Datasite®
Where deals are made

The New State of M&A

A Global Perspective

2020-2025

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Executive Summary
A Global Perspective

Dealmaking will always be a people and relationship business. But increasingly the entire process – from sourcing to execution – is being supported and enhanced by new digital technologies. And with more people working remotely due to the COVID-19 crisis, these technologies are needed and being utilized more than ever.

These technologies include artificial intelligence (AI) and machine learning (ML), big data analytics and blockchain. Together, they are helping to transform and automate key processes and tasks in M&A, many of which are labor and time intensive.

Greater insights from deeper data analysis enabled by digital technologies are not only helping better inform M&A strategies, the sourcing of deals and due diligence, but also speeding up some of these areas.

This evolution is needed. It points to the increasing digital maturity and technological sophistication of the M&A process and the practitioners involved.

2,235 M&A practitioners surveyed across EMEA, APAC & the Americas

Perspective on the process

What does this process look like today and in the future? How much of it can and should be automated? And in what areas?

These are some of the key questions we wanted to investigate and answer in this research, which involved surveying **2,235** M&A practitioners globally from corporates, private equity firms, investment banks, and law and professional services firms for their views on the subject.

The results reveal many similar perspectives across regions, institutions and practitioners, but also highlight some interesting differences in views.

A digital evolution

Most practitioners believe the M&A process in their company and industry-wide will continue to evolve, becoming even more digitally mature and sophisticated in five years' time. They also expect the average time to run due diligence will further accelerate, supported by new technologies that enhance practitioners' analytical capabilities and improve end-to-end processes, data management, and communications.

What's more, AI and machine learning are expected to be the most transformational on the M&A process.

Such views and expectations are shared among practitioners from New York to São Paulo, London to Dubai, and Mumbai to Shanghai. But our research also highlights several interesting variations, indicating how different markets are at different stages of digitization, as well as the regional differences in M&A markets.

The most transformational technology for M&A?

AI and machine learning

Sophistication and application

Notably, fewer practitioners in Europe, the Middle East and Africa (EMEA) compared to their peers in the Americas and Asia Pacific (APAC) currently assess a high level of maturity and sophistication in the M&A process at their company and industry-wide – suggesting EMEA may lag the other two regions.

Most practitioners in the Americas and EMEA say due diligence takes 1-3 months (average); **66%** of APAC practitioners say the process takes 3-6 months.

And by 2025? Over half **(56%)** of global dealmakers believe due diligence will take less time than ever: only 1 month or less.

Enrichment, not replacement

Overall, M&A practitioners agree on how technology can help address challenges and transform key areas of M&A: it will ultimately enrich the entire process with data insights and analysis, and also make it quicker and more secure.

The pace of digitization and the extent to which new technologies are adopted and used to support dealmaking activity will vary from one company to the next. But the constant? The M&A process is being transformed by technology as never before. Dealmakers today, and in the future, will be supported and empowered by this advance. And not, as some may fear, replaced by it.

56%

say: due diligence will take 1 month or less by 2025

2020 **The Current State of M&A**

Medium maturity
78%
of practitioners say the M&A process at their company has a medium level of digital maturity and technological sophistication. Some 82% of practitioners say the same of the process industry wide.

Barriers to digitalization
73%
of practitioners say financial or investment constraints are one of the main barriers to adopting M&A process-related digital technologies.

Automation constraint
94%
of practitioners believe the entire M&A process cannot be automated.

Diligence speed
63%
of practitioners say due diligence takes on average 1-3 months on a successful deal. However, 66% of practitioners in APAC say it takes 3-6 months.

Cyber security risk
36%
of practitioners say data or cyber security concerns is the most common issue uncovered in due diligence that causes the withdrawal from a deal.

2020 **The Current State of M&A**

ESG credentials a concern

78%

of practitioners say they have worked on M&A transactions that have not progressed due to concerns about a target company's environmental, social and corporate governance (ESG) credentials.

Due diligence digitized

48%

of practitioners say due diligence is the area in M&A that could be enhanced most by new technologies and digitization.

Data privacy hurdle

40%

of practitioners say they have worked on M&A transactions that have not progressed because of concerns about a target company's compliance with data privacy regulations.
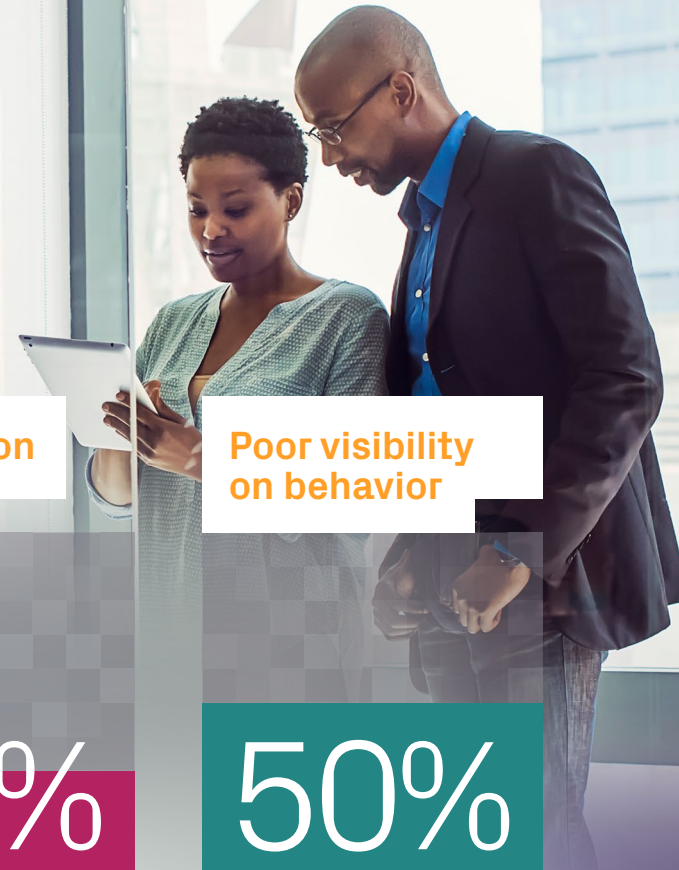
Information deficit

31%

of practitioners say incomplete or inaccurate deal documents and information is the factor that slows due diligence the most.

Poor visibility on behavior

50%

of practitioners say a lack of insights on buyer behavior across mandates is the most challenging aspect of marketing an asset for sale.

2025 **The Future State of M&A**

Diligence accelerating

56%

of practitioners believe due diligence will take 1 month or less on a successful deal in five years' time.

EMEA lags

60%

of EMEA practitioners say the M&A process industry-wide will have a high level of digital maturity and technological sophistication come 2025 – the lowest percentage of all three regions.

AI most transformational

30%

of practitioners expect AI and machine learning technologies to have the most transformational impact on the M&A process over the next five years.

High maturity

67%

of practitioners say the M&A process industry-wide will have a high level of digital maturity and technological sophistication come 2025. Some 63% say the same of the M&A process at their company.

AI enabled VDRs

35%

of practitioners say accessing a virtual data room (VDR) with AI and machine learning technologies would help accelerate due diligence the most.

2025 **The Future State of M&A**

ESG factors more important

69%

of practitioners believe ESG factors will be a very important consideration in M&A due diligence in five years' time – up from 15% of practitioners today.

Advanced analytics

65%

of practitioners believe new technologies should enable greater analytical capability in the due diligence process in five years' time.

AI for info review

26%

of practitioners believe harnessing AI and machine learning technologies to review and analyze data would help accelerate due diligence.

Data privacy importance

69%

of practitioners say data privacy regulation (e.g. EU's GDPR) will be a very important consideration in M&A due diligence in five years' time – up from 16% today.

Process security

30%

of practitioners believe technology will help improve secure end-to-end process, data management and communications the most.

Analysis:
M&A Lifecycle

As new technologies emerge and digital transformation accelerates across the financial services industry, certain areas are becoming more digitally mature and technologically sophisticated.

M&A is one of these areas where manual processes, procedures, and tasks throughout the lifecycle of a deal are being supported by new technologies – to the extent that some are being automated entirely.

A transformative process
Digital transformation is a process. While there has been progress and substantial leaps in transforming the complexities of dealmaking in recent years, there is still a way to go before the industry can be considered transformed.

Companies, private equity firms, and their advisors recognize this: **86%** of practitioners from these institutions believe the digital maturity and technological sophistication of the M&A process industry-wide is at a medium level or lower and **88%** say the same of the process at their company.

86%

say: digital sophistication is at a medium level or lower for the M&A process
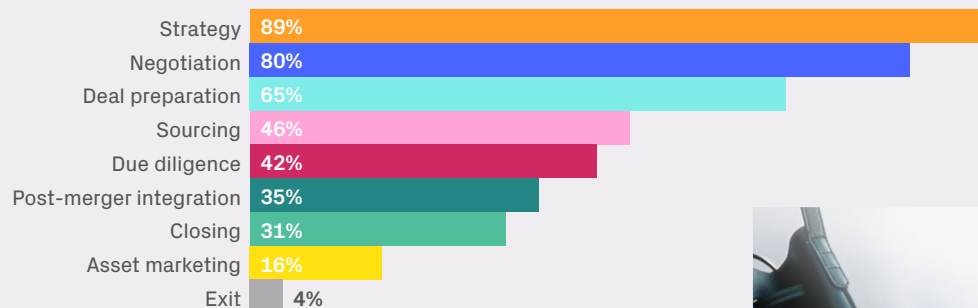
Overcoming the barriers

So, what are the main barriers to adopting new M&A process-related technologies? For most executives, it's financial or investment constraints and issues around data security and privacy.

However, barriers can be overcome. And what's striking is that practitioners believe digital transformation will accelerate over the next five years. In fact, by 2025, some **67%** and **63%** of practitioners, respectively, believe the M&A process industry-wide and at their company will have hit a high level of digital maturity and technological sophistication.

How do we define this? With difficulty. But the extent of automation in key processes and tasks is a key indicator. An emphatic 94% of practitioners believe the M&A process cannot be entirely automated.

Of those areas in the M&A process that practitioners believe cannot be automated, the top three are: strategy **(89%)**; negotiation **(80%)**; and deal preparation **(65%)**. Surprising? Not really. After all, these areas require substantial amounts of human intelligence, expertise, and experience to get right. And the reality is that no technology or computer algorithm can yet automatically replicate everything needed to devise a successful M&A strategy, negotiate the best possible price and terms, and prepare a deal in the best way.

Which area(s) of M&A do you think cannot be automated?

| Area	Percentage
Strategy	89%
Negotiation	80%
Deal preparation	65%
Sourcing	46%
Due diligence	42%
Post-merger integration	35%
Closing	31%
Asset marketing	16%
Exit	4%

Insightful automation

But despite the admittedly large human element needed in these areas, technology and automation can still add value there. It can help speed up the process, as well as provide deeper, richer insights from data that can increase the probability of a successful outcome.

Deal negotiations will likely always be a human endeavor, but they are increasingly being powered by insights generated by analytical technologies, many of which are automated.

These include AI and machine learning technologies, which executives in our survey believe will have the most transformative impact on the M&A process over the next five years. But there are other areas, such as big data, cloud and even blockchain, that our executives view as holding great promise.

Each and every stage of the M&A process may not be transformed by technology to the same extent or at the same time. But there is one area where the need is perhaps greatest – due diligence. This stage is the most time consuming, according to **66%** of practitioners, but is also the area most believe could be enhanced most by new technologies and digitization.

When thinking about the following key areas or stages of M&A, which is the most time consuming?

2% 2%

66%

13%

9%

8%
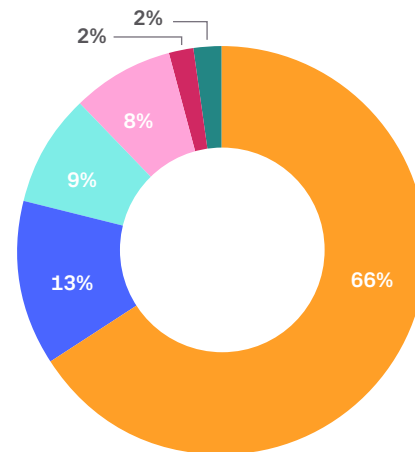
- Due diligence
- Deal preparation
- Strategy
- Negotiation
- Asset marketing
- Sourcing

Analysis:
M&A Due Diligence

Of all the various stages of M&A, due diligence is critical to ensuring good deals get done and bad deals are left behind.

Both outcomes are considered a success, which is why so much time, resources, and energy are invested in every stage, from preliminary to final.

As expected, the importance of proper, detailed due diligence is not lost on practitioners – **62%** believe it is the most important success factor in M&A.

A time-consuming task

However, it's also the most time-consuming stage of M&A. In fact, while most executives **(67%)** today assess that due diligence takes on average 1-3 months, about a third assess it at 3-6 months.

Multiple factors can slow the due diligence process, but the two that do so the most are: incomplete or inaccurate deal documents and information **(31%)**; and inadequate technology supporting the process **(22%)**.

No doubt most practitioners have been in a situation where the deal documents and other information are not in order. And even where the technology supporting a part of the process, whether some analytical software or even a virtual data room, doesn't quite deliver.

Improving the process

While there isn't much technology can do to improve the completeness or accuracy of information between seller and buyer(s), it is hoped technology can improve many other aspects of the due diligence process.

So, which areas of due diligence do practitioners believe technology could help improve the most? Secure end-to-end process, data management and communications **(30%)**; analytics and reporting **(23%)**; and running multiple scenario analyses or financial modelling **(16%)**.

And what would help accelerate due diligence the most? AI and machine learning technologies. Most practitioners **(35%)** said accessing a virtual data room with AI and machine learning technologies would speed up due diligence the most, followed by being able to harness AI and machine learning technologies to review and analyze data **(26%)**.

There may be some way to go before the widespread use and application of AI and machine learning in due diligence, but practitioners see a lot of potential in it speeding up the process. This is partly why most executives see a compression in the average time it takes in five years' time; just over half **(56%)** expect due diligence to take one month or less in 2025 compared to **3%** today.

Which of the following would help accelerate the due diligence process the most?

- ■ Accessing a virtual data room with AI and machine learning technologies — 35%
- ■ Harnessing AI and machine learning technologies (to review and analyze data) — 26%
- ■ Standardization of documents and processes — 18%
- ■ A smaller more specialist due diligence team — 12%
- ■ A larger due diligence team — 6%
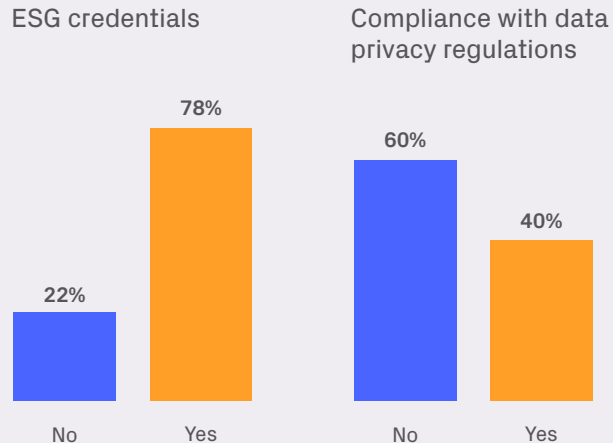- ■ De-regulation in certain areas — 3%
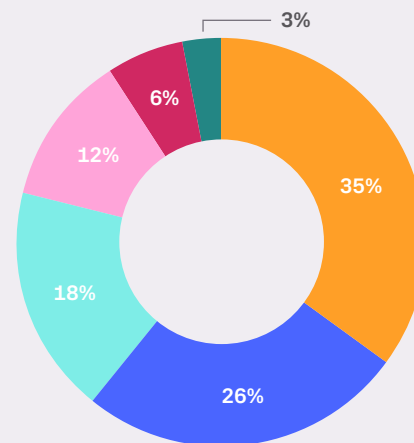
Demands are changing

But, it assumes that the demands of due diligence remain constant – and there are signs that they are already changing.

For instance, while most executives see data privacy regulation (i.e. EU's General Data Protection Regulation) and environmental, social and governance (ESG) issues as important considerations in M&A today, most practitioners say they will be even more so in five years' time.

In fact, **78%** of practitioners say they worked on M&A transactions that have not progressed because of concerns about a target company's ESG credentials. And **40%** say the same of a target's compliance with data privacy regulations.

ESG will be even more important going forward

Have you worked on M&A transactions that have not progressed because of concerns about a target company's:

ESG credentials

	No	Yes
	22%	78%

Compliance with data privacy regulations

	No	Yes
	60%	40%

Analysis:
M&A Asset Marketing

Asset marketing is an important stage of the M&A process. It has undergone a degree of digital transformation in recent years, moving it from emails and spreadsheets to a more sophisticated digital offering.

However, for as much as some progress has been made in digitizing communications and processes, corporate and private equity sellers and their advisors believe much more can be done.

Most practitioners **(66%)** assess only a medium level of efficiency and effectiveness in their company's current process of identifying, marketing to, and tracking potential buyers.
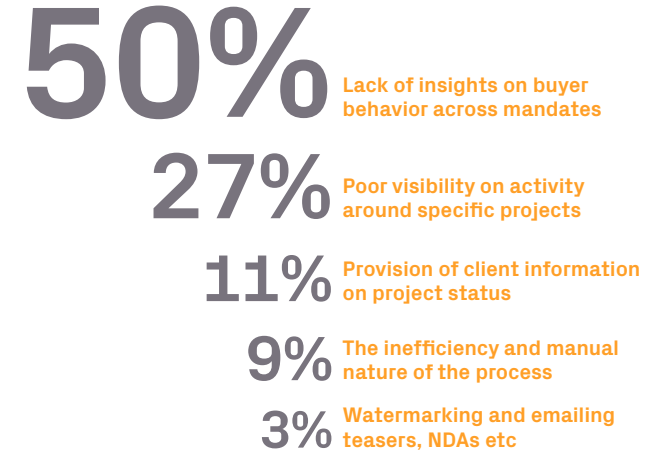
Room for improvement

This shows there is room for improvement in the process overall. The same is true in specific areas.

For instance, when marketing an asset for sale, half of practitioners believe the lack of insights on buyer behavior across mandates provides the biggest challenge, followed by poor visibility on activity around specific targets.

Asset marketing can surely be expected to continue to evolve, potentially providing sellers and advisors in the future with greater digital capability to track and analyze buyer behaviors, enhance visibility on buyer engagement around specific sale projects, and add optionality to automate and enrich communications.

These improvements would address some of the key challenges that practitioners currently face. Half say a lack of insights on buyer behavior across mandates is most challenging when marketing an asset for sale, with 26% saying the same of poor visibility on activity around specific projects.

When marketing an asset for sale, what is most challenging?

50% Lack of insights on buyer behavior across mandates

27% Poor visibility on activity around specific projects

11% Provision of client information on project status

9% The inefficiency and manual nature of the process

3% Watermarking and emailing teasers, NDAs etc
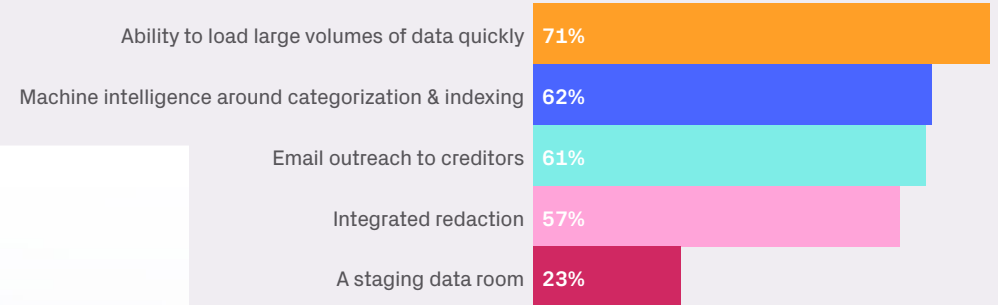
Analysis:
Restructuring

Given the expected high level of restructuring activity to come, digital solutions to these challenges should add value for to all practitioners: seller, buyer, and the advisor in-between.

And there are other digital capabilities that practitioners believe are valuable in restructuring situations: the ability to load large volumes of data quickly **(71%)**; machine intelligence around categorization and indexing **(62%)**; and email outreach to creditors **(61%)**.

All these capabilities are likely to be drawn on heavily in the coming months as the extent of the economic impact from the coronavirus pandemic is felt by companies across industries globally, undoubtedly leading to heightened restructuring activity.
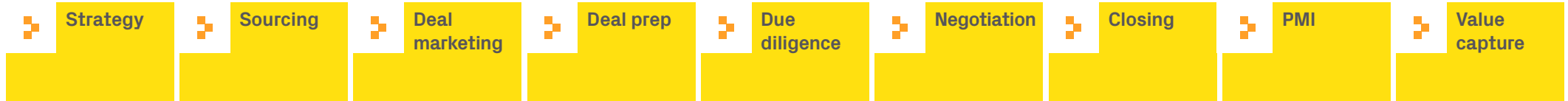
In fact, when asked which type of restructuring practitioners expect to dominate over the next 24 months, most said debt financing **(32%)**, closely followed by divestitures and carve-outs **(25%)** and bankruptcies **(24%)**.

What tools are most useful for restructuring?

Ability to load large volumes of data quickly	71%
Machine intelligence around categorization & indexing	62%
Email outreach to creditors	61%
Integrated redaction	57%
A staging data room	23%

Recommendations:
Three Ways to Digitize your M&A

The M&A Lifecycle

| Strategy | Sourcing | Deal marketing | Deal prep | Due diligence | Negotiation | Closing | PMI | Value capture |

Datasite

1 Streamline key activity in the early stages of the M&A process, starting with your asset marketing process. Use technology to:

Fully Automate Buyer Tracking allowing you to review your project status all in one place - from initial contact to negotiating NDAs, sending CIMs and receiving IOIs

Bulk Watermark Documents & Bulk Create E-mails while still owning the communication from your own Outlook

Gain real-time insight with instant reporting for senior management and/or clients

2 Revolutionize the deal preparation and due diligence phase with powerful AI and machine learning capabilities to:

Automatically categorize thousands of documents in minutes

Allocate and index documents into appropriate folders

Bulk redact sensitive information and data in seconds to ensure GDPR/CCPA compliance

3 Manage the most complex and time-consuming stage of the M&A process, due diligence, by using technology to:

Create Customized Analytics allowing you to stay on top of your deal with interactive dashboards that track meaningful buyer activities

Apply advanced Q&A Tool for efficient and secure collaboration and communication of all the parties involved in the due diligence process

Research Methodology
A Global Perspective

The analysis in this report is based on a global survey of 2,235 M&A practitioners across specific countries of the Americas, Europe, the Middle East and Africa, and Asia Pacific regions.

In total, 32% of respondents came from the Americas, divided between the following countries: US (200); Canada (100); Mexico (101); Brazil (105); Colombia (100); Chile (100).

A total of 39% of respondents came from EMEA, divided as follows: UK (100); France (100); DACH (101); Benelux (100); Southern Europe (101); Nordics (103); Central & Eastern Europe (100); Africa (55); Middle East (50); Turkey (50).

The remaining 29% of respondents came from Asia Pacific, comprising: China (100); Hong Kong SAR (100); Japan (111); Australia & New Zealand (101); South Korea (101); India (51); Singapore (55); South East Asia (50).
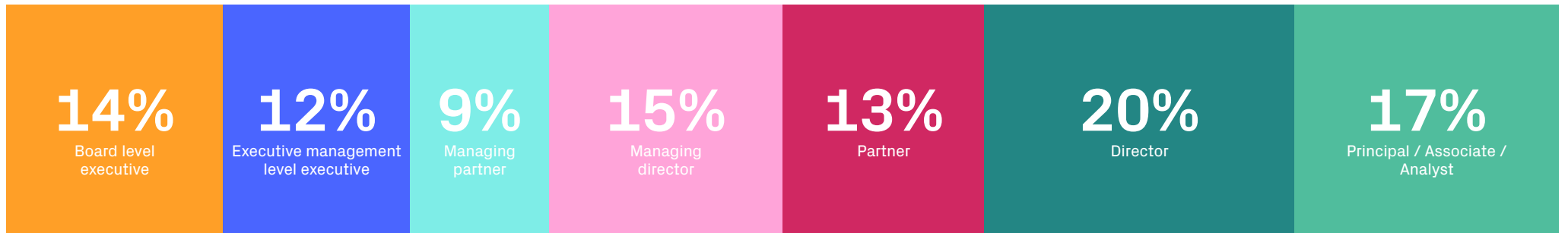
By institution type, respondents were evenly split between companies and private equity firms (50%), representing M&A clients; and investment banks, professional services and law firms (50%), representing M&A advisors.

By seniority, board and executive management level executives comprised 26% of respondents, with managing partner, managing director and partner level executives comprising 38%. Director, principal, associate level executives comprised 36%.
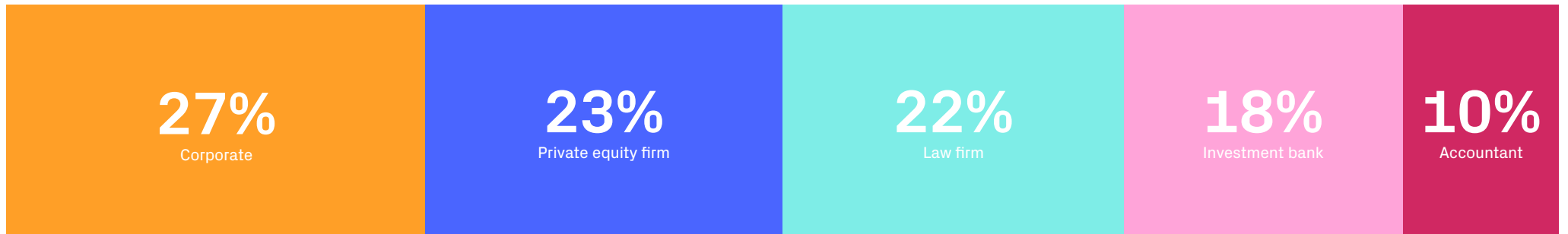
Research Demographics
A Global Perspective
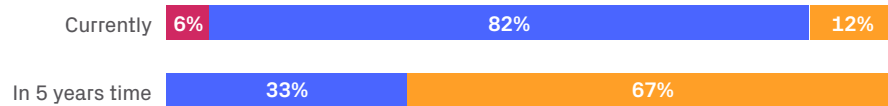
Which of the following best describes your position?

14%	12%	9%	15%	13%	20%	17%
Board level executive	Executive management level executive	Managing partner	Managing director	Partner	Director	Principal / Associate / Analyst

Company type

27%	23%	22%	18%	10%
Corporate	Private equity firm	Law firm	Investment bank	Accountant

Results
A Global Perspective

What level of digital maturity and technological sophistication would you assign to the M&A process?
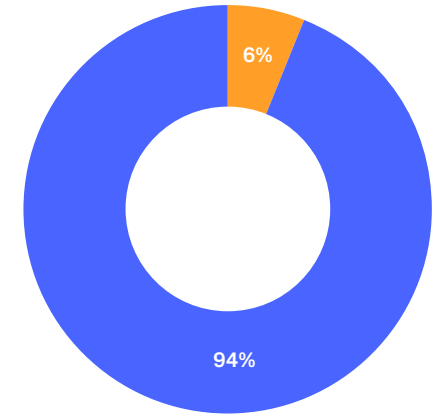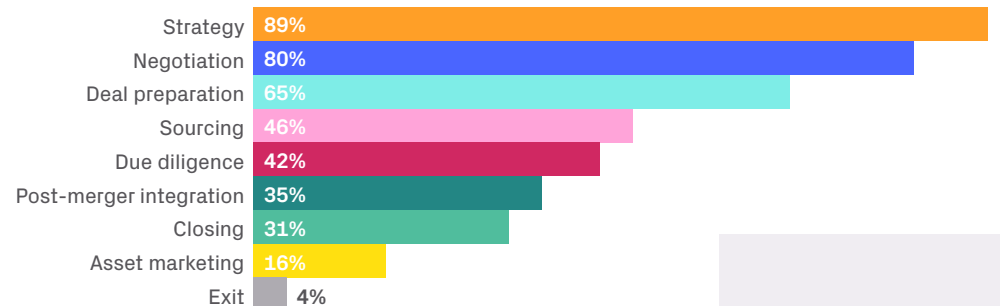On a rating between 0 (Low Level) to 10 (High Level)

Industry wide

| Currently | 6% | 82% | 12% |
| In 5 years time | | 33% | 67% |

Your company

| Currently | 10% | 78% | 12% |
| In 5 years time | | 36% | 63% |
1%

Low (Rated between 0-3)
Medium (Rated between 4-6)
High (Rated between 7-10)
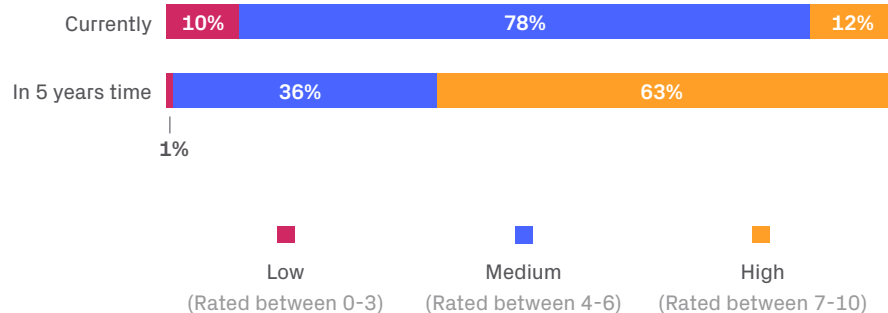
Do you believe the M&A process can be entirely automated?

Yes 6%
No 94%

Which area(s) of M&A do you think cannot be automated?

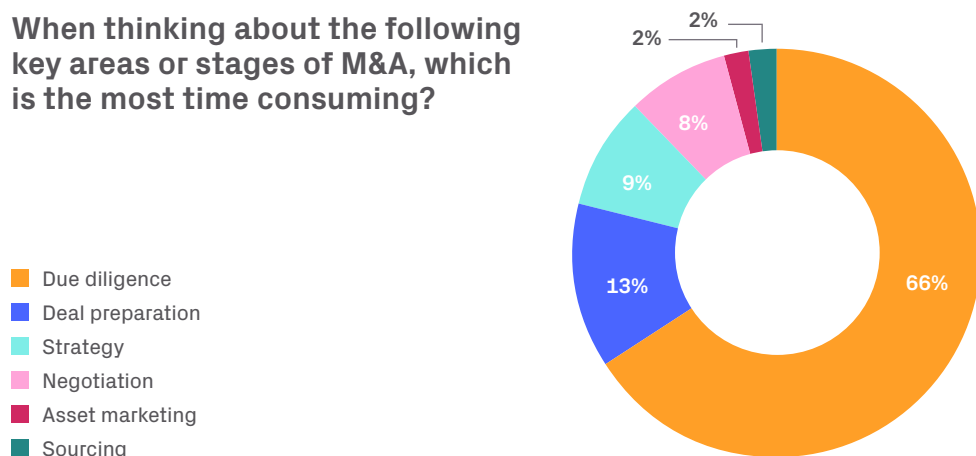| Strategy | 89% |
Negotiation	80%
Deal preparation	65%
Sourcing	46%
Due diligence	42%
Post-merger integration	35%
Closing	31%
Asset marketing	16%
Exit	4%

Question 4

Generally, what have been/are the main barriers to adopting new M&A process related digital technologies in your company?

- Financial/investment constraints: **73%**
- Security/privacy: **69%**
- Integration with existing systems and tools: **56%**
- Company culture: **47%**
- Talent/expertise: **45%**
- Organizational structure: **32%**
- Training and enablement: **15%**
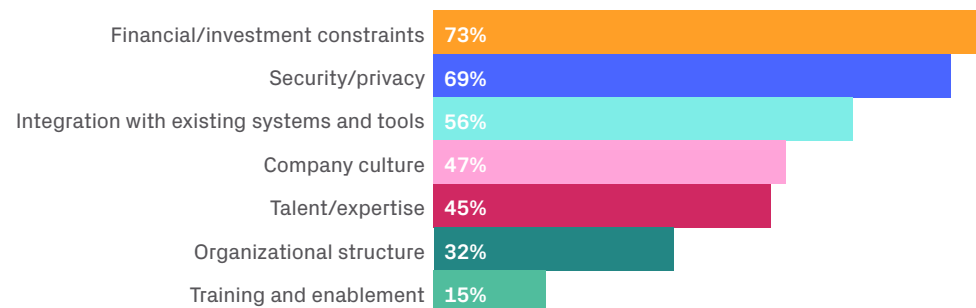
Question 5

When thinking about the following key areas or stages of M&A, which is the most time consuming?

- 66%
- 13%
- 9%
- 8%
- 2%
- 2%

Legend:
- Due diligence
- Deal preparation
- Strategy
- Negotiation
- Asset marketing
- Sourcing

Question 6

Of these key areas or stages, which do you believe could be enhanced most by new technologies and digitization?

- **48%** Due diligence
- **14%** Strategy
- **13%** Sourcing
- **10%** Deal preparation
- **8%** Asset marketing
- **4%** Negotiation
- **2%** Closing
- **1%** Exit
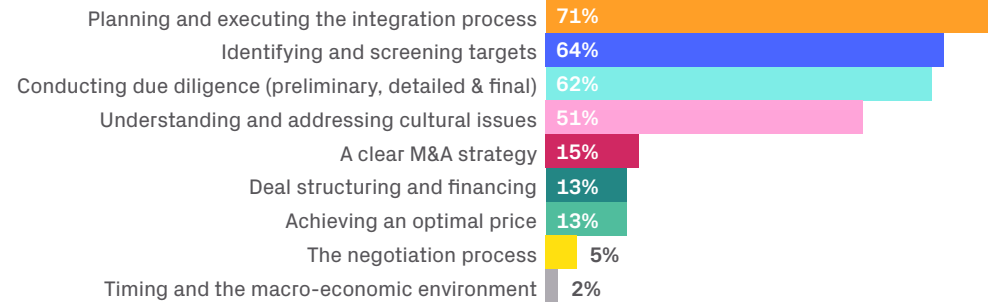- **1%** Post-merger integration

22

Question 7

Which of the following technologies do you think will have the most transformational impact on the M&A process in the next five years?

- ■ AI and machine learning
- ■ Big data
- ■ Blockchain
- ■ CRM (i e relationship mapping) platforms
- ■ Cloud

Chart values: 30%, 25%, 21%, 13%, 11%
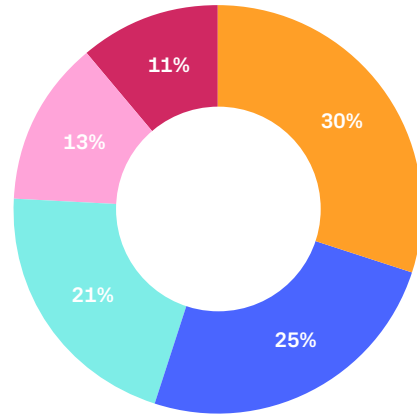
Question 8

What are the most important success factors in M&A?

Factor	%
Planning and executing the integration process	71%
Identifying and screening targets	64%
Conducting due diligence (preliminary, detailed & final)	62%
Understanding and addressing cultural issues	51%
A clear M&A strategy	15%
Deal structuring and financing	13%
Achieving an optimal price	13%
The negotiation process	5%
Timing and the macro-economic environment	2%

Question 9

In the context of a M&A transaction, how do you expect technology to change the due diligence process over the next five years (to 2025)?

New technologies should...

- ■ Enable greater analytical capability
- ■ Enable greater security
- ■ Simplify the entire process
- ■ Reduce the total deal (resources and time) cost
- ■ Make it faster to close deals

Chart values: 65%, 20%, 7%, 4%, 4%
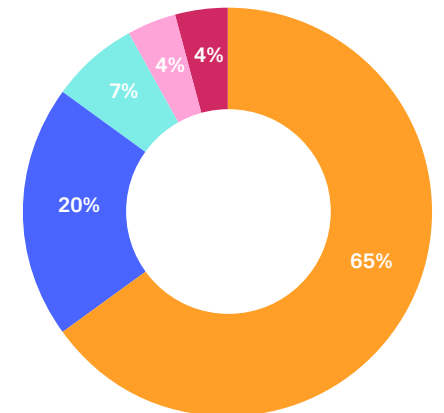
From sourcing a deal to deal completion, how much time on average does due diligence take on a single successful M&A transaction?

	Currently	In five years' time
6 – 9 months	1%	1%
3 – 6 months	29%	
1 – 3 months	67%	43%
1 month or less	3%	56%
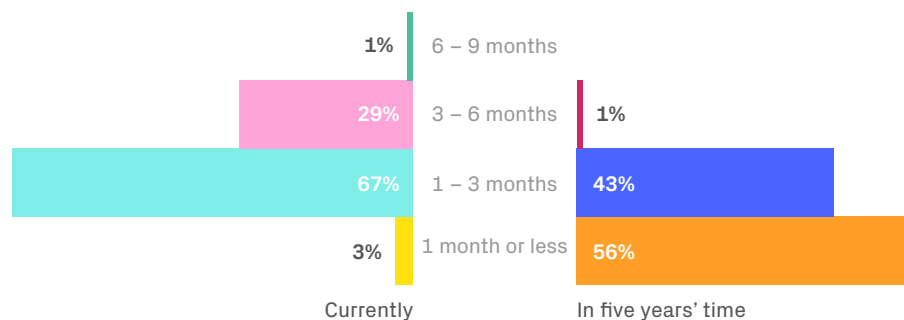
Question 11

Approximately, what ratio of your deals do not progress because of an issue uncovered in due diligence compared to deals that do progress?

- 1 (does not progress) in 2 (that do)
- 1 in 3
- 1 in 4
- 1 in 5
- 1 in 10
- 1 in 20

Donut chart values: 1%, 5%, 9%, 16%, 57%, 12%
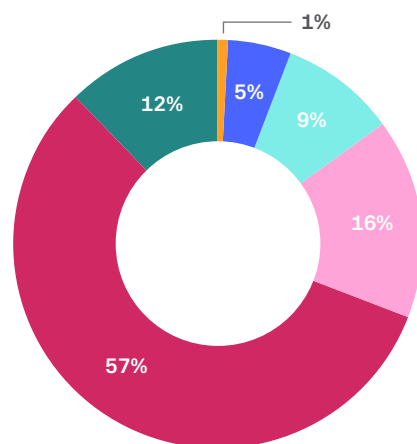
Question 12

What is the most common issue uncovered in due diligence that causes the withdrawal from a deal?

- Data or cyber security concerns
- Financial weakness or fragility
- Excessive valuation
- Financial irregularities
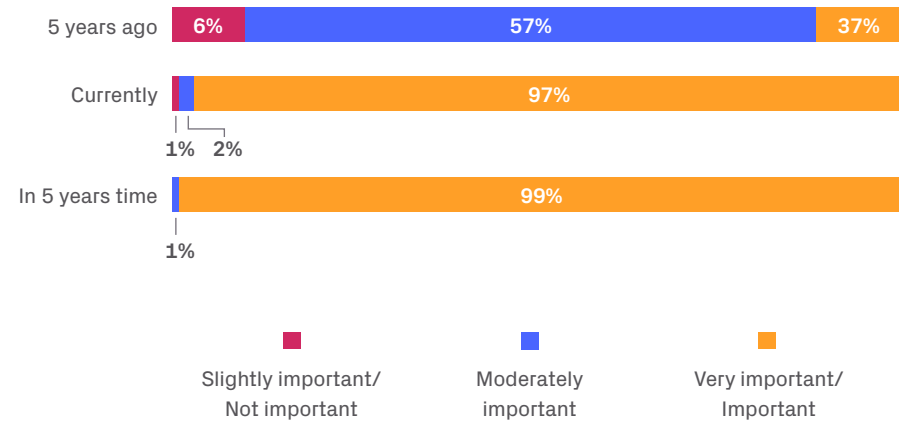- Leadership concerns
- Regulatory non-compliance
- Staff concerns
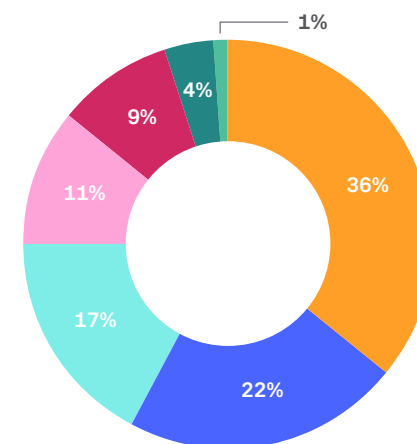
Donut chart values: 1%, 4%, 9%, 11%, 17%, 22%, 36%
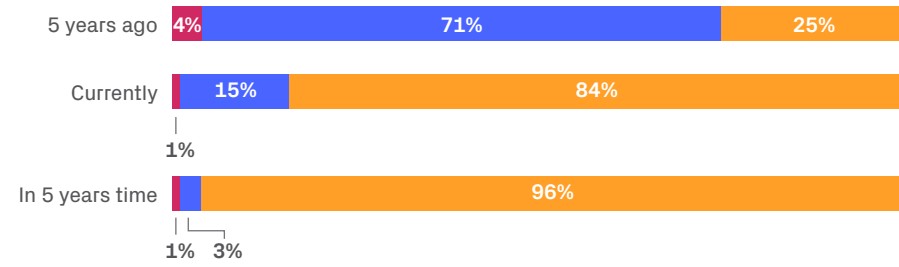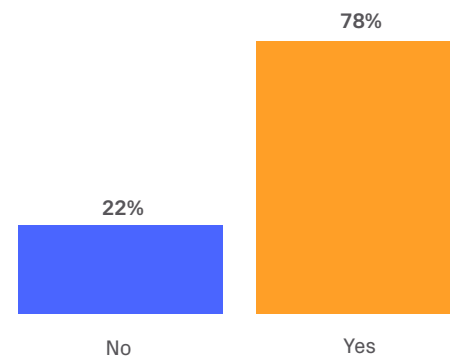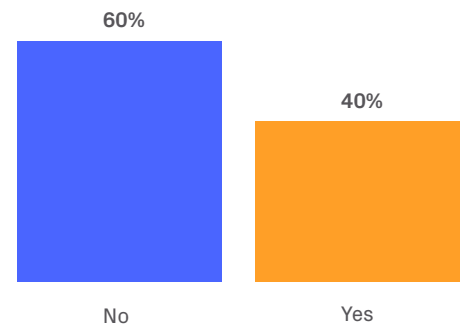
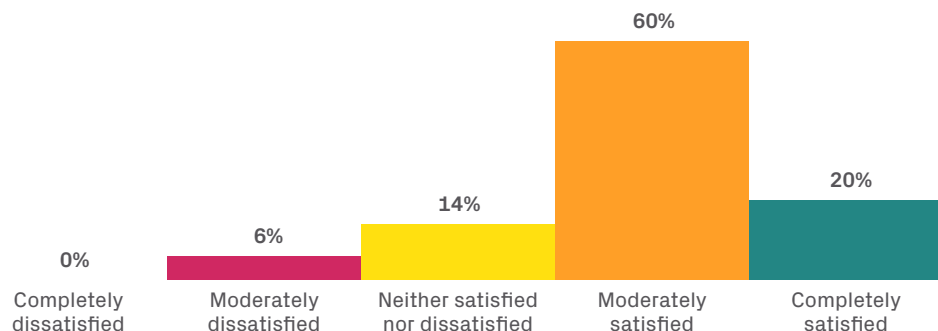## Question 15

**Generally, how satisfied are you with the speed of due diligence on the M&A transactions you advise/work on?**

Category	Percentage
Completely dissatisfied	0%
Moderately dissatisfied	3%
Neither satisfied nor dissatisfied	24%
Moderately satisfied	69%
Completely satisfied	4%
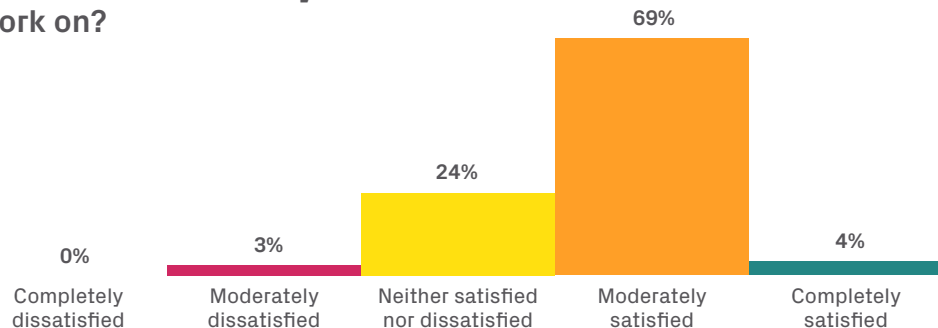
Question 16

Generally, how satisfied are you with the technology you use to conduct due diligence?

Category	Percentage
Completely dissatisfied	0%
Moderately dissatisfied	6%
Neither satisfied nor dissatisfied	14%
Moderately satisfied	60%
Completely satisfied	20%

Question 17

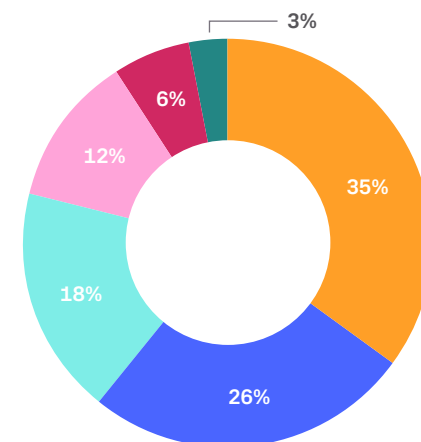**Which of the following factors tends to slow the due diligence process the most?**

- Incomplete or inaccurate deal documents and information — 31%
- Inadequate technology supporting the process — 22%
- Document or contract review and analysis — 15%
- Poor communication between parties — 12%
- Insufficient number of people involved — 11%
- Regulatory compliance — 5%
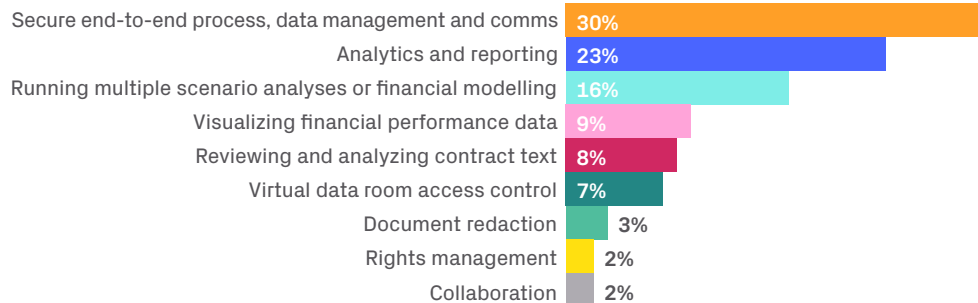- Too many people involved — 4%
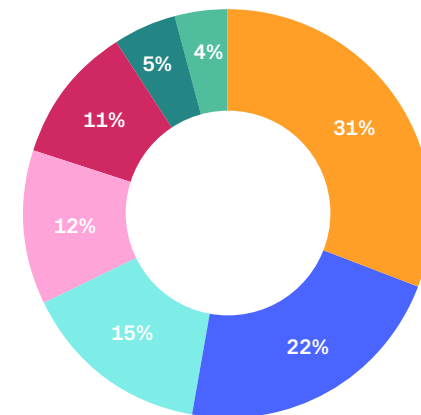
Question 18

Which of the following would help accelerate the due diligence process the most?

- Accessing a virtual data room with AI and machine learning technologies — 35%
- Harnessing AI and machine learning technologies (to review and analyze data) — 26%
- Standardization of documents and processes — 18%
- A smaller more specialist due diligence team — 12%
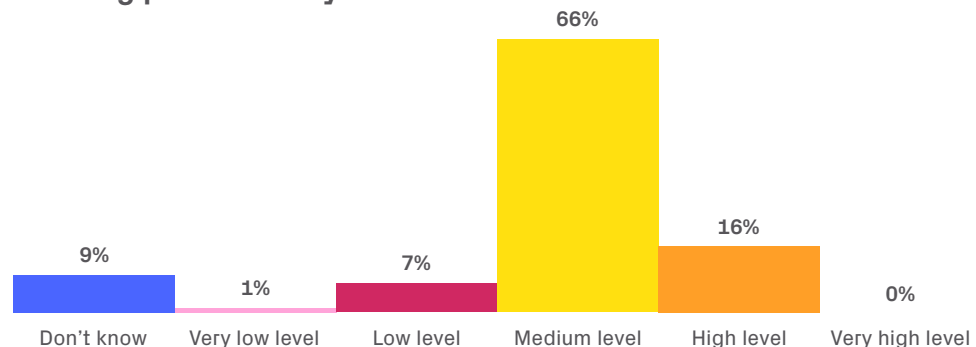- A larger due diligence team — 6%
- De-regulation in certain areas — 3%

Which of the following do you believe technology could help improve the most?

Secure end-to-end process, data management and comms	30%
Analytics and reporting	23%
Running multiple scenario analyses or financial modelling	16%
Visualizing financial performance data	9%
Reviewing and analyzing contract text	8%
Virtual data room access control	7%
Document redaction	3%
Rights management	2%
Collaboration	2%

When marketing an asset for sale, how efficient and effective is your company's current process of identifying, marketing to and tracking potential buyers?
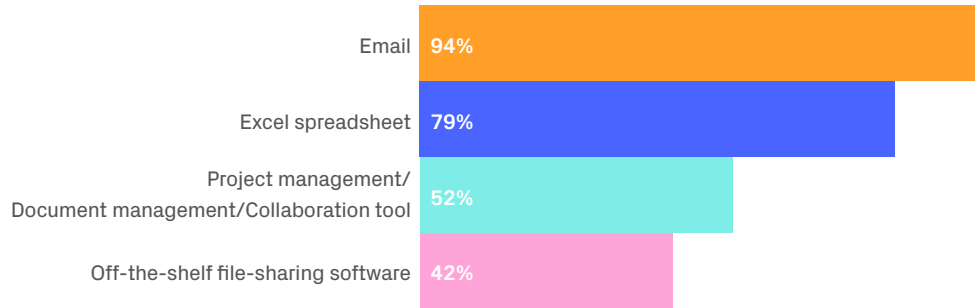
Don't know	9%
Very low level	1%
Low level	7%
Medium level	66%
High level	16%
Very high level	0%

When marketing an asset for sale, what is most challenging?

50% Lack of insights on buyer behavior across mandates

27% Poor visibility on activity around specific projects

11% Provision of client information on project status

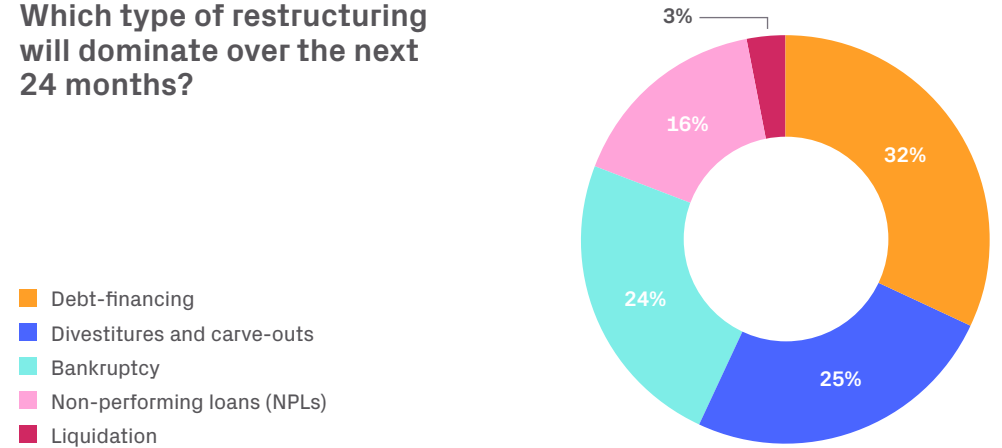**9%** The inefficiency and manual nature of the process

3% Watermarking and emailing teasers, NDAs etc

What tools do you use today to execute the workflow of the due diligence process on a potential acquisition target?

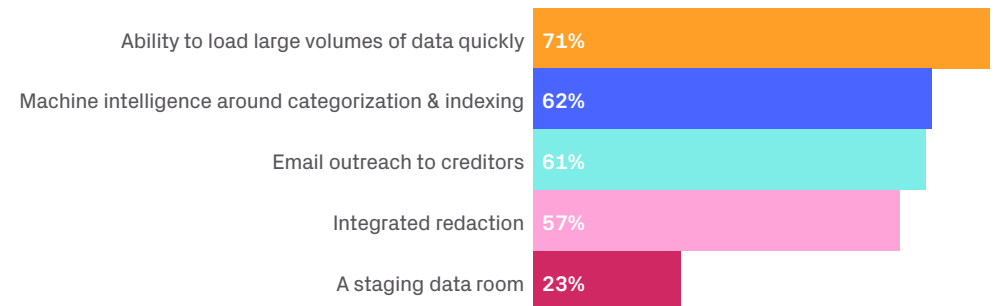| Tool	%
Email	94%
Excel spreadsheet	79%
Project management/ Document management/Collaboration tool	52%
Off-the-shelf file-sharing software	42%

Which type of restructuring will dominate over the next 24 months?

- 3%
- 32% Debt-financing
- 25% Divestitures and carve-outs
- 24% Bankruptcy
- 16% Non-performing loans (NPLs)
- Liquidation

■ Debt-financing
■ Divestitures and carve-outs
■ Bankruptcy
■ Non-performing loans (NPLs)
■ Liquidation

What tools are most useful for restructuring?

Tool	%
Ability to load large volumes of data quickly	71%
Machine intelligence around categorization & indexing	62%
Email outreach to creditors	61%
Integrated redaction	57%
A staging data room	23%

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