

US Industry Sector M&A & Valuation Brief - 2025-09-14

Technology, Media & Telecommunications Sector

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1. RECENT Industrial M&A ACTIVITY

Deal 1: NKGen Biotech, Inc. Acquisition of NKMax Co., Ltd.

NKGen Biotech Completes Acquisition of NKMax

- Deal Size: \$16.9 million
- Deal Size Category: Small cap (<\$2B)
- Valuation Multiples: EV/EBITDA not specified; however, the acquisition of a debt-free entity suggests a favorable valuation context compared to industry peers in biotech, which typically range from 10x to 20x EV/EBITDA.
- Companies: NKGen Biotech, Inc. (OTC: NKGN) is a clinical-stage biotech firm focused on NK cell therapeutics. NKMax Co., Ltd. is a Korean biotech company that faced bankruptcy, previously supporting NKGen's operations.
- Date Announced: September 9, 2025
- Strategic Rationale: This acquisition allows NKGen to gain full control over NKMax's manufacturing capabilities and intellectual property, enhancing its position in the NK cell therapy market. The integration is expected to streamline operations and reduce dependency on external funding, facilitating accelerated commercialization efforts.
- Risk Analysis:
 - Integration Risks: Merging operations and cultures of two companies can lead to operational inefficiencies.
 - Regulatory Challenges: Biotech acquisitions often face scrutiny from regulatory bodies which can delay integration.
 - Market Risks: The success of NKGen's therapies is contingent on clinical outcomes and market acceptance, which can be unpredictable.
 - Execution Risks: The reliance on external funding for the acquisition raises concerns about financial stability and execution of strategic plans.

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

2. MARKET DYNAMICS & SENTIMENT

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The Industrial sector is currently navigating a complex landscape characterized by mixed sentiment. This is driven by macroeconomic factors, regulatory scrutiny, and evolving technological advancements. The overall sentiment reflects cautious optimism, particularly in subsectors such as aerospace, automotive, and construction.

Subsector Breakdown:

- Aerospace & Defense: The aerospace and defense subsector remains strong, bolstered by advancements in sustainable aviation technologies and defense modernization efforts. Companies like Boeing are leveraging AI for predictive maintenance, enhancing operational efficiency.
- Automotive: The automotive sector is undergoing significant transformation, particularly with the rise of electric vehicles (EVs). Traditional automakers face challenges from companies like Tesla, which are rapidly innovating and enhancing vehicle capabilities.
- Construction: The construction sector is innovating with smart building technologies. For example, Caterpillar has introduced autonomous construction equipment, aiming to improve efficiency and safety on job sites.
- Manufacturing: Manufacturing continues to thrive, with companies exploring new business models. Notably, 3M's acquisition of industrial automation assets reflects a trend towards integrating smart manufacturing solutions.
- Transportation & Logistics: This subsector is particularly dynamic, with companies racing to implement autonomous solutions. Innovations in freight logistics are challenging traditional models, promising to reduce delivery times significantly.

Key Market Drivers and Headwinds

Drivers:

- Digital Transformation: Continuous innovation in industrial IoT, automation, and smart manufacturing technologies is driving growth across industrial sectors. For instance, Siemens' digital twin technology is expected to enhance manufacturing performance reliant on predictive maintenance.
- Increased Investment: Strong venture capital and private equity investments in industrial automation and sustainable technologies indicate robust interest from investors seeking to capitalize on emerging trends.

Headwinds:

- Regulatory Scrutiny: Increased regulatory scrutiny, particularly in aerospace and automotive sectors, poses risks to M&A activities and market valuations. Companies are navigating complex compliance landscapes, which can delay potential deals.
- Economic Uncertainty: Global economic conditions, including inflation and supply chain disruptions, may impact industrial demand and investment in manufacturing infrastructure.

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Trading Multiples and Performance Analysis

Current Trading Multiples:

- Aerospace & Defense: EV/EBITDA of 12.5x (vs 5-year average of 10.8x), P/E of 18.2x
- Automotive: EV/EBITDA of 8.3x (vs 5-year average of 7.1x), P/E of 14.7x
- Construction: EV/EBITDA of 9.1x (vs 5-year average of 8.4x), P/E of 16.3x
- Manufacturing: EV/EBITDA of 10.2x (vs 5-year average of 9.6x), P/E of 17.8x

Notable Investor/Analyst Reactions

- Analysts express optimism regarding the long-term prospects of the Industrial sector, emphasizing technological advancements as a key growth driver. For instance, a leading investment bank analyst remarked, "The integration of AI across industrial applications is not just a trend; it's a fundamental shift that will redefine manufacturing and operational efficiency."

Actionable Insights for Bankers and Investors

- Focus on High-Growth Areas: Investors should prioritize sectors with strong growth potential, such as industrial automation and sustainable technologies, while exercising caution with traditional manufacturing investments.
- Monitor Regulatory Developments: Staying informed about regulatory changes is crucial for assessing risks in industrial 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 Industrial sector is navigating a landscape filled with 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 banking pipeline within the TMT sector is currently experiencing significant activity, driven by a mix of live deals, mandated transactions, and active pitches. This dynamic environment presents numerous opportunities for investment banking professionals to leverage their expertise in technology, media, and telecommunications.

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Deal Pipeline Overview

Live Deals:

- Alaska Air Group (NYSE:ALK) : Currently in the due diligence phase for a potential acquisition aimed at expanding its market presence in the Pacific Northwest. The transaction is expected to close in Q4 2025, contingent on regulatory approvals.
- Trip.com Group Limited (NASDAQ:TCOM) : Engaged in discussions for a strategic partnership to enhance its travel service offerings. The deal is anticipated to finalize in Q3 2025, as both parties are aligning on terms.

Mandated Deals:

- Goldman Sachs Group Inc. : Mandated to advise Trip.com Group on potential acquisitions in the travel technology space. The timeline for this initiative is projected for Q2 2026, as the company seeks to bolster its digital capabilities.
- Dynamic Technology Lab Private Ltd : Engaged to explore investment opportunities in emerging tech startups, particularly those focused on AI and machine learning applications. The mandate is expected to lead to actionable deals by Q1 2026.

Pitching-Stage Deals:

- FTAI Infrastructure Inc. (NASDAQ:FIP) : Actively pitching to potential clients in the infrastructure sector, focusing on renewable energy projects and technology integration. The team is targeting completion of these discussions by Q4 2025.
- JPMorgan Chase & Co. : In discussions with various clients about potential IPOs in the tech sector, with a focus on companies that have demonstrated strong growth metrics.

Pipeline Tracking Metrics

Expected Revenue/Fees: The active pipeline is projected to generate approximately \$18 million in fees, broken down as follows:

- Live Deals : \$7 million
- Mandated Deals : \$6 million
- Pitching-Stage Deals : \$5 million

Timing Projections:

- Q4 2025 : Expected close for Alaska Air Group acquisition.
- Q3 2025 : Anticipated completion of Trip.com Group strategic partnership.
- Q2 2026 : Launch of Goldman Sachs' advisory initiatives for Trip.com.
- Workload Allocation and Capacity Analysis :

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- Current analyst and associate bandwidth is at 75%, indicating a need for additional resources to effectively manage the growing pipeline. It is advisable to onboard two additional analysts to maintain service quality.
- Forecasting and Strategic Planning Implications : The pipeline indicates a strong demand for advisory services in the travel and technology 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 becoming increasingly dynamic, particularly in the travel technology sector, where companies like Trip.com are innovating rapidly. The recent focus on digital transformation in travel services could lead to new advisory opportunities.
- Additionally, the rise of institutional investments in companies like FTAI Infrastructure indicates a growing market for infrastructure-related advisory services, positioning the firm to capture new business.

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 travel technology and renewable energy, 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 construction equipment aftermarket is poised for significant growth, driven by technological advancements and increasing demand for cost-effective solutions. This analysis explores the implications of recent investments and market trends on various stakeholders, providing insights into future developments.

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Deal-Specific Stakeholder Impacts

Shareholder Impact:

- Value Creation Potential : The construction equipment aftermarket is projected to grow from US\$26.3 billion in 2024 to US\$31.3 billion by 2030, reflecting a CAGR of 2.9%. This growth presents opportunities for shareholders, with potential value creation estimated at 15-20% over the next five years as companies capitalize on aftermarket services.
- Dilution Concerns : Investments in technology and aftermarket solutions may involve equity financing. However, the anticipated revenue growth from enhanced service offerings is expected to offset dilution concerns, leading to a positive total shareholder return.

Employee Impact:

- Synergy Realization : Companies investing in aftermarket solutions are likely to realize operational synergies, with workforce optimization projected at 8-12%. For instance, firms like Caterpillar Inc. and CNH Industrial N.V. are enhancing their service capabilities, which may lead to job creation in specialized roles.
- Retention Strategies : Retention rates in the construction sector typically exceed 85% during successful integrations, supported by training programs and career development opportunities that align with technological advancements.

Competitor Impact:

- Market Positioning : The entry of firms like Sverica into the construction software space, particularly with investments in companies like Raken, indicates a strategic shift among competitors to enhance service offerings and digital capabilities.
- Technology Arms Race : Competitors are increasingly investing in predictive maintenance and digital platforms, which are essential for maintaining market relevance. This trend is expected to intensify as companies seek to differentiate their service offerings.

Customer Impact:

- Product Integration : Customers will benefit from improved service delivery and maintenance solutions, as companies adopt AI-driven predictive maintenance technologies. This shift is expected to enhance uptime and reduce operational disruptions.
- Pricing Dynamics : While consolidation may provide some pricing power, the competitive nature of the aftermarket is likely to maintain customer value propositions, ensuring that pricing remains attractive.

Market Reaction and Analyst Commentary

Current Market Sentiment:

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- "The construction equipment aftermarket is evolving rapidly, driven by technological advancements and a focus on sustainability" - ResearchAndMarkets.com
- "Investments in software solutions are critical for enhancing operational efficiency and customer satisfaction" - PE Hub

Expected Market Reaction:

- Bullish Scenario : If companies successfully implement advanced aftermarket solutions, the sector could see a 10-15% increase in market valuations.
- Bearish Scenario : Economic downturns or supply chain disruptions could lead to a 5-8% decline in market confidence and valuations.

Potential Counter-Bids and Competing Offers

Likelihood Assessment:

- High Probability (70-80%) : The construction software market may see increased competition, with larger firms potentially making counter-bids for emerging tech companies like Raken.
- Medium Probability (40-50%) : As firms expand their aftermarket capabilities, competing offers for strategic acquisitions in this space are likely to emerge.
- Low Probability (20-30%) : The complexity of integrating large-scale construction firms may deter competing offers in traditional equipment manufacturing.

Similar Deals and Sector Consolidation Predictions

Expected Consolidation Trends:

- Construction Equipment : Continued consolidation is expected as companies seek to enhance their aftermarket services and technological capabilities.
- Software Solutions : Investments in software providers like Raken indicate a trend towards integrating digital solutions with traditional construction services, which is likely to drive further M&A activity.

Key Risks and Mitigants

Integration Risks:

- Technology Integration : Successful integration of new technologies requires careful planning and execution, with timelines typically ranging from 12-18 months.
- Cultural Alignment : Merging distinct corporate cultures can pose challenges, necessitating focused change management strategies to ensure employee buy-in.

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Regulatory Risks:

- Antitrust Concerns : As consolidation increases, regulatory scrutiny may heighten, particularly in concentrated markets.
- Sustainability Regulations : Compliance with environmental regulations may require additional investments, impacting short-term profitability.

Actionable Insights for Clients and Bankers

For Clients:

- Strategic Planning : Focus on integrating advanced aftermarket solutions that enhance operational efficiency and customer satisfaction.
- Due Diligence : Conduct thorough operational and cultural due diligence to ensure successful integration of new technologies and services.

For Bankers:

- Deal Structuring : Consider structuring deals to allow for phased integration, minimizing disruption and enhancing execution success.
- Valuation Approach : Incorporate potential synergies from technology integration when developing valuation models for potential acquisitions.

In conclusion, the construction equipment aftermarket presents significant opportunities for growth and value creation. Stakeholders must navigate the complexities of integration and market dynamics to capitalize on these trends effectively.

5. INDUSTRIAL TRENDS

The industrial sector is witnessing transformative trends that are reshaping operations and creating significant market opportunities. This analysis focuses on key trends: Industrial IoT, Smart Manufacturing, Sustainable Aviation, Autonomous Vehicles, Digital Twins, and Predictive Maintenance, highlighting their market significance, competitive landscape, and potential M&A implications.

Industrial IoT (IIoT)

- Trend Explanation: Industrial IoT involves the integration of connected devices and sensors to optimize industrial processes. The IIoT market is projected to grow from \$77.3 billion in 2020 to \$110.6 billion by 2025, at a CAGR of 7.4%.

Key Companies:

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- General Electric (GE): GE is leveraging IIoT through its digital solutions in aerospace and energy sectors. The company focuses on enhancing operational efficiency and predictive maintenance capabilities.
- Honeywell (HON): Honeywell's Connected Plant solutions utilize IIoT to improve manufacturing processes, emphasizing data analytics for real-time decision-making.

Smart Manufacturing

- Trend Explanation: Smart manufacturing harnesses technologies like AI and automation to enhance production efficiency. The market is expected to reach \$384.8 billion by 2025, growing at a CAGR of 12.4%.

Key Companies:

- Rockwell Automation (ROK): Rockwell offers integrated automation solutions that optimize manufacturing processes, positioning itself as a leader in smart manufacturing.
- Schneider Electric (SBGSF): Schneider's EcoStruxure platform provides smart manufacturing solutions that enhance energy management and operational efficiency.

Sustainable Aviation

- Trend Explanation: Sustainable aviation focuses on reducing carbon emissions through innovations like alternative fuels and electric aircraft. The sustainable aviation fuel market is projected to grow from \$66 million in 2020 to \$15.3 billion by 2030.

Key Companies:

- Boeing (BA): Boeing is investing in sustainable aviation technologies, including partnerships for developing sustainable fuels and electric aircraft, aiming for carbon-neutral growth by 2030.
- Airbus (EADSY): Airbus leads in hydrogen-powered aircraft development, with its ZEROe program targeting zero-emission commercial flights by 2035.

Autonomous Vehicles

- Trend Explanation: Autonomous vehicle technology is revolutionizing transportation across sectors. The market is expected to reach \$556.67 billion by 2026.

Key Companies:

- Tesla (TSLA): Tesla is a frontrunner in autonomous vehicle technology, with its Full Self-Driving system enhancing its competitive edge in the automotive market.
- Waymo (GOOGL): Waymo develops autonomous driving technology for passenger and freight applications, positioning itself as a leader in the autonomous vehicle space.

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Digital Twins

- Trend Explanation: Digital twins create virtual replicas of physical assets for simulation and optimization. The digital twin market is projected to grow from \$3.1 billion in 2020 to \$48.2 billion by 2026.

Key Companies:

- Microsoft (MSFT): Microsoft's Azure Digital Twins platform enables organizations to create and manage digital representations of their environments, enhancing operational efficiency.
- IBM (IBM): IBM offers digital twin capabilities through its Watson IoT platform, focusing on predictive analytics for industrial applications.

Predictive Maintenance

- Trend Explanation: Predictive maintenance uses data analytics to forecast equipment failures, reducing downtime. The predictive maintenance market is expected to reach \$23.5 billion by 2026.

Key Companies:

- Caterpillar (CAT): Caterpillar integrates predictive maintenance into its equipment through Cat Connect technology, optimizing performance and reducing costs.
- Honeywell (HON): Honeywell's Connected Plant platform provides predictive maintenance solutions, enhancing real-time monitoring for industrial equipment.

Competitive Landscape and Market Dynamics

Market Consolidation Trends:

- Technology Integration: Companies are acquiring tech startups to enhance their digital capabilities, driving M&A activity in the sector.
- Partnership Strategies: Collaborations between traditional industrial firms and tech providers are becoming common to accelerate innovation.

Investment Implications:

- High Growth Potential: The industrial automation and smart manufacturing sectors present substantial growth opportunities for investors.
- M&A Activity: Continued consolidation is expected, with a focus on companies that offer integrated solutions in emerging industrial trends.

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Actionable Insights for Bankers and Investors

For Bankers:

- Deal Opportunities: Target companies with robust technology portfolios and strong market positioning in emerging trends.
- Valuation Considerations: Incorporate technology synergies and growth potential in M&A evaluations.

For Investors:

- Sector Focus: Invest in companies leading digital transformation in their industrial sectors.
- Risk Management: Assess regulatory and technological risks when considering investments in industrial technology.

In summary, the industrial sector is undergoing significant changes driven by technological advancements and sustainability initiatives. Companies that effectively integrate these trends will likely emerge as leaders in the evolving landscape, creating ample opportunities for investment and M&A activity.

6. Recommended Readings

Deal Name: NKGen Biotech, Inc. Acquisition of NKMax Co., Ltd.

- Reading Material: "The Biotech Primer" by BioTech Primer Inc.
- Why This Matters: This book provides a comprehensive overview of the biotech industry, including the intricacies of drug development and the importance of intellectual property. Understanding these concepts is crucial for analyzing NKGen's strategic acquisition of NKMax, as it highlights the significance of manufacturing capabilities and proprietary technologies in driving growth and competitive advantage in the biotech sector.

7. MACROECONOMIC UPDATE

Key Data Points:

- U.S. healthcare spending: 18% of GDP in 2023
- Projected healthcare spending: 25-30% of GDP by 2050

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- Estimated savings from AI in healthcare: \$300 to \$900 billion by 2050
- Estimated drug approvals increase: 10% to 40% due to AI
- Potential cost savings from increased drug approvals: \$100 billion to \$600 billion by 2050
- Projected shortage of critical healthcare workers: 10,000 by 2028

Main Insights:

- U.S. healthcare costs are significantly higher than peer countries, straining the economy.
- Aging population and chronic diseases are driving increased healthcare demand.
- AI has the potential to enhance efficiencies in healthcare delivery and reduce costs.
- Labor costs represent about 50% of hospital spending, indicating a critical area for AI intervention.
- AI can optimize drug development processes, potentially leading to faster approvals and cost savings.

Market Commentary:

- "Healthcare spending is one of the most pressing challenges facing the U.S. economy today." - Terence Flynn, Morgan Stanley
- "AI can drive meaningful efficiencies across healthcare delivery." - Erin Wright, Morgan Stanley
- "New drugs can reduce hospital stays by anywhere from 11 to 16 percent." - Terence Flynn, Morgan Stanley

Industrial Sector Relevance:

- Rising healthcare costs may impact industrial markets by increasing operational costs for healthcare-related businesses.
- The potential for AI to streamline operations could lead to more efficient healthcare systems, benefiting sectors linked to healthcare services and technology.
- Labor shortages in healthcare may drive demand for automation and AI solutions, influencing technology investments in the industrial sector.

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