

The Future Science of MAD Events and Actions

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Financial engineered mergers, acquisitions, and divestures (MAD) have been a staple of numerous cycles since 2008. For decades, MAD practitioners have applied their art form using experiential knowledge, detailed playbooks, and a bit of luck. Yet the methods and techniques of MAD, underpinned by exploding data availability, are permanently changing the attack strategies across industries.

In 2023, with deal valuation estimated to be \$2.2 trillion and Federal Reserve interest rates approaching levels not seen since 2007, the appetite for MAD actions continues to show a considerable decline from 2022 valuation which exceeded \$3.3 trillion. Moreover, MAD deal makers would have to go back to 2009 for an equivalent, adjusted valuation and volume declines anticipated this year.

What has driven this sharp decline? Frequently, firms and their leaders point to market conditions. Others point to the availability of deal demand across emerging post-Covid ecosystems seeking to find their next upside equilibrium. Additionally, firms and bankers highlight the historical failure of deals, which have resulted in declines of over 60% in shareholder value as a rationale for current MAD inactions and future reassessments.

MAD Market Shifts

As the markets ride out the remainder of 2023, the focus already has turned towards the next anticipated growth cycle. To identify and conclude deals, questions increasingly coalesce around three interconnected questions whose answers are all directly influenced by predictive technologies, and most importantly, data (see representative table below). The state of the MAD markets is influx--investors large and small are embracing new practices and methods to deliver transparency, accountability, and results. MAD will continue, but it will be increasingly more science than art moving forward.

	Traditional MAD	Data-Driven MAD
<i>What comprises the 2024-2026 MAD event, its due diligence, its deal structure, its post-deal integration?</i>	<ul style="list-style-type: none">• Document review• Financial modeling• Market research	<ul style="list-style-type: none">• Adaptable data analytics• Multi-modal models• Simulations
<i>Where does data and technology impact traditional merger ideas, playbooks, or even auditability and regulatory reporting?</i>	<ul style="list-style-type: none">• Synergies / efficiencies• Strategies• Regulatory compliance• VDR's	<ul style="list-style-type: none">• Digital twins• Data mesh / fabric• Hyperparameters• Feature engineering
<i>What is needed to identify the deal— what will be needed tomorrow to close it quicker, with predictive certainty, and with limited integration disruptions?</i>	<ul style="list-style-type: none">• Post-deal analysis• KPI's / dashboards• Program management• Investor reporting	<ul style="list-style-type: none">• Decentralized data management• ML / AI modeling and fit• NLP / risk adaptation

As illustrated above, against the background of generative AI dominating the headlines and deal alignments, the additional requirements for quantitative, data-driven MAD events grow with every discussion, due diligence effort, and post-deal integration undertaken. Increasingly scarce are cookie-cutter traditional playbooks, deal makers, contractual synergies, legal opinions, and financial analysis,

which spawned the creation and usage of seemingly advanced ideas including virtual data rooms (VDR's). VDR's have become the starting point for MAD data phase shifts—not the end point.

A Data-Driven Focus

Twenty years ago, VDR's represented a phase shift for the adoption of data-driven MAD representations, analysis, and projections. This shift for-purpose MAD data, coupled with rapid advancement and acceptance of large language models, multi-modal data domains (i.e., data meshes), machine learning (ML), and artificial intelligence (AI) during the last five years has created macro, step-function impacts for investment bankers and private equity (PE) investors all seeking “assurance” for their MAD event.

Figure 1 illustrates the tight coupling of MAD components once thought of as standalone and executed by independent firms and individuals. With the rise of data-driven predictions and solution outcomes, requirements for x-factor MAD in an age of AI becomes the focal point for silos of competencies, technological advancements, and post-deal integrations.

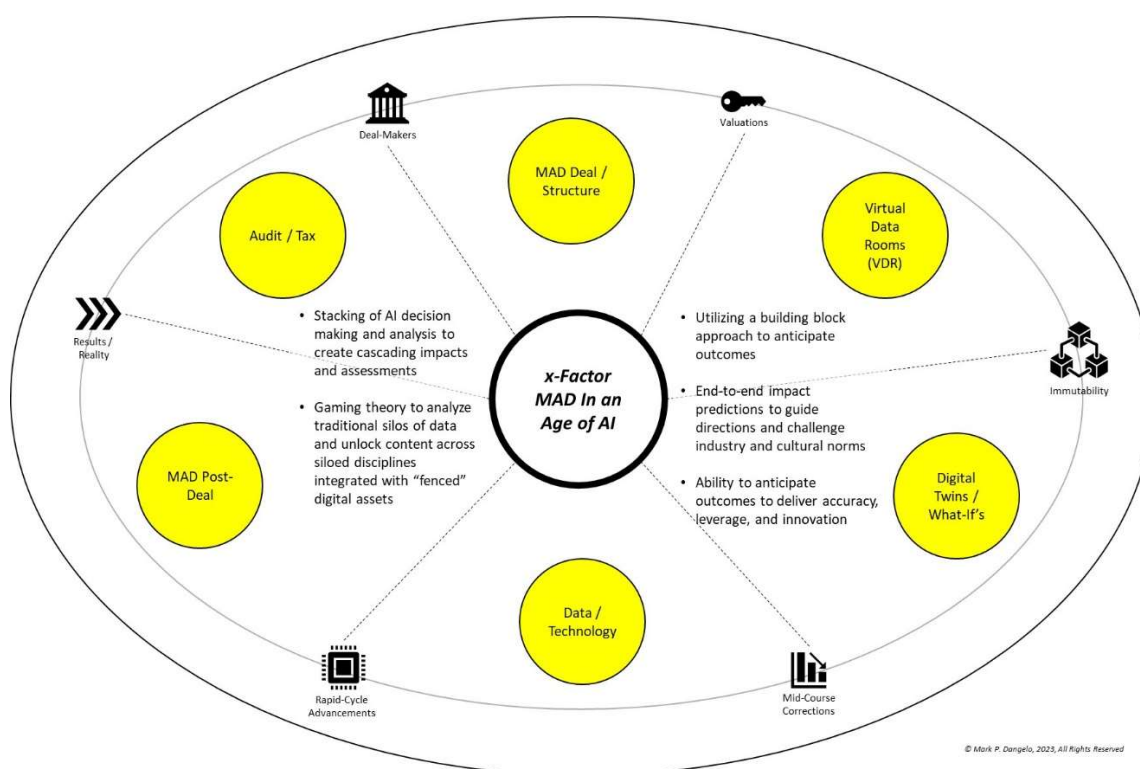


Figure 1—MAD in an Age of Ai

Additionally, technical solutions are being ported from other industries and disciplines to arrive at modeled “digital twin” organizational replication that address risks and results, audit and tax impacts, and regulatory and market shifts. In general, MAD digital science will be the topic of conversation and investment for 2024-2026 for many complex future integrations, all the while fueling the rebound in MAD capital inflows. AI becomes the fabric for stitching together the six taxonomies of competencies demonstrated in Figure 1.

Breaking Down the MAD Model

With 2024 anticipated to be the start of an upswing cycle, the integration of technology represents the next curve for MAD deal and outcomes. Moreover, across the deal makers, investment bankers, and advisory teams, the MAD landscape has embraced pervasive digital advancements, which require new skill sets encasing data sciences and pathfinder prediction and AI technologies underpinned by adaptable solution and design self-learning algorithms that anticipate future operating models.

Integration leaders are utilizing data-driven decision capabilities to ascertain hidden “what-if” opportunities that include not just projected synergies and projects, but also real time data from operational systems as part of a closed-loop feedback system. Once thought as improbable, the MAD market is rapidly moving from industry insider “art” to a data science, which will shape deals, valuations, and outcomes moving forward. Figure 2 breaks down each of the interconnected MAD segmentations delienating the changing environmental components that require tightly coupled integration to achieve prediction certainty regardless of investor or PE size.

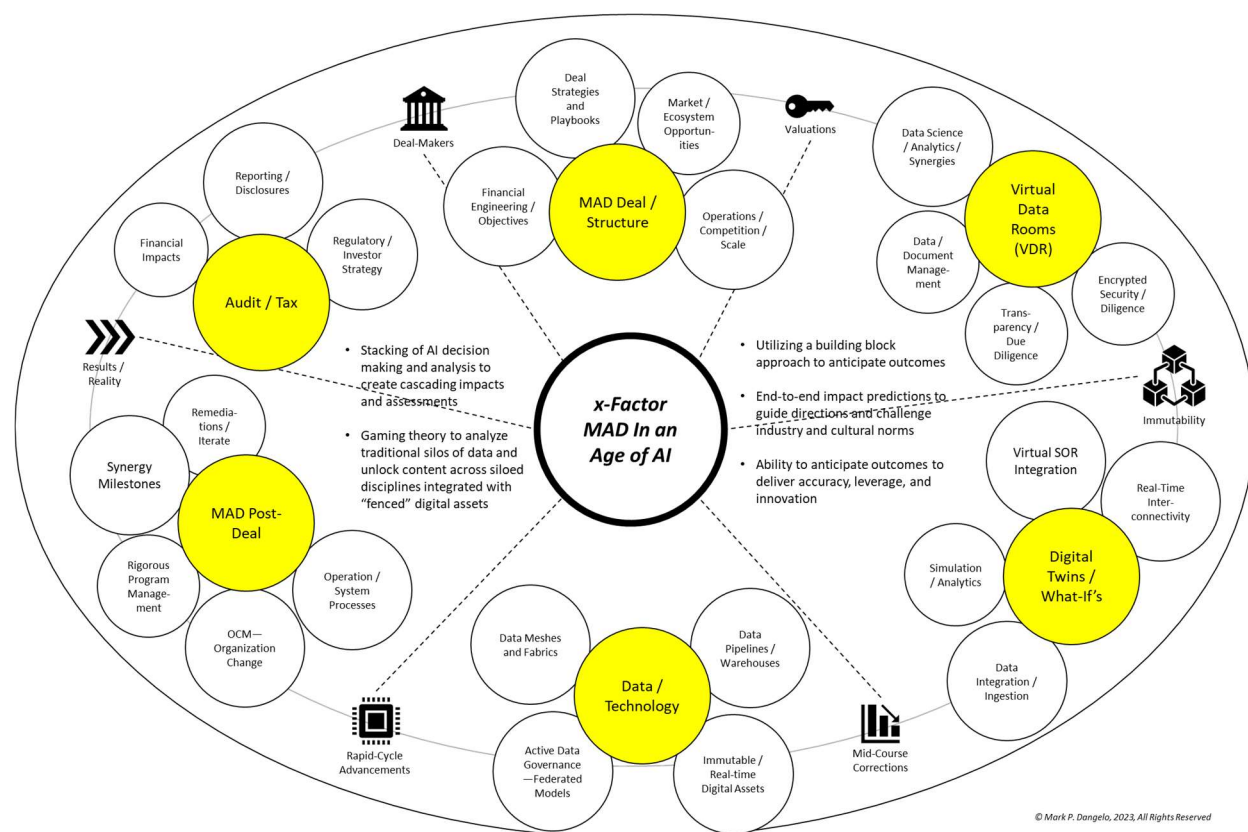


Figure 2—Decomposition of MAD in an Age of Ai

The MAD deal from identification to post-deal integration utilizing AI has some similarities from traditional siloed approaches, but the metamorphosis of value propositions takes place when Figure 2’s building blocks are built on a foundation of auditable data tied to the system of records (SOR’s). Stated differently we move from “sampling size data” modeled across highly reduced and detached software to robust SOR’s reducing risks, errors, time, and financial impacts. Moreover, once the architecture necessary for data-driven foundation are identified, services that can leverage hidden value are applied to define, monitor, and iterate MAD decision making creating stepwise positive results against goals.

In Conclusion—The Board Role

In the world of MAD, tradition concentrates on boards and advisors with the roles they play as part of the MAD deal. They are important, but with the revenue upsides needed to create the deal, this level of direct oversight is no longer an art—it is a science that can be modeled, improved, and reimaged. Their stacked and varied skills form the science for MAD AI, which relies on integrated, trusted domain data weaved together to deliver x-factor results. In the end, it makes their experiences more valuable to the deal and its integration.

From regulatory compliance to post-integration milestones, the board is becoming the catalyst to achieve post-deal targets, especially when linked across operating execution and integration complexities. Without a data-driven approach to MAD implementation, the board risks and investor demands will rise given the mandate to project outcomes.

There are growing trends and emerging strategies being deployed by MAD and PE firms that now concentrate around achieving the data-driven deal (beyond the traditional financial, board, and deal silos). Even middle markets are now seeing the benefits of what their larger players have adopted, and as time progresses, these strategies and execution approaches continue to cascade downstream to smaller deals and dealmakers.

MAD sciences offer the trust, certainty, and auditability sought by investors for decades. Indeed, AI enabled digital transformation has arrived for MAD—do your practices support what is possible?