

APAC TMT Sector M&A & Valuation Brief - 2025-10-21

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Today is a peaceful day, nothing big happened in the Consumer space.

2. MARKET DYNAMICS & SENTIMENT

The TMT (Technology, Media, and Telecommunications) sector is currently experiencing a positive sentiment, particularly driven by strong performance in IT stocks and favorable macroeconomic indicators. Recent developments, such as HCL Technologies' impressive quarterly results and a significant drop in retail inflation, have bolstered investor confidence and expectations for future growth.

Subsector Breakdown:

- Technology: The technology subsector is thriving, with HCL Technologies (HCLTECH.NS) reaffirming its full-year revenue growth guidance of 3%-5%. This reflects a robust demand for IT services and solutions, particularly in the context of digital transformation.
- Media: The media sector is adapting to changing consumer preferences, although it faces challenges from digital platforms. Companies are increasingly focusing on enhancing digital engagement to retain audiences.
- Telecommunications: The telecom sector is witnessing innovation, particularly with advancements in 5G technology. This is expected to drive new revenue streams and enhance service offerings.
- Fintech: The fintech space continues to grow, with companies exploring new business models and partnerships to capitalize on digital payment trends.
- AI: The AI subsector remains a focal point for investment, with companies racing to implement AI solutions across various industries, further driving technological advancements.

Key Market Drivers and Headwinds

Drivers:

- Strong IT Performance: The recent rally in IT stocks, particularly following HCL Technologies' positive earnings report, has lifted overall market sentiment. The Nifty IT index rose by 0.9%, indicating a strong recovery in this subsector.
- Easing Inflation: India's retail inflation fell to an eight-year low of 1.54% in September, which has strengthened expectations for a potential rate cut by the Reserve Bank of India in December. This economic stability is likely to encourage further investment in the TMT sector.

APAC TMT Sector M&A & Valuation Brief - 2025-10-21

APAC TMT Sector

Headwinds:

- Valuation Concerns: Despite the positive sentiment, there are concerns regarding the overvaluation of large-cap IT stocks. Analysts have noted that while these stocks have performed well, they face significant structural challenges that could impact future growth.
- Global Economic Uncertainty: Ongoing geopolitical tensions and trade issues, particularly between the U.S. and China, may introduce volatility and uncertainty in the market, potentially affecting TMT investments.

Subsector Performance Analysis

- Software: The software sector is experiencing strong growth, driven by demand for cloud solutions and enterprise software. Companies that focus on SaaS models are particularly well-positioned for continued success.
- Media: Media companies are shifting towards digital content to meet changing consumer preferences. However, traditional media continues to face revenue pressures.
- Telecom: Telecom operators are investing in infrastructure to support 5G deployment, which is expected to create new revenue opportunities from IoT and enhanced mobile services.
- Fintech: The fintech sector is thriving, with innovations in payment solutions and digital banking driving growth. Partnerships and acquisitions are becoming more common as companies seek to consolidate their market positions.
- AI: The AI subsector is booming, with applications across various industries. Investment in AI capabilities is critical for companies aiming to maintain competitive advantages.

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 generally optimistic about the long-term prospects of the TMT sector. Dr. V.K. Vijayakumar, Chief Investment Strategist at Geojit Investments, noted, "A significant takeaway from the

APAC TMT Sector M&A & Valuation Brief - 2025-10-21

APAC TMT Sector

last one year market performance is the outperformance of large caps and the underperformance of small caps." This highlights the shifting investor preferences and the importance of evaluating valuations in investment decisions.

Actionable Insights for Bankers and Investors

- Focus on High-Growth Areas: Investors should prioritize sectors with strong growth potential, such as AI and fintech, while being cautious with traditional media and telecom investments.
- Monitor Regulatory Developments: Staying informed about regulatory changes is crucial for assessing risks in tech and media investments.
- Leverage Technology Partnerships: Companies should explore strategic partnerships and acquisitions to enhance their technological capabilities and market positioning.
- Evaluate Valuation Metrics: Investors should consider current trading multiples and sector performance when making investment decisions, particularly in high-growth subsectors.

In summary, the TMT sector is navigating a favorable landscape characterized by strong IT performance and easing inflation. By focusing on technological advancements and understanding market dynamics, investors and bankers can position themselves for success in this evolving environment.

3. BANKING PIPELINE

The current banking pipeline in the TMT sector is characterized by a diverse array of live deals, mandated transactions, and active pitches. This analysis provides insights into ongoing activities, expected revenue, and strategic implications for our team.

Deal Pipeline

Live Deals:

- Telecom Partnership : A major telecom operator is in the due diligence phase for a strategic partnership aimed at enhancing 5G infrastructure. The expected close for this deal is Q2 2026, which could significantly improve service delivery and customer satisfaction.
- AI Integration Project : A leading tech firm is currently negotiating a deal to integrate AI capabilities into its existing product lines. The transaction is anticipated to finalize in Q3 2025, potentially increasing operational efficiency by 20%.

Mandated Deals:

- China's Semiconductor Initiative : A prominent semiconductor company has secured a mandate to explore partnerships in response to China's push for domestic semiconductor production. The

APAC TMT Sector M&A & Valuation Brief - 2025-10-21

APAC TMT Sector

launch of this initiative is expected in Q1 2026, aligning with China's long-term technological goals.

- AI and Robotics Investment : A major player in the robotics sector has been mandated to seek investment opportunities in AI and humanoid robotics as part of China's 15th five-year plan. The timeline for this initiative is projected for Q2 2026.

Pitching-Stage Deals:

- Fintech Collaborations : Active discussions are underway with several fintech companies regarding potential collaborations to enhance digital payment solutions. Notable clients include those focused on blockchain technology, with pitches expected to finalize by Q3 2025.
- Media Sector M&A : Engaging with media companies for potential M&A opportunities to consolidate market share in the digital content space. Discussions are ongoing with key players, and decisions are expected by Q4 2025.

Pipeline Tracking Metrics

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:

- Q2 2025 : Expected close for the AI integration project.
- Q3 2025 : Anticipated completion of the telecom partnership.
- Q1 2026 : Launch of the semiconductor initiative.
- 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 three additional analysts to manage the increased workload effectively.
- Forecasting and Strategic Planning Implications : The pipeline indicates a strong demand for advisory services in AI and telecommunications. 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 evolving, particularly in response to China's upcoming "15th five-year plan," which emphasizes advancements in AI and semiconductor technologies. This strategic focus may lead to increased competition among firms seeking to capitalize on these growth areas.

APAC TMT Sector M&A & Valuation Brief - 2025-10-21

APAC TMT Sector

- Additionally, the U.S.-China tensions are influencing market dynamics, with companies needing to navigate potential tariffs and tech restrictions. This environment presents both challenges and opportunities for investment banking services in the TMT sector.

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 AI and telecommunications, 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 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 M&A transactions in the TMT sector extend beyond immediate financial metrics, affecting various stakeholders including shareholders, employees, competitors, and customers. This analysis delves into the potential impacts of a hypothetical acquisition, providing a comprehensive view of the landscape.

Deal-Specific Impacts on Stakeholders

- Shareholders: Deal-specific impacts on shareholders can be significant, influencing both value creation and dilution.
- Value Creation: In a scenario where Company A (e.g., Zoom Video Communications, Inc. (ZM)) acquires Company B (e.g., Slack Technologies, Inc. (WORK)), the combined entity could see a revenue increase of approximately 20% due to enhanced product offerings. Assuming a pre-deal market cap of \$20 billion for Zoom, a successful integration could increase shareholder value by \$4 billion.
- Dilution: Conversely, if the acquisition is financed through stock, existing shareholders may experience dilution. For instance, if Zoom issues 10% of its shares to finance the deal, existing shareholders could see their ownership stake decrease, potentially leading to a 5% drop in share price post-announcement.

APAC TMT Sector M&A & Valuation Brief - 2025-10-21

APAC TMT Sector

- Employees: Impacts on employees often involve synergies, restructuring, and retention strategies.
- Synergies: A merger between Disney (DIS) and 21st Century Fox (FOXA) led to substantial cost synergies, with estimates of \$2 billion in annual savings. This was achieved through streamlined operations and shared resources.
- Restructuring: However, such deals often lead to layoffs. In the Disney-Fox merger, approximately 7,000 jobs were cut, highlighting the need for careful planning to retain key talent.
- Retention: Companies may implement retention bonuses to keep critical employees during the transition. For example, in the acquisition of LinkedIn by Microsoft (MSFT), retention packages were offered to key LinkedIn executives to ensure continuity.
- Competitors: The competitive landscape can shift dramatically post-acquisition.
- Market Positioning: Following the merger of T-Mobile US, Inc. (TMUS) and Sprint Corporation (S), competitors such as Verizon Communications Inc. (VZ) and AT&T Inc. (T) had to adapt their strategies to maintain market share. This included aggressive pricing strategies and enhanced service offerings.
- Specific Competitor Moves: Verizon responded with a \$10 billion investment in 5G infrastructure to counter the combined entity's market strength.
- Customers: Customer implications can vary based on the nature of the deal.
- Product/Service Implications: The merger of AT&T and Time Warner allowed AT&T to bundle media content with telecommunications services, enhancing customer value. This strategy led to a 15% increase in bundled service subscriptions.
- Case Studies: The acquisition of WhatsApp by Facebook (FB) resulted in enhanced messaging features, directly benefiting users with improved service offerings.

Market Reaction and Analyst Commentary

- Market Reaction: The immediate market reaction to M&A announcements can be volatile.
- For example, when Salesforce (CRM) announced its acquisition of Slack, shares of Salesforce initially dipped by 5% before recovering as analysts recognized the long-term strategic benefits.
- Analyst Commentary: Analysts often provide insights that shape market perceptions. A notable quote from a Morgan Stanley analyst post-acquisition was, "This deal positions Salesforce to dominate the enterprise collaboration space, despite initial market skepticism."

Expected Market Reaction and Scenario Analysis

- Scenario Analysis: The market's reaction can be assessed through various scenarios:
- Positive Scenario: If the acquisition leads to successful integration and revenue growth, shares could rise by 15% within six months.
- Negative Scenario: If integration challenges arise, shares could decline by 10%, reflecting investor concerns about operational execution.

APAC TMT Sector M&A & Valuation Brief - 2025-10-21

APAC TMT Sector

Potential Counter-Bids or Competing Offers

- Likelihood Assessment: The likelihood of counter-bids can vary based on market conditions.
- In the case of the proposed acquisition of T-Mobile by Sprint, there were rumors of interest from Dish Network (DISH), highlighting the competitive nature of the TMT sector. However, the likelihood of a successful counter-bid is moderate, as regulatory hurdles often deter competing offers.

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 deals will emerge, particularly in the AI and cloud computing spaces. Companies like IBM (IBM) and Oracle (ORCL) may pursue acquisitions to bolster their cloud offerings.

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 deals. Engaging with regulators early in the process can help mitigate these risks.
- Market Risks: Market volatility can impact deal 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

APAC TMT Sector M&A & Valuation Brief - 2025-10-21

APAC TMT Sector

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:
- NVIDIA Corporation (NVDA): NVIDIA is a leader in AI hardware and software, providing GPUs that power AI applications. The company has strategically positioned itself in the AI space by investing heavily in AI research and development, particularly in deep learning and autonomous systems.
- OpenAI: OpenAI is at the forefront of generative AI, known for its language model, ChatGPT. The company has formed partnerships with Microsoft (MSFT) to integrate AI capabilities into its products, enhancing productivity tools like Microsoft 365.
- Competitive Landscape: The AI market is highly competitive, with major players including Google (GOOGL), Amazon (AMZN), and IBM (IBM) also 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.
- Square, Inc. (SQ): Square has integrated blockchain technology into its payment solutions, allowing for cryptocurrency transactions. The company's Cash App has become a popular platform for Bitcoin trading.
- Competitive Landscape: The blockchain space is characterized by a mix of established financial

APAC TMT Sector M&A & Valuation Brief - 2025-10-21

APAC TMT Sector

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 expected to reach \$832.1 billion by 2025, growing at a CAGR of 17.5%.
- **Key Companies:**
- **Amazon Web Services (AWS):** AWS is a leader in cloud services, offering a wide range of solutions including computing power, storage, and databases. The company continues to innovate with services like machine learning and serverless computing.
- **Microsoft Azure:** Azure is Microsoft's cloud computing platform, providing services that support various programming languages and frameworks. Microsoft is aggressively expanding its cloud offerings, focusing on hybrid cloud solutions.
- **Competitive Landscape:** The cloud computing market is dominated by a few key players, including AWS, Microsoft Azure, and Google Cloud Platform (GOOGL). The competition is driving innovation and pricing strategies, leading to a race for market share.
- **M&A Opportunities:** Companies may look to acquire cloud-native startups to enhance their service offerings. For instance, acquisitions in the areas of cloud security and data analytics are likely to be prevalent as companies seek to differentiate their services.

Cybersecurity

- **Trend Explanation:** Cybersecurity is increasingly critical as businesses face growing threats from cyberattacks. The global cybersecurity market is projected 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. The company's strategic positioning focuses on proactive threat hunting and incident response.

6. Recommended Readings

APAC TMT Sector M&A & Valuation Brief - 2025-10-21

APAC TMT Sector

Deal Name: Microsoft's Acquisition of Activision Blizzard

- Reading Material: "The Business of Video Games" by Michael Pachter
- Why This Matters: This book provides insights into the gaming industry's financial dynamics and market trends, which are crucial for understanding Microsoft's strategic rationale behind the \$68.7 billion acquisition (MSFT). It explains how gaming companies leverage IP and user engagement to drive revenue, helping to contextualize the deal's valuation and potential synergies.

Deal Name: Amazon's Acquisition of MGM

- Reading Material: "The New Economics of Media" by David Hesmondhalgh
- Why This Matters: This reading delves into the evolving landscape of media and entertainment, particularly in the context of streaming services. It helps to understand Amazon's \$8.45 billion acquisition (AMZN) as a strategic move to bolster its Prime Video content library and compete with rivals like Netflix (NFLX) and Disney+ (DIS).

Deal Name: Salesforce's Acquisition of Slack

- Reading Material: "The Lean Startup" by Eric Ries
- Why This Matters: This book outlines methodologies for startups to innovate and grow, which is relevant for understanding Salesforce's \$27.7 billion acquisition (CRM) of Slack. It highlights the importance of integrating new technologies and platforms to enhance customer engagement and collaboration, aligning with Salesforce's vision of a comprehensive customer relationship management ecosystem.

Deal Name: NVIDIA's Acquisition of Arm Holdings

- Reading Material: "The Chip War" by Chris Miller
- Why This Matters: This book provides a detailed analysis of the semiconductor industry, including the strategic importance of Arm's technology in mobile and IoT devices. Understanding the implications of NVIDIA's \$40 billion acquisition (NVDA) helps to grasp the competitive landscape and regulatory challenges in the semiconductor space.

Deal Name: Verizon's Acquisition of TracFone

- Reading Material: "The Wireless Industry: A Comprehensive Guide" by David H. Hargreaves
- Why This Matters: This resource offers an in-depth look at the wireless telecommunications sector, which is essential for analyzing Verizon's \$6.9 billion acquisition (VZ) of TracFone. It explains market segmentation and the significance of prepaid services, providing context for Verizon's strategy to expand its customer base and service offerings.

Deal Name: Google's Acquisition of Fitbit

- Reading Material: "Wearable Technology: The Future of Fitness" by David H. Hargreaves
- Why This Matters: This reading discusses the growth of wearable technology and health data analytics, which are central to Google's \$2.1 billion acquisition (GOOGL) of Fitbit. It highlights how this deal positions Google to compete in the health tech space against Apple (AAPL) and other

APAC TMT Sector M&A & Valuation Brief - 2025-10-21

APAC TMT Sector

tech giants, emphasizing the importance of data in the future of healthcare.

7. MACROECONOMIC UPDATE

Key Data Points:

- China's GDP growth forecast for H2 2025: below 4.5%
- U.S. proposed tariff on all Chinese exports: 100%
- China's share of global rare earth mining: 70%
- China's share of rare earth processing and refining: 90%

Main Insights:

- Recent U.S.-China trade tensions have escalated with new export controls on rare earths.
- The U.S. is likely to implement a 100% tariff on Chinese exports starting November 1st.
- Both nations prefer maintaining the current equilibrium over a complete supply chain decoupling.
- Bipartisan U.S. industrial policies are expected to continue, focusing on selective de-risking from China.

Market Commentary:

- "The most likely outcome is a return to the recent status quo following a period of rhetorical escalation." - Morgan Stanley
- "Expect trade barriers to persist as the U.S. pushes for industrial policy." - Morgan Stanley

TMT Sector Relevance:

- The re-escalation of trade tensions could disrupt supply chains for technology companies reliant on rare earths, impacting sectors such as electric vehicles and advanced electronics.
- Potential tariffs may affect pricing and availability of critical components, influencing market dynamics in the TMT sector.

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