A&M PRIVATE EQUITY REPORT:

How Due Diligence is Adapting to Volatility

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ALVAREZ & MARSAL

ACCELERATE & MOMENTUM

TABLE OF CONTENTS

FOREWORD

Since the early 2020s, private equity (PE)'s operating environment has become markedly more volatile.

Long-held trade alliances, supply chain dynamics and demand assumptions have been repeatedly fractured under the pressure of geopolitics, technological and societal shifts, as well as Black Swan events like the Covid pandemic.

With that, key reference points for deal underwriting – demand patterns, cost structures and competitive dynamics – are now subject to faster and less predictable change, making it much harder to evaluate businesses and their potential. At the same time, pressure on PE returns and LP distributions mean investors are pushing for more visibility into assets' operational readiness and value creation opportunities before committing to a deal.

This environment is challenging what due diligence is expected to do, and how it is delivered. Buyers today must scrutinise the target's operations against a much wider range of growth scenarios, asking difficult question such as: which channels and customer segments will remain relevant in ten-years' time, and is the supply chain ready to deliver on that demand? Or, how much cost can we take out of the business – and how quickly – if growth theses do not materialise due to another geopolitical shock?

This report, informed by a survey of nearly 100 senior PE leaders across Europe, explores how diligence practices are evolving in this environment: the rising adoption of AI across workstreams, the key risks and opportunities being assessed in pre-deal to address increased volatility, the rising demand for integrated diligence approaches, and the gap between market demand and what diligence advisors currently deliver.

We hope you find these insights useful, and welcome the opportunity to discuss them in more detail.

EXECUTIVE SUMMARY

Private equity due diligence is evolving beyond validating historical performance. As volatility, AI and operational complexity reshape investment decisions, sponsors are placing greater emphasis on execution readiness, downside resilience and integrated value creation. Our research identifies six shifts redefining how leading investors evaluate opportunities in today's market.

1 AI is increasingly used to do the groundwork in diligence…

AI is being embedded across DD workstreams, with successful use cases in data collection, risk assessment, market intelligence and scenario planning. Adoption is high across the board, with over

81% using the technology consistently or experimenting with it.

Tier 1 funds are furthest ahead:

70% use AI consistently, versus **41%** of large and **28%** of mid-sized funds.

What this means: AI is becoming the foundation of diligence, allowing deal teams to spend less time gathering information and more time evaluating investment decisions.

2 …while also serving as a core driver of value creation

Beyond using AI as a diligence tool,

80% of sponsors are actively incorporating AI into their investment thesis as a driver of operational and commercial value.

Of those,

41% consider AI in pre-deal at an operational level (evaluating how it can drive efficiency, automation, cost savings), while

39% view it primarily as a growth enabler (driving commercial expansion, new offerings, customer service enhancement).

What this means: the discussion has shifted from whether AI can improve diligence to how AI can accelerate value creation after acquisition.

3 There is increased focus on assessing downside risk in pre-deal

Value creation remains a key focus of due diligence, cited by **93%** of respondents,

but it is increasingly balanced by value protection, according to **60%** of PE sponsors.

Geopolitical exposure is the single greatest risk in diligence, cited by nearly **70%** ahead of AI disruption, climate change and cybersecurity concerns.

Around **60%** of sponsors said they have abandoned a deal in the past 12 months due to geopolitical or trade-related concerns.

What this means: sponsors are balancing growth ambitions with greater emphasis on resilience, execution risk and downside protection.

4 Sponsors are rethinking diligence workflows amid volatility

Geopolitical instability, de-globalisation and AI disruption have made growth trajectories harder to predict and supply chains more volatile, and this is changing how sponsors approach due diligence.

They now demand equally rigorous operational assessment alongside commercial and financial analysis – evaluating cost structures, workforce capability, technology readiness and leadership capacity to execute on fast-moving growth strategies.

What this means: operational capability has become as important as commercial attractiveness in determining investment conviction.

5 Demand for diligence integration (one team, one view) is accelerating

Sponsors increasingly recognise the value of an integrated investment view: a unified, coherent view of the asset where commercial drivers are grounded in operational realities, financial dynamics and execution capability.

This is particularly relevant in complex deals such as carve-outs, cross-border transactions, or those involving businesses highly exposed to AI disruption and supply chain volatility.

What this means: sponsors increasingly expect diligence providers to deliver one integrated investment narrative rather than separate functional assessments.

6 Despite market need, due diligence is still delivered in silos

There is a clear gap between what a more complex PE environment demands and what advisors currently deliver.

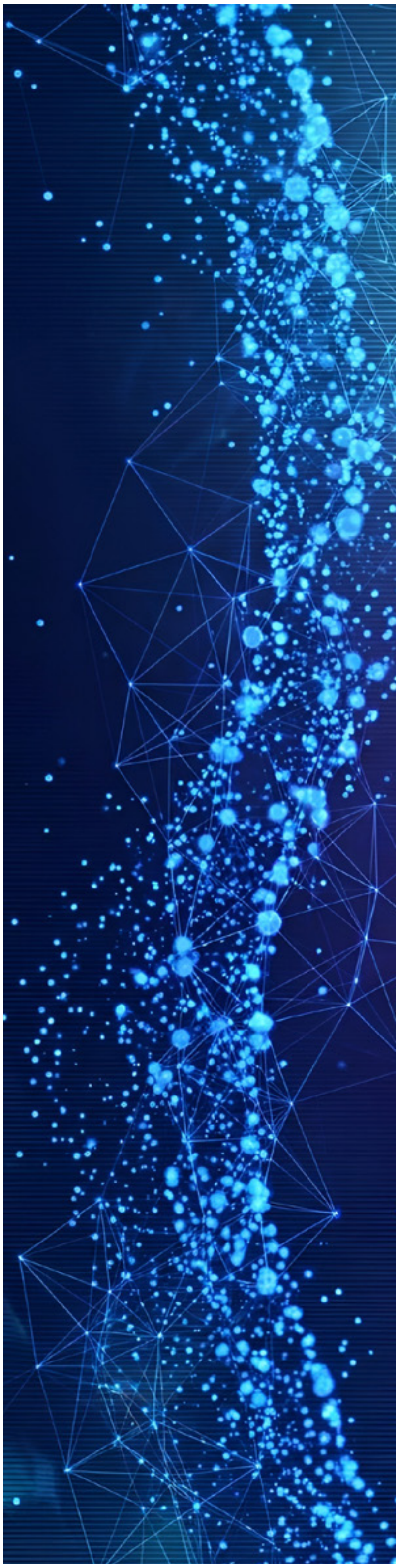
18% of survey respondents say their diligence providers offer a fully integrated due diligence service, while

54% report partial integration at best.

This reveals a market where diligence is still predominantly delivered in silos, despite demand for a coordinated, cross-disciplinary service.

What this means: the market is demanding integrated diligence faster than most advisory firms have adapted.

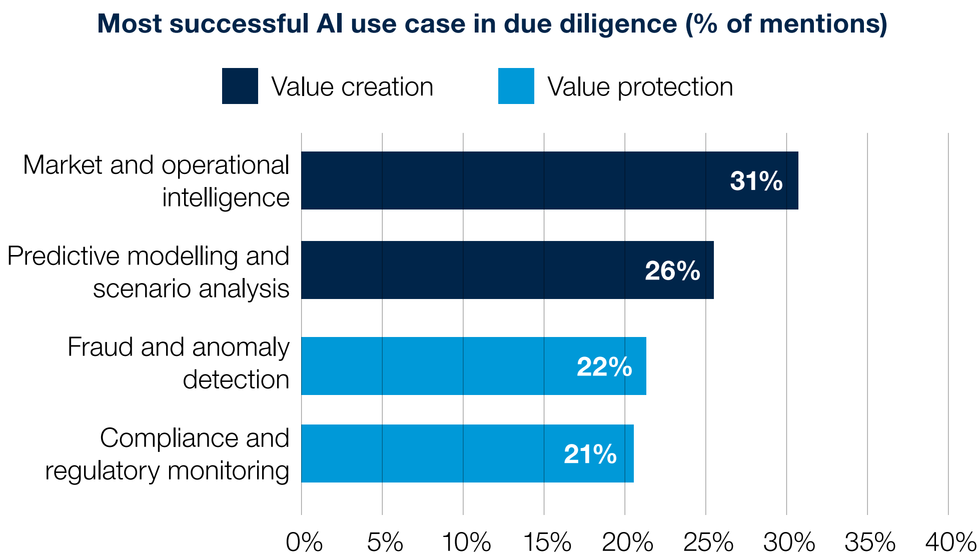
KEY SURVEY FINDINGS



AI IS BOTH A TOOL AND A VALUE CREATION CONSIDERATION IN PRE-DEAL

AI has become an operational reality in due diligence, handling much of the groundwork (data collection and processing, risk assessment and scenario planning) that previously consumed significant analyst time. Adoption is indeed growing across all fund sizes and workstreams, but the depth of integration varies: 70% of Tier 1 funds use AI consistently across diligence, compared to around 30% of mid-market funds, which remain largely at the experimentation stage.

80% of sponsors in pre-deal are actively incorporating AI into their investment thesis as a driver of operational and commercial value. Of those, 41% consider AI in pre-deal at an operational level (evaluating how it can drive efficiency, automation, cost savings), while 39% view it primarily as a growth driver (enabling commercial expansion, new offerings, customer enhancement).



Most successful use cases of AI in pre-deal span both value creation (market and operational intelligence: 31%; predictive modelling and scenario analysis: 26%) and value protection (fraud and anomaly detection: 22%; compliance and regulatory monitoring: 21%).[1]

> *AI can quickly process thousands of contracts, identifying key clauses, obligations, and risks in a fraction of the time manual review would require."*
>
> **PE Fund Senior Partner**, Germany

1. See methodology note on p. 13.

The survey’s qualitative responses confirm what we’re seeing in practice across our client engagements:

Document review and contract analysis: AI scans large data rooms and reviews contracts at speed, surfacing key clauses, change of control provisions, liabilities and compliance gaps that would take analysts significantly longer to identify manually.

Anomaly detection and fraud identification: AI is applied to historical financial data to detect unusual transactions, accounting irregularities and patterns indicative of fraud or revenue manipulation.

Commercial and market intelligence: AI synthesises competitive landscape data, pricing benchmarks, customer sentiment and sector trends in real time, including customer retention patterns, dependency on key clients, predictability of recurring revenues and changes in pricing dynamics.

Operational benchmarking: AI benchmarks performance against sector peers and simulates improvements in cost structures and working capital, creating a more rigorous basis for validating margin expansion assumptions.

Scenario modelling and predictive analytics: AI stress-tests financial projections under different macroeconomic assumptions and models integration scenarios. It allows to run simultaneous simulations of how different market conditions could affect an acquisition, supporting faster iteration of investment hypotheses and more robust underwriting at a time of increased geopolitical and economic volatility.

Compliance, cybersecurity and regulatory risk: particularly relevant in cross-border transactions and heavily regulated sectors. AI monitors regulatory environments across jurisdictions and flags cybersecurity vulnerabilities that manual processes would be slow to surface.

> *Repetitive due diligence tasks like data extraction, tagging and reporting are automated by AI, allowing analysts to focus on strategy.”*
>
> **PE Fund Senior Partner**, Germany

> *“We use AI to analyse relationship networks and uncover potential value-enhancing connections or liabilities.”*
>
> **PE Fund Managing Director**, Switzerland

Other emerging AI applications featured in the responses include supply chain risk modelling, talent and workforce analysis, and ESG risk assessment.

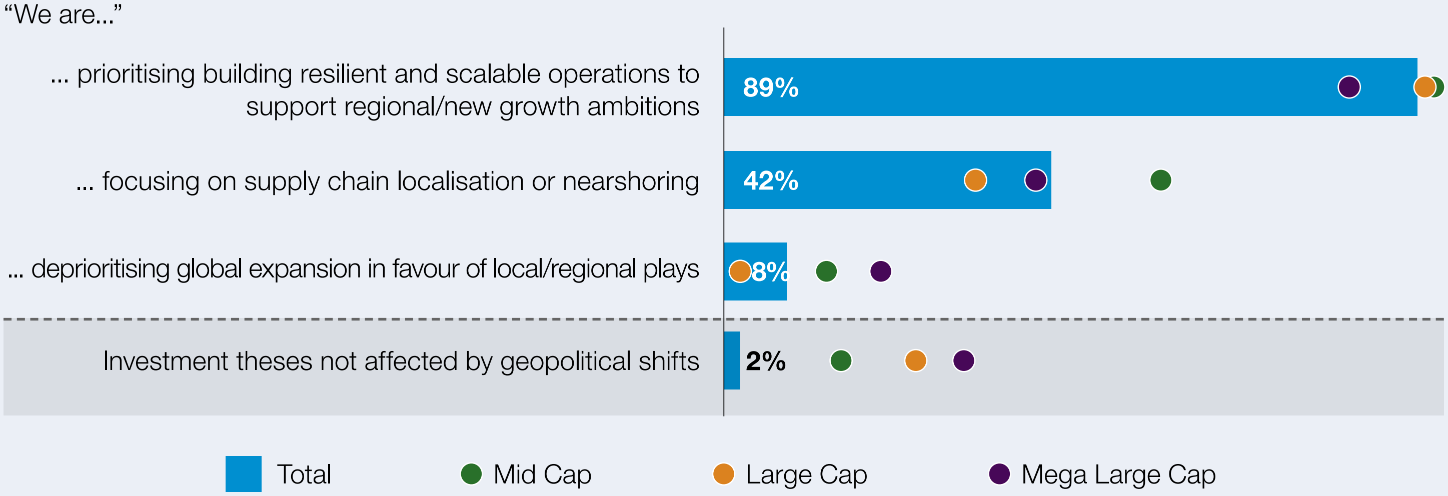
DOWNSIDE PROTECTION IS MOVING UP THE DILIGENCE AGENDA

Value creation remains the primary focus of due diligence, but it is increasingly combined with downside risk assessment, with nearly 60% of PE funds in the survey pursuing a balanced approach between value creation and value protection.

How is the focus of due diligence evolving in private equity?

The succession of macro and geopolitical shocks – and the pace of technological change – since 2020 have made investors more conscious of downside risks. Survey respondents point to energy cost exposure, operational resilience, policy uncertainty and country-specific risk as some of the items now receiving more attention in pre-deal analysis compared to previous years.

How are geopolitical shifts influencing investment theses/growth strategies?



In response, nearly 90% of respondents are prioritising the design of resilient and scalable operations in pre-deal work, and 42% are focusing specifically on supply chain localisation or nearshoring strategies to mitigate volatility-linked disruptions.

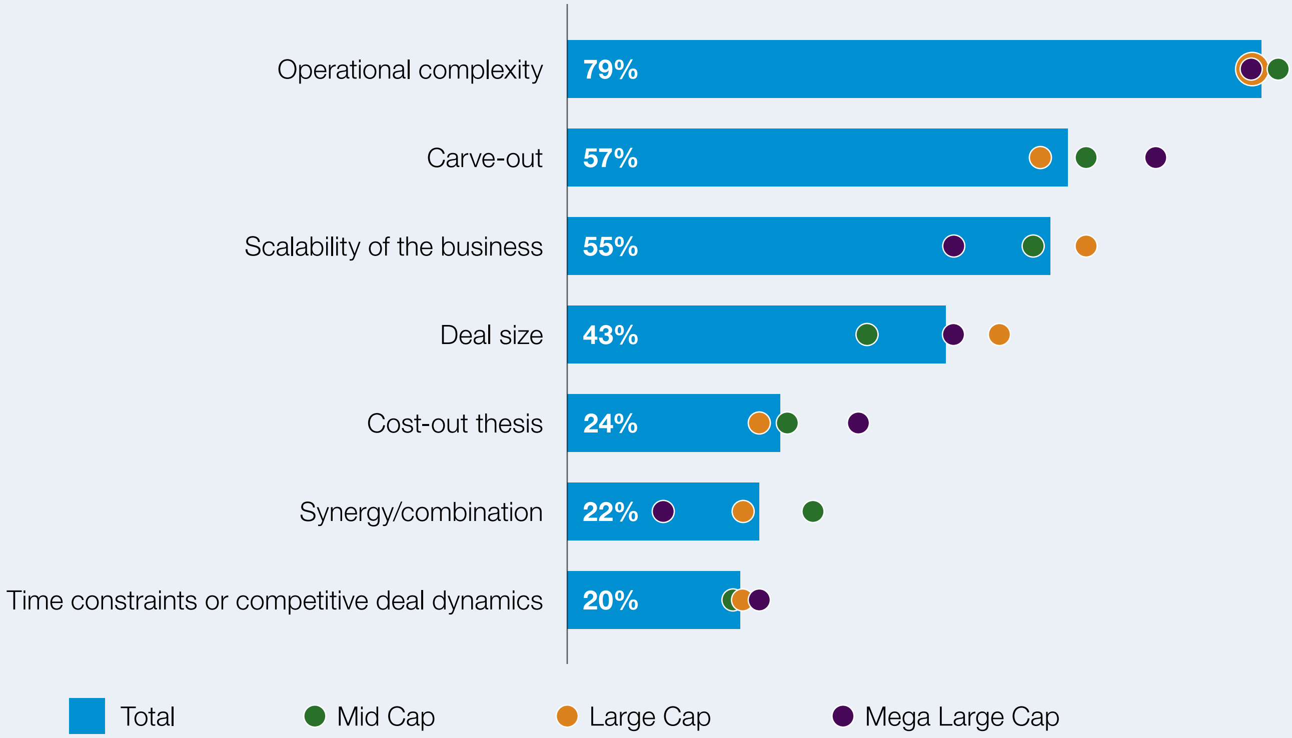
At A&M, we are increasingly seeing sponsors making operational scalability a key diligence pillar, testing whether a business can cut costs if growth plans don't materialise, and equally whether costs remain controllable if growth accelerates.

SPONSORS ARE RETHINKING DILIGENCE WORKFLOWS AMID VOLATILITY

Commercial and financial due diligence remains the industry standard, but market dynamics are forcing sponsors to deepen operational assessment in pre-deal. Heightened geopolitical uncertainty, volatile macro conditions, and rapid technological disruption (including AI) have destabilised traditional growth assumptions. As a result, understanding not just what a target can sell, but how it operationally executes has become critical to deal conviction.

> *Market volatility has underscored the importance of scenario planning and stress testing."*
>
> **PE Fund Senior Partner**, Denmark
>
> *"We commission ODD to assess the scalability of the business model and determine how effectively the company can grow and handle increased demand."*
>
> **PE Fund Senior Director**, Spain

What are the main factors that determine whether you commission operational due diligence for a deal?



The emphasis on operational diligence reflects the nature of the deals being done in the market today. 79% of respondents cite increased operational complexity as the main factor determining whether to commission ODD on a deal. The second most common reason, cited by 57%, is carve-outs – a transaction type that is intrinsically complex, requiring buyers to assess standalone viability, rebuild functions and validate whether the entity can operate independently at the assumed cost case base.

Through our client work, A&M has identified complexity as the key lever driving operational due diligence. The survey responses confirm this, with PE investors highlighting the following factors as triggers for commissioning ODD:

- Seasonal and volatile demand patterns
- Exposure to commodities, logistics or labour volatility
- Scalability risks in multi-country operations
- Data and IT infrastructure issues, including fragmented ERP systems
- Complex supply chains and heightened logistics risks from multi-country sourcing and geographic dispersion
- Integration complexity in carve-outs
- Business continuity and disaster recovery planning amid repeated disruptions.

“

Scalability risks in multi-country operations are a key determinant in our decision to commission ODD.”

PE Fund Senior Director, Sweden

“Complex supply chains – multi-country sourcing, logistics risks – are a primary trigger for commissioning ODD.”

PE Fund Senior Director, Spain

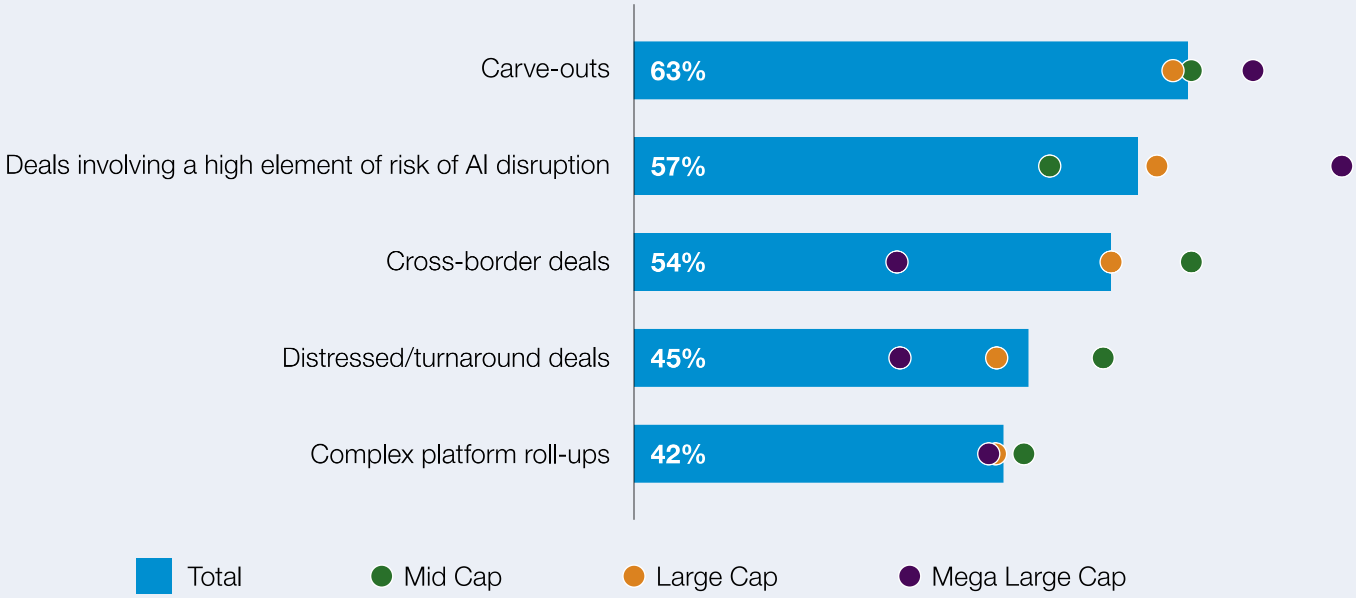
“Operational exposure to commodity, logistics, or labour volatility is a critical factor in our ODD decisions.”

PE Fund Senior Partner, Netherlands

DEMAND FOR INTEGRATED DUE DILIGENCE IS RISING, BUT SUPPLY LAGS

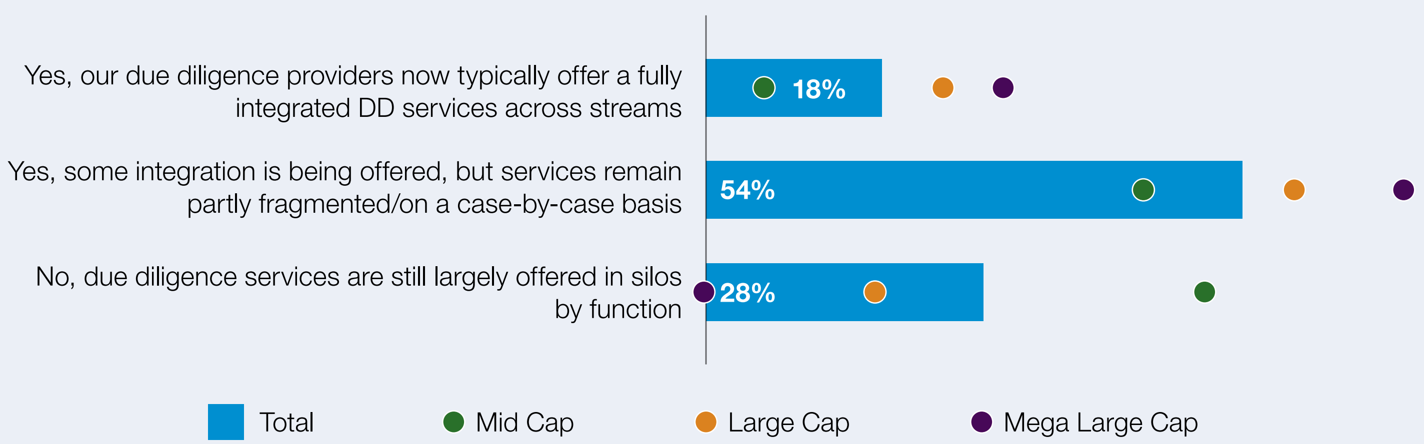
With due diligence expanding in scope, the demand for a more integrated, multi-disciplinary approach is growing. Sponsors increasingly seek an integrated investment view, where commercial opportunity, operational readiness, financial performance and execution capability are assessed together rather than independently. Respondents identify carve-outs (63%), AI-disrupted targets (57%), and cross-border transactions (54%) as the contexts where integrated due diligence delivers the greatest benefit, followed by distressed and turnaround situations (45%) and complex platform roll-ups (42%).

In what types of deals do you feel integrated due diligence in most valuable?



Diligence integration is more common in the most complex deal situations, where the focus moves from data collection to creating strategic narratives, identifying hidden risks, and building value creation plans at speed and with an increasingly granular level of analysis. That requires a closely collaborating team of experts who can not only effectively judge the quality of the AI output, but also identify cross-workstream patterns and dependencies.

Are you seeing due diligence providers offering more integrated services across different diligence streams, in response to the current deal/macro environment?



Consistent with A&M's engagement experience, survey respondents identified the following key benefits of building an integrated investment view in due diligence:

Decision quality and speed: siloed workstreams are eliminated, duplication reduced, and deal teams reach conclusions faster and with greater confidence.

Risk identification: risks are quantified sooner and conflicting conclusions between workstreams are resolved before they undermine the thesis.

Value creation plan credibility: operational feasibility and commercial growth insight are assessed together, producing a value creation plan that is realistic and executable rather than theoretical.

Stronger negotiating position: consolidated findings improve valuation accuracy and increase deal certainty.

Post-deal readiness: the transition from diligence to execution is more seamless, accelerating value capture from Day 1.

Efficiency and cost: reduced advisor duplication, streamlined workflows, optimised cost.

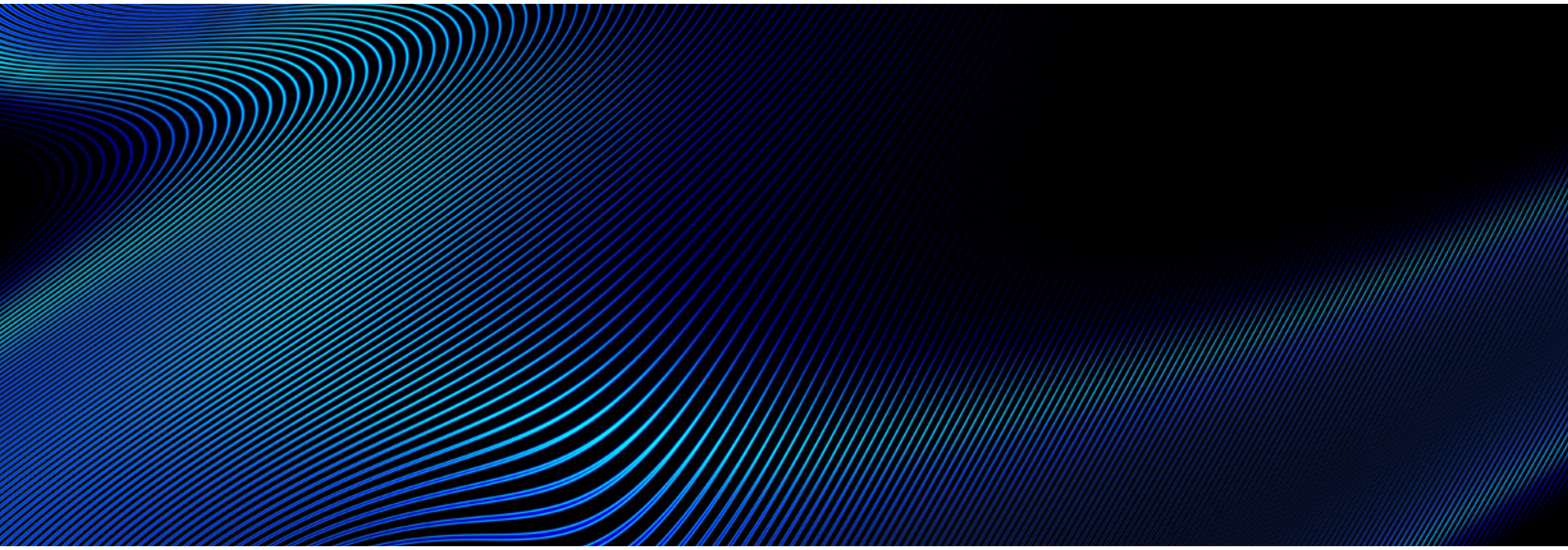
Yet despite a growing need for integration, supply is not keeping pace. Only 18% of survey respondents say their due diligence providers currently offer a fully integrated service, while 54% report partial integration at best – with most diligence teams still working in silos, unable to provide a unified view.

> *[Integrated due diligence enables] accelerates decision making by eliminating siloed work streams and it also help identify deal breakers earlier through cross functional insight."*
>
> **PE Fund Senior Partner,** Germany

> *"Integrating due diligence workstreams clarifies working capital and cash flow dynamics, and helps identify quick-win operational opportunities from the outset."*
>
> **PE Fund Senior Director,** France

> *"Integrated due diligence enhances the chances of achieving the desired returns by minimising execution and downside risks."*
>
> **PE Fund Senior Principal,** Germany

> *"It allows risks to be quantified early and reflected in pricing decisions."*
>
> **PE Fund Senior Partner,** Germany



FROM DILIGENCE TO VALUE CREATION

The role of due diligence is expanding. Increasingly, sponsors expect diligence not only to validate investment assumptions but to establish a practical roadmap for execution and value creation.

A&M's integrated approach is designed to meet that expectation by combining commercial, operational, financial, tax and technology expertise within one coordinated team. Rather than assessing workstreams independently, our teams build an integrated investment view — connecting market opportunity, operational readiness, financial performance and execution capability into a single, actionable perspective.

This matters because deal conviction increasingly depends on understanding not only whether a business can grow, but how that growth will be delivered. Commercial ambitions must be tested against operational realities, cost structures, technology readiness, leadership capacity and the ability to execute at pace.

By aligning diligence disciplines from the outset, A&M helps sponsors identify where value is truly created, what risks could prevent that value from being realised, and which actions are required from Day 1. The result is a sharper investment thesis and a value creation plan that is grounded in evidence, operationally realistic and ready to execute.

INTEGRATED DUE DILIGENCE: A CASE STUDY

A recent cross-border, multi-billion pound carve-out from a major energy company illustrates the value of this approach:

Background: A leading PE fund engaged A&M's integrated due diligence team to conduct commercial and operational due diligence on a multibillion global business being carved out from a major energy company. A&M was selected over incumbent advisors following significant investment in the pre-process stage, during which the team developed a detailed point-of-view document covering both the market and operational aspects of the business.

The challenge: The target faced significant exposure to the decline of internal combustion engine vehicles. Forecasting the pace of ICE market contraction — where views varied widely by country regulation, global growth assumptions and leading carmakers' strategic choices — was critical to shaping the future operating model.

A&M's role: A&M delivered an integrated commercial and operational view of the target, supported by a global demand model for the company's core product and proprietary analysis of ICE versus EV market evolution. This work enabled the team to assess the target's competitive position and identify value creation opportunities across procurement, G&A operating model and sales team structure.

Results: The integrated analysis supported a consolidated P&L projection for 2025–2030, demonstrating a clear trajectory of EBITDA margin improvement. It validated the target's ability to remain competitive in a changing market and identified topline and operational value creation levers that were critical to confirming valuation and supporting the client's investment decision.

Key Takeaways

- **Connected commercial and operational insights improved investment confidence.**
- **A unified diligence team accelerated decision making.**
- **Integrated analysis identified executable value creation opportunities before close.**
- **Findings translated directly into a Day 1 execution roadmap.**

Our CDD team brings together highly experienced industry expertise across Sports, Media & Entertainment, Financial Services, Healthcare, Industrials, B2B Services and Consumer.

Our ODD practice is led by former operators who have run businesses and managed large P&Ls. Through this operating experience and deep analytical capability, we identify the operational improvements and working capital opportunities that drive tangible EBITDA enhancement, translating findings directly into a concrete value creation plan before the deal closes.

What makes this possible is A&M's distinctive operating model and the talent it attracts. Our highly experienced team includes top-tier diligence professionals, operators, revenue leaders and transformation executives, each with decades of experience in the sectors and situations our clients face day-to-day. The result is diligence grounded in real-world experience, with the delivery capability to execute on it.

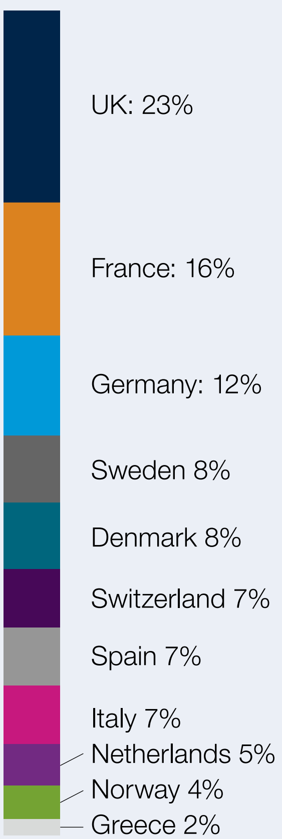
METHODOLOGY & RESPONDENT PROFILE

This report is based on a survey of 83 senior private equity professionals commissioned by Alvarez & Marsal and conducted by Statista Q in Q1 2026. Respondents are senior private equity professionals across investment/deal and operations teams within PE funds across 11 European markets: UK, Germany, France, Sweden, Denmark, Norway, Netherlands, Switzerland, Spain, Italy and Greece. Fund sizes range from £500 million to £1 billion (mid-sized) to above £5 billion (mega funds).

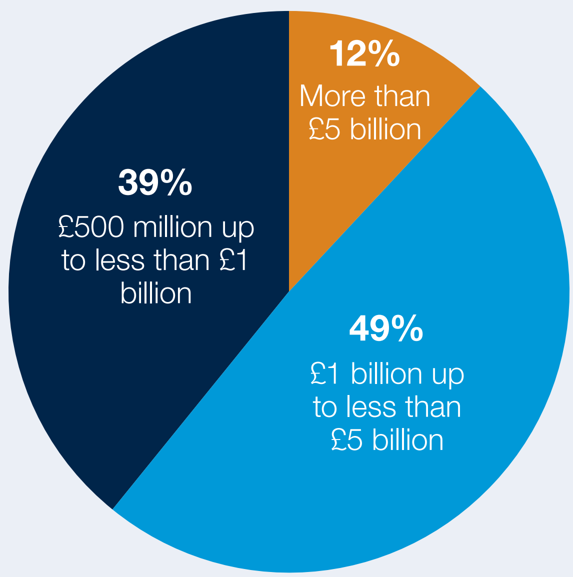
The survey combined both closed and open questions, with interviews conducted over the telephone. Results were analysed and collated by Statista Q, and are presented here in anonymised form.

Responses on AI use cases in due diligence were analysed among participants using or experimenting with AI in DD (n=67). Open-ended answers were thematically coded and multi-coded where applicable, resulting in 87 total mentions; percentages reflect share of mentions, not respondents.

COUNTRY MIX

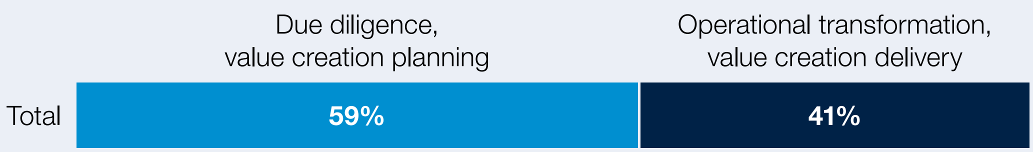


FUND SIZE*



*most recent flagship fund raised by the respondent's firm.

ROLE MIX



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ABOUT ALVAREZ & MARSAL

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