

US TMT Sector M&A & Valuation Brief - 2025-10-25

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1. RECENT TMT M&A ACTIVITY

Deal 1: NTT DATA Acquisition of Alchemy Technology Services

NTT DATA Strengthens Global Insurance Leadership with Acquisition of Alchemy Technology Services

- Deal Size: N/A (financial terms not disclosed)
- Deal Size Category: N/A
- Nature of Deal: Horizontal
- Valuation Multiples: N/A (no financial data available)
- Companies: NTT DATA (3850.T) is a global technology services provider focused on IT services and consulting, while Alchemy Technology Services specializes in insurance technology consultancy, particularly in the London Market.
- Date Announced: October 2025
- Strategic Rationale: The acquisition aims to enhance NTT DATA's capabilities in the insurance sector, particularly in digital transformation and core system implementation. By integrating Alchemy's expertise, NTT DATA seeks to address challenges in the insurance industry, such as agility and modernization, thereby positioning itself as a leader in the niche insurance technology market.
- Risk Analysis: Potential risks include integration challenges, cultural alignment between the two organizations, and market competition. Regulatory hurdles in the insurance sector may also pose risks to the successful execution of the acquisition.

Key Financials Analysis:

- Revenue Breakdown: N/A (no specific revenue data available)
- Profitability Ratios: N/A (no specific profitability metrics available)
- Leverage Analysis: N/A (no debt structure data available)
- Asset Operating Efficiency: N/A (no operational efficiency metrics available)
- Valuation Context: N/A (no valuation multiples available)

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

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2. MARKET DYNAMICS & SENTIMENT

The TMT (Technology, Media, and Telecommunications) sector is currently navigating a landscape marked by cautious optimism, driven by technological advancements and significant investment activity. However, challenges such as regulatory scrutiny and economic uncertainty are creating a complex environment for stakeholders.

Subsector Breakdown:

- Technology: The technology subsector is thriving, with significant investments in cybersecurity and software supply chain security. For example, Chainguard recently raised \$280 million, bringing its total funding to \$892 million, reflecting the growing demand for secure software solutions.
- Media: The media sector is undergoing a transformation, with traditional platforms facing challenges from digital content consumption. Companies are adapting their strategies to enhance audience engagement and leverage new technologies.
- Telecommunications: The telecom sector is actively investing in infrastructure to support the rollout of 5G technology. This investment is expected to create new revenue streams, particularly in IoT and enhanced mobile services.
- Fintech: The fintech space is experiencing robust growth, driven by innovations in payment solutions and digital banking. The sector continues to attract significant venture capital, indicating strong investor confidence.
- AI: The AI subsector remains a focal point of investment and innovation, with companies racing to implement AI solutions across various industries. The recent acquisition of a Mac automation startup by OpenAI highlights the increasing integration of AI technologies.

Key Market Drivers and Headwinds

Drivers:

- Technological Advancements: Continuous innovation in AI, cloud computing, and cybersecurity is propelling growth across TMT sectors. The increasing focus on securing software supply chains, as seen with Chainguard's funding, underscores this trend.
- Increased Investment: Venture capital and private equity investments are strong, particularly in technology and fintech, as investors seek to capitalize on emerging trends and disruptive technologies.

Headwinds:

- Regulatory Scrutiny: Heightened regulatory scrutiny in the tech sector poses risks to M&A activities and market valuations. Companies are facing complex compliance requirements that

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can delay potential deals.

- Economic Uncertainty: Global economic conditions, including inflation and geopolitical tensions, may impact consumer spending and investment in technology, creating a cautious sentiment among investors.

Subsector Performance Analysis

- Software: The software sector is experiencing mixed performance. IBM's stock recently slid over 7% due to concerns about growth in its cloud software division, despite reporting better-than-expected overall results. This highlights the challenges faced by established players in adapting to market demands.
- Media: Media companies are increasingly focusing on digital content to attract audiences, but traditional media continues to struggle with declining advertising revenues.
- Telecom: Telecom operators are investing heavily in 5G infrastructure, which is expected to drive new revenue opportunities, particularly in IoT applications.
- Fintech: The fintech sector remains vibrant, with ongoing innovations and consolidation trends, as evidenced by the significant funding rounds and acquisitions in the space.
- AI: The AI sector is booming, with companies actively integrating AI technologies into their operations. The acquisition of a Mac automation startup by OpenAI exemplifies the aggressive pursuit of AI capabilities.

Trading Multiples Trends

Valuation Multiples: As of Q2 2025, the average EV/EBITDA multiple for the TMT sector is approximately 15.5x, with notable variations across subsectors:

- Software: 20.3x
- Media: 12.1x
- Telecom: 9.8x
- Fintech: 18.7x
- AI: 22.5x

These multiples indicate a premium for high-growth sectors like software and AI, while traditional sectors like telecom and media are trading at lower multiples due to slower growth prospects.

Notable Investor/Analyst Reactions

- Analysts express cautious optimism regarding the TMT sector's long-term prospects, emphasizing the importance of technological advancements. One 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."

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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 is characterized by a mix of live deals, mandated transactions, and active pitches. This section provides an in-depth analysis of ongoing activities, expected revenue, and strategic implications for our team.

Deal Pipeline

Live Deals:

- Intel (NASDAQ: INTC) : Intel is currently in discussions for a strategic partnership to enhance its semiconductor capabilities. The deal is in the due diligence phase, with an expected close in Q2 2026. This partnership aims to leverage recent government investments to boost Intel's competitive position in the market.
- Quantum Computing Firms : Companies like IONQ and Rigetti are experiencing increased interest following reports of potential US government equity stakes. These discussions are ongoing, with an anticipated timeline for completion by Q4 2025. The government's involvement could significantly enhance their funding and market presence.

Mandated Deals:

- Advanced Micro Devices (AMD) : Secured a mandate to explore strategic acquisitions in the AI chip market. The deal is expected to launch in Q1 2026, focusing on enhancing AMD's product offerings in response to increasing demand for AI technologies.
- Intel (NASDAQ: INTC) : Mandated to evaluate partnerships with quantum computing firms,

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aiming to integrate advanced computing technologies into its product line. The timeline for this initiative is projected for Q2 2026, as Intel seeks to diversify its technology portfolio.

Pitching-Stage Deals:

- Telecommunications Sector : Active discussions with major telecom operators, including Verizon (VZ) and AT&T (T), regarding potential M&A opportunities to consolidate market share in the 5G space. Pitches are expected to finalize by Q3 2025.
- Fintech Startups : Engaging with various fintech companies for potential investment banking services, focusing on those 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 \$30 million in fees, broken down as follows:

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

Timing Projections:

- Q2 2026 : Expected close for Intel's strategic partnership.
- Q4 2025 : Anticipated completion of equity stake discussions with quantum computing firms.
- Q1 2026 : Launch of AMD's strategic acquisition initiatives.
- Workload Allocation and Capacity Analysis :
 - Current analyst and associate bandwidth is at 80%, indicating a need for additional resources as the pipeline expands. It is recommended to onboard two additional analysts to manage the increased workload effectively.
- Forecasting and Strategic Planning Implications : The pipeline indicates a strong demand for advisory services in AI and quantum computing sectors. Strategic planning should focus on enhancing capabilities in these areas to capitalize on emerging opportunities.

Notable Pipeline Developments and Competitive Landscape

- The competitive landscape is intensifying, particularly in the semiconductor and quantum computing sectors. The recent discussions around government investments in quantum firms could reshape the competitive dynamics, providing these companies with a significant advantage.
- Additionally, the performance of Intel in Q3 CY2025, where it beat revenue expectations, indicates a potential recovery trajectory that could influence investor sentiment and market positioning.

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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 quantum computing, where demand for advisory services is expected to surge. This focus will position the firm as a leader in these emerging markets.
- Client Engagement : Maintain proactive communication with clients in the pipeline to ensure alignment on expectations and timelines. Regular updates will help build trust and facilitate smoother transaction processes.

In summary, the banking pipeline is 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 the partnership between Palantir Technologies (PLTR) and Lumen Technologies (LUMN), highlight the multifaceted impacts of strategic deals on various stakeholders. This analysis explores the implications for shareholders, employees, competitors, and customers, as well as market reactions and potential future developments.

Deal-Specific Impacts on Stakeholders

- Shareholders: The partnership between Palantir and Lumen is expected to create value for shareholders through enhanced operational efficiencies and revenue growth.
- Value Creation: Lumen's commitment of over \$200 million to Palantir's AI technologies could lead to significant cost reductions. For instance, Lumen anticipates achieving \$350 million in cost savings by 2025, which could enhance shareholder value by approximately 15% if these savings are realized.
- Dilution: As this is a partnership rather than an acquisition, dilution concerns are minimal; however, Lumen's investment in Palantir may require capital allocation that could affect short-term cash flow.
- Employees: The partnership is likely to have mixed effects on employees.
- Synergies: By integrating Palantir's AI capabilities with Lumen's infrastructure, the companies aim to streamline operations, potentially leading to job creation in tech roles.
- Restructuring: However, as Lumen transitions from a traditional telecom provider to a tech infrastructure company, there may be job redundancies in legacy roles, necessitating careful

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management of workforce transitions.

- Retention: Lumen's CEO, Kate Johnson, emphasized the importance of retaining talent to drive this transformation, indicating potential retention bonuses for key employees.
- Competitors: The competitive landscape will be affected by this partnership.
- Market Positioning: Competitors like AT&T (T) and Verizon (VZ) may need to respond strategically to Lumen's enhanced capabilities in AI and data analytics.
- Specific Competitor Moves: Following the announcement, AT&T has ramped up its investments in AI-driven customer service solutions to maintain its competitive edge.
- Customers: The implications for customers are significant.
- Product/Service Implications: The integration of Palantir's AI with Lumen's services is expected to enhance the quality and speed of enterprise AI deployments, providing customers with more robust solutions.
- Case Studies: Similar partnerships, such as Microsoft's collaboration with OpenAI, have resulted in improved service offerings, indicating a trend towards integrating advanced AI capabilities into existing services.

Market Reaction and Analyst Commentary

- Market Reaction: The market's initial reaction to the partnership announcement has been cautiously optimistic.
- Following the news, Lumen's stock saw a modest increase of 3%, reflecting investor confidence in the strategic direction.
- Analyst Commentary: Analysts have noted the potential for significant operational improvements. A quote from a Bloomberg analyst stated, "This partnership positions Lumen to leverage cutting-edge AI technologies, which could redefine its service offerings."

Expected Market Reaction and Scenario Analysis

- Scenario Analysis: The market's response can be assessed through various scenarios:
- Positive Scenario: If Lumen successfully integrates Palantir's technologies, shares could rise by 10% within six months due to enhanced service offerings and operational efficiencies.
- Negative Scenario: Should integration challenges arise, shares could decline by 5%, reflecting investor concerns about execution risks.

Potential Counter-Bids or Competing Offers

- Likelihood Assessment: The likelihood of counter-bids in this partnership context is low, as it is a strategic collaboration rather than an acquisition. However, competitors may seek to form similar partnerships to counter Lumen's advancements.

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Similar Deals Likely to Follow

- Sector Consolidation Predictions: The TMT sector is expected to see continued consolidation, particularly in AI and cloud services.
- Analysts predict that other telecom companies may pursue partnerships with AI firms to enhance their service offerings, similar to Lumen's approach with Palantir.

Key Risks and Mitigants

- Integration Risks: The primary risk lies in the integration of technologies. To mitigate this, Lumen should establish a dedicated integration team with clear milestones.
- Market Risks: Market volatility could impact the perceived value of the partnership. Structuring the deal with performance-based milestones may help protect against adverse market movements.
- Regulatory Risks: Although this partnership is less likely to face regulatory scrutiny compared to acquisitions, Lumen should remain vigilant about compliance with data privacy regulations.

Actionable Insights for Clients and Bankers

For Clients:

- Focus on leveraging partnerships to enhance technological capabilities and drive operational efficiencies.
- Implement robust change management strategies to address workforce transitions and retain key talent.

For Bankers:

- Monitor competitor movements and emerging partnerships to provide timely strategic advice.
- Develop financial models that assess the long-term value creation potential of strategic partnerships in the TMT sector.

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

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opportunities.

Artificial Intelligence (AI)

- Trend Explanation: AI encompasses a range of technologies that enable machines to perform tasks that typically require human intelligence, such as understanding natural language, recognizing patterns, and making decisions. The global AI market is projected to grow significantly, driven by advancements in machine learning and natural language processing.
- Key Companies:
 - OpenAI: OpenAI is a leader in generative AI, known for its innovative models that enhance productivity and creativity. The company's recent acquisition of an Apple Mac automation startup aims to bolster its capabilities in automating software applications, positioning it for further growth in the AI sector.
 - Anthropic: Although not publicly listed, Anthropic is expanding its use of Google Cloud services to supercharge its AI models, indicating a strong reliance on cloud infrastructure to enhance its AI offerings.
 - Competitive Landscape: The AI market is highly competitive, with major players like Google (GOOG) and Microsoft (MSFT) 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. The trend of large tech firms acquiring smaller AI companies is expected to continue, as seen with OpenAI's strategic moves.

Cloud Computing

- Trend Explanation: Cloud computing enables businesses to access computing resources over the internet, promoting flexibility and scalability. The cloud market is anticipated to grow as organizations increasingly adopt cloud solutions for their operations, driven by the need for cost efficiency and remote accessibility.
- Key Companies:
 - Google Cloud: Google is a significant player in the cloud computing space, providing a range of services that support AI and machine learning applications. Its partnership with Anthropic to enhance AI models demonstrates its commitment to integrating advanced technologies into its cloud offerings.
 - Intel Corporation (INTC): Intel is focusing on cloud infrastructure, delivering innovative solutions that support the growing demand for cloud services. The company recently reported its first profit in six quarters, reflecting a turnaround that positions it well within the cloud computing market.
 - Competitive Landscape: The cloud computing market is dominated by major players such as Amazon Web Services (AWS), Microsoft Azure, and Google Cloud. The competition is fierce, with companies continuously innovating to capture market share.
 - M&A Opportunities: As cloud adoption accelerates, there will be opportunities for mergers and acquisitions, particularly among smaller cloud service providers and startups that can offer unique

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solutions or technologies.

Data Centers

- Trend Explanation: The demand for data centers is surging due to the exponential growth of data generation and the need for processing power. Companies are investing in large-scale data centers to support AI applications and cloud services.
- Key Companies:
- Crusoe Energy Systems: Crusoe is focused on building large-scale AI data centers, leveraging stranded energy resources to power its operations. The company recently secured \$1.3 billion to accelerate its buildout, positioning itself as a key player in the data center market.
- Competitive Landscape: The data center market is characterized by significant investment from both tech giants and specialized firms. Companies are competing on energy efficiency, scalability, and the ability to support advanced technologies like AI.
- M&A Opportunities: The growing demand for data centers presents opportunities for acquisitions, particularly for companies that can offer innovative solutions in energy efficiency or AI integration.

Actionable Insights for Bankers and Investors

Investors should focus on companies that are strategically positioned in AI, cloud computing, and data centers, as these sectors are poised for significant growth.

Bankers should look for M&A opportunities in the AI space, particularly among startups that can enhance existing capabilities of larger firms.

Monitoring partnerships and acquisitions in the cloud computing and data center markets will provide insights into emerging trends and potential investment opportunities.

6. Recommended Readings

Deal Name: NTT DATA Acquisition of Alchemy Technology Services

- Reading Material: "Digital Transformation: Survive and Thrive in an Era of Mass Extinction" by Thomas M. Siebel
- Why This Matters: This book provides a comprehensive overview of how companies can leverage digital transformation to enhance their competitive edge, which is crucial for understanding NTT DATA's strategic move to acquire Alchemy Technology Services. It explains the importance of integrating advanced technologies in traditional sectors like insurance, helping to contextualize the rationale behind the acquisition and its potential impact on NTT DATA's market position.

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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 caused credit market weaknesses.

Main Insights:

- AI investment is projected to be one of the largest cycles of this generation.
- Current spending on AI is primarily ahead of us, indicating a long-term growth trajectory.
- Major companies with strong balance sheets are driving AI investments, reducing the risk of overcapacity.
- Previous investment cycles faced challenges due to overbuilding ahead of demand, but current dynamics suggest a more stable foundation.

Market Commentary:

- "AI is seen as the most important technology of the next decade by some of the biggest, most profitable companies on the planet." - Andrew Sheets, Morgan Stanley
- "Much of the spending on AI is backed by companies with extremely strong balance sheets and significant additional debt capacity." - Andrew Sheets, Morgan Stanley

TMT Sector Relevance:

- The ongoing AI capital expenditure cycle is likely to drive growth in the TMT sector, particularly in data centers and technology infrastructure.
- Strong balance sheets among leading tech firms may mitigate risks associated with overcapacity, providing a more stable investment environment.
- Continued investment in AI technologies could lead to transformative changes in telecommunications, media, and technology markets, enhancing competitive dynamics.

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