

APAC TMT Sector M&A & Valuation Brief - 2025-11-16

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1. RECENT TMT M&A ACTIVITY

Deal 1: Tencent Holdings Ltd. Earnings Growth

Tencent's \$280 Billion Rally May Extend as Games Boost Earnings

- Deal Size: N/A (focus on earnings growth rather than a specific transaction)
- Deal Size Category: N/A
- Nature: N/A
- Valuation Multiples: N/A
- Companies: Tencent Holdings Ltd. (0700.HK) is a leading Chinese multinational conglomerate specializing in various internet-related services and products, including social media, gaming, and digital content. The company is expected to report a 5% earnings growth for the September-ended quarter, contrasting sharply with declines expected from competitors like Alibaba Group Holding Ltd. (BABA) and JD.com Inc. (JD).
- Date Announced: N/A
- Strategic Rationale: Tencent's strong performance in its online games segment is anticipated to provide a buffer against the competitive pressures faced by its peers. The company's ability to leverage unique intellectual properties in its games fosters strong player loyalty, which enhances revenue stability amid a challenging market environment.
- Risk Analysis: Risks include potential regulatory scrutiny in China, competition from other tech giants, and market volatility affecting consumer spending on gaming. However, Tencent's diversified portfolio and strong brand loyalty mitigate some of these risks.

Key Financials Analysis:

- Revenue Breakdown: N/A
- Profitability Ratios: N/A
- Leverage Analysis: N/A
- Asset Operating Efficiency: N/A
- Valuation Context: Tencent's shares have surged 58% this year, yet they still trade at a discount compared to global tech peers, indicating potential for further upside as the market recognizes its defensive growth qualities.

APAC TMT Sector M&A & Valuation Brief - 2025-11-16

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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 navigating a landscape marked by cautious optimism, driven by ongoing technological advancements and a complex regulatory environment. Overall sentiment is mixed, with certain subsectors showing robust growth while others face significant challenges.

Subsector Breakdown:

- Technology: The technology subsector remains a powerhouse, propelled by rapid advancements in AI, cloud computing, and cybersecurity. Companies are increasingly adopting AI-driven solutions to enhance operational efficiency and customer engagement. For instance, the integration of AI in various industries is expected to redefine business models and consumer interactions.
- Media: The media landscape is undergoing a transformation, with digital platforms gaining traction at the expense of traditional media. Companies are investing in new digital features to enhance audience engagement, but they face declining revenues from traditional advertising.
- Telecommunications: The telecom sector is innovating with the rollout of 5G technology, which promises to improve user experiences in real-time applications. Companies are investing heavily in infrastructure to support this transition.
- Fintech: The fintech space is thriving, driven by innovations in payment solutions and digital banking. The sector is witnessing a consolidation trend, with companies seeking to integrate services and enhance customer offerings.
- AI: The AI subsector is particularly vibrant, with companies racing to implement AI solutions across various industries. The competitive landscape is heating up, especially in sectors like automotive, where companies are striving to enhance their AI capabilities.

Key Market Drivers and Headwinds

Drivers:

- Technological Advancements: Continuous innovation in AI, 5G, and cloud computing is driving growth across TMT sectors. Companies are leveraging these technologies to enhance operational efficiency and customer experiences.
- Increased Investment: Venture capital and private equity investments remain strong, particularly in tech and fintech, as investors seek to capitalize on emerging trends and technologies.

Headwinds:

APAC TMT Sector M&A & Valuation Brief - 2025-11-16

APAC TMT Sector

- Regulatory Scrutiny: Increased 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, creating headwinds for growth.

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, as businesses increasingly shift to cloud-based operations.
- Media: Media companies are adapting to changing consumer preferences, with a notable shift towards digital content consumption. However, traditional media is experiencing revenue declines, necessitating strategic pivots.
- 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, characterized by innovations in payment solutions and digital banking. The consolidation trend, exemplified by strategic acquisitions, is reshaping the competitive landscape.
- 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 advancements as a key driver of growth. An analyst at a leading investment bank remarked, "The integration of AI across industries is not just a trend; it's a fundamental shift that will redefine business models and consumer interactions."

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APAC TMT Sector

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 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 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

APAC TMT Sector M&A & Valuation Brief - 2025-11-16

APAC TMT Sector

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.
 - 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 recent announcement of Trump's AI Action Plan could alter the regulatory environment, impacting deal structures and valuations.
- Additionally, the rise of AI insurance startups, such as the one founded by a former Anthropic executive, indicates a growing market for risk management in AI deployment, which could lead to new advisory opportunities.

APAC TMT Sector M&A & Valuation Brief - 2025-11-16

APAC TMT Sector

Actionable Insights for Team Management and Business Development

- Resource Allocation : Given the anticipated increase in deal flow, it is crucial to allocate resources effectively. Hiring additional analysts will ensure that the team can manage the 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)) 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

APAC TMT Sector M&A & Valuation Brief - 2025-11-16

APAC TMT Sector

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."

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.

APAC TMT Sector M&A & Valuation Brief - 2025-11-16

APAC TMT Sector

- 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), Gaming Technology, and Cloud Computing. Each section will provide a detailed explanation of the trend, its market significance, key players, competitive dynamics, and potential M&A

APAC TMT Sector M&A & Valuation Brief - 2025-11-16

APAC TMT Sector

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 from \$93.5 billion in 2021 to \$997.8 billion by 2028, at a CAGR of 40.2%.
- 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.
- Tencent Holdings Ltd. (0700.HK): Tencent is leveraging AI in various segments, including gaming and social media. The company has developed its Hunyuan model and is embedding AI features in its long-standing game titles, enhancing user engagement and loyalty.
- 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. For instance, the recent surge in AI investments has led to speculation about potential acquisitions in the sector, as firms seek to bolster their technological capabilities.

Gaming Technology

- Trend Explanation: The gaming industry is experiencing significant growth, driven by advancements in technology and increasing consumer engagement. The global gaming market is expected to reach \$256.97 billion by 2025, growing at a CAGR of 9.64%.
- Key Companies:
- Tencent Holdings Ltd. (0700.HK): Tencent is a dominant player in the gaming sector, with a diverse portfolio of games and a strong online gaming business. The company has reported positive profit growth, largely attributed to its gaming segment, which is expected to continue driving revenue.
- NetEase Inc. (9999.HK): NetEase is another major player in the gaming industry, focusing on mobile and PC games. The company collaborates with Blizzard Entertainment to publish popular titles in China, enhancing its market position.
- Competitive Landscape: The gaming sector is characterized by intense competition, with companies like Activision Blizzard (ATVI) and Electronic Arts (EA) also vying for market share. The rise of mobile gaming has further intensified competition, with new entrants constantly emerging.

APAC TMT Sector M&A & Valuation Brief - 2025-11-16

APAC TMT Sector

- M&A Opportunities: The gaming industry presents numerous M&A opportunities, particularly for companies looking to expand their game portfolios or enter new markets. Tencent's strategic investments in gaming startups and partnerships with established developers indicate a trend towards consolidation in the sector.

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 projected to grow from \$368.97 billion in 2021 to \$1,024.3 billion by 2028, at a CAGR of 15.7%.
- Key Companies:
- Amazon Web Services (AWS): AWS is a leader in cloud services, providing a comprehensive suite of cloud solutions to businesses worldwide. The company continues to innovate and expand its offerings, maintaining a competitive edge in the market.
- Microsoft Azure (MSFT): Microsoft Azure is another major player in the cloud computing space, focusing on hybrid cloud solutions and enterprise services. The company's strategic partnerships and acquisitions have strengthened its position in the market.
- Competitive Landscape: The cloud computing market is dominated by a few key players, including Google Cloud (GOOGL) and IBM Cloud (IBM). The competition is intensifying as companies seek to differentiate their offerings through innovative services and pricing strategies.
- M&A Opportunities: The cloud computing sector offers significant M&A potential, particularly for companies looking to enhance their service offerings or expand into new markets. Strategic acquisitions of cloud startups can provide established firms with innovative technologies and customer bases.

Actionable Insights for Bankers and Investors

Focus on identifying companies within the AI and gaming sectors that are poised for growth, particularly those with unique technologies or strong market positions.

Consider potential M&A opportunities in the gaming industry, as consolidation is likely to continue, driven by the need for companies to enhance their portfolios and competitive

6. Recommended Readings

Deal Name: Tencent Holdings Ltd. Earnings Growth

- Reading Material: "The Business of Gaming: A Comprehensive Guide" by David H. Hargreaves
- Why This Matters: This book provides a thorough examination of the gaming industry, including revenue models and market dynamics that are crucial for understanding Tencent's performance

APAC TMT Sector M&A & Valuation Brief - 2025-11-16

APAC TMT Sector

and strategic positioning in the market. It helps contextualize Tencent's earnings growth amidst competitive pressures from companies like Alibaba (BABA) and JD.com (JD), highlighting the significance of intellectual property and user engagement in driving revenue.

7. MACROECONOMIC UPDATE

Key Data Points:

- Prediction markets give Democrats a 70% chance of winning the House in the next midterm elections.
- Recent elections in New Jersey, New York, Virginia, and California showed Democrats outperforming expectations.

Main Insights:

- Democrats' performance in recent elections may signal a shift in control of Congress, but it is too early to strategize around this potential outcome.
- Key market-moving policies have been enacted through executive action rather than legislation, limiting the impact of a potential Democratic majority.
- Future fiscal stimulus may become more appealing if the economy slows, aligning with historical patterns.
- The current policy mix supports risk assets, particularly in technology and manufacturing sectors.

Market Commentary:

- "It might not be too early to think about the midterms as a market catalyst, but a lot can change" - Michael Zezas, Global Head of Fixed Income Research.
- "The burden is on better growth to deal with elevated U.S. deficits" - Michael Zezas.

TMT Sector Relevance:

- The current policy environment, including industrial incentives and tax cuts, has been beneficial for technology investments. However, if economic growth falters, fiscal concerns could pose risks to TMT markets, potentially leading to reduced capital expenditures in technology sectors.

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