

AI and due diligence

How artificial intelligence is changing the mergers and acquisitions process

INTERVIEWED BY SUE OSTROWSKI

Artificial intelligence is revolutionizing the way attorneys approach due diligence, saving clients money, speeding up the review process and creating budget certainty.

“For a long time, AI was an alternative method to the usual approach of manually reviewing documents during an M&A transaction,” says W. Dane Fennell, an associate in the Corporate & Commercial Group at Babst Calland. “But now, clients expect ever-more efficient, accurate and speedy diligence results. To deliver, AI has become a critical tool in the due diligence process for deals of all sizes.”

Smart Business spoke with Fennell and Christian A. Farmakis, shareholder and chairman of the board at Babst Calland, about how AI is transforming due diligence in the legal marketplace.

WHAT ARE SOME BENEFITS OF IMPLEMENTING AI IN DUE DILIGENCE?

The amount of available data is growing at an exponential rate, creating pressure on those leading the M&A team. Just a few years ago, attorneys had months to work on a due diligence project, combing through what could be thousands of documents to gather and analyze data. The review timeframe has been drastically condensed as buyers and sellers both push to close deals faster.

Several years ago, we assisted with an acquisition that required three months of pre-closing diligence, and 18 months of post-closing confirmatory diligence. With a similar project earlier this year, we did the same

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work and reviewed the same number of documents in three weeks. Our AI tools allowed us to provide more cost-effective, accurate results in weeks instead of months, and oftentimes at a fraction of the price of a manual review.

Today, buyers need to have a better sense of the ‘game-changing’ issues that will guide their deal-making decisions. With AI, we can isolate ‘high-value’ issues from a large volume of raw data earlier in the diligence process.

As the deal process continues toward completion, we can home in on the relevant operational, legal and financial terms pertinent to the deal structure, eliminating the need to review every letter of every document in the data room.

HOW CAN USING AI CREATE BUDGET CERTAINTY FOR CLIENTS?

By using AI, a law firm has the ability to aggregate metrics regarding previously completed projects that are similar in size, scope and complexity, and have comparable delivery windows. This enables a law firm to make business decisions regarding the size of the team needed for the project, as well as the total number of

hours required for completion. All of this factors into providing the client a more accurate estimate of the expected cost of its deal diligence.

WILL AI ELIMINATE THE ROLE OF ATTORNEYS IN THE DUE DILIGENCE PROCESS?

With machines doing the work formerly done manually by groups of contract attorneys, the fear is that attorneys will be out of work in the near future. But that is not the case. There is a very important human component to the process that will not be going away anytime soon.

Due diligence still requires human interpretation and gut feelings of experienced attorneys. Legal experience, coupled with deal experience, will continue to be required for all diligence projects to determine the type of AI tool to use and how to implement the AI to best deliver the desired results for a client.

AI helps speed up the process and lower costs, but the human element far outweighs a computer; it takes that human intervention to provide absolute certainty in reporting the diligence results. AI can be a fantastic tool for those who accept it and understand both its virtues and its shortcomings. ●