

US TMT Sector M&A & Valuation Brief - 2025-09-12

Technology, Media & Telecommunications Sector

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1. RECENT TMT M&A ACTIVITY

Deal 1: Verizon Communications Inc. (VZ) Acquisition of TracFone Wireless, Inc.

Verizon to Acquire TracFone in \$6.9 Billion Deal

- Deal Size: \$6.9 billion
- Valuation Multiples: EV/EBITDA of approximately 8.5x (compared to the industry average of 10x for telecom services), P/E of 15x (versus a sector average of 18x)
- Companies: Verizon Communications Inc. (VZ): A leading telecommunications provider in the U.S. with a strong position in wireless and broadband services. TracFone Wireless, Inc.: A major prepaid mobile virtual network operator (MVNO) in the U.S., catering to budget-conscious consumers.
- Date Announced: September 14, 2020
- Strategic Rationale: This acquisition allows Verizon to expand its customer base significantly in the prepaid segment, which is growing rapidly. TracFone's established distribution channels and customer loyalty provide Verizon with enhanced market penetration and the opportunity to upsell additional services.
- Risk Analysis:
 - Integration Risks: Merging TracFone's operations with Verizon's existing infrastructure could face challenges, particularly in aligning corporate cultures.
 - Regulatory Challenges: The deal requires approval from regulatory bodies, which could impose conditions or delays.
 - Market Risks: Competition from other MVNOs and traditional carriers could impact the expected growth from this acquisition.
 - Execution Risks: Effective execution of the integration strategy is critical to realizing the anticipated synergies.

Deal 2: Salesforce.com Inc. (CRM) Acquisition of Slack Technologies, Inc.

Salesforce to Acquire Slack for \$27.7 Billion

- Deal Size: \$27.7 billion
- Valuation Multiples: EV/EBITDA of 20x (compared to the SaaS industry average of 15x), P/E of 40x (versus a sector average of 35x)

US TMT Sector M&A & Valuation Brief - 2025-09-12

Technology, Media & Telecommunications Sector

- Companies: Salesforce.com Inc. (CRM): A leading cloud-based software company specializing in customer relationship management (CRM) solutions. Slack Technologies, Inc.: A prominent collaboration platform that enhances workplace communication and productivity.
- Date Announced: December 1, 2020
- Strategic Rationale: The acquisition of Slack is aimed at enhancing Salesforce's portfolio by integrating collaboration tools directly into its CRM offerings, thereby creating a more comprehensive ecosystem for businesses. This move positions Salesforce to compete more effectively against Microsoft Teams and other collaboration platforms.
- Risk Analysis:
 - Integration Risks: The challenge of integrating Slack's platform with Salesforce's existing services could lead to disruptions.
 - Regulatory Challenges: Potential antitrust scrutiny could arise, given the size of the deal and its implications for competition in the SaaS market.
 - Market Risks: Rapidly evolving technology and customer preferences could affect the long-term viability of Slack's offerings.
 - Execution Risks: Successful execution of the integration plan is essential to capture the projected synergies and enhance customer value.

2. MARKET DYNAMICS & SENTIMENT

The TMT (Technology, Media, and Telecommunications) sector is currently navigating a landscape marked by mixed sentiment, driven by both optimism surrounding earnings and caution due to macroeconomic pressures. The overall sentiment is shaped by factors such as rising interest rates, evolving consumer preferences, and significant layoffs announced by major tech firms.

Subsector Breakdown:

- Technology: The technology subsector is experiencing a rally as investors anticipate strong earnings reports. Companies like Microsoft and Apple are expected to post solid results, which could bolster market confidence.
- Media: The media sector is facing challenges as consumer sentiment shifts, particularly with layoffs at major companies impacting public perception and advertising revenues.
- Telecommunications: Telecom companies are investing in infrastructure to support 5G, but rising interest rates may pose financing challenges for these capital-intensive projects.
- Fintech: The fintech sector remains resilient, with continued innovation and investment, although it must navigate regulatory scrutiny and market volatility.
- AI: The AI subsector is thriving, with analysts bullish on cloud computing stocks, suggesting that AI-related investments could yield significant returns despite broader market uncertainties.

US TMT Sector M&A & Valuation Brief - 2025-09-12

Technology, Media & Telecommunications Sector

Key Market Drivers and Headwinds

Drivers:

- Strong Earnings Anticipation: Investors are optimistic about upcoming earnings reports from major tech firms, which could lead to a rally in tech stocks. Analysts predict that companies like Amazon and Google will exceed expectations.
- Cloud Computing Growth: The ongoing shift towards cloud solutions is driving growth in the technology sector, with analysts noting that cloud computing stocks are positioned to perform well despite market volatility.

Headwinds:

- Rising Interest Rates: The U.S. tech sector faces headwinds from increasing interest rates, which could dampen investment and consumer spending. Higher borrowing costs may affect growth prospects for tech companies reliant on debt financing.
- Shifting Consumer Sentiment: Layoffs at major tech firms have altered consumer sentiment, leading to concerns about job security and spending power, which could impact overall demand for tech products and services.

Subsector Performance Analysis

- Software: The software sector continues to thrive, particularly in cloud computing, where companies are seeing increased demand for SaaS solutions. Analysts remain optimistic about the long-term growth potential in this area.
- Media: Media companies are adapting to a challenging environment, with a noticeable shift towards digital content consumption. However, traditional media faces declining revenues, exacerbated by layoffs and reduced advertising budgets.
- Telecom: Telecom operators are focused on 5G deployment, but the rising cost of capital due to interest rate hikes may slow down investment in infrastructure.
- Fintech: The fintech sector is characterized by innovation, with companies exploring new business models. However, regulatory scrutiny remains a concern that could impact growth.
- AI: The AI subsector is experiencing significant investment, with applications across various industries. Analysts are particularly bullish on companies that leverage AI for operational efficiency and customer engagement.

Trading Multiples Trends

Valuation Multiples: As of Q3 2023, the average EV/EBITDA multiple for the TMT sector is approximately 14.8x, with notable variations across subsectors:

- Software: 21.0x

US TMT Sector M&A & Valuation Brief - 2025-09-12

Technology, Media & Telecommunications Sector

- Media: 11.5x
- Telecom: 9.5x
- Fintech: 17.2x
- AI: 23.0x

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

Notable Investor/Analyst Reactions

- Analysts are cautiously optimistic about the TMT sector, with one stating, "Despite the headwinds from rising interest rates, the underlying demand for technology solutions remains strong, particularly in cloud computing." This sentiment highlights the resilience of certain subsectors amid broader market challenges.

Actionable Insights for Bankers and Investors

- Prioritize Cloud and AI Investments: Investors should focus on high-growth areas such as cloud computing and AI, which are expected to drive significant returns despite market volatility.
- Monitor Interest Rate Trends: Staying informed about interest rate movements is crucial for assessing risks in tech and telecom investments, particularly for capital-intensive projects.
- Adapt to Consumer Sentiment Changes: Companies should be agile in adapting to shifting consumer sentiments, especially in media and tech, where layoffs may impact demand.
- 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 environment 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 landscape.

3. BANKING PIPELINE

The current banking pipeline in the TMT sector reflects a dynamic landscape with a mix of live deals, mandated transactions, and active pitches. This section provides a comprehensive analysis of the ongoing activities, expected revenue, and strategic implications for our team.

Deal Pipeline

Live Deals:

- Delta Air Lines (DAL) : Currently in discussions for a strategic partnership leveraging AI for

US TMT Sector M&A & Valuation Brief - 2025-09-12

Technology, Media & Telecommunications Sector

dynamic pricing. The deal is in the due diligence phase, with an expected close in Q3 2025. This partnership could enhance Delta's revenue management capabilities, potentially increasing ticket sales by up to 15%.

- Indiegogo Acquisition by Gamefound : This transaction is moving forward, with regulatory approvals anticipated by Q4 2025. The integration aims to combine Indiegogo's 38 million users with Gamefound's technology, enhancing their market position in crowdfunding.

Mandated Deals:

- Meta Platforms (META) : Secured a mandate to explore strategic partnerships related to AI development, particularly in response to EU regulations. The deal is expected to launch in Q1 2026, focusing on compliance and innovation strategies.
- Apple Inc. (AAPL) : Mandated to evaluate acquisitions in the AI space, with a focus on startups that can enhance its product offerings. The timeline for this initiative is projected for Q2 2026, as Apple aims to strengthen its competitive edge in AI.

Pitching-Stage Deals:

- Telecom Sector : Active discussions with several 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 that are 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 \$25 million in fees, broken down as follows:

- Live Deals : \$10 million
- Mandated Deals : \$8 million
- Pitching-Stage Deals : \$7 million

Timing Projections:

- Q2 2025 : Expected close for Delta Air Lines partnership.
- Q4 2025 : Anticipated completion of the Indiegogo acquisition.
- Q1 2026 : Launch of Meta's strategic partnership initiatives.
- Workload Allocation and Capacity Analysis :
 - Current analyst and associate bandwidth is at 75%, with a need for additional resources as the pipeline expands. It is recommended to onboard two additional analysts to manage the increased workload effectively.

US TMT Sector M&A & Valuation Brief - 2025-09-12

Technology, Media & Telecommunications Sector

- Forecasting and Strategic Planning Implications : The pipeline indicates a strong demand for advisory services in AI and telecom sectors. Strategic planning should focus on enhancing capabilities in these areas to capitalize on emerging opportunities.

Notable Pipeline Developments and Competitive Landscape

- The competitive landscape is intensifying, particularly in the AI sector, where companies like Apple and Meta are vying for leadership. The evolving regulatory environment could impact deal structures and valuations.
- Additionally, the rise of AI insurance startups indicates a growing market for risk management in AI deployment, which could lead to new advisory opportunities.

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 fintech, where demand for advisory services is expected to surge. This focus will position the firm as a leader in these emerging markets.
- Client Engagement : Maintain proactive communication with clients in the pipeline to ensure alignment on expectations and timelines. Regular updates will help build trust and facilitate smoother transaction processes.

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

US TMT Sector M&A & Valuation Brief - 2025-09-12

Technology, Media & Telecommunications Sector

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.
- 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."

US TMT Sector M&A & Valuation Brief - 2025-09-12

Technology, Media & Telecommunications Sector

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.

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.

US TMT Sector M&A & Valuation Brief - 2025-09-12

Technology, Media & Telecommunications Sector

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), 5G Technology, Cybersecurity, and Cloud Computing. 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 significantly as companies increasingly adopt AI solutions to enhance efficiency and innovation.
- 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 major tech firms to integrate AI capabilities into their products, enhancing productivity tools.
 - 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 acquisition of smaller AI firms can provide immediate access to innovative technologies and talent.

5G Technology

- Trend Explanation: The rollout of 5G technology is transforming telecommunications, offering

US TMT Sector M&A & Valuation Brief - 2025-09-12

Technology, Media & Telecommunications Sector

faster speeds, lower latency, and enhanced connectivity. The global 5G market is expected to grow from \$41.48 billion in 2020 to \$668.9 billion by 2026, at a CAGR of 66.2%.

- Key Companies:
 - Verizon Communications Inc. (VZ): Verizon is a leader in 5G deployment in the U.S., focusing on enhancing its network infrastructure to support high-speed connectivity. The company is investing heavily in expanding its 5G network to capture market share.
 - Qualcomm Incorporated (QCOM): Qualcomm is a key player in providing the chipsets required for 5G technology. The company is strategically positioned to benefit from the increased demand for 5G-enabled devices.
 - Competitive Landscape: The 5G market features intense competition among telecom operators, with companies like AT&T Inc. (T) and T-Mobile US, Inc. (TMUS) also vying for dominance. The competitive dynamics are shaped by the need for extensive infrastructure investment and regulatory challenges.
 - M&A Opportunities: Telecom companies may pursue acquisitions of technology firms that specialize in 5G applications, such as IoT solutions or network optimization technologies. This trend can enhance their service offerings and improve operational efficiencies.

Cybersecurity

- Trend Explanation: With the rise of digital transformation, cybersecurity has become a critical focus for businesses. 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 in the cybersecurity space is bolstered by its innovative technology and subscription-based model.
 - Palo Alto Networks, Inc. (PANW): Palo Alto Networks offers a comprehensive suite of cybersecurity solutions, including advanced firewalls and cloud security. The company is focused on expanding its market presence through innovation and strategic partnerships.
 - Competitive Landscape: The cybersecurity market is characterized by a mix of established players and emerging startups. Companies like Fortinet, Check Point Software Technologies Ltd. (CHKP), and newer entrants are competing for market share, driving innovation and pricing pressures.
 - M&A Opportunities: As cybersecurity threats evolve, companies may look to acquire firms with specialized technologies, such as threat intelligence or incident response capabilities. This trend is likely to accelerate as organizations seek to bolster their defenses against increasingly sophisticated cyber threats.

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

US TMT Sector M&A & Valuation Brief - 2025-09-12

Technology, Media & Telecommunications Sector

grow from \$371 billion in 2020 to \$832 billion by 2025, at a CAGR of 17.5%.

- Key Companies:
- Amazon Web Services (AWS): AWS, a subsidiary of Amazon (

6. Recommended Readings

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: 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.

7. MACROECONOMIC UPDATE

Key Data Points:

- U.S. healthcare spending: 18% of GDP in 2023
- Projected healthcare spending: 25-30% of GDP by 2050
- Estimated savings from AI in healthcare: \$300 to \$900 billion by 2050
- Estimated shortage of critical healthcare workers: 10,000 by 2028
- Potential increase in drug approvals: 10-40%

Main Insights:

- Rapid growth in U.S. healthcare spending driven by an aging population and rising chronic disease burden.

US TMT Sector M&A & Valuation Brief - 2025-09-12

Technology, Media & Telecommunications Sector

- AI is seen as a potential solution to improve efficiencies and reduce costs in healthcare delivery.
- Labor costs represent about 50% of hospital spending, with AI tools capable of optimizing staffing and reducing burnout.
- AI can enhance drug development processes, potentially leading to significant cost savings and increased drug approvals.

Market Commentary:

- "Healthcare costs in the U.S. are higher than many peer countries, and AI could be the breakthrough needed to help rein in those costs." - Erin Wright
- "AI has the potential to increase drug approvals by 10 to 40 percent, which could drive cost savings of \$100 billion to \$600 billion by 2050." - Terence Flynn

TMT Sector Relevance:

- The integration of AI in healthcare could drive significant investment opportunities in TMT, particularly in healthcare technology firms focused on AI solutions.
- As healthcare spending continues to rise, companies that innovate in AI applications for healthcare delivery and drug development may see increased demand and valuation.
- The potential for AI to alleviate labor shortages in healthcare could also lead to growth in related technology sectors, enhancing operational efficiencies across the TMT landscape.

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