



## Interview: **How AI Is Driving M&A ... and Changing the Process**

Economic and political factors are major drivers of the uptick in mergers this year, says **Drago Rajkovic**, Citigroup's Co-Head of M&A. But it's also hard to underestimate the effect of artificial intelligence (AI), as the impact of the billions of dollars flowing into AI developers spreads across the economy.

The disruptive potential of the technology is being felt not just in software, but in sectors far removed from tech, where the impact of AI is providing a rationale for deals.

AI is also reshaping the merger process, from how companies prepare for a sale to how acquirers approach due diligence.

### **There has been an upsurge in M&A activity this year, particularly large deals. What's behind that?**

The economic outlook is very positive — we have record earnings, stimulative fiscal policy and deregulation. And we have these massive AI investments flowing throughout the economy. Plus, midterm elections are approaching, which often are preceded by economic stimuli by the governing party.

Interest rates are still not punitive and capital is widely available. Inflation is still contained, even though it has increased with the war and as the impact of tariffs is gradually felt.

It's been a great earnings season, exceeding expectations by a margin not seen for some time. Share prices are at record levels, and there's a lot of confidence in boardrooms.

In addition, there has been regulatory permissiveness. Current thinking is you have about a year-and-a-half to do something bold. If you don't get it signed in that time, you could face a new administration before closing and you don't know whether regulators may take a different approach.

### **How big a factor is AI in all this?**

AI is driving consolidation and scaling across industries — power, industrials, services and tech, of course. Nobody in this market wants to miss this opportunity. And the hyperscalers will continue to invest a lot of money.

We're also beginning to see AI deals outside of tech. We advised General Catalyst in its purchase, along with Trian, of Janus-Henderson, the asset manager. The idea is basically to AI the entire business, from portfolio management to customer relations.



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– Drago Rajkovic,  
Citigroup’s co-head of M&A

General Catalyst and Long Lake Management are also buying American Express Global Business Travel Group with the same aim.

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### **How does AI play into the merger process itself — prepping for a sale and doing diligence on the buy side?**

In every sell-side deal, we go very deep into what the company’s AI strategy is, and their defensive moat. We spend a lot of time helping companies with this both as they prepare for sale and when they look to buy.

### **We read a lot about AI’s threat to the software industry. How does that shape this market?**

Tech M&A is about 25% of M&A activity, but tech M&A this year is down by about half. Most of that drop is in software, which is about 50% of tech M&A.

The risk of AI to the SaaS [software as a service] business model and the software value proposition has resulted in a large sell-off in software stocks. There’s a broad sense that software is oversold, but also a consensus that there’s not going to be a big rebound as investors wait to see the durability of those business models.

Because of recent valuations down rating, we’re seeing big software companies finding that target companies are reluctant to consider a sale. I’m also getting calls from financial sponsors asking if I know anyone willing to talk to them. So there’s money there for acquisitions, but it’s hard to get engagement and agreement between buyers and sellers on price.

However, on the semiconductor side, the market is vibrant, with some of the beneficiaries of AI looking to deploy capital.

### **We’ve seen some large spin-offs recently in tech. Do you expect more of those?**

Yes, we advised Flex, an outsourced manufacturer, which announced the spinoff of its high-growth data center and digital infrastructure unit. Its share price appreciated about 50% within days. We’ll see more of these. And then some of the big tech companies want to refocus, so we’ll also see the sale of business units to raise capital.

### **How big a factor are sponsors in this market?**

Sponsor activity has continued to be vibrant outside tech. The activity is significantly higher than last year with a lot of capital deployed. However, banks are becoming nervous about lending into deals that are exposed to AI. That’s a bit of sand in the wheels of the software sector at this point in time.

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One Manhattan West  
New York, NY 10001  
212.735.3000

## **How do you view the regulatory environment, including in Europe and China?**

For China to shut down a deal, it has to be very strategic for them. We haven't seen a lot of trouble with clearances there. It's mostly semi-conductors where there are issues, and deals that bring semiconductor technology within U.S. control.

The European agencies are being very politically aware, not wanting to provoke the U.S. For a U.S. company, that makes things easier. There is more protectionism in Europe today, but we haven't seen that play out in M&A situations extensively yet.