The AI blind spot in M&A

Why traditional product and tech diligence misses the real story

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Historically, product and technology due diligence followed a relatively predictable playbook—assess scalability, evaluate technical debt, verify security, and inspect the codebase. But as AI's capabilities advance, the codebase is no longer the moat it once was, and disruption can come from anywhere.

It's time for investors to evolve their tech and product diligence approach so it becomes a forward-looking, dynamic opportunity scan.

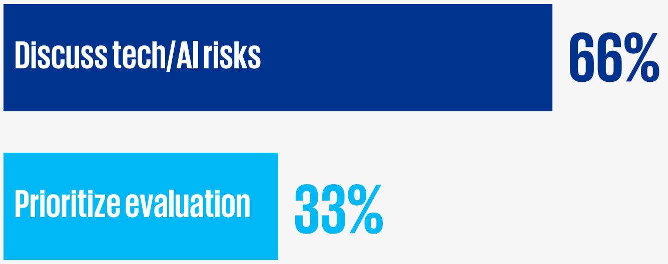
The problem is that traditional product and tech due diligence fails to give AI appropriate consideration, leaving buyers to prepare for transactions while relying on a legacy SaaS approach. KPMG LLP research found a significant gap between the anticipated importance of AI in deal valuation and the effectiveness of existing due diligence processes in evaluating AI-related factors: Although two-thirds of dealmakers discuss technical/AI debt during deal planning, only one-third prioritize investigating it during pre-deal evaluation.[1]

In practice, this backward-looking lens obscures the transformative realities of AI, leading buyers to analyze key areas through a near-obsolete filter. For example, many buyers still treat technical debt like a major liability, even when AI-powered remediation can neutralize it in a fraction of the time. Security checks remain focused on known vulnerabilities while ignoring the rise of autonomous AI attackers and rapid, but potentially unsecure, AI-assisted development practices. Software development organizations and processes are often assessed with outdated benchmarks that fail to account for agentic augmentation. And competitive evaluations frequently overlook AI start-ups, off-the-shelf AI tools, and AI progress within competitors that may change the game entirely.

It's time for investors to evolve their tech and product diligence approach so it becomes a forward-looking, dynamic opportunity scan. This means recalibrating risk in light of machine-enabled remediation, evaluating cybersecurity through modern software development practices, assessing defensibility against AI-native disruptors, and measuring R&D effectiveness through augmentation rather than headcount alone. Most importantly, it means treating diligence as a strategic moment to uncover value creation levers before the deal is signed. The buyers who do this will gain a sharper, truer picture of an asset's potential, positioning themselves to win in a market where speed, adaptability, and foresight matter more than size.

Although 66 percent of dealmakers discuss technical/AI debt during deal planning, only 33 percent actually prioritize investigating it during pre-deal evaluation.

The pre-deal vs. post-deal reality gap



[1] KPMG 2025 Technology M&A Survey

The AI-aware approach

To navigate this new landscape, investors need to evolve their diligence focus. A dynamic, data-driven analysis that views every angle of a target's product, technology, and R&D operation through an AI lens **starts with asking the right deal questions.**

Topic	Traditional diligence focus	AI-aware investor questions
Scalability	Level of technical debt and associated remediation costs	Which elements of the software cannot be effectively remediated with AI, and which tools and approaches can accelerate resolution?
Product performance	Customer retention and satisfaction	What will the ideal solution look like once AI is fully deployed in the market, and is the company ready to deliver on this future state based on current assets and resources?
Cost takeout	Headcount redundancies	How can AI-driven automation unlock new synergies and improve the EBITDA operating model?
Security	Recent breaches and security risks in the software	How secure is the AI development lifecycle, and where can AI improve risk detection, response, and security efficiency?
Growth and disruption	Competitive advantage and market adjacencies	How defensible is the product's market position against AI, and how can its own AI strategy accelerate growth and create a durable moat?
R&D effectiveness	R&D role ratios and ROI	How mature is the R&D team's adoption of AI tools, and what are the best practices to keep pace with productivity, innovation speed, and talent mix?
Data and analytics	Sophistication of data systems, models, and governance	Does the company have access to proprietary data, how valuable is that asset, and does it have the rights required to use that data in AI and ML models?

Answering these questions at deal speed requires a proven framework. Without the right context, findings can collapse into siloed perspectives that miss their relevance to the investment thesis and their practical implications. Three imperatives enable a holistic, AI-aware technology and product assessment:

1 The right foundation

Instead of relying on a fixed checklist or ad hoc analysis, a dynamic maturity model enables a repeatable yet tailored process that connects key technology and product considerations with the investment thesis and ensures a clear, actionable risk evaluation.

2 Data-driven benchmarking

Without understanding how a target compares to competitors, it's difficult to assess how far ahead or behind they are, and how much investment is needed to deliver on the strategy. Real-world product, technology, and business performance metrics enable a quantitative evaluation and valuable context around sophistication, risk, and remediation.

3 Next-generation tooling

Tools are critical part of both the analysis and value activation process. From automated scanning and AI-enabled remediation to workforce simulation and identity security, an orchestrated toolset can support execution from assessment through implementation.

The deal lens: buy-side and sell-side

Buy-side

Sample scenario

A corporate client is considering buying and integrating a competitive solution to accelerate growth and improve defensibility. Assuming scale requirements are met without major investment, automation and operational efficiencies become the key EBITDA growth drivers.

Strategy questions

- Can the product be easily replicated by AI or alternate commercial solutions?
- Can the product be combined with a PortCo platform and support 3X scale?
- What are the key efficiency opportunities in an integrated operation?

Approach

- **Evaluate:** Underlying tech, proprietary AI capabilities, data, and code quality.
- **Map:** Target multi-product platform (functionality, scalability, integration readiness, supporting R&D).
- **Assess:** Destination platform integration points and Software Development Life Cycle (SDLC).
- **Analyze:** Operational automation opportunities, friction points, and human dependencies.

Results

- Clear understanding of the competitive moat and defensibility levers.
- Readiness assessment for scaling and integration (including technical debt remediation).
- Operational evaluation supporting migration, including incremental agentic workforce opportunities and pro-forma.

Sell-side

Sample scenario

A private equity client is considering a PortCo exit of a B2B SaaS provider. Despite strong historical growth, AI is now central to the company's future growth story—which is still evolving amid changing customer expectations and investor scrutiny.

Strategy questions

- What are the core platform strengths and value drivers supporting the investor narrative?
- Where is the organization in its AI journey to improve revenue, efficiency, and defensibility?
- What is the readiness to support buy-side due diligence?

Approach

- **Assess:** Technology platform, R&D operation, and AI's role in the product/industry.
- **Identify and remediate:** Address key risks and technical debt with a prioritized plan (including AI-enabled solutions).
- **Position:** Produce an investor report incorporating the baseline assessment and diligence coaching.

Results

- Clear positioning of product/tech assets, highlighting investments needed for revenue and margin.
- Improved buy-side risk profile through progression on key AI investments.
- Cross-functional alignment on the product and technology narrative, including ideal supporting data-room artifacts.

What investors stand to gain

Beyond a more current and holistic view of an asset, buyers can now underwrite investments with unprecedented clarity. Addressing diligence, strategy, and remediation in a unified viewpoint helps accelerate value creation, unlocking three key advantages:

1 Pierce the AI hype

Distinguish between superficial wrappers and truly embedded capabilities to ensure the asset is technologically and strategically derisked, with valuation grounded in a more accurate view of risk and opportunity.

2 Sign-to-close blueprint

Enter day one with greater clarity on postclose priorities and planning, including remediation, integration, value creation, and cost takeout.

3 A wider, deeper moat

Acquire an objective, forward-looking view of product-market fit against looming disruption threats, the asset's durability, and key defensive tactics.

Unlocking these advantages means entering your next deal with improved feasibility, conviction, and actionability, where proprietary data and tooling facilitate the transition from assessment to planning and execution.

How KPMG can help

As AI reshapes how value is created, scaled, and disrupted across sectors, investors need a provider equipped with the underlying assets, approach, and talent to deliver insights at scale.

However, while the scope or deliverable for product and tech due diligence may look the same on paper, there are key differences between provider approaches to look out for. For example, access to proprietary data varies greatly, often leaving out key business performance metrics for meaningful benchmarking. Tooling also varies widely, where diligence automation can improve speed and margin, but does not on its own deliver the integrated insights required for AI-aware diligence. The human element is also key, where without the right mix of operators, consultants, and subject matter experts, practical judgment and necessary human oversight can be diminished.

With industry-leading financial services, deep sector experience, and strategic AI alliances with Microsoft, Google, OpenAI, and Anthropic, KPMG is well positioned to bridge this gap. By combining proven technology operators with a refined AI-aware approach and a robust set of proprietary tools, KPMG is helping investors make more informed investment decisions and stay ahead of the risks and opportunities shaping technology-driven M&A.

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The KPMG Technology, Media, and Telecommunications (TMT) Deal Advisory & Strategy]practice helps corporate and private equity investors navigate the complexities of the fast-paced digital economy. From specialized tech due diligence and AI readiness assessments to postmerger integration and value creation strategy, our highly experienced professionals deliver the industry-specific, actionable insights needed to help maximize deal value, mitigate technical risks, and drive sustainable growth in a disruptive market.

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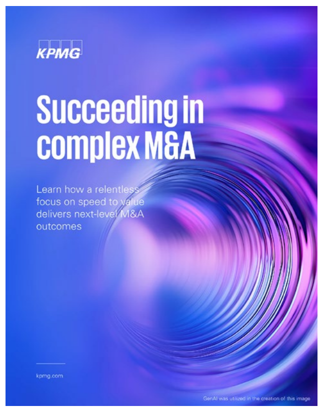

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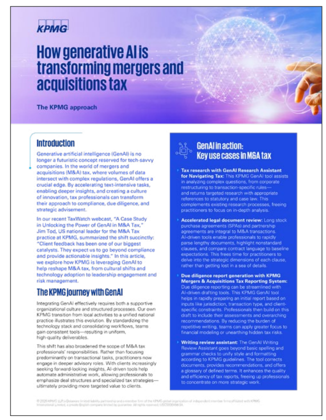

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