ASSETMAX ™

AI-Driven Deal Sourcing: Finding Targets Before Your Competitors Do

How Private Equity and Family Offices Are Weaponising Artificial Intelligence to Win Proprietary Deals in an Era of Compressed Cycles and Record Competition

By Professor Andy Pardoe | March 2026

The private equity industry is sitting on a paradox. Global M&A activity surged to a record $4.9 trillion in deal value during 2025, according to PitchBook, surpassing the previous high set in 2021. Dry powder remains at historic levels. Yet the average private equity firm still sees only around 16 to 18 percent of the relevant deals in its target market, according to the 2024 Deal Origination Benchmark Report and data from Affinity. That means for every opportunity a firm evaluates, four or five others pass by unseen, unscreened, and ultimately won by someone else.

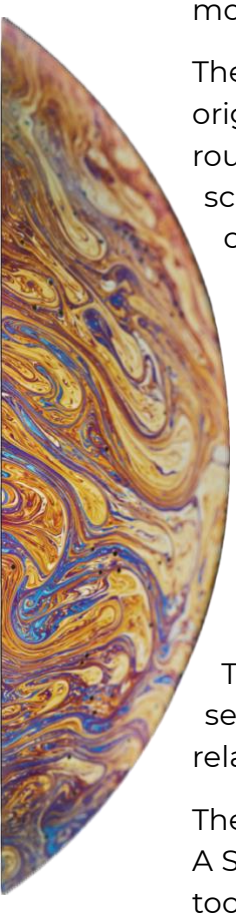
This is not merely an inconvenience. It is a structural vulnerability. In a world where top-quartile buyout funds have historically delivered roughly 24 percent IRR over the last decade, comfortably outperforming both the S&P 500 at 15 percent total shareholder return and the MSCI World at 13 percent, the difference between finding a transformative target twelve months early and arriving late to a competitive auction is measured not in basis points but in multiples of invested capital. McKinsey's Global Private Markets Report 2026 makes this plain: without the tailwinds of multiple expansion and cheap leverage, which accounted for 59 percent of returns between 2010 and 2022, the next decade of private equity returns will depend overwhelmingly on how firms source deals, what they pay, and how effectively they create operational value after closing.

Artificial intelligence is now the instrument through which that competitive edge is being forged. This is not speculative futurism. Bain & Company's 2026 M&A Report found that the use of AI by M&A executives more than doubled to 45 percent of

practitioners over the course of 2025. Among private equity firms specifically, over 60 percent now use at least one generative AI tool to improve sourcing, screening, or diligence. Deloitte's 2025 survey found that 86 percent of corporate and PE organisations have integrated generative AI into M&A workflows, with roughly 40 percent using it in more than half of their deals. The question is no longer whether AI will reshape deal origination. The question is whether your firm will be among those doing the reshaping, or among those being reshaped.

The Asymmetry Problem: Why Traditional Sourcing Is Structurally Broken

For decades, private equity deal origination has rested on a well-worn playbook: cultivate networks, attend conferences, maintain relationships with intermediaries, and wait for investment bankers to bring opportunities to market. This approach worked tolerably well in an era when competition was lighter and information moved more slowly. It is now failing in measurable ways.



The core problem is one of information asymmetry, but in reverse. Traditional origination creates blind spots that cost firms both time and capital. Dealmakers routinely spend hours updating spreadsheets to track engagement histories scattered across emails, meeting notes, and disconnected tools. Without a centralised system, they miss critical connections that could lead to proprietary opportunities. More fundamentally, the traditional model is reactive. Firms that rely primarily on bankers and brokers for deal flow are, by definition, seeing opportunities after they have already been marketed, often to dozens of competing buyers.

The arithmetic of this broken model is stark. If a firm's origination coverage is somewhere around 16 to 18 percent of the addressable market, the vast majority of potentially attractive targets never even enter the screening funnel. In fragmented sectors and lower-middle-market universes, where proprietary sourcing is most valuable and most achievable, this problem is particularly acute. The targets that would benefit most from a specific firm's operational expertise or sector thesis are precisely the ones most likely to be invisible under a manual-and-relationship-only approach.

The private equity industry's awareness of this structural deficiency is growing. A Sourcescrub survey found that nearly half of dealmakers, 49 percent, now use AI tools on a near-daily basis. That figure was expected to grow further through 2026. The competitive pressure to close this coverage gap is intensifying, particularly as private equity now accounts for roughly 40 percent of global M&A activity, according to Goldman Sachs, and dry powder continues to accumulate at record levels.

What AI-Driven Deal Sourcing Actually Looks Like

The phrase “AI-driven deal sourcing” is sometimes used loosely, conjuring images of a black box that produces target lists from thin air. In practice, the technology operates across several distinct but interconnected layers, each of which contributes a different form of competitive advantage.

The first layer is **market mapping and sector scanning**. AI systems can continuously monitor vast volumes of structured and unstructured data - news flows, regulatory filings, patent applications, hiring patterns, web traffic trends, supplier relationships, customer reviews, and dozens of other signals - to build dynamic maps of entire sectors. Where a human analyst might spend weeks constructing a landscape of potential targets in a new sector, an AI-powered platform can accomplish a comparable task in hours, and keep that map updated in real time. Some firms report that AI can identify 195 relevant companies in the time it takes a junior analyst to flag one. That ratio of scale and filtering power fundamentally changes how firms allocate their most expensive resource: the attention of senior investment professionals.

The second layer is **pattern recognition and signal detection**. This is where AI moves beyond simple data aggregation into genuine analytical value. Machine learning models can identify patterns that human originators routinely miss: unusual hiring clusters that suggest a company is preparing for expansion, shifts in customer sentiment that foreshadow market-share changes, executive turnover patterns that indicate succession situations, procurement mentions in public filings that reveal supply-chain vulnerabilities, or pricing behaviours that signal competitive pressure. PwC explicitly notes that leading PE firms are building AI “sourcing engines” that often surface patterns humans would miss, and that these engines assess both hard metrics like financials and softer patterns drawn from past investments. These engines improve over time as they ingest more data and the results of their own prior recommendations, creating a compounding learning advantage.

The third layer is **prioritisation and ranking**. Once a universe of potential targets has been mapped and signals have been detected, the most sophisticated systems apply scoring models that rank opportunities by thesis fit, likelihood to transact, and estimated value-creation potential. These models draw not just on generic market data but on a firm’s own proprietary history of wins, losses, diligence findings, and portfolio outcomes. PwC notes that leading firms are developing proprietary models that draw on each firm’s unique expertise. The result is a system that learns what “good” looks like for a specific firm, not just for the market in general.

The fourth, and most recent, layer is **agentic AI orchestration**. This represents a qualitative leap beyond chatbots and simple copilots. Agentic AI systems can plan, decompose tasks, use tools, retain memory, and orchestrate multi-step workflows across internal and external systems. In the context of PE sourcing, an agent can monitor sectors continuously, pull new signals as they emerge, update comparable-company sets, draft preliminary investment notes, flag required follow-ups, and route high-priority targets to a human originator - all without being explicitly instructed at each step. McKinsey's 2025 work on agentic AI describes the value in terms of parallel execution, real-time adaptability, orchestration, and elastic capacity. These are properties that allow lean deal teams to operate with the coverage of organisations several times their size.

The Data That Proves the Shift Is Real

The evidence that AI is transforming PE deal sourcing is no longer anecdotal. It is visible across adoption surveys, investment budgets, and reported performance metrics from the industry's most authoritative research bodies.

Adoption has crossed the mainstream threshold. McKinsey's State of AI 2025 report, based on 1,993 respondents across 105 countries, found that 88 percent of organisations now regularly use AI in at least one business function, up from 78 percent a year earlier. Within private equity specifically, EY's Q4 2025 AI Pulse report found that 84 percent of PE firms have appointed a chief AI officer, slightly above the broader private sector average of 82 percent. This is not a technology experiment being run from the IT department. It is a strategic commitment with board-level ownership.

Investment levels confirm the seriousness of the commitment. EY reports that by 2026, two-thirds of PE firms expect to invest more than a quarter of their total budget in AI, a dramatic escalation from just three years ago when 92 percent of firms were spending less than a quarter of their budget on the technology. Approximately one-third of PE firms now report AI allocations in the $50 million to $100 million range. These are not pilot budgets. They are infrastructure investments.

Return on investment is materialising, though unevenly. EY reports that 98 percent of PE firms are seeing ROI in employee productivity, 96 percent in technology upgrades, 94 percent in competitive advantage, and 86 percent in both operational efficiency and cybersecurity. Operational efficiency leads in "significant ROI," at 68 percent, followed by competitive advantage at 66 percent and employee productivity at 64 percent. PwC reports productivity gains of 35 to 85 percent in benchmark testing, with some diligence tasks such as competitor analysis and internal financials analysis being compressed from weeks to days.

Perhaps most tellingly, the pace of change is accelerating. Bain's survey of over 300 M&A practitioners found that GenAI adoption rose from 16 percent in 2023 to 21 percent in early 2025 to 45 percent by the end of 2025. Bain predicts that within five years, every single step of the M&A process will be enabled by generative AI. The firms that are building this capability now are accumulating data, refining models, and compounding their informational advantage with each deal cycle. Those that delay are not standing still - they are falling behind.

The Agentic Frontier: From Copilots to Autonomous Workflows

The transition from generative AI copilots to agentic AI systems represents the next major inflection point for deal sourcing. Where a copilot assists a human analyst in drafting a memo or summarising a data room, an agentic system can independently execute complex, multi-step workflows: identifying a signal, gathering corroborating data from multiple sources, cross-referencing against the firm's investment criteria, drafting a preliminary assessment, and routing the opportunity for human review.

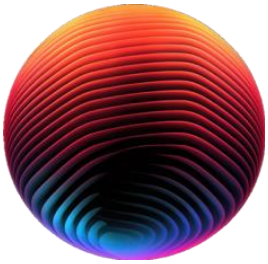
McKinsey's 2025 State of AI survey found that 62 percent of organisations are at least experimenting with AI agents, and 23 percent report scaling agentic AI systems somewhere in their enterprise. However, in any individual business function, no more than 10 percent report scaling agents. This gap between experimentation and enterprise-scale deployment is the frontier where competitive advantage is currently being defined.

For PE firms, the implications are profound. An agentic sourcing system does not sleep, does not forget to follow up, does not lose track of a promising lead because someone changed roles, and does not fail to connect data points across disparate sources. It can monitor hundreds of sectors simultaneously, maintain persistent context about each opportunity, and escalate the right targets to the right people at the right time. McKinsey describes these properties as parallel execution, real-time responsiveness, and elastic capacity - precisely the attributes that allow a 30-person deal team to compete with firms that have 300.

But the agentic frontier also introduces new risks. McKinsey warns that agentic systems raise concerns about uncontrolled autonomy, fragmented system access, poor observability, a larger attack surface, and "agent sprawl" - the proliferation of poorly governed autonomous processes that create systemic rather than isolated risks. The firms that capture the most value from agentic AI will be those that deploy it within robust governance frameworks: clear permission boundaries,

comprehensive logging, citation trails, human approval thresholds, and continuous monitoring for hallucinations, drift, bias, and prompt leakage.

Why Data Quality Is the True Moat



Every serious analysis of AI-driven deal sourcing converges on the same foundational requirement: data quality. The most sophisticated model in the world, applied to dirty, fragmented, or incomplete data, produces nothing more than faster bad decisions.

Deloitte's 2025 survey quantifies the scale of this challenge. Among the top barriers to effective AI adoption in M&A, respondents cited data security at 67 percent, data quality at 65 percent, model reliability at 64 percent, ethical concerns at 62 percent, and regulatory or compliance uncertainty at 61 percent. The fact that data-related concerns occupy three of the top five positions is not coincidental. It reflects the reality that many PE firms still operate with data scattered across CRMs, spreadsheets, virtual data rooms, research platforms, email inboxes, and the notebooks of individual partners. Without unification, AI will amplify fragmentation rather than solve it.

The firms building durable competitive advantages are those that invest in creating unified, proprietary data assets. This means systematically capturing and structuring CRM and origination history, past deal outcomes, portfolio company operating data, investment committee memos, sector theses, and management meeting notes - and linking all of this to external company, market, and alternative data sources. The key advantage emerges when the AI system learns from a firm's unique historical pattern of wins, near-misses, diligence findings, and value-creation successes. This is what transforms a generic market-scanning tool into a proprietary sourcing engine that improves with every investment cycle.

Deloitte's private-markets analysis reinforces this point, stating that effective AI adoption requires unified, high-quality data, enterprise data platforms, scalable AI and ML tooling, and governance. The absence of any one of these elements undermines the entire system. A firm that builds an excellent model but connects it to an incomplete CRM will generate polished but unreliable outputs. A firm that assembles comprehensive data but fails to govern its use will face security breaches, compliance violations, or partner mistrust. The stack must be complete to be effective.

The Human Element: Why AI Augments Rather Than Replaces

For all of its power, AI-driven deal sourcing does not eliminate the need for human judgment. It reshapes where that judgment is applied. The highest-value activities in deal origination - assessing founder psychology, reading relationship dynamics, gauging timing and competitive auction dynamics, and building trust with management teams - remain fundamentally human capabilities. No model can replicate the intuition that a senior partner brings to a first meeting with a founder who is weighing whether to sell the business their family built over three decades.

PwC's 2026 deals perspective makes this argument forcefully, arguing that the binding constraint on AI adoption in private equity is people, not technology. Use-case clarity, learning capacity, and incentive alignment are the factors that determine whether AI investments translate into realised value. Generic AI training is not sufficient. Analysts and deal professionals need job-specific workflow integration, protected learning time, and incentive structures that reward the effective use of AI-generated insights rather than the production of manual work for its own sake.

EY's data underlines the challenge of connecting AI productivity to measurable outcomes. Their survey found that 31 percent of PE respondents strongly agree, and another 31 percent somewhat agree, that their organisations struggle to link productivity gains to AI adoption. This is a critical issue in an industry where the ultimate measure of success is not analyst hours saved but MOIC and IRR. Faster work is only valuable if the reclaimed capacity is redeployed into activities that drive measurable value creation: more proprietary meetings, deeper pre-LOI analysis, earlier identification of value-creation levers, or more disciplined pricing.

The most effective operating model emerging from the current wave of AI adoption is one of structured augmentation. AI handles sector monitoring, target universe building, entity resolution, summarisation, ranking, and alerting. Human originators validate the output, shape the investment narrative, build the relationship, and decide on timing. Investment professionals use the same system to convert sourcing outputs into screening memos and early diligence hypotheses. Governance is embedded throughout: permissions, logging, citation trails, approval thresholds, and model monitoring. And ROI is measured not just by hours saved, but by qualified meetings, proprietary pipeline share, conversion rates, and ultimately, realised value at exit.

The Competitive Dynamics: What Happens to Firms That Do Not Adapt

Bain's analysis contains a warning that deserves to be read carefully. Late adopters of AI in M&A face an uphill battle in three specific areas: making the best-informed bids and knowing when to walk away, identifying new ways to underwrite and realise deal value, and executing diligence and integration faster and more accurately. Firms that fail to build AI capabilities risk being outbid for good deals and remaining too long in processes for bad ones.

This is not merely a theoretical concern. The data on M&A momentum confirms that the competitive environment is intensifying. Global deal value reached $4.9 trillion in 2025. Mega-deals valued at more than $5 billion accounted for over 73 percent of the increase in deal value. The number of deals exceeding $10 billion reached 60 in 2025, the highest level since 2021. Bain's survey of 300 M&A executives found that 80 percent expect to sustain or increase deal activity in 2026. In this environment, the speed and quality of deal sourcing is not a marginal advantage - it is an existential capability.

For family offices, the competitive dynamics are equally pressing but take a different form. Family offices typically operate with leaner teams and less institutional infrastructure than large PE firms, which makes AI-driven sourcing proportionally more valuable as a force multiplier. An agentic system that allows a five-person investment team to monitor the same breadth of sectors and signals as a 50-person origination department at a large buyout fund represents a qualitative levelling of the competitive landscape. The technology is scale-agnostic in a way that traditional human-capital-intensive origination is not.

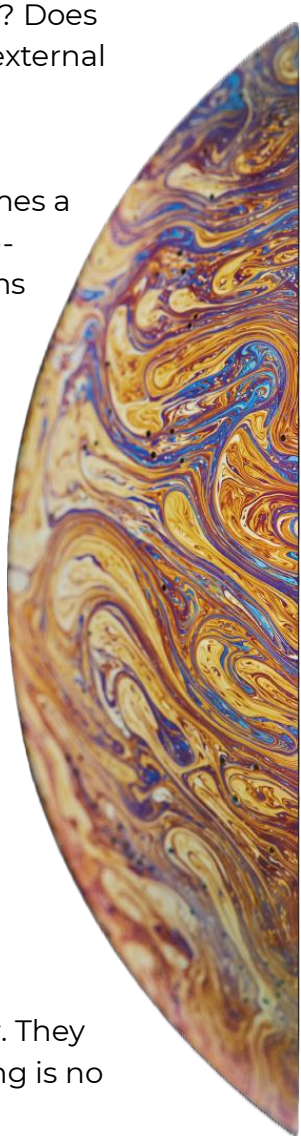
EY's research suggests that firms taking a comprehensive "reimagine" approach to AI realise two to three times the benefits compared with those pursuing narrower optimisation strategies. The implication is clear: incremental adoption - adding a chatbot here, automating a report there - is unlikely to deliver meaningful competitive advantage. The firms that will win the next cycle are those that treat AI as a fundamental redesign of the sourcing workflow, from thesis generation through to the first investment committee discussion.

A Realistic View of 2026 and Beyond

It would be irresponsible to write about AI-driven deal sourcing without acknowledging the limitations and uncertainties that remain. There is, as of early 2026, no public, audited, gold-standard benchmark for "AI sourcing accuracy" in private equity. The available evidence is principally adoption surveys, ROI proxies, and

workflow acceleration metrics rather than standardised precision, recall, or uplift measurements. Deloitte flags model reliability as a concern for 64 percent of respondents. McKinsey's State of AI report found that only 39 percent of organisations report any enterprise-level EBIT impact from AI, and most of those report less than 5 percent of EBIT attributable to the technology. Only around 6 percent of organisations qualify as "AI high performers" who report both significant value and meaningful financial impact.

AI-driven deal sourcing is not a magic wand. It can produce incorrect company classifications, fabricated comparables, flawed summaries, weak transactionability inference, and overconfident conclusions drawn from incomplete data. The practical implication is that firms should demand rigorous internal back-testing before trusting model-generated rankings. Could the model have surfaced past winners earlier? Did it rank historical false starts too highly? Does performance hold across sectors and deal sizes? Does quality degrade when external data is sparse? These are the questions that separate genuine capability from expensive theatre.



The most likely reality for the remainder of 2026 and into 2027 is that AI becomes a standard component of PE origination infrastructure, but human relationship-building and judgment remain the competitive moat. The winners will be firms that combine proprietary data, thesis-specific models, agentic workflow automation, disciplined governance, and rigorous measurement. They will source more targets, screen them faster, arrive at conversations earlier, and bring deeper preparation to every interaction. But they will still rely on experienced investment professionals to make the decisions that matter most: whether to pursue, how much to pay, and how to create value after closing.

Bain expects generative AI to enable every step of the M&A process within five years. PwC describes AI as a defining influence on private capital strategy as 2026 unfolds. EY shows PE firms budgeting aggressively and seeing broad returns. McKinsey frames the challenge as one of workflow transformation rather than mere technology deployment. The convergence of these perspectives from the industry's most respected advisory firms suggests not a trend but a structural shift - one that will separate the next generation of top-quartile performers from the rest of the industry.

The firms that will define the next era of private equity are not those with the largest funds or the most extensive networks, though those things still matter. They are the firms that understood earliest that the real competition in deal sourcing is no longer between people. It is between systems. And systems can be designed,

trained, governed, and improved with a discipline and velocity that no Rolodex ever could.

AssetMax.AI / Diligize.pe

Diligize is a specialist technology advisory firm created to modernise the private equity operating model. It combines artificial intelligence, technology due diligence, and software engineering to help businesses scale, optimise, and create value.

Our core services span the full PE investment lifecycle: pre-deal technology due diligence covering software and hardware estates, IP and licensing, infrastructure and cybersecurity, engineering operating models, people and processes too; Post-acquisition work including technology operating model rationalisation, post-merger integration, and interim management; and a software engineering and project recovery capability that deploys teams to stabilise at-risk programmes, untangle monoliths, and migrate to cloud-native architectures. We also offer an AI-powered product called "Alt Human" that quantifies the proportion of operations that can be automated, then uses agentic bots to implement and monitor an automation roadmap - translating gains into defendable valuation uplifts at exit.

Our focus is leveraging AI capability not just in the deal sourcing phase but throughout the entire deal and post-deal phases, supporting our clients to maximise value

References

1. Affinity (2025). “How AI is Shaping the Future of Deal Origination in Private Equity.” https://www.affinity.co/blog/ai-in-private-equity

2. Bain & Company (2025). “Generative AI in M&A: You’re Not Behind - Yet.” Global M&A Report 2025. https://www.bain.com/insights/generative-ai-m-and-a-report-2025/

3. Bain & Company (2026). “Global M&A Stages Great Rebound in 2025 with $4.8 Trillion Deal Value.” https://www.bain.com/about/media-center/press-releases/20252/global-ma-stages-great-rebound-in-2025-with-$4.8-trillion-deal-value-to-mark-second-highest-total-on-record

4. Bain & Company (2026). M&A Report 2026: M&A Trends & Outlook. https://www.bain.com/insights/topics/m-and-a-report/

5. Cherry Bekaert (2026). “Private Equity Report: 2025 Trends and 2026 Outlook.” https://www.cbh.com/insights/reports/private-equity-report-2025-trends-and-2026-outlook/

6. CNBC (2026). “The Global M&A Boom Is Rolling into 2026 as AI Sparks Deal Frenzy.” https://www.cnbc.com/2026/02/25/global-ma-boom-surges-2026-ai-mega-deals-capital-squeeze-merger-and-acquisition.html

7. Deloitte (2025). “Investment Management Software: Private Markets.” https://www.deloitte.com/us/en/Industries/financial-services/articles/investment-management-software-private-markets.html

8. Deloitte (2025). “M&A Generative AI Study.” https://www.deloitte.com/us/en/what-we-do/capabilities/mergers-acquisitions-restructuring/articles/m-and-a-generative-ai-study.html

9. EY (2025). “Beyond Implementation: PE’s AI Evolution into Differentiated Growth.” Q4 2025 EY AI Pulse. https://www.ey.com/en_us/insights/private-equity/us-private-equity-ai-insights

10. EY (2025). “Private Equity Pulse: Key Takeaways from Q4 2025.” https://www.ey.com/en_us/insights/private-equity/pulse

11. Grata (2026). “How to Win Deals in 2026: The AI and Strategies Dealmakers Need to Master.” https://grata.com/resources/private-equity-deal-flow

12. Konzortia Capital (2025). “From Discovery to Exit: How AI Is Redefining Deal Sourcing Efficiency.” https://konzortiacapital.com/blog/ai-redefining-deal-sourcing-efficiency-in-private-capital/

13. McKinsey & Company (2025). “The State of AI in 2025: Agents, Innovation, and Transformation.” https://www.mckinsey.com/capabilities/quantumblack/our-insights/the-state-of-ai

14. McKinsey & Company (2025). “Seizing the Agentic AI Advantage.” https://www.mckinsey.com/capabilities/quantumblack/our-insights/seizing-the-agentic-ai-advantage

15. McKinsey & Company (2026). “Global Private Markets Report 2026: Private Equity – Clearer View, Tougher Terrain.” https://www.mckinsey.com/industries/private-capital/our-insights/global-private-markets-report

16. PitchBook (2025). Global M&A Market Data. Referenced via CNBC and Cherry Bekaert.

17. PwC (2025). “How Private Equity Survives AI.” https://www.pwc.com/us/en/industries/financial-services/library/private-equity-ai-transformation.html

18. PwC (2026). “AI in Private Equity and Corporate Deals: The People Challenge.” https://www.pwc.com/us/en/services/consulting/deals/library/ai-private-equity-corporate-deals-people-challenges.html

19. Sourcescrub / Grata (2025). Dealmaker AI Usage Survey. Referenced via Grata.