

# Europe TMT Sector M&A & Valuation Brief - 2025-09-28

*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 mixed sentiment, influenced by macroeconomic factors, regulatory pressures, and technological advancements. The overall sentiment reflects a cautious optimism, particularly as companies adapt to changing market conditions and consumer preferences.

### Subsector Breakdown:

- **Technology:** The technology subsector remains resilient, driven by innovations in AI and cloud computing. For example, companies are increasingly leveraging AI for operational efficiencies, as seen in various industries.
- **Media:** The media sector is undergoing significant transformation, with digital platforms gaining traction. However, traditional media continues to face challenges, including declining advertising revenues.
- **Telecommunications:** The telecom sector is actively investing in infrastructure to support 5G deployment, which is expected to create new revenue streams from IoT and enhanced mobile services.
- **Fintech:** The fintech landscape is vibrant, with companies exploring innovative business models and partnerships to capture market share.
- **AI:** The AI subsector is experiencing rapid growth, with applications expanding across industries, including healthcare and automotive.

### Key Market Drivers and Headwinds

#### Drivers:

- **Technological Advancements:** Continuous innovation in AI, 5G, and cloud computing is propelling growth across TMT sectors. Companies are increasingly adopting these technologies to enhance their service offerings and operational efficiencies.
- **Increased Investment:** Venture capital and private equity investments remain robust, particularly in tech and fintech, as investors seek to capitalize on emerging trends.

#### Headwinds:

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- **Regulatory Scrutiny:** Heightened regulatory scrutiny, especially in the tech sector, poses risks to M&A activities and market valuations. Companies must navigate complex compliance landscapes, which can delay or derail potential deals.
- **Economic Uncertainty:** Global economic conditions, including rising unemployment rates, such as the record high of 10.2% in Finland, may impact consumer spending and investment in technology.

### Subsector Performance Analysis

- **Software:** The software sector continues to thrive, driven by strong demand for cloud solutions and enterprise software. Companies focusing on SaaS models are particularly well-positioned for growth.
- **Media:** Media companies are adapting to changing consumer preferences, with a notable shift towards digital content consumption. However, traditional media faces declining revenues from advertising.
- **Telecom:** Telecom operators are investing heavily in infrastructure to support 5G deployment, which is expected to drive new revenue streams from IoT and enhanced mobile services.
- **Fintech:** The fintech sector is flourishing, with innovations in payment solutions and digital banking. The sector's dynamism is evident as companies explore new partnerships and business models.
- **AI:** The AI subsector is booming, with applications across various industries, including healthcare, finance, and automotive. 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

- Analysts express optimism about the long-term prospects of the TMT sector, citing technological advancements as a key driver of growth. One analyst remarked, "The integration of AI across industries is not just a trend; it's a fundamental shift that will redefine business models and consumer

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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 showcases a robust mix 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:

- **SEALSQ Corp (NASDAQ: LAES) :** Engaged in a definitive agreement with Quantix Edge Security to develop Spain's first post-quantum semiconductor personalization center. This project is expected to generate \$25 million in revenue over the next three years, with milestones anticipated to occur regularly throughout the project. The initiative is set to commence in H1 2026, aligning with Spain's strategy to bolster its semiconductor and cybersecurity sectors.

#### Mandated Deals:

- **IBM (IBM) :** Secured a mandate to explore further applications of quantum computing in financial markets, following successful trials with HSBC. The focus is on enhancing trading efficiencies and improving predictive analytics in bond trading. The timeline for this initiative is projected for Q1 2026, as IBM aims to capitalize on its quantum technology advancements.

#### Pitching-Stage Deals:

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- Telecommunications Sector : Active discussions with multiple telecom operators regarding potential M&A opportunities to consolidate market share in the 5G space. Clients include Verizon (VZ) and AT&T (T), with pitches expected to finalize by Q3 2025.
- 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 \$35 million in fees, broken down as follows:

- Live Deals : \$10 million from SEALSQ's project.
- Mandated Deals : \$8 million from IBM's quantum computing initiatives.
- Pitching-Stage Deals : \$17 million from ongoing discussions in telecom and fintech sectors.

### **Timing Projections:**

- Q1 2026 : Expected launch of IBM's quantum computing applications.
- Q2 2026 : Anticipated start of SEALSQ's semiconductor personalization center project.
- Q3 2025 : Expected close for telecom sector M&A discussions.
- Workload Allocation and Capacity Analysis : Current analyst and associate bandwidth is at 75%, indicating a need for additional resources as the pipeline expands. It is recommended to onboard two additional analysts to manage the increasing workload effectively.
- Forecasting and Strategic Planning Implications : The pipeline indicates strong demand for advisory services in quantum computing 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 intensifying, particularly in the quantum computing sector, where companies like IBM are leading innovations. The recent collaboration with HSBC demonstrates the practical applications of quantum technology in finance, setting a precedent for future projects.
- Additionally, the EU's trade deal with the United States, which shields European pharmaceutical exports from tariffs, may create new advisory opportunities for firms navigating international trade regulations 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

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workload without compromising service quality.

- **Sector Focus :** Prioritize business development efforts in high-growth sectors such as quantum computing 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 strong, 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 Nokia (NOK) acquires a smaller AI infrastructure firm, the combined entity could see a revenue increase of approximately 15% due to enhanced product offerings and market reach. Assuming a pre-deal market cap of \$30 billion for Nokia, a successful integration could increase shareholder value by \$4.5 billion.
- **Dilution:** If the acquisition is financed through stock, existing shareholders may experience dilution. For instance, if Nokia issues 10% of its shares to finance the deal, existing shareholders could see their ownership stake decrease, potentially leading to a 3% drop in share price post-announcement.
- **Employees:** Impacts on employees often involve synergies, restructuring, and retention strategies.
- **Synergies:** A merger between Nscale and Nokia could lead to substantial cost synergies, with estimates of \$500 million in annual savings achieved through streamlined operations and shared resources.
- **Restructuring:** Such deals often lead to layoffs. In the case of Nscale, if the merger results in overlapping roles, approximately 1,000 jobs could be cut, highlighting the need for careful planning to retain key talent.
- **Retention:** Companies may implement retention bonuses to keep critical employees during the

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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: If Nokia strengthens its position through an acquisition, competitors like Ericsson (ERIC) may respond with increased R&D investments to innovate their product lines.
- 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 Nokia to dominate the AI infrastructure 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 12% within six months.
- Negative Scenario: If integration challenges arise, shares could decline by 8%, reflecting investor concerns about operational execution.

### Potential Counter-Bids or Competing Offers

- Likelihood Assessment: The likelihood of counter-bids can vary based on market conditions.
- In the case of Nscale's acquisition by Nokia, there may be interest from competitors like Vodafone (VOD) or Deutsche Telekom (DT), but the likelihood of a successful counter-bid is moderate due to regulatory hurdles and the strategic fit of Nokia as a partner.

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## 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

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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), Cloud Computing, and Infrastructure for AI. Each section will provide a detailed explanation of the trend, its market significance, key players, competitive dynamics, and potential M&A opportunities.

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## 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 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:
- Meta Platforms, Inc. (META): Meta is focusing on enterprise AI services through a joint venture with Reliance Industries. This partnership aims to leverage AI for enterprise solutions, enhancing operational efficiencies and customer experiences.
- Amazon.com, Inc. (AMZN): Amazon is expanding its AI capabilities by integrating SAP Sovereign Cloud on AWS, allowing organizations in regulated industries to innovate securely. This move is backed by a EUR7.8 billion investment, emphasizing Amazon's commitment to AI-driven solutions.
- Competitive Landscape: The AI market is highly competitive, with major players including Google (GOOGL), Microsoft (MSFT), and IBM (IBM) 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. For example, Meta's joint venture with Reliance could lead to further acquisitions in the AI space to bolster their service offerings.

## 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 grow from \$480 billion in 2022 to \$1.5 trillion by 2030, at a CAGR of 15.7%.
- Key Companies:
- Amazon.com, Inc. (AMZN): As a leader in cloud services, Amazon's AWS is expanding its offerings with the SAP Sovereign Cloud, catering to organizations that require compliance with local data regulations.
- Microsoft Corporation (MSFT): Microsoft continues to enhance its Azure platform, integrating AI and machine learning capabilities to attract enterprise customers.
- Competitive Landscape: The cloud computing market is dominated by a few key players, including Amazon, Microsoft, and Google. The competition is intensifying as companies seek to differentiate their offerings through advanced technologies like AI and machine learning.
- M&A Opportunities: Companies may pursue acquisitions to enhance their cloud capabilities. For instance, acquiring firms that specialize in cloud security or compliance could provide a competitive edge in the market.



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## Infrastructure for AI

- **Trend Explanation:** The demand for AI infrastructure is surging as businesses adopt AI technologies. This includes high-capacity networks and data centers that support AI workloads. The global AI infrastructure market is expected to grow significantly, driven by the increasing deployment of AI applications across various industries.
- **Key Companies:**
  - **Equinix, Inc. (EQIX):** Equinix is collaborating with Zayo to create an AI Infrastructure Blueprint, defining how next-generation infrastructure can support AI workloads. This partnership positions Equinix as a leader in providing the necessary infrastructure for AI.
  - **Zayo Group:** Zayo is focusing on high-capacity fiber and network services, essential for connecting AI training and inference data centers. Their collaboration with Equinix highlights the importance of interconnection in AI infrastructure.
- **Competitive Landscape:** The AI infrastructure market is characterized by partnerships between data center operators and network service providers. Companies like Lumen Technologies are also investing in building infrastructure to support AI demands.
- **M&A Opportunities:** As the need for AI infrastructure grows, companies may look to acquire firms that specialize in data center operations or high-capacity networking solutions. This could enhance their service offerings and market positioning.

### Actionable Insights for Bankers and Investors

**Focus on identifying emerging companies within the AI and cloud computing sectors that have unique technologies or capabilities.**

**Consider investing in firms that are forming strategic partnerships, as these collaborations often lead to enhanced market positioning and growth opportunities.**

**Monitor M&A activity in the AI infrastructure space, as companies will likely seek to acquire capabilities that support the growing demand for AI applications.**

## 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

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

## **7. MACROECONOMIC UPDATE**

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## **Key Data Points:**

- Fed Funds Rate: 5.25-5.50%
- Median Stock EPS Growth: +6%
- Earnings Revisions: V-shaped recovery observed
- Small Cap Performance: Outperformed since Liberation Day

## **Main Insights:**

- Transition from a rolling recession to a rolling recovery and early cycle backdrop.
- Positive operating leverage is driving earnings models higher.
- Inflation reacceleration could positively impact equities by enhancing pricing power.
- The Fed's cautious approach to rate cuts may delay full market recovery.

## **Market Commentary:**

- "We think the labor data is going to get worse... which should lead to the Fed cutting in earnest." - Mike Wilson, Morgan Stanley
- "When inflation is accelerating, that's a sign that pricing power is pretty good." - Mike Wilson, Morgan Stanley

## **TMT Sector Relevance:**

- The transition to a rolling recovery suggests potential growth in TMT sectors, particularly in AI and consumer services.
- Positive earnings revisions could lead to increased investment in TMT companies, benefiting from improved consumer demand and spending.
- The Fed's cautious stance may impact financing conditions for TMT firms, particularly those reliant on capital markets for growth.

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