

AI and due diligence

The breakthrough
that changes the
M&A game



Introduction

Over the past year, artificial intelligence (AI) has been hailed as one of the magic ingredients that will lead us into a post Covid-19 recovery.

We've heard how governments can use AI to limit the spread of future infections¹. We've witnessed how AI can power the logistics of online services to new heights². And we've seen forecasts of a future where businesses will be empowered to make better decisions on everything from stock levels, to customer needs and operational risk³.

In this guide, we pick up on this rapidly developing story and discuss how AI is also going to help drive economic recovery by speeding up due diligence for mergers and acquisitions (M&As).

Specifically, we will look at:

- Developments in technology for M&As to date
- Why some M&A processes still need fixing
- How AI and machine learning can help
- How businesses and advisors involved in M&As can benefit



How did we get to this point?

Developments in data rooms

Over recent years, the technology that we use to support due diligence and document review in M&As has already come a long way.

Two decades ago, we first saw the transition from physical data rooms (where documents and files are stored in a physical room on the sellers' premises), to virtual data rooms (where the same information is stored online and accessed through a secure online portal).

Initially these virtual rooms were a simple online version of the physical spaces they replaced. Fast forward to today, and virtual data rooms are sophisticated solutions that include a variety of features that make the due diligence process more efficient, including:

- **Secure in-platform messaging**
- **Advanced security and access control**
- **Preparation portals**
- **Automated workflows for key functions like Q&A**



Developments in AI

At the same time, AI has been moving from the realms of science fiction into business reality.

From early gimmicks like machines that play chess, to more practical applications like autonomous vacuum cleaners, we've now progressed to the point where we have driverless vehicles and sophisticated speech recognition services that have become part of our everyday lives.

Now the two worlds of data rooms and AI are converging, and AI is now also being applied to specific problems within the M&A due diligence process. It may not be as headline-grabbing as a driverless car, but the impact for the business world could be truly game changing.



What's the problem that needs solving?

There's no doubt that virtual data rooms have been a huge progression for the development of efficiency in M&A processes.

They have brought digital transformation to old paper-based working and delivered automated workflows. There is one major problem that still needs solving though – and that's the sheer volume of documents that lawyers need to sift through.

Data shows that users upload over 8,000 pages when setting up a virtual data room.

Typically, the volume of documents that need to be reviewed run into thousands – at Admincontrol, for example, our data shows that users usually upload over 8,000 pages when they are setting up a virtual data room.

This poses several problems for lawyers:

- **It's difficult to carry out the initial review**

Which also makes it difficult to prioritise which documents are the most critical to the transaction.

- **It's not always possible to review all documents**

Which means due diligence teams have to rely on selective sampling and hope they haven't missed any significant anomalies as a result.

- **The process is very long**

Often taking up to six months and in many cases longer.

- **The task is manual and laborious**

Which means highly skilled and experienced staff spend too much time on repetitive, lower-value tasks when they could be focusing on providing valuable insight and analysis.



How can AI help?

AI can help to overcome these workload issues by applying 'machine learning' to laborious M&A due diligence processes.

Machine learning is a subset of artificial intelligence that uses algorithms to find patterns in massive amounts of data. It works in two ways:

- **Through supervised learning**
Which uses an algorithm to find answers within data based on previously discovered patterns and learnings.
- **Through unsupervised learning**
Which uses an algorithm to find new patterns in data without guidance.

Working in this way, machine learning can be used to analyse vast arrays of documents to find patterns, and also highlight anomalous areas or known risks that require the most urgent attention.

How does this theory translate to solutions for M&A due diligence?

In recent years, AI and machine learning theory has turned into the reality of viable commercial solutions for M&A due diligence.

At Admincontrol for example we partner with Luminance – a leading provider of artificial intelligence platform for the legal profession - to provide a solution that is delivering a step-change in efficiency and productivity.

“At Luminance, we have seen customers from over 250 organisations achieve time savings of at least 50% in every review. This is all made possible by Luminance’s revolutionary machine learning technology which can be used to accelerate legal processes such as M&A due diligence, regulatory compliance, property portfolio analysis and eDiscovery.”

Clementine Fox, Head of Account Management for Luminance.

The solution works in three steps. Firstly, by synchronising with Luminance, with one click M&A lawyers can securely upload and transfer legal documents into the Luminance platform. Secondly, Luminance uses both supervised and unsupervised machine learning algorithms to read and form an understanding of the legal data, instantly flagging key datapoints, clauses and potential risks within the dataset. This allows lawyers to start their review in the most logical and efficient way possible. Thirdly, as the reviewer continues to interact with the platform-for instance, by tagging clauses, Luminance learns from these interactions to generate additional insight, accelerating the review even further.

Lawyers working with Luminance can also take advantage of a range of features that build further on the capabilities of AI to make their task even easier.

These features include

- An instant, graphic visualisation of the dataset that instantly identifies different document types, clauses, anomalies, currencies, languages and regions.
- Intuitive, easy-to-use interface ensures that no bespoke user training is required.
- An ability to surface the ‘unknown unknowns’ - the hidden risks in the dataset that the user did not set out to look for thus did not know to search for.
- Works seamlessly in any language, Luminance is currently in use in over 80 languages including Hebrew, Russian and Japanese.
- Automatic clause identification based on over 1,000 pre-set clause models.
- Automatic document and clause compliance based on standardised models and established learnings.
- Collaborative workflow tools including batch document allocation to ensure no duplication of effort.

How do organisations benefit?

We live in a business world dominated by digital, where we are all seeking to deliver new efficiencies through technology. The same is true in the world of deal-making. Teams that have already adopted AI for due diligence processes and M&A transactions have proved that they can deliver truly transformative results.

Time savings

As we identified earlier in this guide, one of the biggest issues in the past has been the time it takes to review thousands of documents. With artificial intelligence providing support, it is now possible for individuals to move from reviewing between 50-100 documents an hour to over 3,000.

Cost savings

With savings in time, we also get cost savings. With an AI driven solution, teams can reduce the overall review time from months to weeks. This means they can also deliver projects at a fraction of the cost compared to projects where the document review process is carried out manually. One UK top 50 law firm has reported an 85% reduction on review cost per project.

Reduced risk

In addition, AI solutions also help to surface hidden risks and anomalies on day one of the review. They also make it possible to review 100% of documents. Crucially, this means there is no longer a need for M&A due diligence teams to rely on sampling – and they can be certain that no anomaly has been missed.

For the M&A world the concept of digital transformation has truly arrived. It's being driven by AI. And as these real-world results show, it's delivering performance that produces outstanding levels of return on investment.

The story in numbers so far

How firms have benefited from AI solutions from Luminance for due diligence:

Speed

Law firm Bird & Bird has moved from 79 documents reviewed per hour manually to over 3600 documents reviewed per hour using Luminance⁴.

Confidence

Dentons says its lawyers can now review 100% of document 400 times faster – with no need to sample documents or outsource to meet deadlines⁵.

Productivity

M&A consultants at EY have cut review time from seven months to just 10 days, representing a 1,440% increase in productivity and a 95% time-saving⁶.



Concluding thoughts

Prior to 2020, the vast majority of selling businesses and M&A advisors had already started using virtual data rooms rather than using more traditional physical data rooms to help keep activity secure. Now that we're living in a Covid-19 dominated world, where travel and physical meetings are severely limited, virtual data rooms have clearly become a necessity.

What's also clear from the results reported in this guide is that teams carrying out M&A due diligence now have an opportunity to build on the prevalence of virtual data rooms by introducing AI solutions that significantly reduce review times.

In turn this will also speed up transactions – and at a time when anything that keeps business moving is important to the overall revival of the world's economy.

Next steps

The coming year will be the most important in the history of many organisations. At Admincontrol we are monitoring how this fast-moving environment is impacting due diligence processes and the need to evolve to help secure the futures of M&A transactions.



If you would like to find out more about this topic, we'd recommend our guide:

**The future of due diligence -
beyond the new normal**

Admincontrol, a leading provider of Board Portals and Virtual Data Rooms in the Nordics, offers a smart and secure collaboration platform for due diligence and other business-critical processes. Founded in Norway in 2005, Admincontrol has since established local offices across the Nordic region and in selected markets in Europe such as the UK and Netherlands. More than 4000 companies and 85,000 users enjoy the benefits of Admincontrol's platform today.

Since 2017, Admincontrol has been a part of the successful Visma Group, Europe's largest SaaS company.

- info@admincontrol.com
- www.admincontrol.com

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