

Artificial Intelligence

Artificial Intelligence – Beyond the lawyering in corporate transactions

AI is transforming many aspects of our lives, and the M&A environment is no different. This article argues that AI has the potential to change the market radically by unlocking a much wider universe of deal opportunities for businesses and investors.



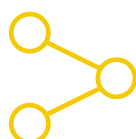
Using AI in M&A

In the corporate deal environment, applying innovation to the M&A process most often translates to “how can we use technology to make the process work more efficiently – streamlining due diligence exercises and automating document production”. CMS is familiar with and has successfully used AI technology on corporate transactions. In the world of due diligence, AI has been successfully deployed to identify which contracts (out of tens of thousands) need to be looked at for change of control provisions, for example. In the world of document production, we can use document automation technology to produce first drafts of standardised documents to high degrees of usability. This is old news. The race is on in those areas to produce better, faster and simpler products and every day sees extraordinary strides in innovation. It would however be naive to think that this is the only aspect of a lawyer’s life that the fourth industrial revolution will change. Where else might AI change the way we do business?



Embracing Technology

One thing we hear on a regular basis is that clients assume their lawyers know the law. Expertise is largely derived (from a client perspective) from experience, having done similar deals before. Applying that logic, clients assume that their lawyers are embracing the latest technology and knowhow. As so often in the technology sphere, the challenge is looking for the next big thing. What is it that we law firms have to offer our clients that we do not do (or do not do well enough) and that AI can help with?



Joining the dots

If I learn that contact X is looking to buy a specific type of technology business, how do I discover that another person in my business has just been to see contact Y who is looking for a merger partner to take their business to the next step? If we extrapolate that to the wider market, there is a lot of data out there recording who is doing what and when. Sifting and understanding that data is a complex analytical task that to date has required a significant amount of human capital. There is far more data in the market than human hand alone could ever realistically collate and comprehend. Take a simple example:

- Company A’s CEO says in a press interview that he is looking for acquisitions
- Company B announces that it is disposing of non-core divisions
- Private equity fund C is launching its fourth fund

Now if I know the investment horizon of private equity fund C's third fund, it is probably a fair guess that it would be quite happy to see some realisations and returns of capital in fund three while it is funding raising for fund four. It was reported (at the time) that C acquired B four years ago. So divestments by B, or maybe even the sale of the whole of B, are going to be good news for C. A needs to know about it. M&A is a global business and often the highest value transactions are happening across international borders. This type of situation is playing out in thousands if not hundreds of thousands of similar scenarios and combinations of the same all over the world. If even a fraction of this data could be collated, analysed, understood and presented in a form ready for human consumption, that would be an incredibly valuable tool for many businesses and their advisers around the world.



Unlocking potential

This should be the exact type of scenario where AI can unlock significant value. AI could trawl the vast swathes of available data to calculate the correlations between potential buyers and sellers based on what they have said publicly, speculation in the market, and other softer deal drivers (investors reaching the end of their usual investment horizons), to identify likely transactional partners.

Using AI to inform the deal origination environment could radically change the market, by identifying previously unknown opportunities. AI is not (yet) able to judge emotion and so much negotiation, from the initial approach about a potential deal to finalising the terms, comes down to the individual involved and their views, approaches and feelings. How many times are negotiations resolved by someone presenting a solution "the right way", so that both sides feel that it addresses their needs and wants? The human touch in a room is still, more often than not the critical factor in successfully concluding a transaction.

What AI can offer, however, is a much wider universe of deal opportunities than are available simply by plugging into individual networks, across the spectrum of corporate transactions – joint venturing, M&A, IPOs, divestments, investments. The role of the deal originator may be about to be subject to its biggest change in history.

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