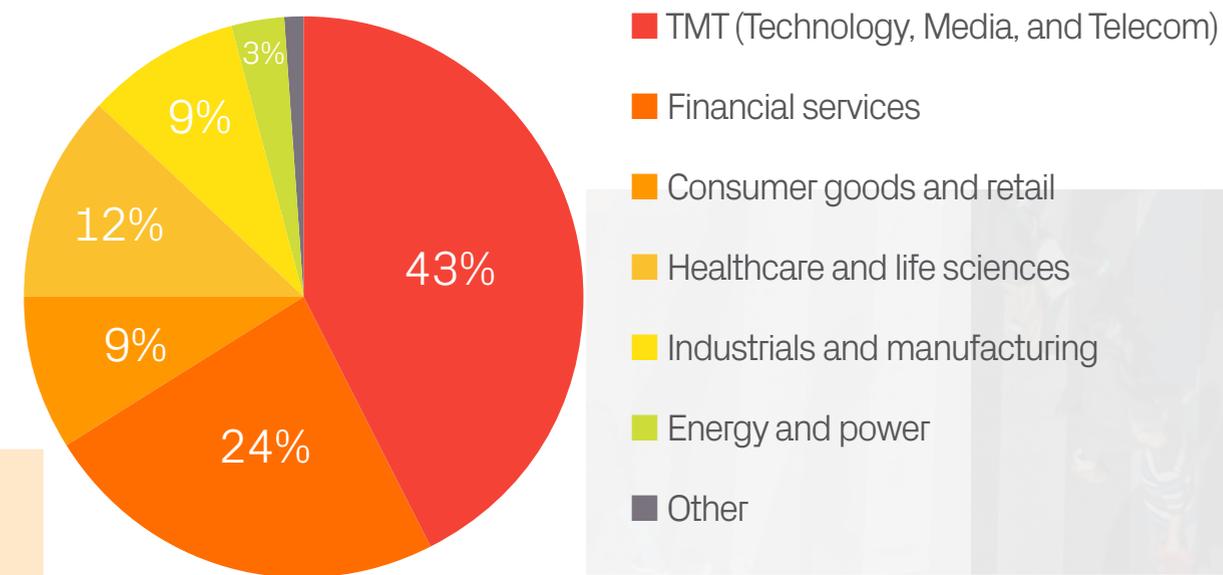
The second biggest expected area of impact is in financial services, with 24% citing this. But look at the financial specialists, the investment bankers: a full third (33%) of them are eyeing this sector, as if they can see a potential that the rest do not. Next, at 12%, we have healthcare and life sciences – but note how legal advisors are more concerned than anyone else, at 21% – as if already pondering issues of patient data privacy. In fourth place, at 9%, we have industrials and manufacturing – but see Germany, the manufacturing powerhouse, way out in front at 17%. As for private equity (PE) advisors, they seem unusually focused on consumer goods and retail, at 19% versus the average 9%.

In short, although the most obvious effects of AI will be on TMT, those who have specialist knowledge of other sectors are braced for its impact there too. Prudently, dealmakers are pondering their own fields of operations, and already wondering about AI's ability to transform them. To put it more simply still, the impact of AI is potentially everywhere.

A full house of M&A opportunities

Those sector predictions look at AI's impact in only the broadest terms. We were curious to know the specific areas where AI might drive M&A opportunities. Here, dealmakers' views are far more evenly balanced, with close competition between software engineering (33%), research & development (25%), and marketing & sales (24%) as the top answers. Customer operations (17%) is not far behind.

This spread of opinions again reflects the versatility of AI, and the perception that it can affect virtually any area of business. And again, there are further insights in the breakdown of responses. Germany lives up to its engineering reputation with the greatest enthusiasm for software engineering (41%), while in the US – where the customer famously comes first – dealmakers are quickest to see potential in customer operations (24%). Meanwhile, UK-based respondents sense higher-than-average prospects in the field of R&D (30%). Legal advisors too are focused on R&D opportunities (43%) – no surprise, given the potential of AI to capitalize on existing intellectual property.

What do you see as the biggest benefit of using GenAI in your business?

Category	Percentage
Customer operations	17%
Marketing and sales	24%
Software engineering	33%
Research and development	25%

Source: Datasite survey, August 2023

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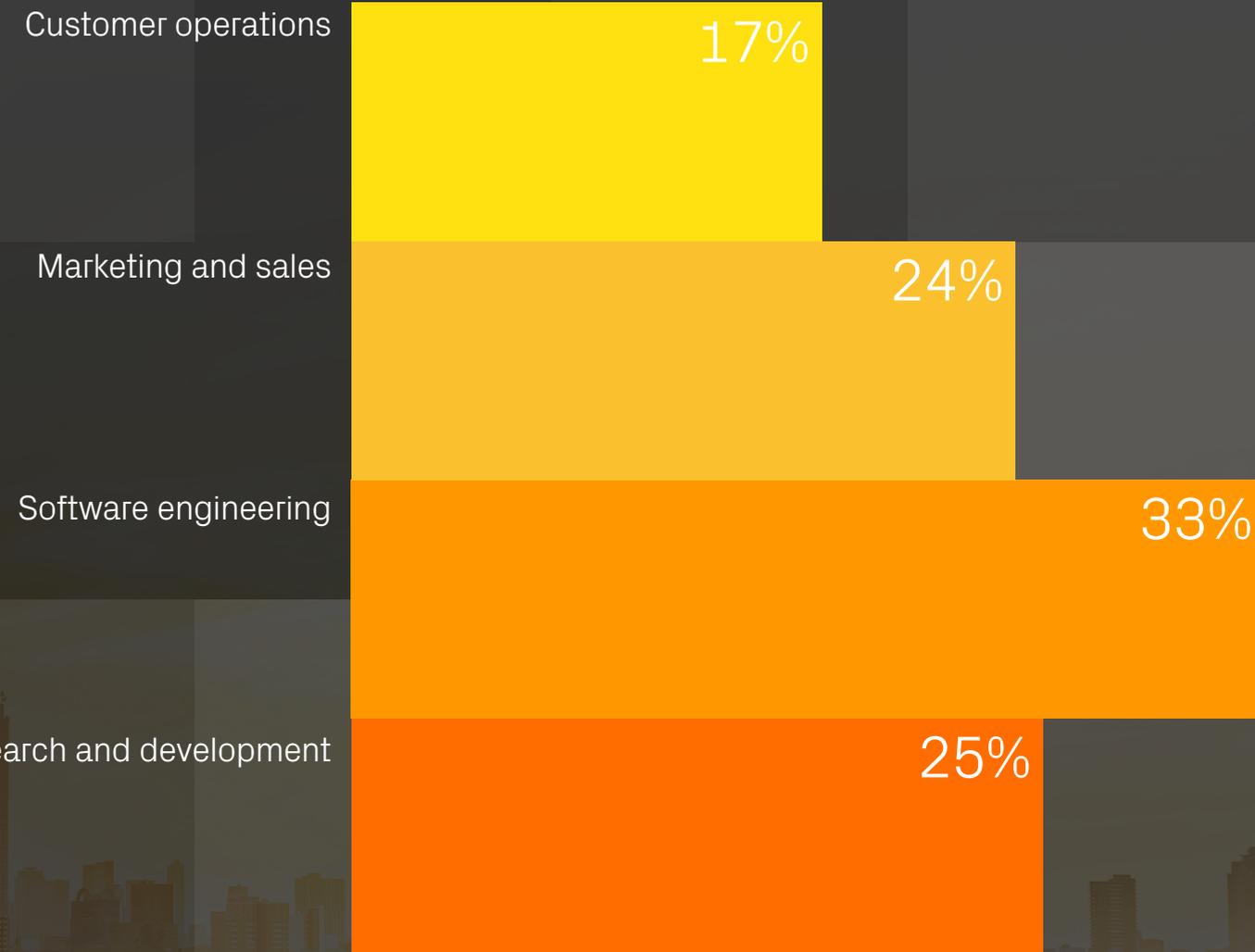
Also, mind your own business

So far, we've touched only on the broader effects that AI might have on the market. But we asked our respondents also to consider the specific benefits for their own business. By far the most popular expectation (at 42%) is that AI will 'improve productivity'. The power of GenAI to provide ideas, groundwork and first drafts for a whole range of project types, is clearly a huge part of its appeal – it can overcome 'the roadblock of the blank page'.

What do you see as the biggest benefit of using GenAI in your business?

Source: Datasite survey, August 2023

Better productivity	Better market intelligence	Better risk management	Better recruitment and talent identification	Better work quality	None of the above
42%	19%	12%	8%	17%	1%
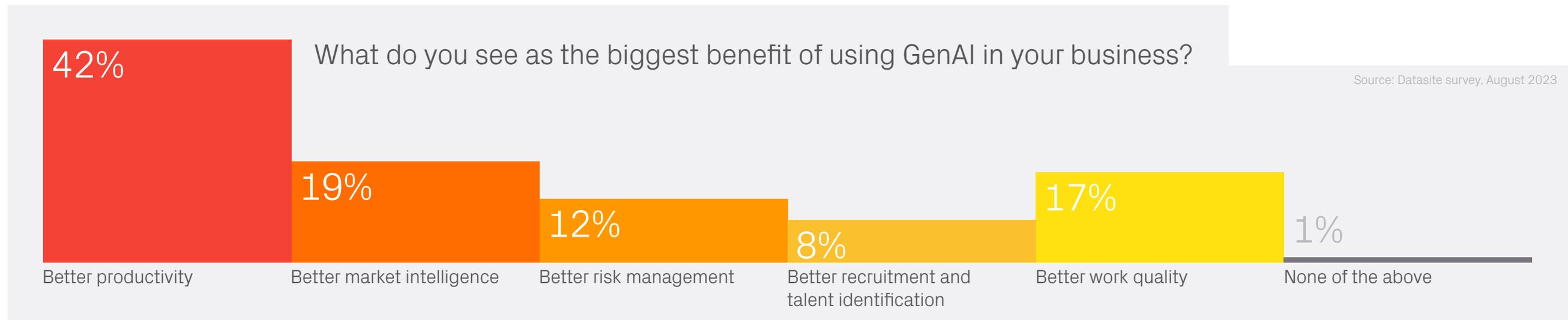
However, some of the less obvious answers may prove equally important in the long term. The second-most popular response is 'better market intelligence' (19%), with the UK (at 26%) especially alive to this prospect. The ability to analyze market data in moments can yield enormous strategic advantages to businesses seeking new opportunities – as Datasite's own AI search engine for M&A, Datasite Intelligence, is already demonstrating.

Of the other potential benefits, US respondents anticipate better work quality (22%) with the help of GenAI tools, while French dealmakers – largely shunning that idea – believe that risk management (20%) is where it's at. The implication is that AI can be whatever you want to make of it. What stands in the way of crystallizing these benefits is the readiness of businesses to embrace GenAI. We'll explore these next.

Feeling insecure
## Barriers to adoption and the risks of GenAI

Dealmakers are clear – by far the biggest obstacle to incorporating GenAI into their business, is fear around data security and privacy (36%). Security concerns are similarly high when dealmakers consider the business risks of AI (34%); in Germany (41%) they are especially wary. And when it comes to ethical risks (with respondents giving multiple answers), the top two culprits are security & cyber-attacks (56%), and privacy & data protection (50%).

What do you see as the greatest risk in using GenAI in your business?

- ■ None of the above
- ■ Data security and privacy
- ■ Bias and fairness
- ■ Intellectual property rights
- ■ Job displacement
- ■ Quality control
- ■ Reputational damage

Pie chart values: 4%, 34%, 9%, 9%, 25%, 14%, 5%
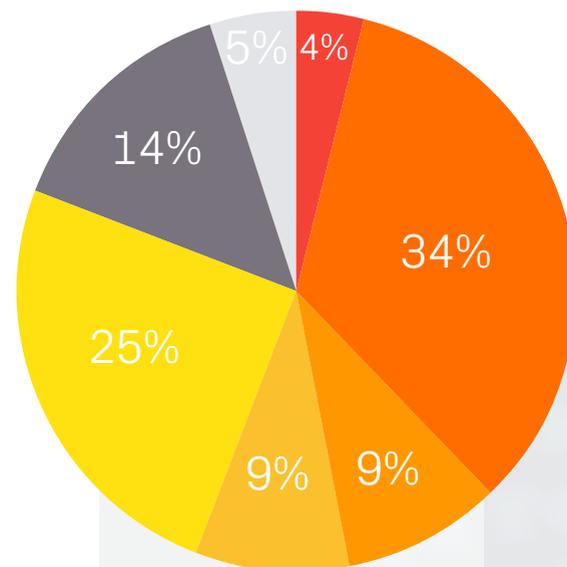
What GenAI ethical risks worry you the most?

Category	Value
Security and cyber attacks	56%
Privacy and data protection	50%
Misinformation and fake content	48%
Technology misuse (dual use)	40%
Job displacement	38%
Intellectual property rights	30%
Bias and fairness	23%
None of the above	4%
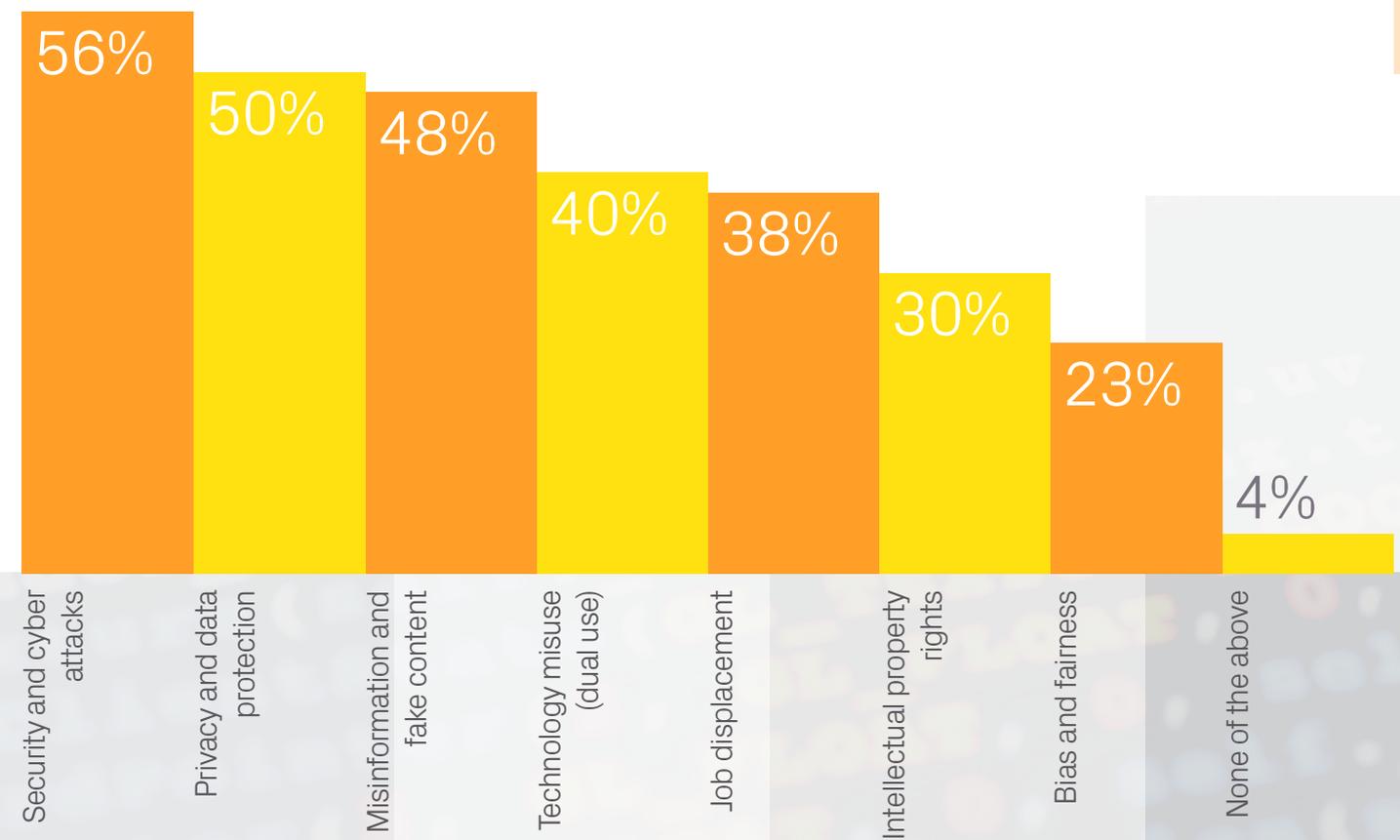
Dealmakers also consider security, privacy or compliance issues to be the most likely reason for a deal involving GenAI to collapse (30%) – and indeed, 14% of them have seen a deal fail due to GenAI concerns within the past two years. Given the relative newness of the technology, this is already a significant proportion.
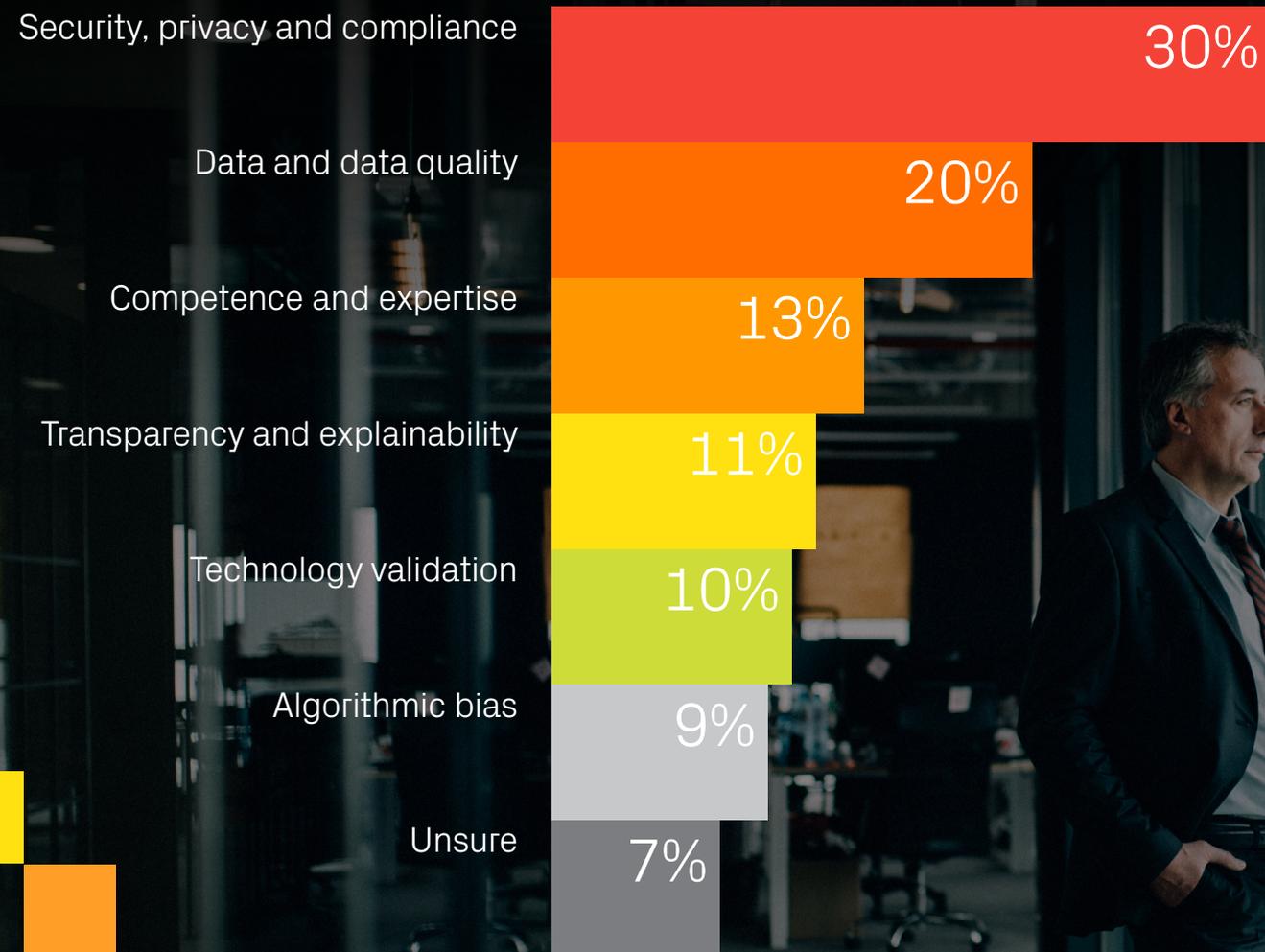
That said, we must bear in mind that security concerns are typically the top priority in dealmaking, regardless. High levels of caution do not necessarily reflect a distrust of AI per se, but a prudent attitude towards any changes that might reduce security. In incorporating AI, therefore, dealmakers would be best served by AI that is specifically developed with M&A security standards in mind.

Other cited reasons why deals involving GenAI might collapse, include data & data quality (20%), competence & expertise (13%), transparency & explicability (11%), technology validation (10%), and algorithmic bias (9%). Evidently, there is a significant 'long tail' of lesser but still critical concerns about GenAI assets, any of which might become a dealbreaker. Deal success depends on the buyer knowing exactly what they're buying – and it seems that many aren't yet getting the certainty they need.

Category	Percentage
Security, privacy and compliance	30%
Data and data quality	20%
Competence and expertise	13%
Transparency and explainability	11%
Technology validation	10%
Algorithmic bias	9%
Unsure	7%

Source: Datasite survey, August 2023

And what about job security?

The second-highest risk is the fear of AI taking away human jobs. Overall it ranks in second place, at 25%, but some are even more anxious: those in France rank it top, at 36%, above security. Germany and the USA are the most blasé – at 15% and 22% respectively.

These different views make more sense when dealmakers ponder a related question; how do they think AI will affect their workloads? Overall, respondents believe it will actually make them busier (47%), versus those who think workload will go down (39%).

How do you expect GenAI to impact your day-to-day workload?

47%	39%	14%
Increase	Decrease	Unsure
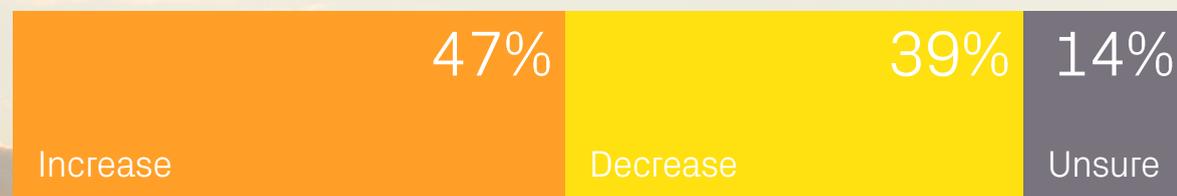
Source: Datasite survey, August 2023

The exception here is France – where 51% of dealmakers expect a decrease in work, and only 31% predict an increase. This perhaps explains France's particular concern over job security – and they are not alone here. When asked the question in isolation, 47% worry about AI's effect on future employment. But if dealmakers are right about AI actually increasing workloads, these fears may be unfounded.

The historical response to leaps in productivity technology has rarely been 'clocking off early' – doing the same in less time – and nor (usually) is it mass unemployment. Rather, businesses tend to raise their game, using the latest tools to remain competitive as their peers do the same.

Are you concerned about how the continued implementation of GenAI could impact employment in your field?

| 47%	44%	9%
Yes	No	Unsure

Source: Datasite survey, August 2023

What's the deal with AI?
The anticipated benefits of GenAI for dealmaking

And so we come to the M&A process itself. The most widely predicted benefit is improved processes and greater efficiencies (35%) – no surprise there. But not so far behind, we have improved deal intelligence (19%) and better deal decisions (16%). These may be considered closely related, and in combination would reflect the expectations of a quarter of our respondents.

Risk identification (16%) is also very much on the table – and, as already mentioned, dealmakers in France are especially alive to this prospect, at 24%.

How will GenAI most impact M&A processes?

- 🟥 Process improvements and efficiencies
- 🟧 Improved deal intelligence
- 🟧 Better deal decisions
- 🟨 Improved risk identification
- 🟨 M&A cost reduction

14%
35%
16%
16%
19%
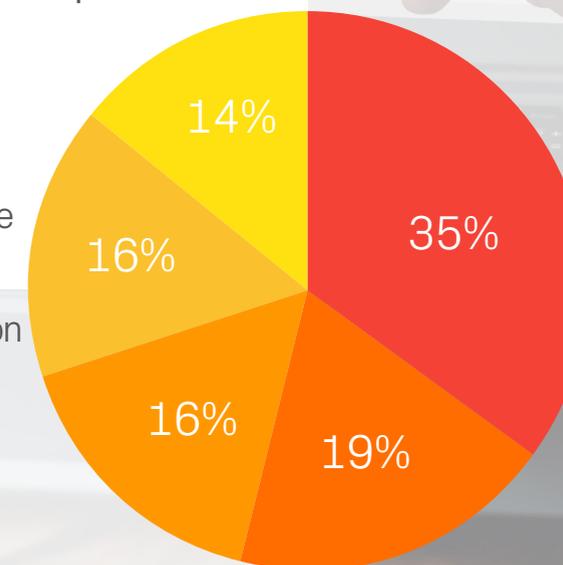
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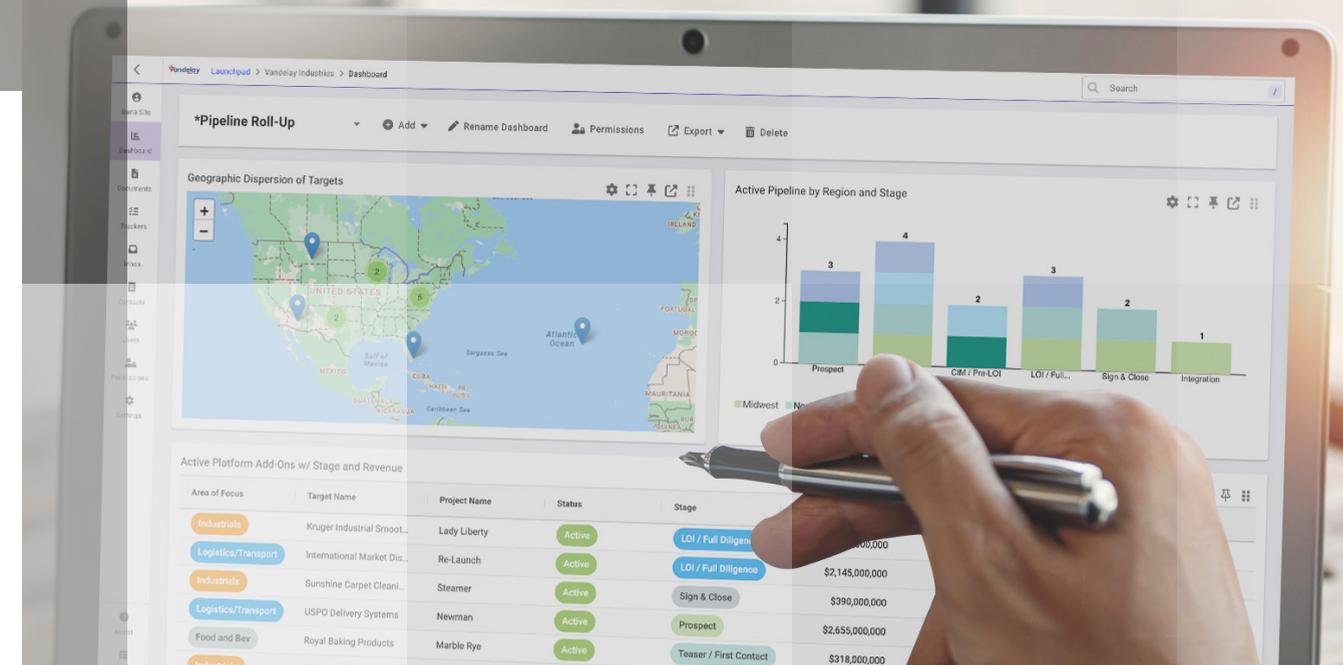
It seems that few dealmakers (14%) expect AI to bring deal costs down. However, virtually all our respondents expect it to speed up the deal process. The most common prediction is an acceleration of between 26% and 50%, but nearly a quarter (23%) expect an even greater boost, of between 51% and 75%.

Given that deal costs on average increase by around $100k for every additional week of due diligence[1], such massive time savings – whether through greater efficiencies or higher productivity – should translate into cost reductions. Of course, a plausible alternative to this would be greater depth of due diligence across the same timeframe.

Are evaluating GenAI risks part of your current due diligence process?

Yes	No	Unsure
68%	25%	8%

There is one caveat here: GenAI has introduced a further level of complexity into the due diligence process. A majority of our respondents (68%) already include evaluating GenAI risks into their due diligence. As the use of AI grows, so too may the scrutiny required. So, although AI used by dealmakers should make due diligence faster, the AI assets of target companies may add significant drag. There should still be net acceleration – how much, remains to be seen. All in all, AI promises to be a game-changer in how deals are run.

GenAI –
The bottom line

It's clear that dealmakers know what they want from AI – and what they want is broadly what they expect to get. Is your priority more productivity? GenAI will deliver the goods. Are you more concerned about risk management? Let AI find the pitfalls for you. Want better customer operations? It'll do that too. And more. Sometimes AI seems like the mirror in the Harry Potter story, showing us the thing we most desire to have.

But the mirror also reflects our particular fears. Those worried about job security see AI as a mandate for redundancies. Those most concerned with security, or data privacy, might see it as a vulnerability. And where quality is the priority, dealmakers will worry about quality control.

Adopting new technologies always tends to increase workloads initially – but over time, as GenAI becomes familiar and embedded, it has the potential to free up significantly more time. Does this mean machines will replace human dealmakers, who will be out of work? Far from it. Their time is arguably far better spent on higher-order activities, key relationships, and judgement calls beyond the scope of AI. These, after all, are the true fundamentals of M&A.

As with all new inventions, the outcome will depend on the usage, rather than on the nature of the technology itself. We don't yet know all that GenAI can do; but we can decide what we do with it.

Here, in effect, is the most interesting finding of all. For although nine out of 10 respondents claim 'moderate to extensive' knowledge of GenAI, their other answers tell a different story. Few yet are using this technology regularly; fewer still have it embedded in their business. And most are hedging their predictions. The biggest barrier to progress is inexperience. Though we all might claim to be AI-smart, is our intelligence genuine – or artificial? Only through extensive use at a professional level can dealmakers grasp all the possibilities, and pitfalls, of AI in M&A.

Where deals are made

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