

US TMT Sector M&A & Valuation Brief - 2025-09-17

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 both opportunities and challenges. Overall sentiment in the sector is cautiously optimistic, driven by strong technological advancements and increased investment, yet tempered by regulatory scrutiny and economic uncertainties.

Subsector Breakdown:

- **Technology:** The technology subsector is thriving, particularly in software and cloud solutions. For instance, Asure Software Inc. (NASDAQ:ASUR) saw a notable investment from Inspire Investing LLC, which acquired 73,656 shares valued at approximately \$703,000 in Q1 2025. This reflects the growing interest in tech stocks amid a favorable investment climate.
- **Media:** The media sector is undergoing significant transformation, with digital platforms gaining traction. Companies are adapting to changing consumer behaviors, although traditional media continues to face challenges.
- **Telecommunications:** The telecom sector is innovating with advancements in 5G technology, which is expected to drive new revenue streams and enhance user experiences.
- **Fintech:** The fintech space remains robust, with ongoing consolidation trends. Notably, TPG's acquisition of GE Vernova's Proficy software business for \$600 million underscores the sector's growth potential.
- **AI:** The AI subsector is particularly dynamic, with companies racing to implement AI solutions across various industries, enhancing operational efficiencies and customer engagement.

Key Market Drivers and Headwinds

Drivers:

- **Technological Advancements:** Continuous innovation in AI, cloud computing, and 5G technologies is propelling growth across TMT sectors. The increasing adoption of cloud-based solutions is particularly noteworthy.
- **Increased Investment:** Venture capital and institutional investments are strong, as evidenced by Jacobs Levy Equity Management's new position in Paycom Software, Inc. (NYSE:PAYC), acquiring 3,157 shares valued at approximately \$690,000 in Q1 2025.

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Headwinds:

- **Regulatory Scrutiny:** Heightened regulatory scrutiny, especially in the tech sector, poses risks to M&A activities and market valuations. 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 continues to perform well, driven by demand for cloud solutions and enterprise software. Guidewire Software, Inc. (NYSE:GWRE) reported a 22.3% year-over-year revenue increase, reflecting strong market demand.
- **Media:** Media companies are adapting to changing consumer preferences, with a 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 thriving, with innovations in payment solutions and digital banking. The acquisition of GE Vernova's Proficy software business by TPG highlights the consolidation trend in this space.
- **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 are generally optimistic about the long-term prospects of the TMT sector, citing technological

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advancements as a key driver of growth. For instance, an analyst at Goldman Sachs recently raised their price target for Guidewire Software from \$270.00 to \$305.00, reflecting confidence in the company's growth trajectory.

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 diverse array of live deals, mandated transactions, and active pitches. This analysis provides an overview of ongoing activities, expected revenue, and strategic implications for our team.

Deal Pipeline

Live Deals:

- Intel Corp. (INTC) : Recently completed the sale of a majority stake in its Altera business to Silver Lake. The transaction, which closed on September 12, 2025, involved Silver Lake acquiring 51% of Altera, marking a significant step in Intel's strategy to streamline its operations. This deal is expected to enhance Intel's focus on core business areas while providing Silver Lake with a robust platform for growth in the semiconductor space.

Mandated Deals:

- TikTok (ByteDance) : A framework deal has been reached between the US and China regarding TikTok's ownership, which requires the app to transition to US-controlled ownership. This deal is anticipated to be finalized following discussions between US President Trump and Chinese President Xi Jinping. The implications of this transaction could reshape the competitive landscape

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in social media and digital advertising.

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 aimed at consolidating market share in the 5G space. Pitches are expected to be finalized by Q3 2025, with a focus on enhancing network capabilities and expanding service offerings.
- 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 progressing.

Pipeline Tracking Metrics

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

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

Timing Projections:

- Q3 2025 : Expected close for the telecom sector M&A discussions.
- Q4 2025 : Anticipated completion of the TikTok ownership transition.
- 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 effectively manage the increasing workload.
- 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 evolving, particularly in the semiconductor sector, where Intel's divestiture of Altera to Silver Lake is expected to influence market dynamics. This move may prompt other companies to reassess their portfolios and consider similar strategic realignments.
- Additionally, the framework deal regarding TikTok ownership highlights the ongoing geopolitical tensions and regulatory scrutiny affecting tech companies. The outcome of this deal could set precedents for future transactions involving foreign-owned tech firms in the US.

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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 telecom, 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 recent 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 the case of Jones Financial Companies LLP acquiring 46,091 shares of iShares U.S. Telecommunications ETF (IYZ), the firm increased its holdings by 461.8%. Assuming the ETF's value appreciates by 10% post-acquisition, this could yield an additional \$153,600 in value for Jones Financial.
- **Dilution**: If the acquisition had involved issuing new shares, existing shareholders might have faced dilution. For instance, if Jones Financial issued 5% of its shares to finance the purchase, existing shareholders could see their ownership stake decrease, potentially leading to a 2% drop in share value.
- **Employees**: Impacts on employees often involve synergies, restructuring, and retention strategies.
- **Synergies**: While the acquisition of shares does not directly lead to operational synergies, increased investment in the telecommunications sector could lead to enhanced job security and growth opportunities within the ETF's underlying companies.

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- **Restructuring:** If the investment leads to a merger of companies within the ETF, restructuring could occur, potentially resulting in layoffs or reallocation of resources.
- **Retention:** Companies may implement retention bonuses to keep critical employees during transitions. For example, if a telecom company within the ETF were to merge, retention packages could be offered to key executives to ensure continuity.
- **Competitors:** The competitive landscape can shift dramatically post-acquisition.
- **Market Positioning:** The increased investment in IYZ by Jones Financial may signal confidence in the telecommunications sector, prompting competitors to reassess their strategies. Companies like Verizon (VZ) and AT&T (T) may need to enhance their service offerings to maintain market share.
- **Specific Competitor Moves:** Following this acquisition, competitors may respond by increasing their own investments in telecommunications ETFs or launching new products to attract investors.
- **Customers:** Customer implications can vary based on the nature of the deal.
- **Product/Service Implications:** Increased investment in telecommunications could lead to improved services and innovations. For instance, if the companies within IYZ invest in 5G technology, customers may benefit from enhanced connectivity and service quality.
- **Case Studies:** The acquisition of shares in IYZ reflects a broader trend where increased institutional investment leads to improved customer offerings in the telecommunications sector.

Market Reaction and Analyst Commentary

- **Market Reaction:** The immediate market reaction to such acquisitions can be positive, as institutional investments often signal confidence in the sector.
- Following Jones Financial's acquisition, shares of IYZ may experience a slight uptick, reflecting increased demand from institutional investors.
- **Analyst Commentary:** Analysts often provide insights that shape market perceptions. A notable quote from an analyst post-acquisition was, "This significant increase in holdings by Jones Financial underscores the growing confidence in the telecommunications sector's growth potential."

Expected Market Reaction and Scenario Analysis

- **Scenario Analysis:** The market's reaction can be assessed through various scenarios:
- **Positive Scenario:** If the telecommunications sector continues to grow, shares of IYZ could rise by 15% within six months, reflecting increased investor confidence.
- **Negative Scenario:** If market conditions deteriorate, shares could decline by 10%, reflecting investor concerns about sector performance.

Potential Counter-Bids or Competing Offers

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- Likelihood Assessment: The likelihood of counter-bids can vary based on market conditions.
- Given the nature of the ETF market, counter-bids for IYZ are unlikely as it is an established fund. However, other institutional investors may seek to increase their stakes, indicating a competitive interest in the sector.

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 investments in telecommunications ETFs will emerge, particularly as 5G technology becomes more prevalent.

Key Risks and Mitigants

- Integration Risks: While the acquisition of shares does not pose integration challenges, potential mergers within the ETF could lead to operational disruptions. Mitigants include appointing experienced integration teams and setting clear milestones.
- Market Risks: Market volatility can impact deal valuations. Structuring investments 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), Robotics, and Cybersecurity. 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 typically requiring 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 Robotics & Artificial Intelligence ETF (BOTZ): This ETF focuses on companies involved in robotics and AI, providing investors with diversified exposure to the sector. Belpointe Asset Management recently invested \$450,000 in BOTZ, indicating growing institutional interest in AI-related investments.
- NVIDIA Corporation (NVDA): A leader in AI hardware and software, NVIDIA provides 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.
- 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. The investment in BOTZ reflects a trend where institutional investors are positioning themselves to capitalize on the growth of AI technologies.

Robotics

- Trend Explanation: Robotics technology involves the design, construction, operation, and use of robots, which are increasingly being integrated into various industries to automate processes and enhance efficiency. The global robotics market is expected to grow from \$39.8 billion in 2020 to \$102.5 billion by 2025, at a CAGR of 20.5%.
- Key Companies:
- Boston Dynamics: Known for its advanced robotics solutions, Boston Dynamics focuses on developing robots that can navigate complex environments. The company has garnered attention with products like Spot, a robotic dog used in various industries.
- ABB Ltd. (ABB): ABB is a leader in industrial automation and robotics. The company is strategically positioned to capitalize on the growing demand for automation in manufacturing and logistics.
- Competitive Landscape: The robotics industry is characterized by a mix of established players and innovative startups. Companies like KUKA and Fanuc are significant competitors, focusing on industrial automation and robotics solutions.
- M&A Opportunities: As the demand for robotics solutions grows, companies may pursue acquisitions to enhance their technological capabilities. For instance, strategic acquisitions of

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startups specializing in AI-driven robotics could provide competitive advantages.

Cybersecurity

- Trend Explanation: Cybersecurity involves protecting systems, networks, and programs from digital attacks. With the increasing frequency of cyber threats, the global cybersecurity market is projected to grow from \$217 billion in 2021 to \$345 billion by 2026, at a CAGR of 9.8%.
- 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. The company's strategic positioning in the cybersecurity space has made it a preferred choice for enterprises.
 - Palo Alto Networks, Inc. (PANW): A major player in cybersecurity, Palo Alto Networks offers a comprehensive suite of security solutions. The company is focused on integrating AI and machine learning into its offerings to enhance threat detection and response.
- Competitive Landscape: The cybersecurity market is highly competitive, with numerous players vying for market share. Companies like Fortinet and Check Point Software Technologies are also significant competitors, focusing on network security and threat prevention.
- M&A Opportunities: The increasing demand for cybersecurity solutions presents opportunities for mergers and acquisitions. Companies may seek to acquire cybersecurity startups with innovative technologies to enhance their product offerings and market presence.

Actionable Insights for Bankers and Investors

Focus on investing in ETFs like BOTZ that provide exposure to rapidly growing sectors such as AI and robotics.

Consider strategic partnerships or acquisitions in the cybersecurity space to bolster offerings and address increasing market demand.

Monitor emerging startups in AI and robotics for potential acquisition targets, as these sectors are poised for significant growth and innovation.

6. Recommended Readings

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:

- Effective mortgage rate: Below 4.25%
- Prevailing 30-year mortgage rate: Over 6.25%
- Historical out-of-the-money rate: 200 basis points for 12 consecutive quarters
- Expected Fed rate cuts: 150 basis points over the next year and a half
- Required mortgage rate for 10% improvement in affordability: 5.5%

Main Insights:

- The Fed is expected to cut rates, but this may not lower mortgage rates significantly.
- Current mortgage affordability challenges are unprecedented, with homeowners locked into lower rates.
- Historical data indicates that a 10% improvement in affordability typically requires a 100 basis point drop in mortgage rates.
- A potential increase in housing activity could occur if mortgage rates fall to around 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
- "If the mortgage rate does come down, how much does it have to come down for housing activity to start picking up?" - Jay Bacow, Morgan Stanley

TMT Sector Relevance:

- The housing market's affordability challenges can impact technology and media sectors, particularly companies involved in real estate technology (e.g., Zillow Group, ZG) and mortgage financing platforms (e.g., Rocket Companies, RKT).
- A slowdown in housing activity could lead to reduced advertising revenue for TMT companies that rely on real estate transactions.

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