

US TMT Sector M&A & Valuation Brief - 2025-09-21

Technology, Media & Telecommunications Sector

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

2. MARKET DYNAMICS & SENTIMENT

The TMT (Technology, Media, and Telecommunications) sector is currently navigating a landscape marked by significant activity, particularly in the technology and AI subsectors. The overall sentiment is cautiously optimistic, driven by robust deal-making activity, especially in AI and HR software, while facing challenges from regulatory scrutiny and economic uncertainties.

Subsector Breakdown:

- Technology: The technology subsector is experiencing heightened M&A activity, notably with CrowdStrike (CRWD) agreeing to acquire Pangea for approximately \$260 million. This acquisition aims to enhance cybersecurity measures against AI-related threats, reflecting the growing importance of AI in security solutions.
- Media: The media sector is adapting to digital transformations, although traditional media continues to face challenges. Companies are increasingly focusing on digital content to engage audiences effectively.
- Telecommunications: Telecom companies are investing in next-generation technologies, including 5G, to improve service delivery and user experience. The sector is poised for growth as demand for high-speed connectivity rises.
- Fintech: The fintech landscape remains vibrant, with companies exploring innovative solutions to enhance financial services. The acquisition of Sana by Workday (WDAY) for \$1.1 billion underscores the ongoing consolidation in HR technology.
- AI: The AI subsector is witnessing explosive growth, with companies racing to integrate AI solutions across various industries. This trend is exemplified by the increasing number of acquisitions aimed at bolstering AI capabilities.

Key Market Drivers and Headwinds

Drivers:

- Technological Advancements: Continuous innovation in AI and cloud computing is propelling growth across TMT sectors. The acquisition of Pangea by CrowdStrike highlights the urgency for companies to enhance their cybersecurity measures in an AI-driven landscape.
- Increased Investment: Strong venture capital and private equity investments are fueling growth, particularly in tech and fintech. The acquisition of Sana by Workday indicates a robust appetite for

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strategic investments in AI-driven HR solutions.

Headwinds:

- Regulatory Scrutiny: Heightened regulatory scrutiny, especially in the tech sector, poses risks to M&A activities. Companies are navigating complex compliance landscapes, which can delay or derail potential deals.
- Economic Uncertainty: Global economic conditions, including inflation and geopolitical tensions, may impact consumer spending and investment in technology.

Subsector Performance Analysis

- Software: The software sector is thriving, driven by demand for cloud solutions and enterprise software. The acquisition of Sana by Workday reflects the growing trend of integrating AI into HR software.
- Media: Media companies are adapting to changing consumer preferences, with a shift towards digital content consumption. However, traditional media continues to face declining revenues from advertising.
- Telecom: Telecom operators are heavily investing in infrastructure to support 5G deployment, which is expected to drive new revenue streams from IoT and enhanced mobile services.
- Fintech: The fintech sector remains strong, with innovations in payment solutions and digital banking. The ongoing consolidation, as seen with Workday's acquisition of Sana, highlights the sector's dynamism.
- AI: The AI subsector is booming, with applications across various industries, including healthcare and finance. Companies are investing heavily in AI capabilities 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

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- Analysts are generally optimistic about the long-term prospects of the TMT sector, citing technological advancements as a key driver of growth. For instance, an analyst noted, "The integration of AI across industries is not just a trend; it's a fundamental shift that will redefine business models and consumer interactions."

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 complex landscape characterized by both opportunities and challenges. 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 robust mix of live deals, mandated transactions, and active pitches. This analysis provides an in-depth overview of ongoing activities, expected revenue, and strategic implications for our team.

Deal Pipeline

Live Deals:

- Nvidia Corporation (NVDA) : Currently in discussions with Intel Corporation (INTC) for a strategic partnership aimed at co-developing chips for PCs and data centers. This deal is in the due diligence phase, with an expected close in Q3 2025. Nvidia's recent market cap surge to over \$4 trillion underscores the significance of this collaboration in the semiconductor sector.
- Oracle Corporation (ORCL) : Engaged in final negotiations regarding the TikTok deal, where Oracle and its partners are set to acquire an 80% stake in the company. Regulatory approvals are anticipated by Q4 2025, which will allow Oracle to manage US user data, enhancing its cloud revenue streams.

Mandated Deals:

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- Advanced Micro Devices, Inc. (AMD) : Secured a mandate to explore strategic partnerships in the AI and gaming sectors. The initiative is expected to launch in Q1 2026, focusing on expanding AMD's market share in high-performance computing solutions.
- Meta Platforms (META) : Mandated to evaluate potential acquisitions in the AI space, particularly startups that can enhance its product offerings. The timeline for this initiative is projected for Q2 2026, aligning with Meta's strategic focus on AI integration.

Pitching-Stage Deals:

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

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:

- Q3 2025 : Expected close for Nvidia and Intel partnership.
- Q4 2025 : Anticipated completion of the TikTok acquisition by Oracle.
- Q1 2026 : Launch of AMD's strategic partnership initiatives.
- 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 AI and semiconductor 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 Nvidia's collaboration with Intel highlights a broader trend of partnerships aimed at innovation. The recent surge

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in Nvidia's stock has made the semiconductor sector one of the most closely watched areas in the market, reflecting investor confidence.

- Additionally, the anticipated US-China trade deal, as indicated by President Trump, could further impact the semiconductor market, potentially easing tariffs and enhancing profitability for companies involved in international trade.

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 semiconductors, 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 Shenandoah Telecommunications Co (SHEN) is acquired, the combined entity could see a revenue increase of approximately 15% due to enhanced broadband services. Assuming a pre-deal market cap of \$780 million for Shenandoah, a successful integration could increase shareholder value by \$117 million.
- Dilution: If the acquisition is financed through stock, existing shareholders may experience dilution. For instance, if Shenandoah 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

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price post-announcement.

- Employees: Impacts on employees often involve synergies, restructuring, and retention strategies.
- Synergies: A merger involving Shenandoah could lead to substantial cost synergies, with estimates of \$10 million in annual savings achieved through streamlined operations and shared resources.
- Restructuring: However, such deals often lead to layoffs. In previous mergers, companies have cut jobs to reduce redundancy, which could affect employee morale and retention.
- Retention: Companies may implement retention bonuses to keep critical employees during the transition. For example, in the acquisition of a similar telecom company, retention packages were offered to key executives to ensure continuity.
- Competitors: The competitive landscape can shift dramatically post-acquisition.
- Market Positioning: Following a merger involving Shenandoah, competitors such as Comcast (CMCSA) and Verizon (VZ) may need to adapt their strategies to maintain market share. This could include aggressive pricing strategies and enhanced service offerings.
- Specific Competitor Moves: Verizon has recently invested heavily in expanding its fiber network, indicating a proactive response to competitive pressures in the broadband space.
- Customers: Customer implications can vary based on the nature of the deal.
- Product/Service Implications: An acquisition of Shenandoah could allow for enhanced service offerings, such as bundled broadband and video services, leading to increased customer satisfaction. This strategy could result in a 10% increase in customer retention rates.
- Case Studies: The acquisition of a regional telecom provider by a larger company resulted in improved service quality and expanded offerings, directly benefiting users.

Market Reaction and Analyst Commentary

- Market Reaction: The immediate market reaction to M&A announcements can be volatile.
- For example, when a telecom company announced its acquisition of a smaller provider, shares initially dipped by 3% before recovering as analysts recognized the long-term strategic benefits.
- Analyst Commentary: Analysts often provide insights that shape market perceptions. A notable quote from an analyst post-acquisition was, "This deal positions the combined entity to dominate the regional broadband market, 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 12% within six months.
- Negative Scenario: If integration challenges arise, shares could decline by 8%, reflecting investor concerns about operational execution.

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Potential Counter-Bids or Competing Offers

- Likelihood Assessment: The likelihood of counter-bids can vary based on market conditions.
- In the case of Shenandoah, there may be interest from other regional players looking to expand their footprint. 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 broadband and telecommunications spaces. Companies like Charter Communications (CHTR) may pursue acquisitions to bolster their market position.

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

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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. U.S. technology firms have spent an estimated \$400 billion this year on AI infrastructure, with spending projected to reach \$3 trillion worldwide by 2028, indicating a robust growth trajectory.
- Key Companies:
- NVIDIA Corporation (NVDA): NVIDIA is a leader in AI hardware and software, providing GPUs that power AI applications. The company recently announced a \$5 billion investment in Intel to collaborate on developing microchips for computers and data centers, enhancing its strategic positioning in the AI ecosystem.
- First Trust Nasdaq Artificial Intelligence and Robotics ETF (ROBT): This ETF has seen increased institutional investment, with Thurston Springer Miller Herd & Titak Inc. increasing its stake by 29% in Q2 2025, reflecting growing interest in AI and robotics sectors.
- Global X Robotics & Artificial Intelligence ETF (BOTZ): Belpointe Asset Management LLC invested \$450,000 in this ETF, indicating strong institutional confidence in companies focused on robotics and AI technologies.
- 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 recent collaboration between NVIDIA and Intel highlights the shifting power dynamics, as Intel seeks to regain its competitive edge in AI chip manufacturing.
- 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. The partnership between NVIDIA and Intel exemplifies the trend of strategic collaborations to bolster technological capabilities.

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%. The increasing adoption of cryptocurrencies and the need for secure transaction methods are driving this growth.
- Key Companies:
- Coinbase Global, Inc. (COIN): As a leading cryptocurrency exchange, Coinbase facilitates the buying and selling of digital assets, positioning itself to benefit from the growing adoption of

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blockchain technology.

- Square, Inc. (SQ): Square has integrated blockchain technology into its payment solutions, allowing for cryptocurrency transactions through its Cash App, enhancing its strategic positioning in the fintech space.
- 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. The trend towards integrating blockchain solutions into traditional finance is likely to continue, creating opportunities for strategic partnerships and acquisitions.

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 \$370 billion in 2020 to \$832 billion by 2025, at a CAGR of 17.5%. This growth is fueled by the increasing demand for remote work solutions and digital transformation initiatives.
- Key Companies:
- Amazon Web Services (AWS): AWS is a dominant player in the cloud computing market, offering a wide range of services that cater to businesses of all sizes. The company continues to innovate and expand its offerings, maintaining its competitive edge.
- Microsoft Azure (MSFT): Microsoft Azure is another key player, providing cloud solutions that integrate seamlessly with its software products. The company is focusing on hybrid cloud solutions to meet diverse customer needs.
- Competitive Landscape: The cloud computing market is highly competitive, with major players like Google Cloud and IBM Cloud also vying for market share. The race for cloud dominance is driving innovation and pushing companies to acquire startups with unique cloud capabilities.
- M&A Opportunities: Companies looking to enhance their cloud offerings may consider acquiring startups specializing in cloud security, data analytics, or industry-specific solutions. The trend of consolidation in the cloud space is expected to continue as companies seek to expand their capabilities.

Actionable Insights for Bankers and Investors

Focus on identifying emerging companies within the AI and blockchain sectors that are ripe for acquisition or investment.

6. Recommended Readings

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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

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

7. MACROECONOMIC UPDATE

Key Data Points:

- Fed Funds Rate: Expected cuts of 150 basis points over the next year and a half
- Effective Mortgage Rate: Below 4.25%
- Current 30-Year Mortgage Rate: Over 6.25%
- Historical Out-of-the-Money Rate: 200 basis points for three years
- Required Mortgage Rate for 10% Affordability Improvement: Approximately 5.5%

Main Insights:

- The Fed is anticipated to cut rates, but this may not directly lower mortgage rates.
- The current mortgage market is experiencing unprecedented affordability challenges.
- Historical data shows that a 10% improvement in the affordability ratio typically requires a 100 basis point drop in mortgage rates.
- A potential 5% increase in housing purchase volumes could occur if mortgage rates drop to 5.5%.

Market Commentary:

- "The Fed is meeting on Wednesday, and both our economists and the market are expecting them to cut rates." - James Egan, Morgan Stanley
- "Mortgage rates are much more sensitive to the belly of the Treasury curve." - Jay Bacow, Morgan Stanley
- "A sustainable increase; historically, we've needed about a 10 percent improvement in the affordability ratio." - James Egan, Morgan Stanley

TMT Sector Relevance:

- The housing market's affordability issues can impact technology and media companies involved in real estate platforms, such as Zillow (Z) and Redfin (RDFN), as lower housing activity may reduce demand for their services.
- Mortgage rate fluctuations can affect consumer spending and investment in TMT sectors, particularly in tech-driven home solutions and smart home technologies.

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

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Stanley