AI IN TARGET DUE DILIGENCE

Every deal now needs an AI workstream: exposure, upside and the truth of claims

AI changes what a target is worth and what its management says it does. Diligence must test both, as routinely as legal and commercial.

KEY MESSAGE

Make AI a standard diligence workstream, and make AI upside earn the return rather than justify the price.

3 things to know

1. **Every deal needs an AI workstream**, as routine as legal and commercial [2].
2. **AI claims are proven with usage logs, not demos**; AI-washing is an enforcement issue [3][4].
3. **AI upside should earn the return, not justify the price.**

EXHIBIT 1 AI diligence scorecard: five questions (CarveLines view; dots = weight in the decision)

QUESTION	WHAT TO TEST	WEIGHT
Exposure	Revenue tied to seats, hours, content	●●●
Defensibility	Proprietary data, workflow depth	●●●
Claims	Real ML or rules relabelled as AI	●●○
Upside	Costs AI can remove, with baseline	●●○
Governance	Tools, data, logs, AI Act exposure	●○○

CarveLines framework, consistent with [1][2][4].

$400K — first SEC AI-washing penalties, 2024 [3]

10–15% — midterm margin upside, one IT services target [2]

120+ — portfolio companies CVC screened for AI risk [2]

1–7 — AlixPartners disruption score scale [5]

Exposure and defensibility

Start with the business model: which revenue depends on seats, billable hours or content that AI can produce? Then the defences: proprietary data, regulated or mission-critical workflows, integration depth, switching costs.

Outside-in work answers much of this before the data room: pricing pages, product releases, competitor launches, customer reviews, hiring.

Testing AI claims

Management presentations now carry AI slides. Ask for evidence: which model, trained on which data, in production since when, used by how many customers, with what measured effect.

The SEC asks whether a company describes real machine learning or rule-based automation relabelled as AI [4]; it is a good diligence test too. Demos are not evidence; usage logs are.

Valuing the upside

AI savings belong in the value-creation plan only with a baseline, a process owner and a vendor or build plan. Bain's 10–15% margin improvement at an IT services target was a midterm estimate, not a day-one synergy [2].

Haircut it, phase it, and do not pay for it twice in the price.

Sources on page 3.

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Governance and regulation

Check which AI tools the target uses, what data they touch, whether outputs are auditable, and whether any governance exists [6]. For EU exposure, map uses against the AI Act's risk classes.

A weak answer is rarely a deal breaker; it is a 100-day item with a cost.

EXHIBIT 2 Bain's illustrative AI case at one IT services target: midterm margin improvement, %



Bain & Company, Global Private Equity Report 2024 [2]. Illustrative, not a benchmark.

Using AI in the diligence itself

AI tools now index data rooms, extract contract terms and draft findings; vendors report 20 to 40 hours saved per deal [7]. The risk is a confident error: one reported case involved an AI citing a tax document that did not exist [8].

Rule: every finding links to a page in the data room, and a person signs off before it reaches the IC memo.

> "Every deal needs an AI risk versus opportunity assessment, which should also include evaluating the company's AI strategy."
>
> **Oliver Wyman**, How AI is reshaping SaaS valuations · Apr 2026 [1]

> "Leading teams are developing scorecard-based protocols to assess generative AI threats and opportunities in every diligence the firm takes on. The aim is to make it as routine as legal or commercial diligence."
>
> **Bain & Company**, Global Private Equity Report · Mar 2024 [2]

5 hints: the average fund vs full power

	THE AVERAGE FUND	FULL POWER
1	Adds an AI slide to the IC memo	**Runs a scoped AI workstream on five questions**
2	Watches the demo	**Asks for usage logs and customer evidence**
3	Pays for AI synergies	**Haircuts and phases them in the plan**
4	Uses AI in DD unchecked	**Links every finding to a data-room page**
5	Ignores regulation	**Screens AI Act exposure for EU targets**

Watch out

Paying for AI upside in the multiple. If the plan depends on AI savings, they should earn the return, not justify the price.

Questions for the partners' meeting

1. Did our last three IC memos address AI exposure explicitly?
2. Who tests management's AI claims, and with what evidence?
3. Is any AI upside already in the price we are paying?
4. Can every AI-produced diligence finding be traced to a document?

Sources on page 3.

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7 recipes: who, how, what you get

01 AI scope letter

DEAL TEAM

- Add five questions: exposure, defensibility, claims, upside, governance
- List the evidence requested for each
- Assign each to an adviser or the team
- Use it on every deal

Output scope template
Time 1 day

02 Outside-in exposure scan

ANALYST

- Before the data room: pricing pages, releases, competitors' AI
- Add customer reviews and hiring signals
- Draft an exposure score with reasons
- Set questions for management

Output exposure memo
Time 2 days

03 Claims test

DEAL TEAM + SPECIALIST

- Ask: which model, which data, live since when, how many users, what effect
- Request usage logs and customer references
- Separate machine learning from rules relabelled as AI
- Verdict: proven, partial or unproven

Output claims verdict
Time 1 week

04 Upside haircut

DEAL TEAM

- Baseline, owner and plan for each AI saving
- Phase over three years
- Haircut unproven savings
- Keep the upside out of the price

Output plan line
Time 1 day

05 Data-room AI index

ASSOCIATE

- Index all documents in a secure workspace
- Link each finding to a document and page
- A second person checks key findings
- Export traceable findings to the memo

Output traceable findings
Time first 48 hours

06 Governance check

SPECIALIST

- Tools, data, logs, policies
- AI Act risk class for EU uses
- Price gaps as 100-day items
- Add to the SPA checklist if material

Output 100-day items
Time 1 day

07 IC AI box

DEAL TEAM

- Half a page in every IC memo
- One line per question
- A source for each answer
- Partner sign-off

Output consistent decisions
Time 30 minutes per deal

Monday morning

Add five AI questions to your IC memo template: exposure, defensibility, claims, upside, governance. Require a source for each answer.

Sources: [1] Oliver Wyman, How AI is reshaping SaaS valuations, Apr 2026; [2] Bain & Company, Global Private Equity Report 2024, Mar 2024; [3] RiskTemplates, SEC AI-washing settlements (Delphia, Global Predictions), Aug 2026; [4] DLA Piper, SEC emphasizes focus on AI washing, May 2025; [5] AlixPartners, via Business Insider, Apr 2026; [6] Aurascape, Private equity AI security, Jun 2026; [7] Blott, AI case studies in private equity (vendor-reported), 2026; [8] Development Corporate, AI hallucination rates are a due diligence crisis, Mar 2026. Quotes verbatim from the sources cited. Figures as published; survey scopes and dates vary. Vendor-reported figures are labelled; [E] = CarveLines estimate; 'CarveLines view' = our interpretation.

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