

# Europe 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 both challenges and opportunities. Overall sentiment is cautiously optimistic, driven by technological advancements and evolving consumer preferences, but tempered by regulatory scrutiny and economic uncertainties.

### Subsector Breakdown:

- Technology: The technology subsector remains vibrant, particularly with the rise of AI and electric vehicles (EVs). For example, Lucid Motors (LCID) is expanding its market by launching a new \$50,000 midsize electric SUV, aiming to compete with Tesla's Model Y and other luxury brands in Europe.
- Media: The media landscape is adapting to regulatory changes and technological advances. Companies are focusing on video marketing services to enhance engagement, as highlighted in recent reports on industry trends.
- Telecommunications: Telecom companies are investing in next-generation technologies, such as 5G, to improve service delivery. The introduction of low-latency technologies is expected to enhance user experiences significantly.
- Fintech: The fintech sector continues to thrive, with ongoing innovations in payment solutions and digital banking. The consolidation trend is evident, as companies seek to strengthen their market positions.
- AI: The AI subsector is experiencing rapid growth, with applications across various industries. Companies are increasingly investing in AI capabilities to maintain competitive advantages.

### Key Market Drivers and Headwinds

#### Drivers:

- Technological Advancements: Continuous innovation in AI, EVs, and cloud computing is driving growth across TMT sectors. For instance, Lucid's new SUV is engineered for European markets, showcasing the global push for EV adoption.
- Increased Investment: Venture capital and private equity investments remain robust, particularly in tech and fintech, as investors look to capitalize on emerging trends.

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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 must navigate complex compliance landscapes, which can delay 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 thrive, driven by 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 shift towards digital content consumption. However, traditional media faces 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 is flourishing, with innovations in payment solutions and digital banking. The consolidation trend is evident, as companies seek to strengthen their market positions.
- 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

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advancements as a key driver of growth. One 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 section provides an in-depth analysis of ongoing activities, expected revenue, and strategic implications for our team.

### Deal Pipeline

#### Live Deals:

- Nvidia (NVDA) and Intel (INTC) : Currently in a strategic partnership to develop AI infrastructure and personal computing products. The deal is in the due diligence phase, with an expected close in Q3 2025. This collaboration could significantly enhance both companies' market positions in the AI chip sector, potentially increasing their combined revenue by over \$2 billion annually.

#### Mandated Deals:

- Apple Inc. (AAPL) : Mandated to explore acquisitions in the AI space, focusing 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.
- 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.

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## **Pitching-Stage Deals:**

- Telecom Sector : Active discussions with several telecom operators, including Verizon (VZ) and AT&T (T), regarding potential M&A opportunities to consolidate market share in the 5G space. Pitches are expected to finalize by Q3 2025.
- Travel and Tourism Sector : Engaging with various travel companies to provide advisory services, particularly as the sector is projected to grow significantly, with international tourism receipts for the EU's top markets expected to reach EUR400 billion by 2024. Discussions are ongoing with major players in the industry.

## **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 the Nvidia and Intel partnership.
- Q2 2026 : Anticipated launch of Apple's acquisition initiatives.
- Q1 2026 : Launch of Meta'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 travel 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 Nvidia and Intel are collaborating to enhance their product offerings. This partnership is expected to set a new standard for AI infrastructure development.
- Additionally, the travel and tourism sector is gaining attention as a significant economic driver, with Europe expected to recognize its potential as a pillar of economic strength. This shift could lead to increased advisory opportunities for firms specializing in this area.

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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 AI and travel, 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., Opendoor Technologies Inc. (OPEN)) acquires Company B (e.g., Zillow Group, Inc. (Z)), the combined entity could see a revenue increase of approximately 25% due to enhanced market reach and technology integration. Assuming a pre-deal market cap of \$10 billion for Opendoor, a successful integration could increase shareholder value by \$2.5 billion.
- Dilution: Conversely, if the acquisition is financed through stock, existing shareholders may experience dilution. For instance, if Opendoor issues 15% of its shares to finance the deal, existing shareholders could see their ownership stake decrease, potentially leading to a 7% drop in share price post-announcement.
- Employees: Impacts on employees often involve synergies, restructuring, and retention strategies.
- Synergies: A merger between Unilever (UL) and a tech-driven startup could lead to substantial cost synergies, with estimates of \$1 billion in annual savings through streamlined operations and

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shared resources.

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

## Market Reaction and Analyst Commentary

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

## Expected Market Reaction and Scenario Analysis

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

## Potential Counter-Bids or Competing Offers

- Likelihood Assessment: The likelihood of counter-bids can vary based on market conditions.

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- In the case of the proposed acquisition of T-Mobile by Sprint, there were rumors of interest from Dish Network (DISH), highlighting the competitive nature of the TMT sector. However, the likelihood of a successful counter-bid is moderate, as regulatory hurdles often deter competing offers.

## Similar Deals Likely to Follow

- Sector Consolidation Predictions: The TMT sector is expected to see continued consolidation.
- Analysts predict that as companies seek to enhance their technological capabilities, similar deals will emerge, particularly in the AI and cloud computing spaces. Companies like IBM (IBM) and Oracle (ORCL) may pursue acquisitions to bolster their cloud offerings.

## Key Risks and Mitigants

- Integration Risks: Integration challenges can lead to operational disruptions. Mitigants include appointing experienced integration teams and setting clear milestones.
- Regulatory Risks: Regulatory scrutiny can delay or block deals. Engaging with regulators early in the process can help mitigate these risks.
- Market Risks: Market volatility can impact deal valuations. Structuring deals with contingent payments can protect against adverse market movements.

## Actionable Insights for Clients and Bankers

### For Clients:

- Focus on thorough due diligence to identify potential integration challenges early.
- Consider retention strategies for key talent to ensure a smooth transition.

### For Bankers:

- Stay informed about competitor moves and market trends to provide timely advice.
- Develop robust financial models to assess the impact of potential deals on shareholder value.

## 5. TECH TRENDS

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), Video Marketing Services, and the impact of US tech investments in the UK. Each section will provide a detailed explanation of the trend, its market significance, key players, competitive

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dynamics, and potential M&A opportunities.

### **Artificial Intelligence (AI)**

- Trend Explanation: AI encompasses technologies that enable machines to perform tasks requiring human intelligence, such as natural language processing and decision-making. 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%. This growth is driven by increasing demand for automation and data analysis across various sectors.
- Key Companies:
- NVIDIA Corporation (NVDA): NVIDIA is a leader in AI hardware and software, providing GPUs that power AI applications. The company has made substantial investments in AI research and development, particularly in deep learning and autonomous systems. Recently, NVIDIA announced a GBP2 billion investment in UK startups, highlighting its commitment to expanding its influence in the AI space.
- Microsoft Corporation (MSFT): Microsoft is integrating AI into its suite of products, enhancing tools like Azure and Microsoft 365. The company's strategic partnerships with AI startups further bolster its position in the market.
- Competitive Landscape: The AI market is highly competitive, with major players like Google (GOOGL) and Amazon (AMZN) 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 recent investment by NVIDIA in UK startups indicates a trend toward acquiring innovative technologies that can be integrated into existing platforms.

### **Video Marketing Services**

- Trend Explanation: The video marketing services industry is experiencing significant growth, driven by the increasing consumption of video content across digital platforms. The market is expected to adapt to regulatory changes and technological advances, with a projected growth trajectory that aligns with the rise of social media and online advertising.
- Key Companies:
- Nexstar Media Group, Inc. (NXST): Nexstar is a leading media company that is expanding its video marketing services through strategic acquisitions. The pending \$6.2 billion merger with Tegna will enhance its content offerings and market reach, allowing for more robust video marketing solutions.
- Tegna Inc. (TGNA): Tegna focuses on delivering high-quality video content and is well-positioned to benefit from the merger with Nexstar, which will create a more competitive entity in the video marketing landscape.
- Competitive Landscape: The video marketing services sector is characterized by a mix of

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established media companies and emerging digital platforms. The competitive dynamics are shifting as companies adapt to regulatory changes and technological advancements, focusing on innovative content delivery methods.

- **M&A Opportunities:** The merger between Nexstar and Tegna exemplifies the trend of consolidation in the video marketing space. Other media companies may pursue similar strategies to enhance their service offerings and expand their market presence.

### US Tech Investments in the UK

- **Trend Explanation:** The recent surge in US tech investments in the UK signifies a strategic alignment between the two economies. This "tech bromance" aims to bolster the UK's tech ecosystem, with significant investments from companies like NVIDIA, Microsoft, and Google. This trend is expected to transform the UK economy by fostering innovation and creating jobs.
- **Key Companies:**
- **NVIDIA Corporation (NVDA):** NVIDIA's GBP2 billion investment in UK startups highlights its commitment to expanding its footprint in the UK tech landscape. The company is focused on leveraging local talent and innovation to enhance its AI capabilities.
- **Microsoft Corporation (MSFT):** Microsoft's investments in the UK are aimed at strengthening its cloud and AI services, positioning the company to capitalize on the growing demand for digital transformation.
- **Competitive Landscape:** The influx of US tech investments is intensifying competition among UK startups, as they vie for funding and partnerships with major tech players. This competitive environment is likely to lead to increased innovation and collaboration within the UK tech ecosystem.
- **M&A Opportunities:** The growing interest from US tech giants in the UK presents numerous M&A opportunities. UK startups with innovative technologies may attract acquisition interest from larger US firms looking to enhance their capabilities in AI, cloud computing, and other tech sectors.

### ### Actionable Insights for Bankers and Investors

**Focus on identifying UK startups with innovative technologies that align with the strategic interests of US tech companies.**

**Monitor the competitive landscape in the AI and video marketing sectors for potential acquisition targets that can enhance service offerings and**

### 6. Recommended Readings

**Deal Name: Microsoft's Acquisition of Activision Blizzard**

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

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## 7. MACROECONOMIC UPDATE

### **Key Data Points:**

- Effective mortgage rate: below 4.25%
- Prevailing 30-year mortgage rate: over 6.25%
- Historical maximum out-of-the-money rate: 135 basis points
- Current out-of-the-money duration: over 200 basis points for 36 consecutive months
- Expected Fed rate cuts: 150 basis points over the next 18 months
- Required mortgage rate for 10% improvement in affordability: approximately 5.5%

### **Main Insights:**

- The Fed is expected to cut rates, but this may not lead to a decrease in mortgage rates.
- The current affordability crisis in the housing market is exacerbated by homeowners locked into low mortgage rates.
- Historical data shows unprecedented levels of mortgage rate disparity, affecting housing supply.
- A 100 basis point decrease in mortgage rates could lead to a 5% increase in housing purchase volumes by 2026.

### **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
- "If mortgage rates go to 5.5 percent, then we're going to immediately see housing activity pick up." - James Egan, Morgan Stanley

### **TMT Sector Relevance:**

- The housing market's affordability challenges can impact technology and media sectors reliant on consumer spending.
- Increased housing activity could lead to higher demand for technology solutions in real estate and mortgage processing.
- A stable housing market may enhance investor confidence, potentially leading to increased M&A activity in the TMT sector.

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