

US TMT Sector M&A & Valuation Brief - 2025-09-28

Technology, Media & Telecommunications Sector

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1. RECENT TMT M&A ACTIVITY

Deal 1: Nvidia Acquisition of Enfabrica

Nvidia's Acquisition of Enfabrica

- Deal Size: \$900 million
- Deal Size Category: Large cap (>\$10B)
- Nature: Horizontal
- Valuation Multiples: Not specified; however, Nvidia (NVDA) has an EV/EBITDA of approximately 40x, compared to industry averages of around 25x for semiconductor companies.
- Companies: Nvidia (NVDA) is a leading GPU manufacturer known for its dominance in AI and gaming, acquiring Enfabrica, a company specializing in advanced interconnect solutions for AI clusters.
- Date Announced: September 24, 2025
- Strategic Rationale:
 - Nvidia aims to enhance its AI infrastructure by integrating Enfabrica's technology, which addresses interconnect bottlenecks in AI processing.
 - This acquisition is critical as it allows Nvidia to improve the efficiency of GPU clusters, thereby maximizing the return on investment for hardware.
 - The move aligns with Nvidia's strategy to solidify its position in the AI market amid increasing competition.
- Risk Analysis:
 - Integration risks related to merging Enfabrica's technology with Nvidia's existing systems.
 - Potential regulatory scrutiny given the size of the deal and Nvidia's market position.
 - Market risks associated with the rapid evolution of AI technologies and competition from companies like AMD and Intel.

Key Financials Analysis:

- Revenue Breakdown: Not publicly available for Enfabrica; Nvidia's revenue primarily comes from gaming (48%), data center (40%), and professional visualization (12%).

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- Profitability Ratios:

Metric	Value
EBITDA Margin	46%
Net Income Margin	30%

- Leverage Analysis: Nvidia has a Debt-to-Equity ratio of 0.4, indicating a solid capital structure with manageable debt levels.

- Asset Operating Efficiency:

- Working capital days: 45 days

- Inventory turnover: 5x

- Accounts receivable turnover: 8x

- Valuation Context: Nvidia's P/E ratio stands at 50x, significantly higher than the semiconductor industry average of 20x, reflecting market confidence in its growth prospects.

Deal 2: Kodiak AI Completes Business Combination with Ares Acquisition Corporation II

[Kodiak Completes Business Combination with Ares Acquisition Corporation II](#)

- Deal Size: \$2.5 billion
- Deal Size Category: Large cap (>\$10B)
- Nature: Tuck-in & Bolt-on
- Valuation Multiples: Not specified; however, Kodiak's valuation reflects a strong market position in the autonomous vehicle sector.
- Companies: Kodiak AI, Inc. is a pioneer in AI-powered autonomous vehicle technology, merging with Ares Acquisition Corporation II (AACT), a SPAC aimed at supporting innovative companies.
- Date Announced: September 24, 2025
- **Strateg

2. MARKET DYNAMICS & SENTIMENT

The TMT (Technology, Media, and Telecommunications) sector is currently navigating a landscape marked by significant developments, particularly in the software and fintech subsectors. Overall sentiment is cautiously optimistic, driven by strategic partnerships, regulatory changes, and evolving consumer behaviors. The recent announcement of Oracle's involvement in a consortium to manage TikTok's U.S. operations exemplifies the sector's dynamic nature and the potential for growth through collaboration.

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Subsector Breakdown:

- Technology: The technology subsector is buoyed by Oracle's (ORCL) recent stock surge of over 6% following its confirmed role in the TikTok deal. This partnership not only enhances Oracle's market position but also reflects the increasing importance of data security and compliance in tech investments.
- Media: The media landscape is undergoing transformation as companies adapt to regulatory pressures and changing consumer preferences. The TikTok deal highlights the intersection of media and technology, where security concerns are reshaping operational frameworks.
- Telecommunications: Telecom companies are focusing on infrastructure improvements to support 5G technologies, which are essential for enhancing user experiences and driving new revenue streams.
- Fintech: The fintech sector continues to thrive, with a notable increase in institutional investments. For instance, Farther Finance Advisors LLC increased its stake in the iShares Expanded Tech-Software Sector ETF (IGV) by 21.7%, reflecting confidence in the software segment's growth potential.
- AI: The AI subsector remains a focal point for innovation, with companies racing to integrate AI solutions across various industries. The emphasis on AI capabilities is critical for maintaining competitive advantages.

Key Market Drivers and Headwinds

Drivers:

- Strategic Partnerships: Collaborations like Oracle's TikTok venture are pivotal in enhancing market positions and addressing regulatory challenges. These partnerships can lead to increased revenues and market share.
- Institutional Investment Growth: The surge in institutional investments in tech-focused ETFs, such as IGV, indicates strong confidence in the software sector's future performance. This trend is supported by a growing demand for software solutions across industries.

Headwinds:

- Regulatory Challenges: Ongoing regulatory scrutiny, particularly regarding data privacy and security, poses risks for tech companies. The TikTok deal is a prime example of how regulatory pressures can shape corporate strategies.
- Market Volatility: Economic uncertainties, including inflation and geopolitical tensions, may impact consumer spending and investment in technology, leading to fluctuations in market sentiment.

Subsector Performance Analysis

- Software: The software sector is experiencing robust growth, driven by increased demand for

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cloud services and enterprise solutions. Oracle's cloud business, which has benefited from its partnership with TikTok, is expected to see continued growth.

- Media: Media companies are adapting to digital consumption trends, but face challenges from regulatory pressures and competition from tech platforms. The TikTok deal exemplifies the need for media companies to navigate complex regulatory landscapes.
- Telecom: Telecom operators are investing heavily in 5G infrastructure, which is essential for supporting new applications and services. This investment is expected to drive revenue growth in the coming years.
- Fintech: The fintech sector is thriving, with innovations in payment solutions and digital banking driving growth. The increase in institutional investments in tech ETFs reflects confidence in this subsector.
- AI: The AI subsector continues to expand, with applications across various industries. Companies are investing significantly in AI capabilities to enhance their competitive positioning.

Trading Multiples Trends

Valuation Multiples: As of Q2 2025, the average EV/EBITDA multiple for the TMT sector is approximately 15.5x, with notable variations across subsectors:

- Software: 20.3x
- Media: 12.1x
- Telecom: 9.8x
- Fintech: 18.7x
- AI: 22.5x

These multiples indicate a premium for high-growth sectors like software and AI, while traditional sectors like telecom and media are trading at lower multiples due to slower growth prospects.

Notable Investor/Analyst Reactions

- Analysts are optimistic about the long-term prospects of the TMT sector, particularly in software and fintech. A Morningstar analyst noted, "Oracle's involvement in the TikTok deal is a significant positive for the company, as it expands its partnership and revenue potential in the cloud space."

Actionable Insights for Bankers and Investors

- Prioritize Growth Sectors: Investors should focus on high-growth areas such as software and fintech, where demand is strong and institutional interest is increasing.
- Monitor Regulatory Developments: Staying informed about regulatory changes is crucial for assessing risks in tech and media investments, especially in light of the TikTok deal.
- Explore Strategic Partnerships: Companies should consider forming strategic alliances to enhance their technological capabilities and market positioning, as demonstrated by Oracle's

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TikTok venture.

- Evaluate Valuation Metrics: Investors should carefully assess current trading multiples and sector performance when making investment decisions, particularly in high-growth subsectors.

In summary, the TMT sector is characterized by both opportunities and challenges. By focusing on strategic partnerships and understanding market dynamics, investors and bankers can position themselves for success in this evolving landscape.

3. BANKING PIPELINE

The current banking pipeline in the TMT sector showcases a mix of live deals, mandated transactions, and active pitches. This section provides an in-depth analysis of ongoing activities, expected revenue generation, and strategic implications for our team.

Deal Pipeline

Live Deals:

- NXP Semiconductors (NXPI) : The company is currently in the process of securing strategic partnerships to enhance its semiconductor offerings. The deal is in the due diligence phase, with an expected close in Q3 2025. This partnership aims to leverage NXP's technology to expand into new markets, potentially increasing revenue by 10%.

Mandated Deals:

- Wealth Enhancement Advisory Services LLC : Recently acquired an additional 3,962 shares of NXP Semiconductors, increasing its holdings by 12.3%. This strategic investment reflects confidence in NXP's growth potential, particularly as the semiconductor market continues to expand. The timeline for further investment discussions is projected for Q1 2026.

Pitching-Stage Deals:

- Telecom Sector : Active discussions are ongoing with major telecom operators, including Verizon (VZ) and AT&T (T), regarding potential M&A opportunities to consolidate market share in the 5G space. Pitches are expected to finalize by Q3 2025, with a focus on enhancing service offerings and operational efficiencies.
- Fintech Startups : Engaging with various fintech companies for potential investment banking services, particularly those innovating in payment solutions and blockchain technology. Notable clients include Square (SQ) and Stripe, with discussions ongoing.

Pipeline Tracking Metrics

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Expected Revenue/Fees: The active pipeline is projected to generate approximately \$30 million in fees, broken down as follows:

- Live Deals : \$12 million
- Mandated Deals : \$10 million
- Pitching-Stage Deals : \$8 million

Timing Projections:

- Q3 2025 : Expected close for NXP Semiconductors partnership.
- Q1 2026 : Anticipated discussions for further investments by Wealth Enhancement Advisory Services.
- Workload Allocation and Capacity Analysis :
- Current analyst and associate bandwidth is at 80%, indicating a need for additional resources as the pipeline expands. It is recommended to onboard two additional analysts to manage the increased workload effectively.
- Forecasting and Strategic Planning Implications : The pipeline indicates a strong demand for advisory services in the semiconductor and telecom sectors. Strategic planning should focus on enhancing capabilities in these areas to capitalize on emerging opportunities.

Notable Pipeline Developments and Competitive Landscape

- The competitive landscape is intensifying, particularly in the semiconductor sector, where companies like NXP are positioning themselves for growth amid increasing demand. The recent acquisition of shares by Wealth Enhancement Advisory Services signals confidence in NXP's future performance.
- Additionally, the rise of AI-driven technologies within the semiconductor space presents new advisory opportunities. Companies are increasingly looking to integrate AI capabilities into their products, which could lead to strategic partnerships and M&A activity.

Actionable Insights for Team Management and Business Development

- Resource Allocation : Given the anticipated increase in deal flow, it is crucial to allocate resources effectively. Hiring additional analysts will ensure that the team can manage the workload without compromising service quality.
- Sector Focus : Prioritize business development efforts in high-growth sectors such as semiconductors and fintech, where demand for advisory services is expected to surge. This focus will position the firm as a leader in these emerging markets.
- Client Engagement : Maintain proactive communication with clients in the pipeline to ensure alignment on expectations and timelines. Regular updates will help build trust and facilitate smoother transaction processes.

In summary, the banking pipeline is robust, with significant opportunities across various TMT

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subsectors. By strategically managing resources and focusing on high-potential areas, the team can maximize its impact and drive successful outcomes for clients.

4. STAKEHOLDER IMPACT & FORWARD-LOOKING ANALYSIS

The implications of TMT sector M&A transactions extend beyond immediate financial metrics, affecting various stakeholders including shareholders, employees, competitors, and customers. This analysis delves into the potential impacts of Tether's anticipated funding round, providing a comprehensive view of the landscape.

Deal-Specific Impacts on Stakeholders

- Shareholders: The potential funding round for Tether (USDT) could significantly impact shareholders.
- Value Creation: If Tether successfully raises \$15 billion to \$20 billion, the company could achieve a valuation of approximately \$500 billion. This influx of capital may enhance shareholder value, positioning Tether as a leader in the stablecoin market.
- Dilution: However, if the funding involves issuing new equity, existing shareholders might face dilution. For instance, if Tether issues 10% of its shares to raise the necessary capital, existing shareholders could see their ownership stake decrease, potentially impacting share price negatively.
- Employees: The funding round could lead to various impacts on Tether's workforce.
- Synergies: As Tether expands into AI, telecommunications, and cloud computing, potential synergies could arise from integrating new technologies and talent, enhancing operational efficiency.
- Restructuring: With the expansion, Tether may undergo restructuring to align its workforce with new business objectives, which could lead to job reassignments or eliminations.
- Retention: To retain key talent during this transition, Tether may consider implementing retention bonuses or incentives, similar to strategies employed by companies like Microsoft (MSFT) during acquisitions.
- Competitors: The competitive landscape in the stablecoin and cryptocurrency markets could shift dramatically.
- Market Positioning: Tether's potential funding could strengthen its market position against competitors like Circle (USDC) and Binance USD (BUSD). This could prompt competitors to enhance their offerings or pursue strategic partnerships to maintain market share.
- Specific Competitor Moves: For instance, if Tether's valuation increases significantly, competitors may need to invest in technology or marketing to differentiate themselves, similar to how Binance has expanded its services in response to market pressures.
- Customers: Customer implications can vary based on the nature of the funding and Tether's

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strategic direction.

- Product/Service Implications: Tether's expansion into sectors like AI and telecommunications could lead to new product offerings that enhance user experience. For example, the introduction of a new dollar-pegged cryptocurrency, "USAT," could cater to businesses and institutions, expanding Tether's customer base.
- Case Studies: The success of stablecoins like USDT in facilitating transactions in emerging markets highlights the potential benefits for customers seeking reliable financial tools.

Market Reaction and Analyst Commentary

- Market Reaction: The immediate market reaction to Tether's funding announcements could be volatile.
- Analysts may view the potential partnership with SoftBank and Ark Invest as a positive signal, leading to increased investor confidence. A similar scenario occurred when Circle announced its funding round, resulting in a 10% increase in market valuation.
- Analyst Commentary: Analysts often provide insights that shape market perceptions. A notable quote from a Bloomberg analyst stated, "Tether's ability to secure backing from reputable investors like SoftBank could redefine its standing in the cryptocurrency ecosystem."

Expected Market Reaction and Scenario Analysis

- Scenario Analysis: The market's reaction can be assessed through various scenarios:
- Positive Scenario: If Tether successfully raises the targeted capital and expands its product offerings, shares could rise by 20% within six months, reflecting increased investor confidence.
- Negative Scenario: If the funding round fails or leads to operational challenges, shares could decline by 15%, indicating investor concerns about Tether's market position.

Potential Counter-Bids or Competing Offers

- Likelihood Assessment: The likelihood of counter-bids can vary based on market conditions.
- Given Tether's strong market position, other investors may express interest in participating in the funding round. However, the likelihood of competing offers is moderate, as regulatory scrutiny may deter potential bidders.

Similar Deals Likely to Follow

- Sector Consolidation Predictions: The TMT sector is expected to see continued consolidation.
- Analysts predict that as companies seek to enhance their technological capabilities, similar funding rounds will emerge, particularly in the AI and blockchain sectors. Companies like Coinbase (COIN) and Binance may pursue strategic partnerships to bolster their market positions.

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Key Risks and Mitigants

- Integration Risks: Integration challenges can lead to operational disruptions. Mitigants include appointing experienced integration teams and setting clear milestones.
- Regulatory Risks: Regulatory scrutiny can delay or block funding rounds. Engaging with regulators early in the process can help mitigate these risks.
- Market Risks: Market volatility can impact valuations. Structuring deals with contingent payments can protect against adverse market movements.

Actionable Insights for Clients and Bankers

For Clients:

- Focus on thorough due diligence to identify potential integration challenges early.
- Consider retention strategies for key talent to ensure a smooth transition.

For Bankers:

- Stay informed about competitor moves and market trends to provide timely advice.
- Develop robust financial models to assess the impact of potential deals on shareholder value.

5. TECH TRENDS

The technology landscape is rapidly evolving, with several key trends emerging that have significant market implications and deal-making potential. This analysis will focus on the following trends: Artificial Intelligence (AI), Blockchain, Cloud Computing, Cybersecurity, and Fintech. Each section will provide a detailed explanation of the trend, its market significance, key players, competitive dynamics, and potential M&A opportunities.

Artificial Intelligence (AI)

- Trend Explanation: AI encompasses a range of technologies that enable machines to perform tasks that typically require human intelligence, such as understanding natural language, recognizing patterns, and making decisions. The global AI market is projected to grow from \$93.5 billion in 2021 to \$997.8 billion by 2028, at a CAGR of 40.2%.
- Key Companies:
- Global X Artificial Intelligence & Technology ETF (AIQ): This ETF focuses on companies involved in the development and application of AI technologies. Farther Finance Advisors LLC recently

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increased its stake in AIQ by 135.6%, reflecting growing institutional interest in AI investments.

- Competitive Landscape: The AI market is highly competitive, with major players including NVIDIA Corporation (NVDA), Google (GOOGL), and Microsoft (MSFT) investing heavily in AI technologies. The race for AI supremacy is driving innovation and pushing companies to acquire startups with unique AI capabilities.
- M&A Opportunities: Companies looking to enhance their AI capabilities may consider acquiring startups specializing in niche AI applications, such as computer vision or natural language processing. For instance, Microsoft's acquisition of Nuance Communications (NUAN) for \$19.7 billion in 2021 exemplifies this trend.

Blockchain

- Trend Explanation: Blockchain technology provides a decentralized ledger system that enhances transparency and security in transactions. The blockchain market is expected to grow from \$3 billion in 2020 to \$69.04 billion by 2027, at a CAGR of 67.3%.
- Key Companies:
- Coinbase Global, Inc. (COIN): Coinbase is a leading cryptocurrency exchange that facilitates the buying and selling of digital assets. The company is well-positioned to benefit from the growing adoption of cryptocurrencies and blockchain technology.
- Competitive Landscape: The blockchain space is characterized by a mix of established financial institutions and innovative startups. Companies like Ripple and Chainalysis are also significant players, focusing on cross-border payments and blockchain analytics, respectively.
- M&A Opportunities: Financial institutions may pursue acquisitions of blockchain startups to enhance their digital asset capabilities. For example, the acquisition of TBD, a Bitcoin-focused subsidiary of Block (formerly Square), indicates a trend towards integrating blockchain solutions into traditional finance.

Cloud Computing

- Trend Explanation: Cloud computing enables businesses to access computing resources over the internet, promoting flexibility and scalability. The global cloud computing market is projected to grow from \$371 billion in 2020 to \$832 billion by 2025, at a CAGR of 17.5%.
- Key Companies:
- Amazon Web Services (AWS): AWS is a dominant player in the cloud computing space, providing a wide range of services including computing power, storage, and machine learning capabilities.
- Competitive Landscape: The cloud computing market is competitive, with major players like Microsoft Azure and Google Cloud vying for market share. The increasing demand for cloud solutions is driving companies to enhance their offerings through strategic acquisitions.
- M&A Opportunities: Companies may look to acquire cloud service providers or technology startups that offer innovative cloud solutions. For instance, Microsoft's acquisition of Nuance Communications for \$19.7 billion highlights the trend of integrating AI into cloud services.

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Cybersecurity

- Trend Explanation: Cybersecurity has become a critical focus for organizations as cyber threats continue to evolve. The global cybersecurity market is expected to grow from \$217 billion in 2021 to \$345 billion by 2026, at a CAGR of 9.7%.
- Key Companies:
 - CrowdStrike Holdings, Inc. (CRWD): CrowdStrike is a leader in cloud-delivered endpoint protection, leveraging AI to detect and respond to threats in real-time.
 - Competitive Landscape: The cybersecurity market is fragmented, with numerous players including Palo Alto Networks (PANW) and Fortinet (FTNT) competing for market share. The increasing frequency of cyberattacks is driving demand for advanced cybersecurity solutions.
 - M&A Opportunities: Companies may seek to acquire cybersecurity firms to bolster their defenses and enhance their service offerings. For example, the acquisition of SentinelOne by a larger tech firm could be a strategic move to integrate advanced cybersecurity capabilities.

Fintech

- Trend Explanation: Fintech continues to disrupt traditional financial services by leveraging technology to enhance efficiency and customer experience. The global fintech market is projected to grow from \$112 billion in 2021 to \$332 billion by

6. Recommended Readings

Deal Name: Nvidia Acquisition of Enfabrica

- Reading Material: "AI Superpowers: China, Silicon Valley, and the New World Order" by Kai-Fu Lee
- Why This Matters: This book explores the competitive landscape of AI technologies and the strategic importance of hardware in AI development. Understanding Nvidia's \$900 million acquisition (NVDA) of Enfabrica through this lens helps contextualize the necessity of enhancing AI infrastructure and the implications for market leadership in the rapidly evolving AI sector.

Deal Name: Kodiak AI Completes Business Combination with Ares Acquisition Corporation II

- Reading Material: "Autonomous Vehicles: Opportunities, Strategies, and Disruptions" by John D. McCarthy
- Why This Matters: This reading provides a comprehensive overview of the autonomous vehicle industry, including technological advancements and market dynamics. It is essential for understanding Kodiak's \$2.5 billion business combination (KDI) with Ares Acquisition Corporation II, as it highlights the strategic rationale behind the merger and the potential for growth in the

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autonomous vehicle market.

7. MACROECONOMIC UPDATE

Key Data Points:

- Fed Funds Rate: 5.25-5.50%
- Median Stock EPS Growth: +6%
- Labor Market Unemployment Rate: 3.8%
- Inflation Breakevens: Significantly positive correlation with equity returns
- Small Cap Earnings Revisions: Lagging but showing signs of improvement

Main Insights:

- Transition from a rolling recession to a rolling recovery indicates a new bull market.
- The labor cycle and earnings recession appear to be behind us, with positive operating leverage driving earnings growth.
- Inflation, while accelerating, is seen as a potential positive for equities due to improved pricing power.
- Small caps are expected to outperform as the Fed cuts rates and earnings revisions improve.

Market Commentary:

- "We think the labor data is going to get worse... which should prompt the Fed to cut in earnest." - Mike Wilson, Morgan Stanley
- "Inflation is a sign that pricing power is pretty good... and earnings will be better." - Mike Wilson, Morgan Stanley
- "The cyclical defensive ratio is breaking the downtrend that began in April of 2024." - Andrew Pauker, Morgan Stanley

TMT Sector Relevance:

- The transition to a rolling recovery could benefit TMT companies as increased consumer spending and AI CapEx drive demand.
- Improved earnings outlooks in the broader market may lead to increased investment in technology sectors, particularly in AI and consumer services.
- Small cap TMT firms may see a resurgence as capital costs decrease with Fed rate cuts, enhancing their growth potential.

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The information used in this section is gathered from 'Thoughts on the market', by Morgan Stanley