



CEE Expert Report



Edition #6
**AI: Opportunities
and Threats**



Report overview

We are pleased to be back with our series centered on M&A in the CEE region. The past six months have been quite challenging in the markets, and as a result we have seen fewer transactions and less value. There are several reasons for this phenomenon, and, as usual, we have worked together with experts to describe the market reality as accurately as possible.

Another issue that will significantly resonate in the experts' comments is AI. It is safe to say that this topic has reigned in many business discussions recently and has become a kind of buzzword. We wanted to explore this phenomenon by asking the question "What is it actually like?". This led to the fact that from reading the report you will learn how experts assess the current role of AI in the industry, as well as what threats and opportunities it entails.

We are grateful to present to you the sixth edition of our CEE Expert report, created together with Experts from: Czech Republic, Romania, Poland, and India. At FORDATA, partnership is one of the greatest values.

As always, share your thoughts and conclusions by tagging your posts on LinkedIn **#ceexpertreport** tag!

Aleksandra Prusator

Member of Board,
Sales & Marketing Director at FORDATA



Summary

The M&A market in the CEE region faced many challenges in the first half of 2023, including inflation and high interest rates. Despite a decline in the volume and value of transactions, the second half of the year holds prospects for recovery. Strategic investors from Western Europe, the USA, and Africa are actively investing in the region, attracted by its competitive advantages, diversified economy, and strong labor market. Industries such as medical, energy, TMT, industrial, chemical, and consumer sectors are experiencing more and more notable activity.

In recent years, the CEE region has attracted considerable attention from private equity investors due to its favorable investment environment. Private equity investments in the CEE region are diverse and span across multiple sectors. While industries such as technology, healthcare, consumer goods, and manufacturing have been particularly attractive, private equity funds have also shown interest in sectors like renewable energy, infrastructure, and real estate.

Some experts highlighted the importance of legal due diligence in M&A transactions and also explored the potential role of AI in accelerating and improving the process. While AI can enhance efficiency in tasks such

as target identification, document analysis, and data-driven decision-making, it is unlikely to replace the expertise and judgment of experienced lawyers and the human factor involved in negotiations. Implementing AI requires technological readiness, cultural adaptation, and ensuring data confidentiality. What is worth acknowledging is the evolving nature of M&A transactions - increasing prevalence of digital platforms, virtual meetings, and also the slowly emerging role of AI in due diligence.

When it comes to the use of AI we need to remember the importance of exercising caution, refining algorithms, addressing concerns related to data confidentiality, and establishing regulations and safety measures in this rapidly advancing landscape. The involvement and collaboration of diverse stakeholders will be pivotal in any endeavor, emphasizing the importance of adjusting laws, policies, ethics, and education to guarantee the responsible and efficient integration of AI.

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- AI tools start being more and more sophisticated which may cause that the security risks associated with their use and the potential misuse also increase. Using AI tools for due diligence purpose may impose the whole process on potential cyberattacks.
- The AI-based solutions and tools can contribute to the increased efficiency of certain tasks the transactional lawyers perform, but the current practice shows that these tools should be approached with caution and prudence.
- An important issue in doing so will be maintaining the confidentiality of the data used in the course of due diligence - we predict that this aspect may hold back the development of AI in the transactional area for some time to come.
- The AI market is dynamically developing, but the development of AI security and regulation is not keeping up with this rate of change.
- While AI can offer competitive advantages in M&A dynamic business environment, overreliance on AI systems in making investment decisions can be risky.
- Each company should carefully assess how to utilize the new AI tools to save costs, particularly in terms of personnel.
- One of the key challenges is to gather large amounts of data to train algorithms.
- AI appears to be here to stay and will probably influence mankind for decades to come. Thus, PE houses face a challenge: keep up or find themselves disrupted by those that do.
- Environmental, Social, and Governance (ESG) factors have gained prominence in M&A deals, particularly in the commercial real estate sector.



CEE Market Barometer in 1H2023

01 . Challenges: Inflation and high interest rates

05 . Optimistic outlook for the second half-year

02 . PE funds back on the main scene

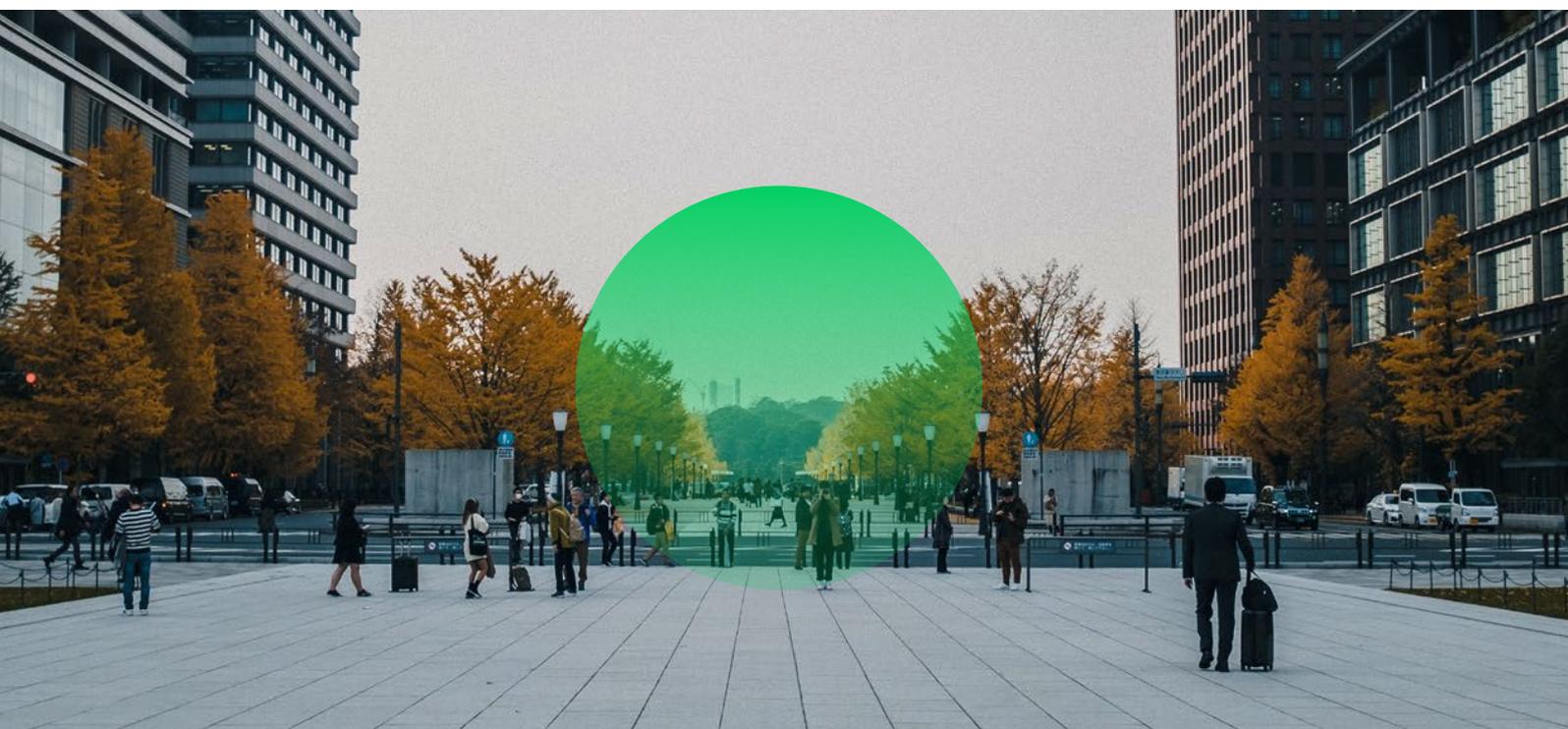
06 . Top Sectors: Energy, IT & Technology, Consumer Products & Retail

03 . Decline in volume and value of M&A transactions

07 . AI Revolutionizing M&A?

04 . Fundraising Spree and ESG Advantage

08 . AI tools start being more and more sophisticated





Katarzyna Buda

Senior Manager at Grant Thornton

Katarzyna has extensive experience in finance, auditing and accounting. She performed both sell side and buy side due diligence. She took part in: financial and internal audits as well as transaction, financial and business advisory projects. She gained experience providing professional services to entities from the TMT, FMCG, construction or energy industry.

Her career began in due diligence team in Grant Thornton. Since 2015 she worked in M&A and internal audit department of one of the largest tax advisory companies in US. At the end of 2017 she joined to the due diligence team of one of BIG4 companies as a team leader and manager.

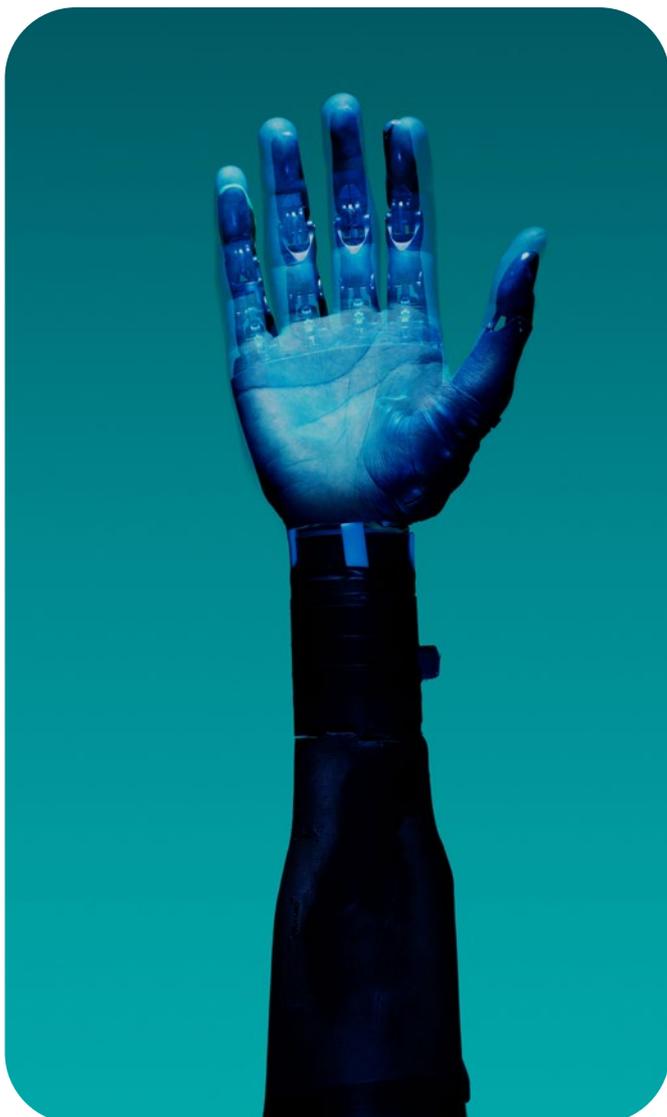
Since October 2019 she has supported due diligence team in Grant Thornton as manager.

When working toward an outcome of the M&A transaction it is essential for both parties of the deal to get a full understanding of all potential risks and opportunities they face. In order to do that huge amount of information needs to be gathered, analyzed and verified from financial, tax, legal, commercial and other perspectives. Therefore, one of the key part of M&A process is due diligence in particular financial one. Good financial due diligence is labor intensive, time consuming and costly. The reason behind it is the fact that during financial due diligence huge amount of data, documents and various type of information needs to be processed relatively fast in order to get understanding of the financial situation of the entity purchased as well as identify threats, risks and opportunities related to the potential deal. In our digital age, the data and information which are produced growing at an exponential rate causing its analyses more and more difficult. In order to reach insights and extract quickly conclusions based on data and information provided AI tools and techniques are required. In the course of financial due diligence AI tools are essential. They automate tasks which were performed earlier manually. They can support primarily in filtering and extracting value from volumes of raw digital data. These technologies can sort through millions of data in second and deliver complete outcome based on which conclusions may be drawn. AI tools are extremely helpful especially at the first stage of work during financial due diligence where raw financial data delivered needs to be processed quickly. Additionally, AI tools may assist also in analyses of tones of documents in particular contracts for instance trade and financial ones which are required to be verified in the course of financial due diligence. They can help to reach their key parts from the financial perspective and support in drawing conclusions based on them.

All this will make financial due diligence process much more efficient, less time consuming and eventually less expensive.

Digitizing and modernizing due diligence by using AI tools have the above mentioned advantages however there are

also risk related to it. First of all, there is a huge risk associated with the data confidentiality. AI technologies often collect and analyze large amounts of personal data. Therefore there is a risk that we may breach data confidentiality, extremely important during due diligence process. Additionally, AI tools start being more and more sophisticated which may cause that the security risks associated with their use and the potential misuse also increase. Using AI tools for due diligence purpose may impose the whole process on potential cyberattacks. What is more, increasing reliance on AI – driven due diligence may lead to diminish quality of drawing conclusions and number of risks identified during due diligence process as a result of lack of human and social skills in the process.



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Mirosław Fiałek

Partner, Attorney-at-law at MFW Fiałek

Mirosław Fiałek has over twenty years of experience in providing businesses with legal advice on mergers and acquisitions as well as resolution and dispute resolution. He specialises in advising private equity and venture capital funds in structuring and managing transactions, supervising due diligence projects, preparing and negotiating transaction documentation, and managing the negotiation process. He also provides support for the day-to-day operations of private equity and venture capital funds and their portfolio companies.

Mirosław also has extensive experience in advising businesses that are looking for investment or looking to sell. His profound understanding of the private equity market and over twenty years of transaction experience have enabled him to successfully conduct numerous transactions on behalf of company founders. He has participated in highly innovative transactions (acquisition of TP Emitel by Montagu Private Equity, acquisition of Onet by Ringer Axel Springer) as an advisor to the largest media and telecommunications companies in Poland.

M&A market outlook for the first half of 2023 in the CEE

Inflation and high interest rates have been the main challenges for the CEE M&A market in 2023. Although both the volume and value of the M&A transactions have declined across the CEE region in the first half of 2023, investors are looking optimistically at the second half-year, anticipating a recovery in this market compared to the previous period.

From the perspective of MFW Fiałek, one of the most active transaction advisors in the Polish M&A market, the first half of 2023 has been characterised by a relatively small decrease in the number of the completed transactions compared to the second half of 2022. It is worth noting that MFW Fiałek recorded an extremely active period of transactional activity in 2022, reflected in the record number of more than 50 completed transactions. In the current geopolitical situation in the region, it may be difficult to maintain this result in 2023.

However, the decline in the number and value of the M&A transactions in the first half of 2023 has not been as significant as we initially thought. We have remained very active, closing, for example, divestment of Grupa Nowy Szpital to ECM/Penta and divestment of Renters.pl to Enterprise Investors.

In 2023 we have continued to see strong growth in the number of international clients, in particular the strategic investors from Western Europe, the USA and Africa, who invest in Poland and the CEE. For strategic investors it is a good time to consolidate their positions in our region, and we anticipate that this dynamics will also encourage financial investors to increase their exposure and take advantage of the attractive valuations.

Particular attention should be paid to the activity in the medical, energy and TMT industries (which still seem mature and ready for more deals), as well as the industrial, chemical and consumer sectors.

Despite the current economic and geopolitical situation in the region, Polish economy remains recession-proof. Our country's strategic position in the CEE, as well as the competitive advantages it has developed, such as its diversified economy and strong labour market, continue to make it an attractive market for investors, including the foreign ones.

The strengths of our region are confirmed by MFW Fiałek's clients, including Luc Albinski, the Executive Chairman at Vantage Capital, a private equity fund based in Johannesburg (the Republic of South Africa), which, with MFW Fiałek's support, invested in a chain of bilingual educational institutions in Poland. The incentive for this investment was the perception of Poland as the largest market in the CEE, both in terms of population and the corresponding level of the GDP. It is worth mentioning that Vantage Capital also considered other large markets in Europe, including Turkey. However, the investment risk proved to be much higher and the obstacles to foreign investment in the education sector were daunting. The fund intends to expand its investments in other countries in the CEE which it perceives as the group of mature markets with many advantages, including the social one.

Will the AI replace lawyers in the M&A transactions?

The M&A transactions usually involve a lot of complex activities that must be carried out within a certain timeframe. In order to carry out a transaction efficiently, effectively and, above all, safely, investors must currently pay even more attention to choosing an expert firm of legal advisors.

In the future, technologies such as the artificial intelligence (AI) and data analytics will play an increasingly important role in the smooth and safe conduct of the M&A transactions. They will make it possible to significantly accelerate all stages of the transaction process. However, despite rapid technological advances, we are still a long way from reaching the level that would ensure that transactions are conducted safely and efficiently with the human factor significantly reduced.

The AI-based solutions and tools can contribute to the increased efficiency of certain tasks the transactional lawyers perform, but the current practice shows that these tools should be approached with caution and prudence.

The highly skilled lawyers with extensive experience in the M&A transactions, who are familiar with both the legal issues and the business environment and have significant role in negotiations of the deal, are still a key factor for the success of each transaction. In particular, international clients transacting in Poland for the first time appreciate not only our knowledge of the local transactional market, but also our responsiveness and effective communication. In the current phase of AI's development it is difficult to replace the complexity of the requirements of both the transactions and the clients themselves.

The AI has great development potential in the M&A transactions. It adds to the more efficient due diligence and closing of the various transaction stages by speeding up and streamlining many of them, leading to the greater efficiency and precision. At present, the AI is used in law firms only to a limited extent, but it is foreseeable that its role will grow steadily to become a "must have tool", just like when the Virtual Data Room (VDR) became commonly used in the M&A deals.

One area where the AI can be particularly helpful is identifying the potential acquisition targets. By analysing huge datasets the AI-based tools can effectively sift and select information concerning companies thus allowing the investor to select potential targets faster and more precisely. Another important stage is the due diligence which requires the in-depth analysis of both documents and data. Here, the AI can play a key role by automating the process of analysing contracts, financial reports and other documents. This will give lawyers more time to focus on the aspects that require their expertise, such as identifying risks and developing strategies.

The AI can also assist lawyers in decision-making by providing data analysis and predictions on deal outcomes. This will

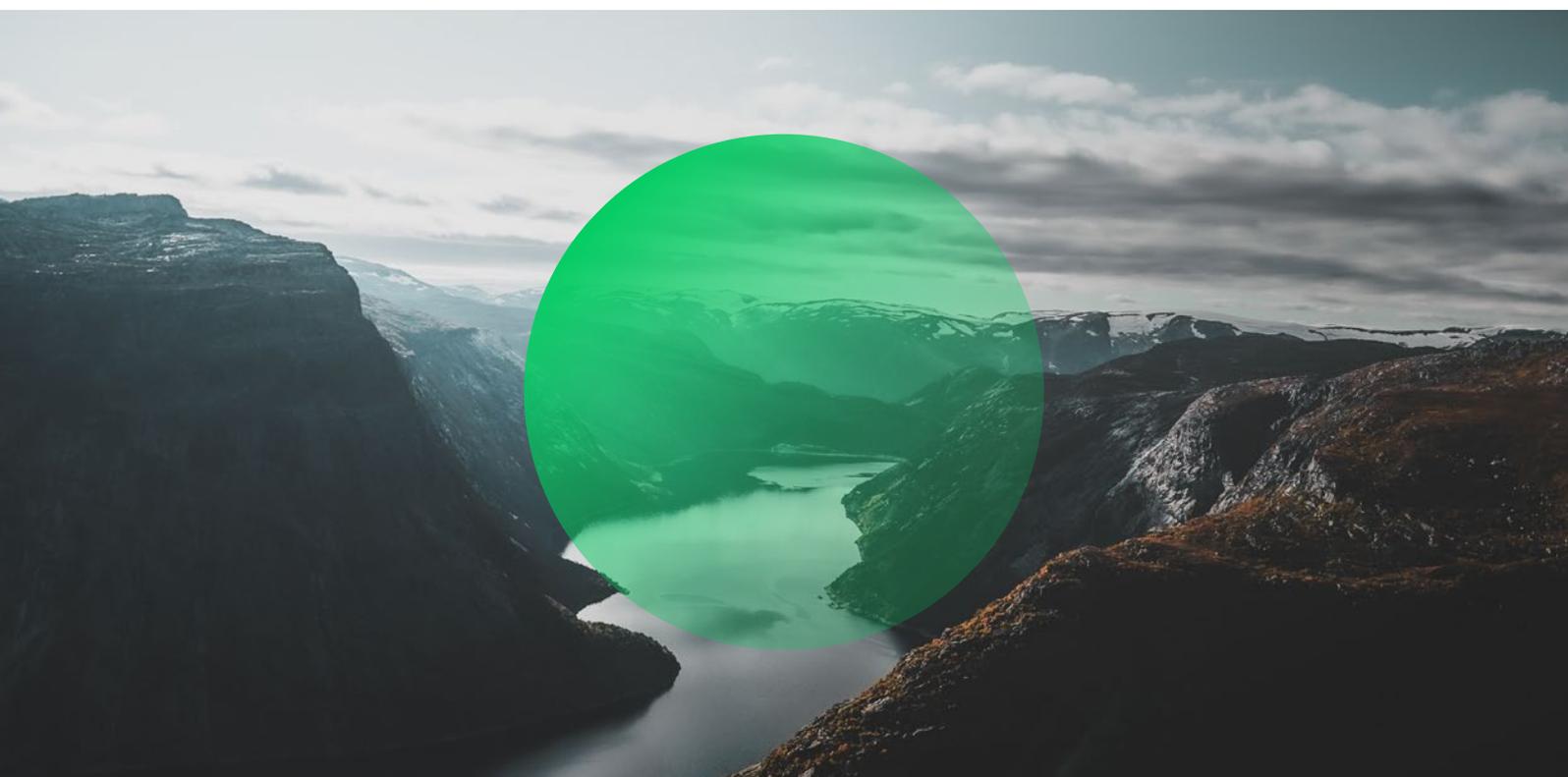
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provide lawyers with a better basis for strategic decision-making, taking into account a wide range of factors.

Implementing the AI in law firms is becoming increasingly common, especially for the networked law firms. There are already dedicated tools and software that are designed specifically for the legal industry and are gradually being implemented by law firms. This increased interest in the AI stems from the perceived benefits it can bring.

Implementing the AI in the legal sector is a process that requires both technological and cultural readiness. Adequate training of lawyers and adjusting the procedures and working standards are essential for effectively exploiting the potential that AI offers. Ensuring that the AI technology is duly prepared and properly understood will enable law firms to benefit from the advantages that the AI brings to the M&A field.

NEXT: **Maja Jabłońska** →





Maja Jabłońska

Counsel, Attorney-at-law at Grant Thornton

Maja has almost ten years of experience in legal advisory services to entrepreneurs, specifically in commercial company law and civil law. Currently, she specializes in due diligence and succession process. She manages projects of comprehensive legal auditing of entrepreneurs, indicating legal risks related to their activities and ways of their mitigation.

She supports families and companies in developing and implementing comprehensive legal succession solutions, implementing multi-threaded projects requiring interdisciplinary knowledge from various branches of law, including for the largest family businesses in Poland.

Leader in the practice of legal solutions for succession and legal due diligence. Involved in the work of the specialist team for family businesses and co-author of the Family Company Constitution Grant Thornton and the book "The future of my company". Author of publications concerning commercial law issues in the specialist press.

We are currently witnessing dynamic changes in the way M&A transactions are executed - with a particular focus on the way due diligence is conducted. From reviews taking place on-site, at the target's headquarters, due diligence has moved to VDRs in recent years, and during the pandemic the already popular practice of holding meetings online has become established as day-to-day practice. All indications now are that the next breakthrough will be the use of artificial intelligence in due diligence.

Legal due diligence is a special type of investigation – unlike, for example, financial due diligence – it does not involve analysis of structured numerical data, but a painstaking review of hundreds of pages of documentation of the company under investigation, searching for legal risks and ways to mitigate them, and, moreover, analyzing the completeness of the data provided and asking questions that target relevant risks perceived by the buyer in the course of the investigation.

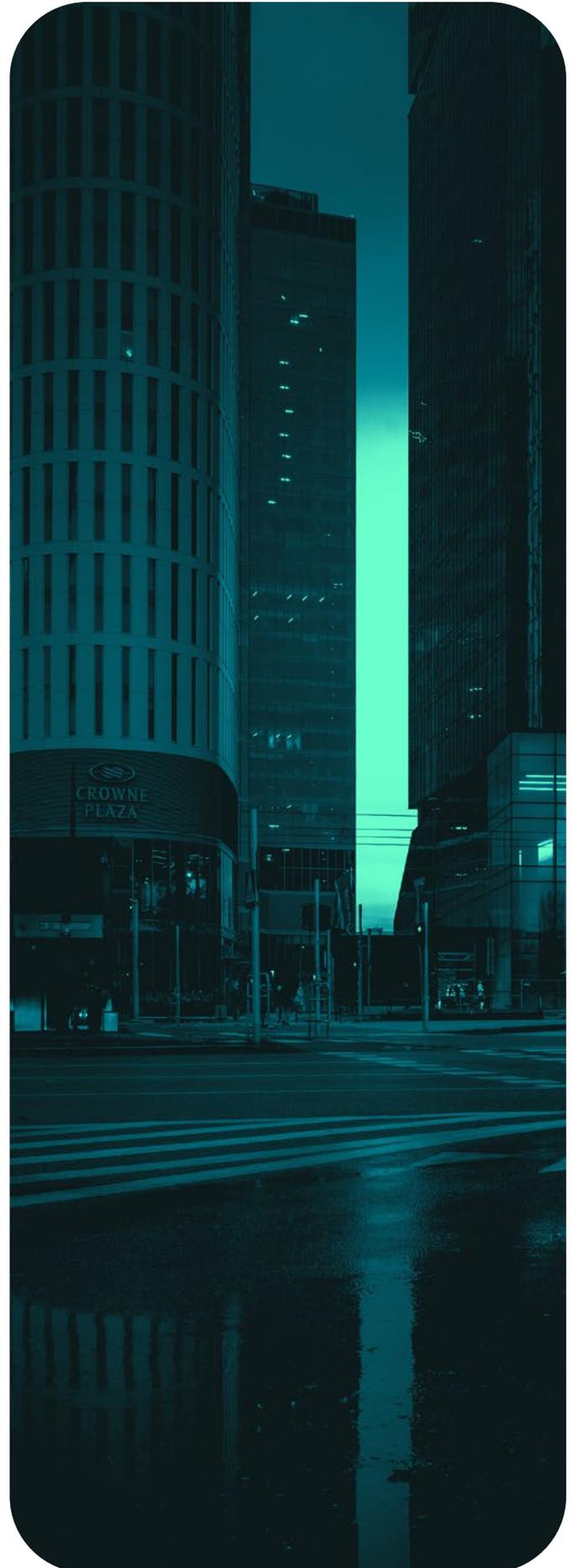
One of the key aspects of a successful transaction and adequate buyer protection is to conduct due diligence as quickly as possible so that its results do not become outdated. In this regard, artificial intelligence, which will help sort and categorize documents collected on the VDR, and then support the work of lawyers analyzing the data, such as by searching for relevant contractual clauses, creating lists of documents or summaries of analyzed data. This will make the research less time-consuming and, in the long run, perhaps also expand its scope - e.g. by examining all, not just the key contractual relationships of the entity under study, assuming that contracts of intangible importance will be examined using AI.

On the other hand, arguably the big challenge of applying AI will be, first of all, to refine the algorithms, which will need large amounts of data to "teach" the algorithm the intricacies of due diligence on the basis of analyzed cases. In addition, an important issue in doing so will be maintaining the confidentiality of the data used in the course of due diligence - we predict that this aspect may hold back

the development of AI in the transactional area for some time to come.

However, the obstacles to the development and use of AI in m&a services will not, in my opinion, affect the fact that artificial intelligence will affect the acceleration and reduction of time-consuming due diligence, which in turn will give clients most of the confidence in the validity of due diligence results and the ability to finalize transactions faster

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Michał Mađry

Partner at JP Weber

Expert in advisory services for transformation and operational management. In his daily work, he supports clients in managing organizational changes, including post-transaction integration, and provides advice on technology, innovation, and business process optimization. With over 10 years of experience, he has managed advisory projects for Fortune500 companies, government administrations, and local authorities. He is a recipient of the BRIEF 50 Most Creative People in Business ranking, Żagle Biznesu SGH, Polish Innovation Award, and Business Tigers Award. He is the Managing Director of the largest foodtech industry entrepreneurship accelerator in the CEE region. Currently, he leads the transformation team at JP Weber.

Artificial Intelligence is increasingly drawing attention in the European mergers and acquisitions market. This interest has surged dramatically in the first half of the current year, especially after the extensive publicity that accompanied the OpenAI and Microsoft transaction. The immense potential of this technology, its diversity, and its impact on virtually all sectors of the economy are key points of interest for investors.

AI has the potential to revolutionize entire industries, particularly healthcare, education, financial services, and even manufacturing. Investor interest is growing as more and more companies begin to recognize the possibilities of this technology. Currently, we are witnessing a wealth of innovation in the field of AI. Thanks to the possibilities of this technology, the development of plugins, large open-source language models, thousands of new business models, applications, and uses are being created. This increases the number of attractive investment opportunities and accelerates the pace of digital transformation across entire sectors and economies.

The AI market is dynamically developing, but the development of AI security and regulation is not keeping up with this rate of change. There are many key risks being debated in both investment and social contexts.

Humanity's first major encounter with AI in the form of social media algorithms showed challenges associated with misinformation and social manipulation. Large language models with a tendency for artificial hallucination can have catastrophic social effects. So far, we have automated mostly manual, tedious, and repetitive work. Many people, when thinking about AI, think similarly - that it will only affect such activities. However, the truth is different, we are already automating work that we love - art, journalism, programming. This will have a tremendous impact on the entire economy.

Large language models turned out to be much more powerful than anticipated. We may be building the foundations

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Implementing the AI in the legal sector is a process that requires both technological and cultural readiness. Adequate training of lawyers and adjusting the procedures and working standards are essential for effectively exploiting the potential that AI offers. Ensuring that the AI technology is duly prepared and properly understood will enable law firms to benefit from the advantages that the AI brings to the M&A field.

NEXT: **Ruxandra Pietreanu** →





Ruxandra Pietreanu

Managing Partner at Pathfinder

Ruxandra Pietreanu – Managing Partner of Path-Finder Corporate Finance – has more than 20 years of experience in corporate finance and investment field. During this period, she has been involved in a large number of projects – covering Mergers & Acquisitions, growth capital raising, as well as debt raising – serving mid-sized and large companies in various sector among which: IT/Technology, healthcare, financial services, media, manufacturing and business services.

AI Impact on Mergers & Acquisitions

Artificial Intelligence is the new global trend and it's becoming part of our professional life, whether we like it or not.

When it comes to Mergers & Acquisitions, it is still to be seen if AI is going to change the fundamentals of the way we do business today or if will remain a tool that allows a faster and more accurate assessment of investment opportunities.

To me, as a M&A consultant with an investment background, M&A is merely about people. My clients are real persons, with goals, vision and emotions. I see my work as being about understanding this inner universe that drive entrepreneurs into a process and guiding them towards reaching their personal and professional aspirations, as much as it is about figures.

That sensation of emptiness that you can often see in the eyes of an entrepreneur that realizes he gives away his “child” is not going to be addressed by a software sensing emotions and prompting motivational quotes. This personal touch to the M&A process cannot be replaced by AI, for as long as humans remain humans and not turn into robots.



Nevertheless, AI has undeniable merits when it comes to providing support in transactions. And here I would mention opportunities that are opening up in:

- Deal Sourcing - targets and Investors identification. AI technologies can analyze vast amounts of data – financial data, product portfolio, market trends – from various sources to identify potential targets that align with a buyer's strategic goals. Similar, AI can predict which investors are more qualified for a deal and most likely to invest.
- Valuation. AI-based algorithms can assist in valuing companies by analyzing historical financial data, industry benchmarks, market trends, and comparable transactions. By leveraging predictive modeling and advanced analytics, AI can provide more accurate and data-driven valuations, allowing buyers and sellers to make informed decisions about pricing and deal structures.
- Risks assessment. By analyzing vast amounts of data, AI algorithms can identify potential legal, financial, regulatory, and operational risks that may impact the success of the deal. This can help buyers and sellers make more informed decisions and develop strategies to mitigate risks.

If we discuss opportunities, we should also look into risks associated with reliance on AI. And , probably, the main threat comes from the quality of data that are used for analysis – if data are incomplete or source are biased, as it is often the case with public information – the result itself would be poor.

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Michal Tesař

NEWTON Business Development,
a.s., a member of Pandions Partners

Michal has been active in the CEE M&A activity for about 20 years. He is a Partner & Co-owner of NEWTON Business Development, a Prague based investment boutique, part of Pandion Partners which is an M&A-focused international advisory Group with 25 members around the globe. Michal is not only leading the M&A practice, but also the Public Infrastructure Advisory segment at NEWTON. Besides, he is a Director at Pandion Partners responsible for expansion, where he has doubled the Group in the span of 3 years. The most interesting transaction he did in last years was acquisition of MVV Energie CZ – a district heating company with 15 locations - by Cube Infrastructure, including advisory for bank financing of this takeover.

AI has become a buzzword since autumn last year when the ChatGPT service went public. The enormous increase in its usage and the rapid development of new applications by third parties have made AI the hottest topic, not only in investing communities but also in the general media and among the public.

Shares of publicly traded companies that are positioned towards the next AI development have experienced significant boosts, with increases of tens of percents in a very short time. And we're not just talking about big moves among small caps, but rather significant movements among big players like NVIDIA, Microsoft, and others.

Currently, there are typically two kinds of winners. The first group comprises companies that manufacture the hardware needed for AI learning and application. The second group consists of companies with access to huge amounts of data collected from other activities, which serves as a source for AI learning.

Despite the market heavily favoring the big players, the future development of AI remains uncertain, and many new significant players will successfully enter this specific game. It's quite similar to the times of the Klondike Gold Rush. You can invest in the new prospectors, where it's hard to know the winners at this stage, or you can invest in the ones who serve the prospectors by supplying them with the equipment for the race. That is a much safer direction.

Regardless, AI is the next huge source for increasing productivity in business. Naturally, its impact varies across sectors, but each company should carefully assess how to utilize the new AI tools to save costs, particularly in terms of personnel. If you overlook it, your competition surely won't. For example, in my business of M&A advisory, AI tools will lead to a greater workload for senior positions compared to junior ones like analysts, as AI will be able to rapidly replace a significant portion of their job.

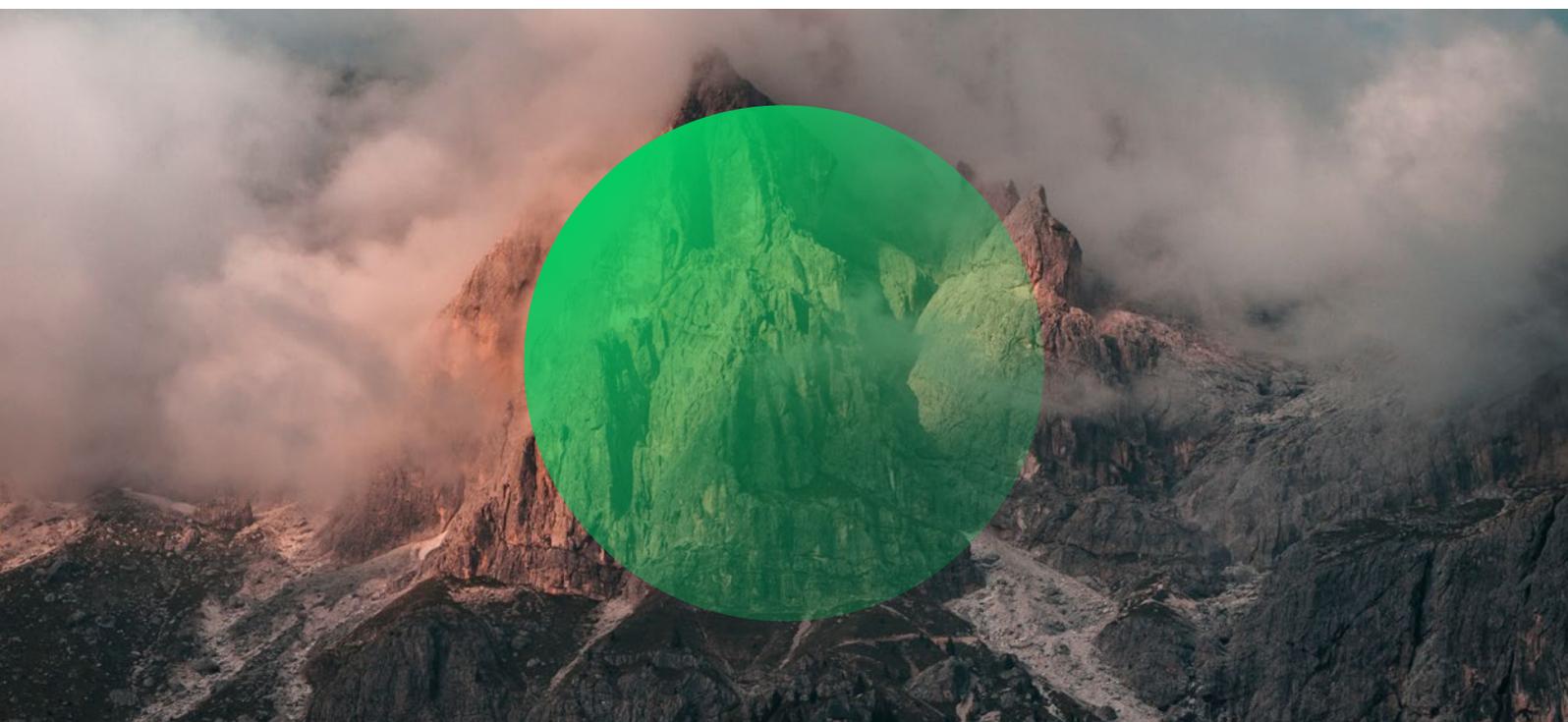
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McKinsey & Co. recently published AI research showing the potential for a 4.4% increase in global economic output due to productivity gains. The majority of this increase, approximately 75%, comes from four segments: customer service, marketing and sales, software engineering, and research and development.

We are still at the beginning, and there is increasing concern about AI and its influence on our society. The development is happening so fast that we are already discussing past wars. I can't imagine it can be stopped. Each of us has to find a way to utilize it.



NEXT: **Sourabh Biswas** →





Sourabh Biswas

Deputy Vice President, OakNorth Bank

Sourabh currently works as a Deputy VP at OakNorth Bank, a UK-based new-age fintech bank that provides business and property loans to small and medium-sized companies. Previously he has worked with RocSearch, Nielsen, Acuity Knowledge Partners, and S&P Global Market Intelligence.

He has close to 15 years of experience, working extensively with private equity, investment banking, and corporate clients in the areas of M&A, deal origination, commercial due diligence, value creation and corporate strategy. He is a keen follower of the global private equity industry and ESG investing

Technology has become a pervasive phenomenon now, and as it continues to evolve and become more powerful, new use cases are being identified and new applications are being developed. This applies broadly across all sectors and the Financial Services sector is no exception. Artificial Intelligence (AI), which follows the natural evolution of technology as increased computing power enables computers to be more powerful and helps us analyze large data sets to generate insights, is one of the latest buzzwords in technology attracting everyone's attention.

In 2006, when British mathematician Clive Humby was quoted saying "Data is the new oil," what he meant is that data, like oil, is not useful in its raw state. It needs to be refined, processed, and studied so that it can reveal the hidden patterns in it. The value lies in its potential, and AI helps to unlock this potential in data, particularly large data. In today's world, data is dominant and those who fail to leverage its power may be left behind. Not long ago, AI was a topic of discussion for people who followed technology, but not really anyone else. But then, in the last 4 to 5 years – particularly in the post-pandemic world, the adoption of AI was like rocket fuel to the rise of it. In the Financial Services sector, and more so in Private Equity, the confluence of AI and Data proves to be of tremendous benefits. Focusing on high-quality data that is consistently labelled, has started unlocking great value.



Broadly, three major areas have emerged as ideal for AI assistance when it comes to Private Equity:

- **Target Identification / Deal Origination:** While target screening and selection must be performed by humans and their understanding of the nuanced interplay of several factors, firms can leverage AI to quantify and narrow down the field from a bigger and larger playing field. This saves team members a significant amount of time
- **Portfolio Monitoring / Risk Management:** Keeping an eye on portfolio companies used to be a labour-intensive activity. However, AI can perform a lot of activities in seconds that used to take hours, thus making the whole process of monitoring more efficient and effective
- **Back-office Processes / Support Functions:** Organizations are getting rid of their manual processes to adopt AI for completing tedious tasks faster, more accurately, and cost-effectively. As a result, they can release human resources to focus on more productive activities

All in all, AI holds the promise of enhancing decision-making, boosting efficiency, and optimizing operations. Hence, to maintain a competitive edge, organizations must explore AI technologies and consider various implementation approaches.

While there is indeed enormous potential in developing AI-based solutions in the Financial Services sector – be it Banking, Asset Management, Private Equity, or any other branch, the risks of using AI technology underpinned by huge data sets cannot be underplayed. One of the key challenges is to gather large amounts of data to train algorithms. AI systems are trained to analyze data and identify patterns, but they rely on a given dataset and algorithms used to analyze that data. If the data is biased or the algorithms are flawed, the results produced by the

One of the key challenges is to gather large amounts of data to train algorithms. AI systems are trained to analyze data and identify patterns, but they rely on a given dataset and algorithms used to analyze that data.

AI system could be inaccurate or misleading. This is particularly true for Private Equity firms, as the number of transactions is limited and information is often confidential. The key is – we must not forget that technology is nothing without people and even the smartest technology in the world would fail to deliver meaningful outcomes if it is not supported by human capital. Hence the intervention of human capital is of utmost importance for AI to be a friend and not a foe.



Bogdan Chirita

Partner at Value4Capital

Bogdan joined V4C in 2012, bringing in his experience from 7 years of work in leading international audit and consulting companies. Bogdan started working in the audit department in Deloitte in Bucharest. In 2007, he joined Ernst & Young as a senior consultant in the transaction advisory department. After being promoted to manager, he dealt with a wide range of transactions in various industries. He carried out analyzes of business plans, valuations and advised on mergers and acquisitions. At V4C, Bogdan deals with acquiring new investment projects, carrying out transactions and monitoring portfolio companies

In the last couple of years, AI has made significant advances and become increasingly ubiquitous in our daily lives, from self-driving cars to virtual assistants. Private equity is only one of the industries which will need to adapt and learn to benefit from the introduction of AI in its processes and operations.

For private equity, I can see AI being employed in both our internal processes and those of the portfolio companies, as well being used to create new linkages and interdependencies between the two, generating value for both.

Some of the major activities undertaken by a PE firm that can benefit from automation include:

- 01. Identification of Targets and due diligence.** One of the main areas where AI is being used is to originate deals and curate the pipeline. One example of this approach is EQT's Motherbrain, which ingests a myriad of data on deals, companies and people and establishes linkages between them. It then uses its own company-built assumptions and projections about the future (which are also influenced and changed by ongoing data accumulation) to identify opportunities earlier, build conviction faster and act decisively;
- 02. Portfolio monitoring and enhancement.** AI powered software can be used to analyze a company's financial and non-financial data to identify trends and anomalies as well as to evaluate operations and identify inefficiencies. Portfolio wide analysis can be used to better identify risks and opportunities at this level. allowing PE firms to make more informed decisions about how to allocate capital across their portfolio, while ensuring companies are well-positioned to capitalize on emerging trends;
- 03. Help with the Exit.** AI can be used to sniff through databases (proprietary and external) of past deals and returns looking for lessons and insights from past success and failure. For deals which might be exited through IPOs, (benefiting from large and public data

availability), benchmarking the current exit environment or company characteristics with similar deals in the past can provide insights to investor behaviour and trends. This initial analysis could assist in identifying the best moment to IPO an investment;

04. Improve back-office processes. A number of time-consuming processes underlie many of the activities undertaken in i-iii above. The NDA mark-up process, still manual and outdated, may be a good example of how something can be made more efficient with technology. Generative AI solutions that can draft and review NDAs based on specific guidance on “must have” and “nice to have” clauses within a prescribed set of rules could be the answer.

But, as with all new disruptive technologies, there could be a significant human impact on how PE firms work, especially a transformative change in the work of the younger professionals. Some of the work PE analysts are currently doing, mostly focused on data, analysis and modeling, can be increasingly automated. This means firms will need to develop new ways of leveraging the talent of the next generation and ensuring they develop the skills and reflexes underlying good investors..

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Piotr joined FORDATA in 2019 as a business development specialist and client advisor. He is currently engaged in market analysis with a focus on international consultative sales for IT solutions with CEE expertise. Piotr's main area of research are the changes and specifics of each analyzed market within the EU. He is involved in M&A trends analysis, focusing on the Central-European segments of commercial real estate investments and PE/VC. At Fordata, Piotr professes in consultative responding to current business needs, providing solution propositions to all sides involved in various types of transactions

The M&A landscape in the first quarter of 2023 experienced a significant decline in transaction volume globally, marking the third lowest quarterly volume in the past decade, as reported by M&A Worldwide. Moreover, Europe witnessed a substantial year-on-year decline of 70% in M&A value, surpassing other regions. However, several emerging trends, particularly the influence of artificial intelligence (AI), coupled with strategic timing of fundraising and exits in the Private Equity (PE) sector, are expected to drive growth in both the volume and value of deals.

Friend-Shoring and Near-Shoring

In response to geopolitical changes in Europe, a trend known as friend-shoring has gained momentum. Western European investors have begun to perceive the Central and Eastern European (CEE) region as risky, resulting in their swift withdrawal. Friend-shoring allows for collaboration among local players, suppliers, and PE-equity firms, thereby synergizing business expertise and focusing exclusively on the CEE region. Notably, the OTB fund, operating in this region, exemplifies the success of friend-shoring strategies.

Fundraising Spree and ESG Advantage

Industry specialists are increasingly mentioning the resurgence of fundraising activities. Capital markets are witnessing a surge in investors actively seeking unique concepts to invest in, moving away from traditional startups and instead focusing on "scale-ups." Furthermore, Environmental, Social, and Governance (ESG) factors have gained prominence in M&A deals, particularly in the commercial real estate sector. CEE countries offer a goldmine of innovation, coupled with inexpensive labor, liberal legislative and administrative trends, fostering enterprise development and favorable business environments.

Restructuring, Revisiting Acquisitions, and Exits

The trend of restructuring, including spin-offs, and revisiting previous acquisitions continues to be prevalent in the M&A landscape. Companies are reassessing their portfolio and exiting investments in search of higher returns on investment. Notably, announced exits in the second half of 2023 are expected to contribute to this ongoing trend.

AI Revolutionizing M&A?

The advent of AI has brought about a revolution in how companies approach M&A activities. With the widespread adoption of AI technologies, numerous companies, startups, and M&A players are utilizing AI to optimize costs and enhance deal-making processes. AI and machine learning have emerged as hot sub-categories within the M&A landscape, finding applications across industries ranging from traditional manufacturing and automotive sectors to strategic areas such as defense, energy, and security.

The Virtual Data Room industry is witnessing noteworthy changes, and among them, the increasing integration of AI and machine learning stands out. While AI streamlines document review and analysis, enhancing efficiency, it also presents potential risks. The adoption of AI also entails security concerns, as advanced systems may become vulnerable to hacking or malicious use. AI's reliance on data can perpetuate biases, resulting in discriminatory outcomes that require careful monitoring. The increasing autonomy of AI systems poses challenges in understanding decision-making processes, potentially leading to unexpected outcomes. Moreover, the potential misuse of AI for malicious purposes, such as cyber-attacks or warfare, threatens global security. To responsibly harness the potential of AI in VDR and other industries, it is crucial to address these risks through multidisciplinary collaboration involving experts in AI, ethics, policy-making, and law. Such collaboration can establish a framework for safe, ethical, and beneficial AI development aligned with human values.

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Thank you for reading the sixth edition of the **FORDATA CEE Expert Report**. We hope that you will share this report with professionals from your circle. Our goal is to connect experts in different fields and from different countries, and create a lively platform for discussion on the CEE economy. Please follow FORDATA LinkedIn page and the **#ceeexpertreport** tag to join us. FORDATA is a Virtual Data Room software provider since 2009. We help companies and experts securely share confidential documents and information in various processes. Our aim is to promote best business practices, bring closer the topic of online security and make data sharing in the B2B sector faster, secure and more convenient.

FORDATA has prepared detailed quarterly reports on Polish M&A market since 2014. Together with invited experts, we published The Code of Best Transactional Practices and The Code of Best Restructuring Practices as part of our For Better Data Flow campaign in 2015 and 2016.