

Special Report

# M&A in Artificial Intelligence | Q1 2023

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# Executive Summary

## M&A in Artificial Intelligence (AI) | Q1 2023



### AI Industry Overview

- The global AI market is expected to expand at a CAGR of 37.3% and reach US\$1,724.5 billion by 2030, driven by a surge in AI applications across various industries.



### Global AI Unicorn Births

- Five AI unicorns emerged in Q1 2023 – three based in the US and one each in Israel and Germany.
- Generative AI firms like Anthropic, Adept, and Character.AI gained US\$1+ billion valuation.



### M&A in AI Overview

- AI accounted for 186 technology deals in Q1 2023 compared with 200 deals in Q1 2022.
- The total transaction size in Q1 2023 was US\$12.7 billion, compared with US\$4.6 billion in Q1 2022.



### Recent Trends & Developments

- Introduction of AI-powered chatbots by some of the largest tech firms in the world
- Increased collaboration and partnerships to integrate and bolster AI capabilities



### Global AI Venture Funding

- AI funding fell to US\$5.4 billion in 2023, a drop of 43% QoQ, the lowest quarterly total since Q1 2018.
- Deals slid for the fourth quarter in a row to 554, the lowest tally since Q4 2017.



### Outlook – 2023

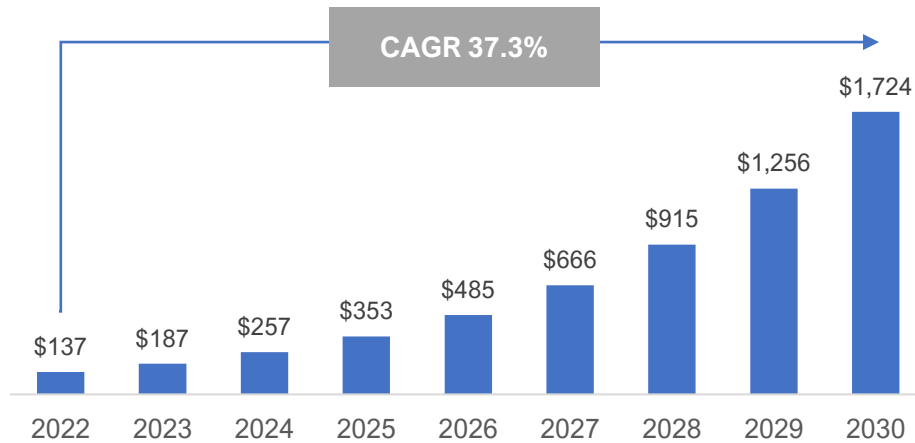
- AI advancements are expected to benefit investors across a diverse range of technical and creative fields.
- Tech giants are expected to actively undertake M&A activities in the AI space.

# AI Industry Overview – (1/2)

Global AI Market is expected to register 37.3% CAGR to reach US\$1,724.5 billion by 2030

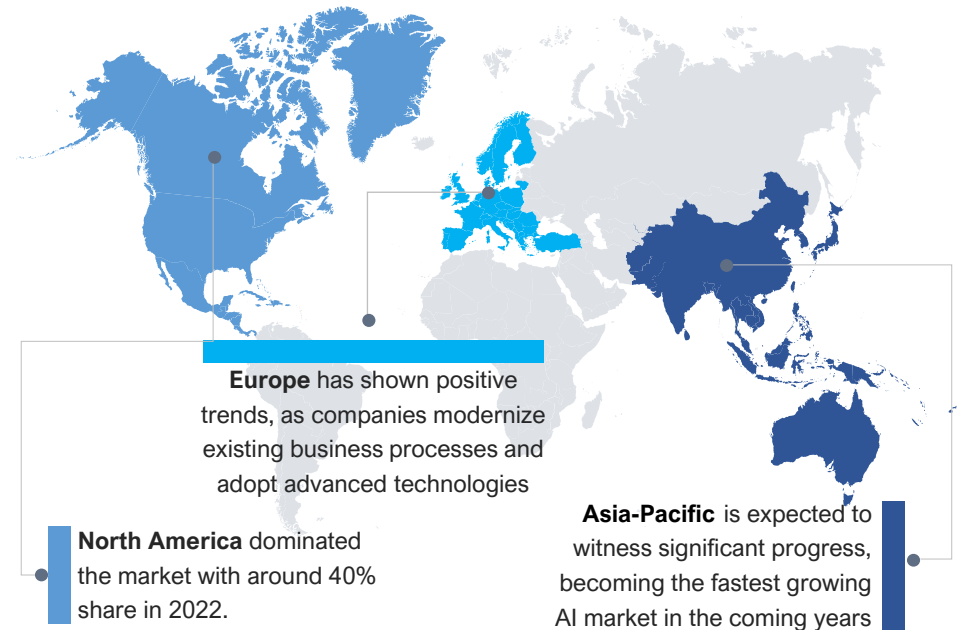
## Global AI Market Size

US\$ Bn



- The global AI market to advance at a 37.3% CAGR between 2022 and 2030 to reach US\$1,724.5 billion.
- The rapid penetration of digital technologies and the internet has significantly contributed to the growth of the global AI market. Heavy investments by the tech giants in research and development are fueling technological advancements in various industries.
- The burgeoning demand for AI technology among the various end-use verticals, such as automotive, healthcare, banking & finance, manufacturing, food and beverages, logistics, and retail, is expected to significantly drive the growth of the global AI market

## Regional Insights



## Sub Sectors

### Machine Learning (ML)

Branch of AI that leverages data to improve computer performance by giving machines the ability to "learn"

### Deep Learning

Deep learning is a ML technique that teaches computers to do what comes naturally to humans

### Natural Language Processing

Branch of AI that gives computers ability to understand text and speech the way humans can

### Machine Vision

Used to provide imaging-based automatic inspection and analysis

Source: Aranca Research

# AI Industry Overview – (2/2)

The global market is set to grow with the surge in AI applications across various industries

## Market Drivers & Restraints



### Drivers

Research and development undertaken by tech giants globally

Proven to be a significant revolutionary element of the upcoming digital era

Increasing demand for AI technology across various industries



### Restraints

Lack of AI talent in developing countries

Black box effect – AI algorithms may sometime develop results that are not easily verified

Challenges associated with all-at-once adoption of AI tools

## Recent Developments

AMD's AI platform strategy unveiled accelerators for language model training and inference of AI workload

Jun-23

Google launched Bard, its newest AI chatbot. However, it is restricted to test users before publicly available

Mar-23

Baidu introduced Earnie bot, its latest generative AI chatbot service

Feb-23

Microsoft extends partnership with OpenAI through a multiyear, multibillion dollar investment

Jan-23

ChatGPT, an AI chatbot developed by OpenAI was launched

Nov-22

Aug-22

Atomwise collaborated with Sanofi for AI-powered drug discovery

Jul-22

Clarifai launched "Clarifai Community" free service

Source: Aranca Research

## Competition Insights

**Consolidated**  
(Market dominated by 1–5 major players)

**Fragmented**  
(Highly competitive market with no dominant player)



Global AI Market

- Some key players in the global AI market are enriching their ecosystem to gain competitive advantage.
- The companies adopt strategies to develop new opportunities by building new solutions together, generate revenue by co-selling, expand their presence and share marketing strategies.
- Some companies have been upgrading their partner program to enhance support and benefits, inside access, competitive incentives, marketing, and demand generation support.



Microsoft

ORACLE



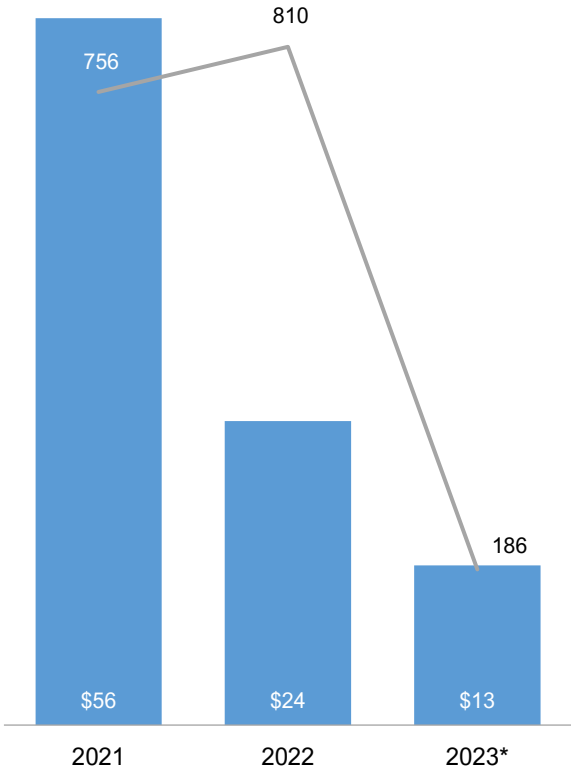
Meta

# M&A in AI Transaction Trend Overview

M&A transaction volume has been growing rapidly due to breakthroughs producing AI-enabled services

## M&A in AI (Annual)

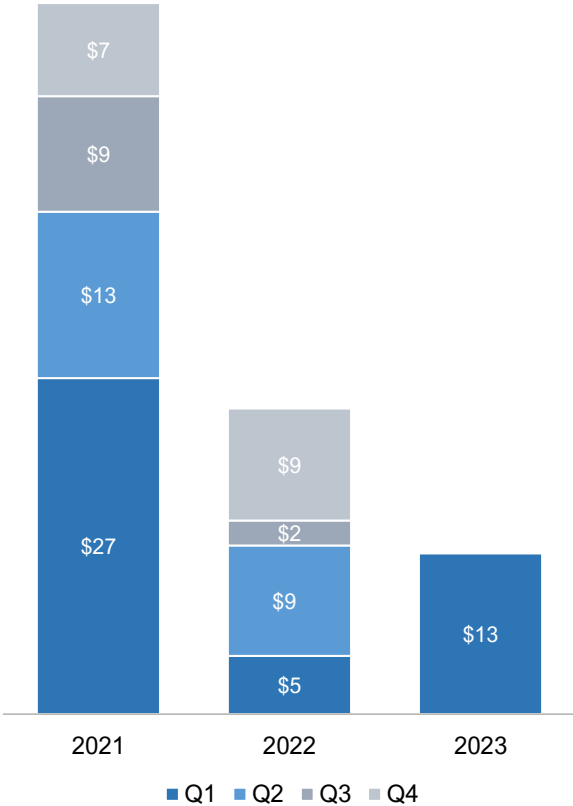
Transaction Size (US\$ Billion) and Number of Deals



\*Up to Q1 2023

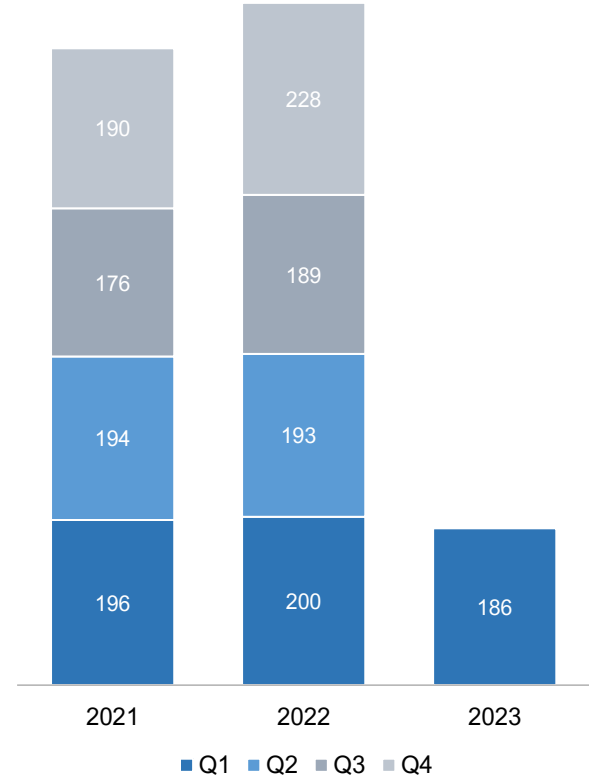
## M&A in AI (Quarterly)

By Transaction Size (US\$ Billion)



## M&A in AI (Quarterly)

By Number of Deals



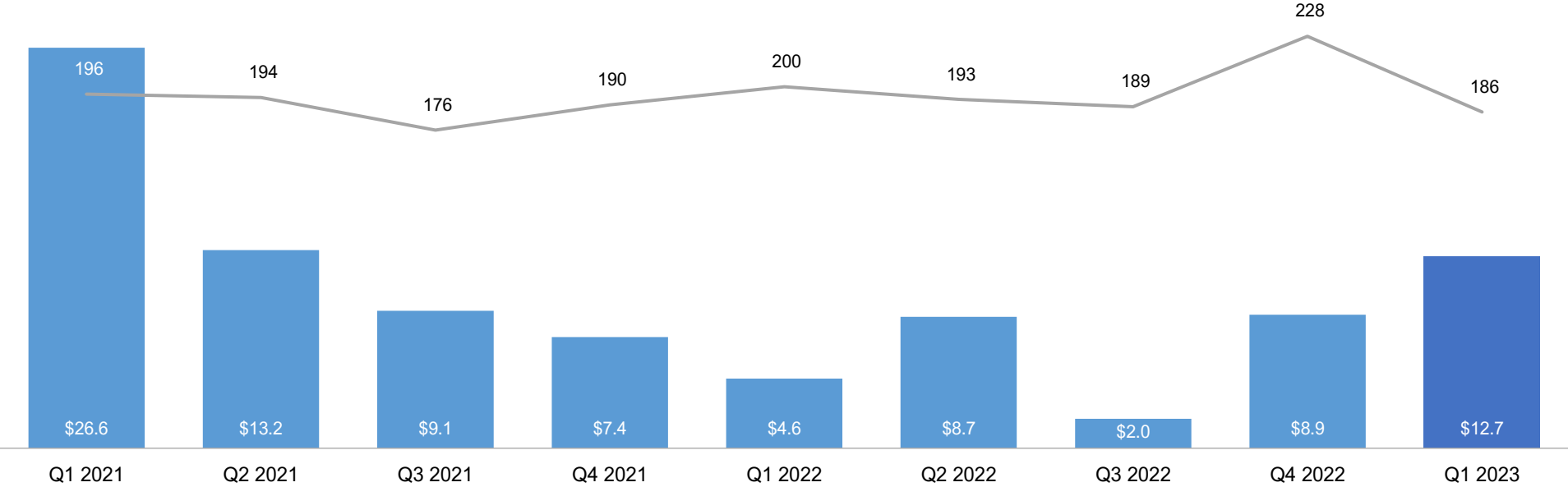
Source: Verdict

# M&A in AI Transaction Trend Overview

Total transaction value of M&A deals during Q1 2023 increased 43% and 175% Y-o-Y

## M&A Deals in AI: Last 2 Years

Total Transaction Size (US\$ Billion) and Number of Deals



- AI accounted for 186 technology deals announced in Q1 2023, worth US\$12.7 billion.
- The US\$10 billion acquisition of OpenAI by Microsoft was the industry’s largest disclosed deal.
- AI-related deal value increased 43% in Q1 2023 compared with \$8.9bn in Q4 2022 and rose 175% as compared with Q1 2022.
- AI-related deal volume decreased 18% in Q1 2023 compared with Q4 2022 and was 7% lower than in Q1 2022.

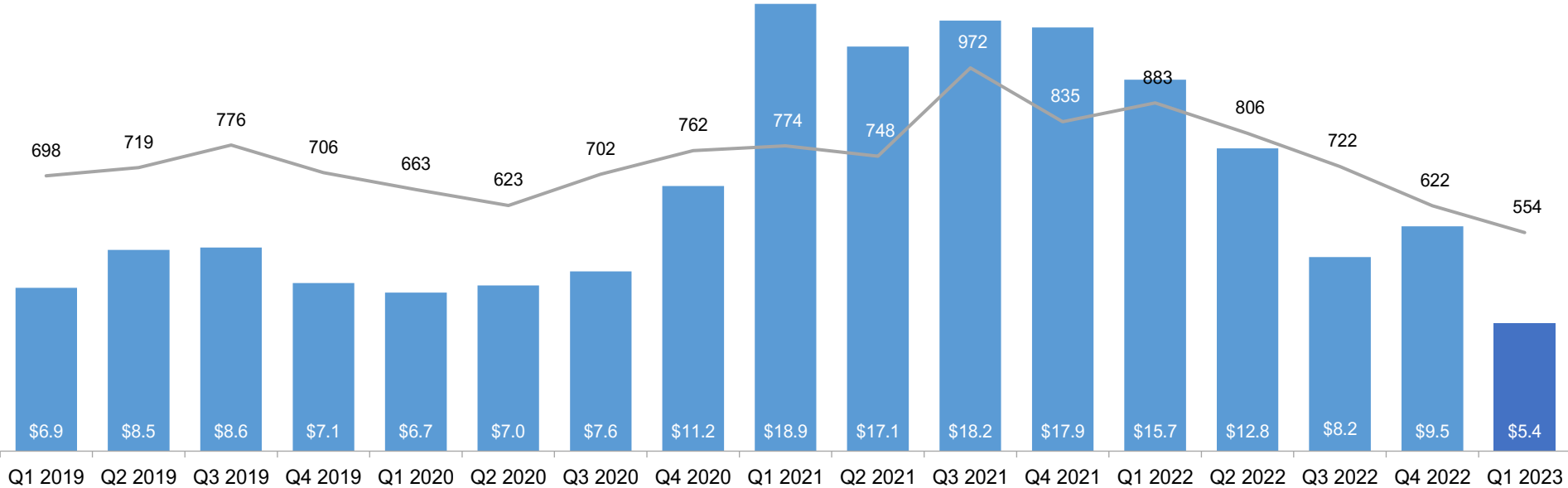
Source: Verdict

# Global AI Venture Funding – Q1 2023

Generative AI momentum is not enough to save AI funding from a steep fall in Q1 2023

## Global AI Venture Funding

Venture Funding (US\$ Billion) and Number of Deals



- Global AI funding plunged 43% QoQ to US\$5.4 billion in Q1 2023. This is the lowest quarterly total since Q1 2018. Meanwhile, deals slid for the fourth quarter in a row to 554, the lowest tally since Q4 2017.
- Three of the top five largest funding rounds this quarter went to generative AI companies — a signal that generative AI excitement is translating into real funding momentum.
- However, it may take long for the growing genAI segment to make up for the decline in broader AI funding.

Source: CB Insights

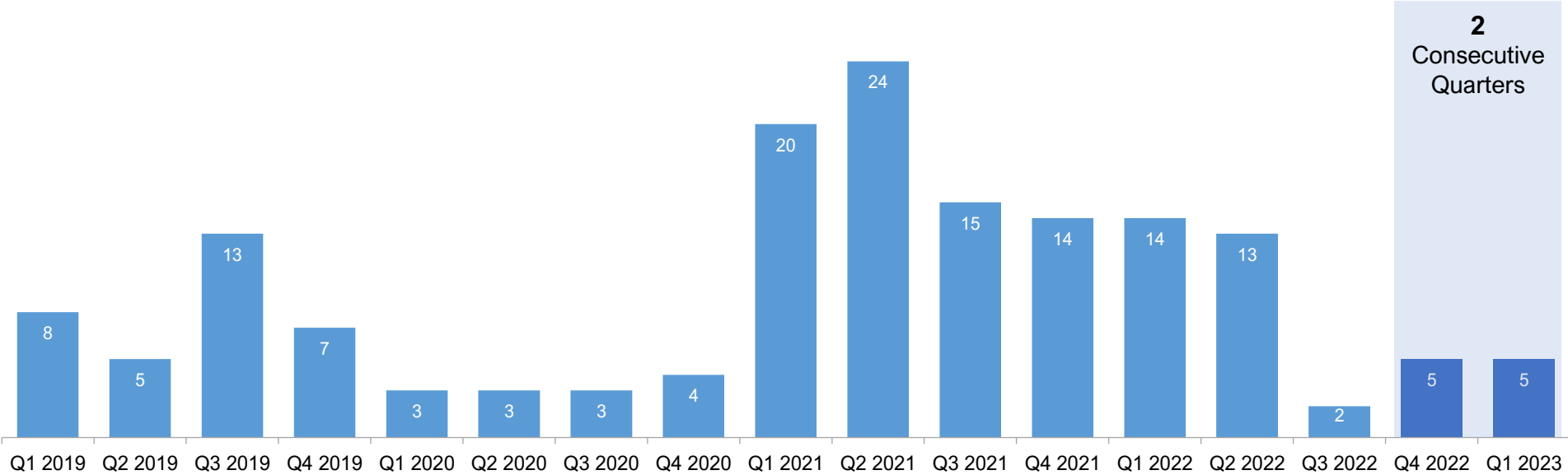


# Global AI Unicorn Births – Q1 2023

AI Unicorns hold steady at five including three generative AI companies

## Global AI Unicorn Births

Number of Unicorns



- Five new AI unicorn emerged in Q1 2023 – the same rate as the previous quarter
- Generative AI companies accounted for three entrants to the unicorn club with Anthropic, Adept, and Character.AI gaining valuations of US\$1 billion or above.
- Of the five new unicorns, three are based in the US, one in Israel, and one in Germany. Overall, the US accounts for 64% of the 170 current AI unicorns.

Source: CB Insights

# Trends in AI

AI Investments and use of AI across various industries are set to drive the market



## Introduction of AI-powered programs and chatbots

- After OpenAI unveiled its AI chatbot, ChatGPT, in November 2022, several tech giants joined the AI race by launching their own AI-powered chatbots.
- Apart from being a major investor in OpenAI, Microsoft successfully integrated AI into its search engine, now called Bing AI.
- Google's AI chatbot, Bard, and Baidu's Ernie Bot were released in March 2023 to compete with OpenAI and Microsoft.
- AI startups also caught onto the AI chatbot trend. Anthropic, an AI research company, is working on its AI chatbot called Claude.



## AI Investments, Partnerships and Collaborations

- AI investments have been capital intensive to date and will continue to need substantial access to capital.
- The AI industry has seen several collaborations recently, with Microsoft and OpenAI partnership being one of the most famous among these. Microsoft recently renewed its partnership with OpenAI, moving the investment into the third phase with a new multiyear, multi-billion-dollar investment.
- IBM acquired StepZen Inc, a GraphQL server developer with a unique architecture. Since April 2020, IBM acquired 30 companies to bolster its AI capabilities.
- Walmart partnered with Salesforce to offer pick up and delivery services to retailers by providing personalized customer experience using AI and real-time data.
- Aurora Mobile collaborated with Baidu Ernie bot to become its new ecosystem partner. With this, the company will access the chatbot and apply Baidu's intelligent dialogue technology to develop a full range of AI-driven interactive marketing products and customer engagement services.




## AI Governance & Regulations


- Companies and investors committing to AI need to be fully-aware of the complex and evolving legal environment regulating AI and data. Additionally, several countries have been actively developing regulations to address the ethical, social, and legal implications of AI.
- While there is no federal AI regulations in the US, several states have started introducing legislations. Canada has been proactive in AI governance. In 2019, the Canadian government released the Pan-Canadian Artificial Intelligence Strategy, which includes principles and guidelines for responsible AI development. Singapore has been at the forefront of AI regulation in Southeast Asia.
- The EU has taken a comprehensive approach to AI regulation, proposing the Artificial Intelligence Act, which aims to establish a legal framework for AI systems' development and deployment. Meanwhile, China has been actively working on AI regulations and governance frameworks.

Source: Aranca Research

# Recent M&A Deals in the AI Industry

Most significant M&A transactions in AI so far this year

June 2023 





International Business Machine (IBM) Corporation entered a definitive agreement with Vista Equity Partners to purchase Apptio Inc. for \$4.6 billion

June 2023 





Databricks agreed to acquire AI startup MosaicML, in a mostly stock deal valued at \$1.3 billion

May 2023 



ServiceNow announced an agreement to acquire G2K, an AI-powered platform with a view toward transforming retail and other industries

May 2023 



Snowflake acquires Neeva, to accelerate search in the Data Cloud through generative AI. The companies did not reveal the terms of the deal

April 2023 





Nextiva acquired Simplify360, an AI customer experience platform based in India for an undisclosed amount

March 2023 



Accenture acquired Flutura, an industrial AI company, headquartered in India. Terms of the transaction were not disclosed

March 2023 



Qualtrics announced that it entered a definitive agreement to be acquired by Silver Lake, in partnership with CPP Investments at \$12.5 billion

January 2023 





McKinsey & Company acquired Iguazio, a Tel-Aviv-based startup in AI and ML at an estimated value of \$50 million

Source: S&P Capital IQ, Aranca Research

# Recent SPAC Deals and SPACs Searching for Targets



Several AI-focused companies have announced collaborations with SPAC


July 2023  





**ALTC ACQUISITION CORP**


Sam Altman's (OpenAI CEO) SPAC AltC Acquisition Corp is taking a nuclear fission start-up, Oklo, public in a deal that values the business at \$850 million

April 2023  






Spectral MD, announced that it is going public via a merger with a SPAC, Rosecliff Acquisition Corp I. The deal sets an enterprise value of around \$170 million

April 2023  



iLearningEngines, announced that it plans to list on Nasdaq at an initial valuation of \$1.4 billion through a merger with shell company Arrowroot Acquisition Corp

March 2023  



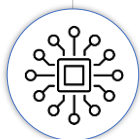
Airship AI Holdings, announced that it is going public through an acquisition by shell company BYTE Acquisition Corp. at a valuation of around \$290 million

SPACs Searching for Targets	Target Focus	Trust Value (USD Mn)
FTAC Zeus Acquisition Corp	Tech, Fintech	\$ 417.9
Alpha Partners Technology Merger Corp	Tech	\$ 289.6
Investcorp India Acquisition Corp.	Fintech, Tech	\$ 273.2
Compass Digital Acquisition Corp	Technology Services and Software	\$ 217.8
byNordic Acquisition Corp	Tech, Fintech	\$ 180.5
Bilander Acquisition Corp	Tech	\$ 171.3
CF Acquisition Corp VII	Tech, Software	\$ 149.9
Evergreen Corp	Tech (AI), Fintech	\$ 123.3
Future Tech II Acquisition Corp	AI and Robotics	\$ 121.4
Mars Acquisition Corp	AI and Related Innovations	\$ 70.8

Source: SPACtrack, Aranca Research

# Outlook – 2023

Tech giants are expected to actively undertake M&A in the AI space



## Tech M&A in 2023 will focus on AI, digital assets, NFTs, and the Metaverse

- The need for speed in digital transformation across industries, accelerated by an era of volatility, will keep dealmaking front and center, with a wave of acquisitions in the AI and ML markets.
- AI has long been a major focus for tech leaders across industries. Big corporations across every sector, from retail to agriculture, are trying to integrate ML into their products. This combination is fueling a heated race to scoop up top AI startups.



## Positive outlook for investors in the AI sector

- Advancements in AI are expected to benefit investors and enterprises across a diverse range of technical and creative fields.
- The strong flow of early-stage funding and R&D initiatives into the commercial applications of generative AI from investors and large tech players indicate a positive outlook for the sector, with an estimated \$US1.4 billion of capital raised in 2022 despite a challenging fund-raising environment in private capital markets.



## The AI startup space

- Venture and early-stage growth companies will look for investors that can provide capital and resources to further develop their technologies and offer access to a larger platform for product distribution.
- Investors will look to deploy capital into companies that offer enterprise-ready, end-to-end AI solutions within their respective sectors.
- Companies that have already been particularly successful in early funding rounds are now developing production-ready AI and Machine Learning Operations (MLOps) tools.



## AI's potential to drive change and innovation within enterprises

- As the sector expands, commercial applications of generative AI could bring immense value to a diverse range of fields that require vast amounts of testing data to gain insights into their models.
- In addition to its value-add to existing business models, generative AI could give rise to a new ecosystem of AI-based professional service providers or specialized consultancies, particularly in creative fields like marketing.

Source: Macquaire, Aranca Research



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