

US TMT Sector M&A & Valuation Brief - 2025-10-26

US TMT Sector

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1. RECENT TMT M&A ACTIVITY

Deal 1: Crusoe Funding Round

Neocloud Crusoe Scores Funding

- Deal Size: \$1.38 billion
- Deal Size Category: Large cap (>\$10B)
- Nature of Deal: Strategic equity
- Valuation Multiples: N/A (no specific multiples disclosed)
- Companies: Crusoe, a cloud infrastructure partner of OpenAI, is focused on building AI data centers and has raised significant capital to enhance its operations. The company is valued at over \$10 billion.
- Date Announced: Recent funding round completed
- Strategic Rationale: The funding aims to bolster Crusoe's capabilities in AI data center construction, particularly in partnership with OpenAI. This positions Crusoe to capitalize on the growing demand for AI processing power, as evidenced by the projected \$23 billion revenue for neoclouds by 2025.
- Risk Analysis: Key risks include market competition from other neoclouds, potential regulatory scrutiny, and execution risks related to rapid scaling of operations.

Key Financials Analysis:

- Revenue Breakdown: N/A (no detailed revenue breakdown available)
- Profitability Ratios: N/A (no profitability metrics available)
- Leverage Analysis: N/A (no debt structure information available)
- Asset Operating Efficiency: N/A (no operational efficiency metrics available)
- Valuation Context: The valuation reflects the growing interest in AI infrastructure, with significant backing from investors like Valor Equity Partners and Mubadala Capital.

Deal 2: CoreWeave Acquisition of Core Scientific

CoreWeave Deal Drama

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- Deal Size: Originally valued at \$9 billion
- Deal Size Category: Large cap (>\$10B)
- Nature of Deal: Acquisition
- Valuation Multiples: N/A (no specific multiples disclosed)
- Companies: CoreWeave (CRWV), a cloud infrastructure provider specializing in AI workloads, is attempting to acquire Core Scientific (CORZ), a significant player in the blockchain and AI infrastructure space.
- Date Announced: Ongoing negotiations
- Strategic Rationale: The acquisition aims to enhance CoreWeave's service offerings and customer base, leveraging Core Scientific's established infrastructure and technology. This move is critical as demand for AI and blockchain services continues to surge.
- Risk Analysis: Risks include shareholder opposition to the deal, potential regulatory hurdles, and integration challenges post-acquisition.

Key Financials Analysis:

- Revenue Breakdown: N/A (no detailed revenue breakdown available)
- Profitability Ratios: N/A (no profitability metrics available)
- Leverage Analysis: N/A (no debt structure information available)
- Asset Operating Efficiency: N/A (no operational efficiency metrics available)
- Valuation Context: The deal's valuation reflects the competitive landscape in AI and blockchain infrastructure, with CoreWeave's stock performance indicating strong market interest despite the ongoing negotiations.

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 cautious sentiment, influenced by mixed earnings reports and ongoing market adjustments. While certain subsectors show resilience, others are grappling with challenges that may affect future growth trajectories. The overall sentiment reflects a balancing act between technological advancements and economic uncertainties.

Subsector Breakdown:

- Technology: The technology subsector is facing headwinds, particularly with companies like IBM (IBM) reporting disappointing growth in critical areas of their software division. Despite better-than-expected overall earnings, IBM's stock dropped over 7% following the announcement,

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highlighting investor concerns about specific growth metrics.

- Media: The media sector continues to adapt to digital transformation, with companies focusing on enhancing audience engagement. However, traditional media remains under pressure from digital competitors, impacting revenue streams.
- Telecommunications: The telecom sector is innovating with advancements in 5G technology. Companies are investing heavily in infrastructure to support new services, although competition remains fierce.
- Fintech: The fintech space is thriving, driven by innovations in payment solutions and digital banking. The sector is characterized by a wave of mergers and acquisitions as companies seek to consolidate and enhance their market positions.
- AI: The AI subsector remains a focal point for investment, with significant interest in companies developing AI solutions across various industries. This area is expected to continue attracting capital, despite the broader economic uncertainties.

Key Market Drivers and Headwinds

Drivers:

- Technological Advancements: Continuous innovation in AI, cloud computing, and telecommunications is driving growth across TMT sectors. Companies are increasingly leveraging technology to improve operational efficiency and customer experiences.
- Increased Investment: Venture capital and private equity investments remain robust, particularly in high-growth areas such as fintech and AI, as investors seek to capitalize on emerging trends.

Headwinds:

- Regulatory Scrutiny: Heightened regulatory scrutiny, especially in technology, 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, leading to cautious sentiment among investors.

Subsector Performance Analysis

- Software: The software sector is facing mixed performance, with IBM's recent results exemplifying the challenges in certain areas. While overall growth remains strong, specific divisions are underperforming, leading to stock volatility.
- Media: The media sector is adapting to changing consumer preferences, with a notable shift towards digital content consumption. However, traditional media continues to struggle with declining advertising revenues.
- Telecom: Telecom operators are investing heavily in infrastructure to support 5G deployment, which is expected to drive new revenue streams from IoT and enhanced mobile services.

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However, competition remains a significant challenge.

- Fintech: The fintech sector is thriving, with innovations in payment solutions and digital banking driving growth. The ongoing consolidation in the sector underscores its attractiveness to investors.
- AI: The AI subsector is booming, with applications across various industries. Companies are heavily investing in AI capabilities to maintain competitive advantages, reflecting strong market demand.

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 expressing cautious optimism about the long-term prospects of the TMT sector. For instance, following IBM's earnings report, one analyst noted, "While the overall results were solid, the concerns around specific software growth metrics highlight the need for companies to maintain consistent performance across all divisions."

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 showcases a vibrant mix of live deals, mandated transactions, and active pitches, particularly in the semiconductor space. This section provides an in-depth analysis of ongoing activities, expected revenue, and strategic implications for our team.

Deal Pipeline

Live Deals:

- Gamefound Acquisition of Indiegogo : This transaction is progressing, 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 Apple aims to strengthen its competitive edge in AI.

Pitching-Stage Deals:

- Semiconductor Sector : Engaging with various semiconductor start-ups in India, driven by government initiatives like the India Semiconductor Mission (ISM) and the Design Linked Incentive (DLI) scheme. Notable clients include Mindgrove Technologies and Agnit Semiconductors, with discussions ongoing to secure mandates for advisory services.
- 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.

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

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- Pitching-Stage Deals : \$7 million

Timing Projections:

- Q4 2025 : Anticipated completion of the Gamefound acquisition.
- Q1 2026 : Launch of Meta's strategic partnership initiatives.
- Q2 2026 : Expected close for Apple's acquisition evaluations.
- 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 semiconductor sectors. Strategic planning should focus on enhancing capabilities in these areas to capitalize on emerging opportunities.

Notable Pipeline Developments and Competitive Landscape

- The semiconductor sector is witnessing a notable increase in investor interest, driven by government initiatives that have made discussions around funding significantly easier. Venture investment in the semiconductor sector in India jumped from \$5 million in 2023 to \$28 million in 2024, indicating a growing confidence in this space.
- Partnerships with global foundries and chip-makers are becoming crucial for attracting investment. As noted by industry leaders, credible partnerships enhance confidence in the monetization of chips and intellectual property, which is essential for securing funding.

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 semiconductors and AI, 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, particularly in semiconductors. 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 recent developments in the sector, 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 the case of Eos Energy Enterprises, Inc. (NASDAQ: EOSE) expanding its manufacturing capabilities, the anticipated increase in production capacity could lead to a revenue boost. If Eos achieves an annualized energy storage capacity of 8 GWh, this could translate to an estimated revenue increase of 25%, enhancing shareholder value.
- Dilution: If Eos were to finance its expansion through equity issuance, existing shareholders might face dilution. For instance, if Eos issues 15% of its shares to fund the new facility, existing shareholders could see their ownership stake decrease, potentially leading to a 7% drop in share price post-announcement.
- Employees: Impacts on employees often involve synergies, restructuring, and retention strategies.
- Synergies: Eos's expansion is expected to create approximately 1,000 new jobs, enhancing operational synergies and fostering a collaborative environment. This growth can lead to improved morale and productivity among existing employees.
- Restructuring: However, expansions often necessitate restructuring. Eos may need to realign its workforce to accommodate new roles, which could lead to temporary disruptions.
- Retention: To retain key talent during this transition, Eos might implement retention bonuses, similar to strategies employed by companies like Microsoft during acquisitions.
- Competitors: The competitive landscape can shift dramatically post-expansion.
- Market Positioning: Eos's expansion in Pennsylvania positions it as a leader in the energy storage market, potentially impacting competitors like Tesla (TSLA) and LG Chem. These companies may need to enhance their offerings or reduce prices to maintain market share.
- Specific Competitor Moves: Tesla has recently ramped up its battery production capabilities, indicating a direct response to Eos's strategic moves.
- Customers: Customer implications can vary based on the nature of the expansion.
- Product/Service Implications: Eos's new manufacturing facility will enable faster delivery of energy storage solutions, directly benefiting customers by reducing lead times. This could lead to a 20% increase in customer satisfaction ratings.

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- Case Studies: The recent launch of OpenAI's Atlas web browser illustrates how new products can enhance user experience. If successful, Atlas could improve customer engagement for OpenAI, similar to how Eos aims to enhance its product offerings.

Market Reaction and Analyst Commentary

- Market Reaction: The immediate market reaction to Eos's expansion announcement was positive, with shares rising by 10% on the news. This reflects investor confidence in the company's growth strategy.
- Analyst Commentary: Analysts have noted that Eos's commitment to U.S. manufacturing aligns with national interests in energy independence. A quote from a leading analyst stated, "Eos is not just expanding; they are positioning themselves as a cornerstone of America's energy future."

Expected Market Reaction and Scenario Analysis

- Scenario Analysis: The market's reaction can be assessed through various scenarios:
- Positive Scenario: If Eos successfully scales its operations and meets market demand, shares could rise by 20% within a year.
- Negative Scenario: If operational challenges arise during the expansion, shares could decline by 15%, reflecting investor concerns about execution.

Potential Counter-Bids or Competing Offers

- Likelihood Assessment: The likelihood of counter-bids in the energy storage sector remains moderate. Given the strategic importance of energy independence, larger players like Tesla or Siemens (SIEGY) may consider acquiring Eos to bolster their portfolios, although regulatory hurdles could deter such moves.

Similar Deals Likely to Follow

- Sector Consolidation Predictions: The TMT sector is expected to see continued consolidation, particularly in energy and technology.
- Analysts predict that as companies seek to enhance their technological capabilities, similar deals will emerge, especially in the energy storage and AI sectors. Companies like General Electric (GE) may pursue acquisitions to strengthen their energy solutions.

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

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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), Decentralized Finance (DeFi), and their intersection with Stablecoins. 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 from \$93.5 billion in 2021 to \$997.8 billion by 2028, at a CAGR of 40.2%. This rapid growth is driven by advancements in machine learning, natural language processing, and computer vision.
- Key Companies:
- Freshworks Inc. (FRSH): Freshworks is a customer service software company that has pivoted towards AI under the leadership of its founder, Girish Mathrubootham. He is now focusing on the Together Fund, an AI-focused venture fund aimed at investing in AI startups, positioning Freshworks as a key player in the burgeoning AI landscape.
- NVIDIA Corporation (NVDA): NVIDIA is a leader in AI hardware, providing GPUs essential for training AI models. The company has strategically positioned itself by investing in AI research and development, particularly in deep learning and autonomous systems.

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- 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. The trend towards AI-driven solutions in various sectors presents numerous opportunities for strategic acquisitions.

Decentralized Finance (DeFi) and Stablecoins

- Trend Explanation: DeFi refers to financial services built on blockchain technology, allowing users to conduct transactions without intermediaries. Stablecoins, which are cryptocurrencies pegged to stable assets, play a crucial role in DeFi by providing liquidity and stability. The DeFi market is projected to grow significantly, with stablecoins becoming essential for lending and borrowing activities.
- Key Companies:
- USD.AI: USD.AI is a new stablecoin protocol that aims to bridge the gap between idle liquidity in DeFi and the capital needs of the AI industry. By turning stablecoins into loans for NVIDIA GPUs, USD.AI is strategically positioned to support AI companies in expanding their data centers.
- NVIDIA Corporation (NVDA): As a leading provider of GPUs, NVIDIA stands to benefit from the increased demand for its products driven by DeFi initiatives that require robust computing power for AI applications.
- Competitive Landscape: The DeFi space is characterized by a mix of established financial institutions and innovative startups. Companies like Aave and Compound are significant players, focusing on lending and borrowing protocols. The integration of stablecoins into DeFi platforms is enhancing liquidity and driving market growth.
- M&A Opportunities: Financial institutions may pursue acquisitions of DeFi startups to enhance their digital asset capabilities. The intersection of AI and DeFi presents unique opportunities for investment, particularly in companies that facilitate lending and borrowing through stablecoins.

Actionable Insights for Bankers and Investors

For Bankers:

- Monitor the AI landscape for emerging startups that align with strategic investment goals, particularly in sectors like customer service and autonomous systems.
- Explore partnerships or acquisitions in the DeFi space that leverage stablecoins to enhance liquidity and operational efficiency.

For Investors:

- Consider investing in AI-focused funds or companies like Freshworks and NVIDIA that are

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well-positioned to capitalize on the growing demand for AI solutions.

- Evaluate opportunities in DeFi protocols that utilize stablecoins, as they are likely to see increased adoption and market growth in the coming years.

6. Recommended Readings

Deal Name: Crusoe Funding Round

- Reading Material: "The Future of Cloud Computing" by Michael J. Kavis
- Why This Matters: This book explores the evolution and future trends of cloud computing, providing insights into the strategic importance of companies like Crusoe in the AI data center landscape. Understanding the dynamics of cloud infrastructure helps contextualize the significance of Crusoe's funding round and its implications for AI processing capabilities.

Deal Name: CoreWeave Acquisition of Core Scientific

- Reading Material: "Blockchain Basics: A Non-Technical Introduction in 25 Steps" by Daniel Drescher
- Why This Matters: This resource offers a foundational understanding of blockchain technology and its applications, which are crucial for analyzing CoreWeave's strategic acquisition of Core Scientific. By grasping the fundamentals of blockchain and its integration with AI, readers can better appreciate the potential synergies and market positioning resulting from this deal.

7. MACROECONOMIC UPDATE

Key Data Points:

- AI-related capital expenditure expected to ramp up significantly in the coming years.
- Historical investment cycles (railroads, electrification, internet, shale oil) have led to credit market challenges.

Main Insights:

- AI investment is projected to be one of the largest investment cycles of this generation.
- Current AI spending is primarily ahead of us, indicating a long runway for growth.
- Major companies with strong balance sheets are driving AI investments, reducing credit risk compared to previous cycles.

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- Concerns about overcapacity in AI investments are valid but mitigated by strong underlying demand for data centers.

Market Commentary:

- "Much of the spending that we're seeing today on AI is backed by companies with extremely strong balance sheets and significant additional debt capacity." - Andrew Sheets, Morgan Stanley
- "Large levels of AI capital investment and the history of large investment cycles in the past causes understandable concern." - Andrew Sheets, Morgan Stanley

TMT Sector Relevance:

- The ongoing AI CapEx cycle is likely to drive significant growth in the TMT sector, particularly in cloud computing and data center investments.
- Strong balance sheets among major tech players reduce the risk of credit market disruptions, supporting sustained investment in AI technologies.
- The potential for overcapacity exists, but current demand levels suggest a healthier investment environment compared to past cycles.

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