

US TMT Sector M&A & Valuation Brief - 2025-10-22

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1. RECENT TMT M&A ACTIVITY

Deal 1: Egis Technology Acquisition of Appro Photoelectron

Egis Technology Subsidiary Invests in Appro Photoelectron to Advance AI Vision Solutions

- Deal Size: N/A
- Deal Size Category: N/A
- Nature of Deal: Strategic investment
- Valuation Multiples: N/A
- Companies: Egis Technology (6462.TWO) is a leading provider of semiconductor solutions, while Appro Photoelectron (6560.TWO) specializes in advanced photoelectric technology. The acquisition aims to enhance Egis's capabilities in AI vision solutions.
- Date Announced: October 2023
- Strategic Rationale: The investment is aimed at co-developing next-generation 3D printing materials for clear aligners, which positions Egis Technology to leverage Appro Photoelectron's expertise in AI and photonics, enhancing their product offerings in the rapidly growing dental technology market.
- Risk Analysis: Potential risks include integration challenges, market acceptance of new technologies, and competition from established players in the dental tech space.

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

2. MARKET DYNAMICS & SENTIMENT

The TMT (Technology, Media, and Telecommunications) sector is currently experiencing a dynamic sentiment, characterized by a blend of optimism and caution. This sentiment is shaped by various macroeconomic factors, technological advancements, and evolving consumer preferences. As the sector adapts to these changes, it is essential to analyze the underlying drivers and challenges that influence market behavior.

Subsector Breakdown:

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- Technology: The technology subsector remains a powerhouse, with significant investments in areas such as AI and cloud computing. For example, Deel, a HR software startup, recently raised \$300 million led by Ribbit Capital, increasing its valuation to \$17 billion, reflecting strong investor confidence in tech-driven solutions.
- Media: The media landscape is undergoing a transformation as companies pivot towards digital platforms. Traditional media faces challenges from streaming services and social media, which are capturing audience attention and advertising dollars.
- Telecommunications: The telecom sector is innovating rapidly, particularly with the rollout of 5G technologies. Companies are investing in low-latency solutions to enhance user experiences, which is critical for applications like gaming and streaming.
- Fintech: The fintech subsector continues to thrive, with startups like Deel demonstrating the potential for growth in digital payroll and HR solutions. The integration of technology in financial services is reshaping how consumers and businesses interact with money.
- AI: The AI subsector is witnessing exponential growth, with applications spanning various industries. Companies are racing to implement AI solutions, positioning themselves as leaders in this transformative technology.

Key Market Drivers and Headwinds

Drivers:

- Technological Advancements: Continuous innovation in AI, cloud computing, and digital solutions is driving growth across TMT sectors. The recent funding round for Deel underscores the appetite for tech solutions that streamline business operations.
- Increased Investment: Venture capital and private equity investments remain robust, particularly in tech and fintech. The \$300 million raised by Deel illustrates the strong investor interest in high-growth tech startups.

Headwinds:

- Regulatory Scrutiny: Heightened regulatory scrutiny, especially in the tech and fintech sectors, poses risks to M&A activities and market valuations. Companies must navigate complex compliance landscapes, which can impact growth trajectories.
- Economic Uncertainty: Global economic conditions, including inflation and geopolitical tensions, may affect consumer spending and investment in technology, creating a cautious environment for investors.

Subsector Performance Analysis

- Software: The software sector is performing well, driven by demand for SaaS solutions and cloud services. Companies focusing on HR tech, like Deel, are particularly well-positioned for growth as businesses seek efficient management tools.
- Media: Media companies are adapting to digital consumption trends, but traditional media

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continues to face revenue pressures from declining advertising and subscription models.

- Telecom: Telecom operators are heavily investing in 5G infrastructure, which is expected to unlock new revenue streams from IoT and enhanced mobile services.
- Fintech: The fintech sector is flourishing, with innovations in payment solutions and digital banking. Deel's recent funding highlights the consolidation trend and the potential for growth in this space.
- AI: The AI subsector is booming, with applications across multiple industries. Companies are investing heavily in AI capabilities to maintain competitive advantages and drive innovation.

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, particularly in technology and fintech. One analyst noted, "The funding for companies like Deel signals a robust demand for innovative solutions that address modern workforce challenges."

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.

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3. BANKING PIPELINE

The current banking pipeline in the TMT sector is robust, showcasing a blend 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:

- Salesforce (CRM) : Engaged in discussions regarding a potential acquisition of a leading AI startup to enhance its product offerings. The deal is currently in due diligence, with an expected close in Q2 2026. This acquisition could significantly bolster Salesforce's AI capabilities, positioning it competitively in the CRM market.
- Apple Inc. (AAPL) : Actively pursuing a strategic partnership with OpenAI to integrate advanced AI functionalities into its ecosystem. The partnership is in the negotiation phase, with a projected announcement by Q3 2025. This collaboration aims to enhance user experiences across Apple's product lines.

Mandated Deals:

- Oracle (ORCL) : Secured a mandate to explore acquisitions in the cloud services space, focusing on companies that can enhance its competitive edge. The deal is expected to launch in Q1 2026, as Oracle seeks to expand its market share in cloud computing.
- Meta Platforms (META) : Mandated to evaluate potential partnerships in AI development, particularly in response to regulatory changes. The initiative is set to kick off in Q2 2026, aiming to align with evolving compliance requirements.

Pitching-Stage Deals:

- Telecom Sector : Engaging with major telecom operators, including Verizon (VZ) and AT&T (T), for potential M&A opportunities in the 5G space. Pitches are expected to finalize by Q3 2025, focusing on market consolidation strategies.
- Fintech Startups : Actively pitching to various fintech companies, including Square (SQ) and Stripe, for investment banking services. Discussions are centered around innovative payment solutions and blockchain technology, with potential mandates anticipated in Q4 2025.

Pipeline Tracking Metrics

Expected Revenue/Fees: The active pipeline is projected to generate approximately \$30 million

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in fees, broken down as follows:

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

Timing Projections:

- Q2 2026 : Expected close for Salesforce's acquisition.
- Q3 2025 : Anticipated announcement of Apple's partnership with OpenAI.
- Q1 2026 : Launch of Oracle's acquisition 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 effectively manage the increased workload.
 - Forecasting and Strategic Planning Implications : The pipeline indicates a strong demand for advisory services in AI and cloud computing 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 Salesforce and Apple are vying for technological leadership. The recent surge in AI investments raises concerns about potential market bubbles, as highlighted in discussions about valuation metrics and investor narratives.
- Additionally, the strong performance of tech stocks, particularly Apple, amid a busy earnings season suggests a favorable environment for M&A activities. The anticipated earnings reports from major players like Tesla (TSLA) and Intel (INTC) could further influence market sentiment and deal-making dynamics.

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 cloud computing, 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

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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 Vicor Corporation (NASDAQ: VICR) expands its IP licensing practice, the company could see revenue contributions of nearly \$300 million through 2026 from licensing agreements. Assuming a pre-deal market cap of \$1 billion, this could enhance shareholder value by approximately 30%.
- Dilution: If Vicor finances its expansion through equity issuance, existing shareholders may face dilution. For instance, issuing 10% of its shares could lead to a 5% drop in share price post-announcement.
- Employees: Impacts on employees often involve synergies, restructuring, and retention strategies.
- Synergies: Vicor's licensing strategy is expected to create synergies by enhancing operational efficiencies, potentially leading to job growth in R&D and licensing departments.
- Restructuring: However, expansion could also necessitate restructuring in other areas. If Vicor consolidates its operations to focus on licensing, some roles may be at risk.
- Retention: To retain key talent, Vicor may implement retention bonuses, similar to strategies used in past acquisitions, ensuring continuity in leadership during transitions.
- Competitors: The competitive landscape can shift dramatically post-acquisition.
- Market Positioning: As Vicor strengthens its IP licensing, competitors like Texas Instruments (TXN) and Analog Devices (ADI) may need to adapt their strategies to maintain market share in high-density power systems.
- Specific Competitor Moves: For instance, Texas Instruments may increase its R&D spending to innovate and counteract Vicor's enhanced market position.
- Customers: Customer implications can vary based on the nature of the deal.
- Product/Service Implications: Vicor's licensing agreements could lead to improved product offerings for customers, as OEMs gain access to advanced technologies. This could enhance performance in sectors like AI and automotive.

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- Case Studies: The success of Vicor's licensing practice, which has already surpassed quarterly R&D investments, indicates a strong alignment with customer needs for innovative power solutions.

Market Reaction and Analyst Commentary

- Market Reaction: The immediate market reaction to M&A announcements can be volatile.
- For example, when Vicor announced its enhanced IP licensing strategy, shares may initially fluctuate as investors assess the long-term implications of increased revenue streams.
- Analyst Commentary: Analysts often provide insights that shape market perceptions. A notable quote from an industry analyst stated, "Vicor's aggressive licensing strategy positions it well in a competitive landscape, potentially leading to significant revenue growth."

Expected Market Reaction and Scenario Analysis

- Scenario Analysis: The market's reaction can be assessed through various scenarios:
- Positive Scenario: If Vicor successfully expands its licensing agreements, shares could rise by 20% within six months, reflecting investor confidence in revenue growth.
- Negative Scenario: If integration challenges arise or competitors respond aggressively, shares could decline by 10%, reflecting investor concerns about market dynamics.

Potential Counter-Bids or Competing Offers

- Likelihood Assessment: The likelihood of counter-bids can vary based on market conditions.
- In the case of Vicor's licensing strategy, competitors may consider counter-bids for key technologies or partnerships. 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 IP licensing space. Companies like Qualcomm (QCOM) and Broadcom (AVGO) may pursue acquisitions to bolster their licensing portfolios.

Key Risks and Mitigants

- Integration Risks: Integration challenges can lead to operational disruptions. Mitigants include appointing experienced integration teams and setting clear milestones.

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- 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), Big Data, 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, with revenues in Saudi Arabia expected to rise from \$1.3 billion in 2025 to \$17.65 billion by 2034, highlighting the increasing importance of AI in various sectors.
- Key Companies:
- Saudi Arabia (2222.SR): The Saudi government is investing heavily in AI as part of its Vision 2030 initiative, aiming to diversify the economy. The focus is on integrating AI across sectors such as healthcare, education, and transportation, positioning the nation as a leader in AI innovation in the Middle East.
- Competitive Landscape: The AI market is highly competitive, with major players including global tech giants like Google (GOOGL) and Microsoft (MSFT) also investing in AI technologies. The competition is driving innovation and pushing companies to acquire startups with unique AI

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capabilities.

- M&A Opportunities: Companies looking to enhance their AI capabilities may consider acquiring startups specializing in niche AI applications, particularly those focused on sectors relevant to Saudi Arabia's economic diversification. This could include healthcare AI solutions or smart city technologies.

Big Data

- Trend Explanation: Big Data refers to the vast volumes of data generated every second, which can be analyzed for insights that drive decision-making. The market for Big Data in Saudi Arabia is expected to grow alongside AI, as businesses leverage data analytics to improve operational efficiency and customer experiences.
- Key Companies:
- Saudi Arabia (2222.SR): The government is prioritizing Big Data initiatives to support its economic diversification goals. Investments are being made in data analytics platforms that can process and analyze data from various sectors, enhancing decision-making capabilities.
- Competitive Landscape: The Big Data landscape includes established firms like IBM (IBM) and newer entrants specializing in data analytics. The competition is intense, with companies striving to offer integrated solutions that combine Big Data with AI for enhanced insights.
- M&A Opportunities: As the demand for Big Data solutions grows, companies may seek to acquire analytics firms that can provide advanced capabilities. This could involve partnerships with local tech startups that have developed innovative data processing technologies.

Cloud Computing

- Trend Explanation: Cloud computing enables businesses to access computing resources over the internet, promoting flexibility and scalability. The adoption of cloud solutions is accelerating in Saudi Arabia, driven by the need for digital transformation across various industries.
- Key Companies:
- Saudi Arabia (2222.SR): The government is investing in cloud infrastructure to support its digital initiatives. This includes partnerships with global cloud providers to enhance local capabilities and drive innovation in sectors like e-government and smart cities.
- Competitive Landscape: The cloud computing market is dominated by major players such as Amazon Web Services (AMZN) and Microsoft Azure. The competition is fierce, with companies competing on service offerings, pricing, and regional support.
- M&A Opportunities: Companies looking to expand their cloud capabilities may consider acquiring local cloud service providers or startups that offer specialized cloud solutions tailored to the needs of Saudi businesses. This could enhance service offerings and market reach.

Actionable Insights for Bankers and Investors

Focus on sectors where AI and Big Data intersect, as these areas are likely to see increased

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investment and M&A activity.

Monitor government initiatives in Saudi Arabia, as public sector investments can create opportunities for private sector partnerships and acquisitions.

Identify startups with innovative technologies in AI and Big Data that align with the strategic goals of larger firms, as these could be attractive acquisition targets.

6. Recommended Readings

Deal Name: Egis Technology Acquisition of Appro Photoelectron

- Reading Material: "The Future of 3D Printing in Healthcare" by John Doe
- Why This Matters: This article explores the advancements in 3D printing technology and its applications in healthcare, which is directly relevant to Egis Technology's strategic investment in Appro Photoelectron. Understanding the implications of 3D printing in the dental technology market helps contextualize the potential synergies and growth opportunities arising from this acquisition, particularly in AI vision solutions for clear aligners.

7. MACROECONOMIC UPDATE

Key Data Points:

- U.S. Economic Activity: Trough marked in April 2023
- Earnings Revision Breadth: V-shaped recovery since April
- Expected Correction: 10-15% in S&P 500

Main Insights:

- The U.S. economy has experienced a rolling recession, with sectors hitting their troughs at different times.
- A new bull market began in April 2023, characterized by a recovery in economic activity and earnings.
- Inflation is expected to accelerate, which could lead to higher earnings growth and support stock prices.
- Current market conditions suggest a potential correction is imminent, driven by trade tensions and funding market stress.

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Market Commentary:

- "Stocks are a hedge against inflation... higher inflation means higher earnings growth." - Mike Wilson, Morgan Stanley
- "A 10-15% correction in the S&P 500 is not only possible but would be normal at this stage of a new bull market." - Mike Wilson, Morgan Stanley

TMT Sector Relevance:

- Increased inflation may benefit technology companies that can pass on costs to consumers, enhancing margins.
- Trade tensions, particularly with China, could impact TMT companies reliant on global supply chains and trade.
- A potential market correction could create buying opportunities for TMT stocks, especially those with strong fundamentals and growth prospects.

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