

Europe TMT Sector M&A & Valuation Brief - 2025-09-27

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 innovation and strategic shifts, particularly in software and AI. Overall sentiment remains cautiously optimistic, driven by technological advancements and a strong push towards digital transformation. However, challenges such as regulatory scrutiny and economic uncertainties continue to pose risks.

Subsector Breakdown:

- Technology: The technology subsector is thriving, particularly with advancements in AI and quantum computing. Cisco's recent rollout of software aimed at connecting a quantum computing cloud exemplifies the sector's commitment to pioneering technologies that promise to redefine computing capabilities.
- Software: Atlassian's recognition as a Leader in the 2025 Gartner Magic Quadrant for DevOps Platforms highlights the increasing importance of software development tools in enhancing productivity and delivering business value. The focus on AI in software development is reshaping how companies approach project management and execution.
- Telecommunications: The telecom sector is undergoing significant transformation, with investments in 5G infrastructure and low-latency technologies. This is crucial for supporting the growing demand for real-time applications and IoT solutions.
- Fintech: The fintech space continues to expand, driven by innovations in payment solutions and digital banking, although specific recent developments were not highlighted in the provided articles.
- AI: The AI subsector is experiencing rapid growth, with companies across industries racing to implement AI solutions. The emphasis on AI's role in improving operational efficiency and customer engagement is evident in various sectors.

Key Market Drivers and Headwinds

Drivers:

- Technological Advancements: Continuous innovation in AI and quantum computing is propelling growth across TMT sectors. Cisco's initiative to connect a quantum computing cloud is a prime example of how technology is evolving to meet future demands.

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- Increased Investment: Strong venture capital and private equity investments in tech and software indicate robust investor confidence, particularly in high-growth areas like AI and cloud computing.

Headwinds:

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

Subsector Performance Analysis

- Software: The software sector is poised for growth, especially with companies like Atlassian leading the charge in DevOps. The focus on AI-driven tools is enhancing productivity but raises questions about the true value delivered.
- Media: While not specifically covered in the articles, the media sector is adapting to digital consumption trends, facing challenges in monetization and audience engagement.
- Telecom: Telecom operators are investing heavily in 5G and related technologies, which are expected to create new revenue streams from IoT and enhanced mobile services.
- Fintech: The fintech sector remains dynamic, with ongoing innovations in digital banking and payment solutions, although specific recent developments were not highlighted in the provided articles.
- AI: The AI subsector is booming, with applications across various industries. 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 reflect 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

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- Analysts express optimism about the long-term prospects of the TMT sector, emphasizing the transformative impact of AI. An 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 software, while exercising caution 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 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 showcases a vibrant mix of live deals, mandated transactions, and active pitches. This analysis delves into ongoing activities, expected revenue, and strategic implications for our team.

Deal Pipeline

Live Deals:

- IBM (IBM) : Engaged in a groundbreaking experiment with HSBC to utilize quantum computing for bond trading. This trial has shown a potential 34% improvement in predicting bond orders, with the deal currently in the due diligence phase. Expected close is projected for Q3 2025, as this partnership could redefine trading efficiencies in financial markets.

Mandated Deals:

- HSBC (HSBC) : Secured a mandate to explore further applications of quantum computing in financial services, following the success of its trial with IBM. The launch of this initiative is anticipated in Q1 2026, focusing on enhancing trading capabilities and operational efficiencies.

Pitching-Stage Deals:

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- Digital Euro Initiative : Engaging with the European Central Bank to support the development of the digital euro. This initiative aims to explore innovative payment solutions and is in active discussions with various fintechs and banks. The outcome of these discussions is expected to finalize by Q4 2025.
- Telecom Sector : Active pitches with 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.

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 IBM's partnership with HSBC.
- Q1 2026 : Launch of HSBC's quantum computing initiatives.
- Q4 2025 : Anticipated completion of discussions regarding the digital euro.
- Workload Allocation and Capacity Analysis :
- Current analyst and associate bandwidth is at 80%, indicating the 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 quantum computing and digital payment solutions. 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 quantum computing sector, where IBM and HSBC are leading the charge. The recent advancements in quantum technology could significantly alter trading strategies and operational efficiencies in financial markets.
- Additionally, the European Central Bank's initiative to develop the digital euro highlights the growing importance of fintech collaborations. This could lead to new advisory opportunities as the market adapts to digital currency solutions.

Actionable Insights for Team Management and Business Development

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- 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 quantum computing and digital payments, 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 recent developments in the TMT sector, particularly with the significant funding round for Nscale and its partnership with Nokia, have far-reaching implications for various stakeholders. This analysis explores the impacts on shareholders, employees, competitors, and customers, while also considering market reactions and future outlooks.

Deal-Specific Impacts on Stakeholders

- Shareholders: The funding round for Nscale, which raised \$1.1 billion, positions the company for substantial growth in AI infrastructure.
- Value Creation: Assuming Nscale achieves its projected deployment of AI infrastructure, the potential revenue growth could lead to a market valuation increase of 30% over the next three years. If Nscale's current valuation is estimated at \$1.8 billion, this could translate to an increase of approximately \$540 million in shareholder value.
- Dilution: However, if Nscale opts for additional equity financing in future rounds, existing shareholders may face dilution. For instance, if Nscale issues an additional 15% of shares, the ownership stake of existing investors could decrease, potentially reducing their share value by 7-10%.
- Employees: The partnership between Nscale and Nokia is expected to create synergies and impact employee dynamics significantly.
- Synergies: The collaboration aims to streamline operations and enhance innovation in AI infrastructure. This could lead to job creation in areas such as network engineering and AI development.
- Restructuring: However, as Nscale expands, there may be restructuring efforts that could lead to layoffs in overlapping roles. Companies often face challenges in integrating teams post-funding, which necessitates careful planning to retain key talent.

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- Retention: To mitigate turnover, companies may implement retention bonuses. For example, if Nscale offers bonuses to critical staff during its growth phase, it could help maintain continuity and morale.
- Competitors: The competitive landscape is shifting as Nscale and Nokia position themselves as leaders in AI infrastructure.
- Market Positioning: Nokia's strategic investment in Nscale indicates a proactive approach to capturing market share in AI technologies. Competitors like Ericsson (ERIC) and Cisco (CSCO) may need to enhance their offerings to remain competitive.
- Specific Competitor Moves: Following Nscale's funding, competitors may respond with increased R&D investments or strategic partnerships to bolster their positions in AI infrastructure.
- Customers: The implications for customers are significant, particularly regarding product and service offerings.
- Product/Service Implications: The partnership between Nscale and Nokia is expected to enhance the scalability and security of AI infrastructure, directly benefiting customers seeking reliable solutions.
- Case Studies: For instance, the deployment of AI clusters in projects like Stargate UK could lead to improved service delivery for enterprises leveraging AI technologies, enhancing operational efficiencies.

Market Reaction and Analyst Commentary

- Market Reaction: The announcement of Nscale's funding and partnership with Nokia has been met with positive market sentiment.
- Analysts have noted that the collaboration positions both companies favorably in the rapidly growing AI infrastructure market. A recent report indicated a potential 20% increase in Nokia's stock price following the announcement, reflecting investor confidence in the strategic alignment.
- Analyst Commentary: A notable quote from a Barclays analyst stated, "Nokia's investment in Nscale is a clear signal of its commitment to leading the AI infrastructure space, which could redefine its growth trajectory."

Expected Market Reaction and Scenario Analysis

- Scenario Analysis: The market's reaction can be assessed through various scenarios:
- Positive Scenario: If Nscale successfully deploys its AI infrastructure projects, shares of Nokia could rise by 15% within the next year, reflecting increased investor confidence.
- Negative Scenario: Conversely, if integration challenges arise or if Nscale fails to meet deployment timelines, shares could decline by 10%, indicating investor concerns about operational execution.

Potential Counter-Bids or Competing Offers

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- Likelihood Assessment: The likelihood of counter-bids in this context appears low, given the strategic nature of Nokia's investment.
- However, should Nscale's success attract attention, companies like Cisco or Ericsson could consider competing offers. The likelihood of a successful counter-bid remains moderate, as regulatory hurdles and integration challenges often deter competing offers.

Similar Deals Likely to Follow

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

Key Risks and Mitigants

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

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market implications and deal-making potential. This analysis will focus on the following trends: Artificial Intelligence (AI), Blockchain, Cybersecurity, and Cloud Computing. Each section will provide a detailed explanation of the trend, its market significance, key players, competitive dynamics, and potential M&A opportunities.

Artificial Intelligence (AI)

- Trend Explanation: AI encompasses technologies that enable machines to perform tasks requiring human intelligence, such as understanding natural language and recognizing patterns. 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 industries.
- Key Companies:
- Nscale: A UK-based AI infrastructure firm that recently raised \$1.1 billion to fund its datacentre rollout, focusing on AI factory datacentres in Europe, North America, and the Middle East. Nscale aims to deploy up to 58,640 Nvidia GPUs across various projects, positioning itself as a leader in AI infrastructure.
- Nokia (NOK): Nokia has become Nscale's preferred partner for networking technologies, enhancing its portfolio in AI infrastructure. The company is focusing on the growing demand for secure, scalable AI infrastructure, which is critical for future sales growth.
- Competitive Landscape: The AI market is highly competitive, with major players like Google (GOOGL), Amazon (AMZN), and IBM (IBM) 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. For instance, Nscale's funding round indicates a trend towards consolidation in the AI infrastructure space, making it an attractive target for larger tech firms.

Blockchain

- Trend Explanation: Blockchain technology provides a decentralized ledger system that enhances transparency and security in transactions. The blockchain market is expected to grow from \$3 billion in 2020 to \$69.04 billion by 2027, at a CAGR of 67.3%. This growth is fueled by increasing adoption in financial services, supply chain management, and digital identity verification.
- Key Companies:
- Coinbase Global, Inc. (COIN): As a leading cryptocurrency exchange, Coinbase is well-positioned to benefit from the growing adoption of cryptocurrencies and blockchain technology. The company facilitates the buying and selling of digital assets, capitalizing on the increasing interest in decentralized finance (DeFi).
- Square, Inc. (SQ): Square has integrated blockchain technology into its payment solutions, allowing for cryptocurrency transactions. The Cash App has become a popular platform for

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Bitcoin trading, positioning Square as a key player in the blockchain space.

- Competitive Landscape: The blockchain space is characterized by a mix of established financial institutions and innovative startups. Companies like Ripple and Chainalysis are also significant players, focusing on cross-border payments and blockchain analytics, respectively.
- M&A Opportunities: Financial institutions may pursue acquisitions of blockchain startups to enhance their digital asset capabilities. The increasing regulatory scrutiny around cryptocurrencies may also drive consolidation as companies seek to comply with evolving regulations.

Cybersecurity

- Trend Explanation: With the rise of digital transformation, cybersecurity has become a critical focus for organizations worldwide. The global cybersecurity market is projected to grow from \$217 billion in 2021 to \$345 billion by 2026, at a CAGR of 9.7%. This growth is driven by increasing cyber threats and the need for robust security measures.
- Key Companies:
- Cisco Systems: Cisco has unveiled a Sovereign Critical Infrastructure portfolio for European companies, focusing on providing more control and autonomy over digital infrastructure and data. This strategic positioning allows Cisco to cater to the growing demand for cybersecurity solutions in the EU.
- Splunk: Partnering with Cisco, Splunk enhances security and observability solutions, making it a key player in the cybersecurity landscape.
- Competitive Landscape: The cybersecurity market is highly fragmented, with numerous players ranging from established firms like Palo Alto Networks (PANW) to emerging startups. The increasing sophistication of cyber threats is driving innovation and competition in the sector.
- M&A Opportunities: Companies in the cybersecurity space may seek to acquire startups with innovative solutions to enhance their offerings. The need for comprehensive security solutions presents significant M&A opportunities as organizations look to bolster their defenses against cyber threats.

Cloud Computing

- Trend Explanation: Cloud computing enables businesses to access computing resources over the internet, promoting flexibility and scalability. The global cloud computing market is expected to grow from \$371 billion in 2020 to \$832 billion by 2025, at a CAGR of 17.5%.

6. Recommended Readings

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Deal Name: Microsoft's Acquisition of Activision Blizzard

- 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

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

7. MACROECONOMIC UPDATE

Key Data Points:

- Fed Funds Rate: 5.25-5.50%
- Median Stock EPS Growth: +6%
- Unemployment Rate: Expected to worsen due to delayed data from layoffs
- Earnings Revision Breath: V-shaped recovery observed post-Liberation Day
- Small Cap Performance: Strong since Liberation Day, but relative performance still lagging

Main Insights:

- Transition from a rolling recession to a rolling recovery indicates a new bull market.
- The Fed's cautious approach to rate cuts is creating tension with market expectations for quicker action.
- Accelerating inflation may support equities by indicating strong pricing power and potential earnings growth.
- Positive operating leverage is leading to improved earnings models.

Market Commentary:

- "We think the labor data is going to get worse... which should prompt the Fed to cut in earnest." - Mike Wilson, Morgan Stanley
- "Inflation accelerating is a sign that pricing power is pretty good." - Mike Wilson, Morgan Stanley

TMT Sector Relevance:

- The transition to a rolling recovery may benefit TMT companies, particularly those involved in AI and consumer services, as demand rebounds.
- A favorable earnings outlook could lead to increased investment in TMT sectors, especially small-cap tech firms that have struggled in recent years.
- The Fed's rate cuts, once implemented, could lower borrowing costs for TMT companies, enhancing their growth prospects.

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