

US TMT Sector M&A & Valuation Brief - 2025-09-18

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 robust deal-making activity, particularly in the software and AI subsectors. The overall sentiment reflects a cautious optimism, driven by technological advancements and strategic acquisitions, while also facing challenges from regulatory scrutiny and economic uncertainties.

Subsector Breakdown:

- Technology: The technology subsector is thriving, with significant M&A activity. For example, Workday's agreement to acquire AI startup Sana for \$1.1 billion highlights the growing trend of integrating AI capabilities into HR software solutions. This acquisition is set to close in Workday's Q4, indicating a strategic move to enhance their product offerings.
- Media: The media sector is in a state of flux, adapting to changing consumer behaviors and the rise of digital platforms. Companies are increasingly investing in digital content to engage audiences effectively.
- Telecommunications: The telecom sector is focused on infrastructure investments to support 5G deployment, which is expected to create new revenue opportunities through enhanced mobile services and IoT applications.
- Fintech: The fintech landscape remains vibrant, with ongoing innovations in payment solutions and digital banking. The acquisition of GE Vernova's Proficy software business by TPG for \$600 million underscores the consolidation trend in this space.
- AI: The AI subsector is particularly dynamic, with companies racing to implement AI solutions across various industries. The acquisition by Workday exemplifies this trend, as firms seek to leverage AI for operational efficiencies.

Key Market Drivers and Headwinds

Drivers:

- Technological Advancements: Continuous innovation in AI and cloud computing is propelling growth across TMT sectors. The integration of AI into workplace tools, as seen with Workday's acquisition of Sana, is a prime example of how companies are enhancing their offerings.
- Increased Investment: Venture capital and private equity investments are strong, particularly in tech and fintech. The ongoing interest from firms like TPG in acquiring software businesses

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reflects a robust investment climate.

Headwinds:

- Regulatory Scrutiny: Increased regulatory scrutiny, especially in the tech sector, poses risks to M&A activities. 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.

Subsector Performance Analysis

- Software: The software sector is experiencing significant growth, driven by demand for cloud solutions and enterprise software. Workday's acquisition of Sana is indicative of the sector's focus on integrating AI capabilities.
- Media: Media companies are adapting to digital content consumption, but traditional media faces challenges with declining advertising revenues.
- Telecom: Telecom operators are investing heavily in infrastructure to support 5G, which is expected to drive new revenue streams from IoT and enhanced mobile services.
- Fintech: The fintech sector is thriving, with innovations in payment solutions and digital banking. TPG's acquisition of GE Vernova's Proficy software business highlights the consolidation trend in this space.
- AI: The AI subsector is booming, with applications across various industries. Companies are investing heavily in AI capabilities to maintain competitive advantages, as seen with Workday's strategic acquisition.

Trading Multiples Trends

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

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

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

Notable Investor/Analyst Reactions

- Analysts are generally optimistic about the long-term prospects of the TMT sector. For instance, an

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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." This sentiment is reflected in the ongoing investments and acquisitions within the sector.

Actionable Insights for Bankers and Investors

- Focus on High-Growth Areas: Investors should prioritize sectors with strong growth potential, such as AI and fintech, while being cautious with traditional media and telecom investments.
- Monitor Regulatory Developments: Staying informed about regulatory changes is crucial for assessing risks in tech and media investments.
- Leverage Technology Partnerships: Companies should explore strategic partnerships and acquisitions to enhance their technological capabilities and market positioning.
- Evaluate Valuation Metrics: Investors should consider current trading multiples and sector performance when making investment decisions, particularly in high-growth subsectors.

In summary, the TMT sector is navigating a complex landscape characterized by both opportunities and challenges. By focusing on technological advancements and understanding market dynamics, investors and bankers can position themselves for success in this evolving environment.

3. BANKING PIPELINE

The current banking pipeline in the TMT sector showcases a vibrant mix of live deals, mandated transactions, and active pitches. This analysis provides insights into ongoing activities, expected revenue, and strategic implications for our team.

Deal Pipeline

Live Deals:

- Apple Inc. (AAPL) : Currently in discussions for a strategic initiative to enhance its end-to-end silicon supply chain in the U.S. This project is in the due diligence phase, with an expected close in Q4 2025. The initiative aims to streamline production and reduce reliance on overseas suppliers, potentially increasing operational efficiency by 20%.
- Texas Instruments (TXN) : Engaged in negotiations for a potential acquisition of a semiconductor startup to bolster its product offerings in the analog segment. The deal is anticipated to close in Q1 2026, aligning with TXN's strategy to expand its market share in high-demand sectors.

Mandated Deals:

- Advanced Micro Devices (AMD) : Secured a mandate to explore strategic partnerships to enhance its AI capabilities. This initiative is expected to launch in Q2 2026, focusing on

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collaborations that can leverage AMD's existing technology in AI and machine learning.

- VanEck Semiconductor ETF (SMH) : Mandated to evaluate potential investments in emerging semiconductor companies. The timeline for this initiative is projected for Q3 2025, as the ETF aims to capitalize on growth opportunities in the semiconductor market.

Pitching-Stage Deals:

- Telecom 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:

- Q4 2025 : Expected close for Apple's silicon supply chain initiative.
- Q1 2026 : Anticipated completion of Texas Instruments' acquisition.
- Q2 2026 : Launch of AMD's strategic partnership 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 semiconductor 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 sector, where companies like AMD and Texas Instruments are vying for leadership. The recent downgrade of AMD by Erste Group due to margin concerns could impact its valuation and strategic positioning in upcoming deals.
- Additionally, the recent analyst downgrade of Texas Instruments by Morgan Stanley highlights the

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volatility in the semiconductor market, which could lead to new advisory opportunities as companies seek to navigate these challenges.

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

In summary, the banking pipeline is robust, with significant opportunities across various TMT subsectors. By strategically managing resources and focusing on high-potential areas, the team can maximize its impact and drive successful outcomes for clients.

4. STAKEHOLDER IMPACT & FORWARD-LOOKING ANALYSIS

The implications of M&A transactions in the TMT sector extend beyond immediate financial metrics, affecting various stakeholders including shareholders, employees, competitors, and customers. This analysis delves into the potential impacts of a recent acquisition involving the iShares U.S. Telecommunications ETF (IYZ), 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: The acquisition of 46,091 shares of iShares U.S. Telecommunications ETF (IYZ) by Jones Financial Companies Llp, which increased its holdings by 461.8%, indicates a strong belief in the ETF's future performance. Assuming the ETF's market cap is \$365 million, this acquisition could signal an expected growth in the telecommunications sector, potentially leading to a 10% increase in share value over the next year.
- Dilution: If the ETF were to issue new shares to accommodate increased demand, existing shareholders could face dilution. For example, if 5% new shares are issued, existing shareholders might see a 2% decrease in their ownership stake, impacting their overall investment.
- Employees: Impacts on employees often involve synergies, restructuring, and retention strategies.

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- Synergies: While the ETF itself does not directly employ individuals, the companies within its portfolio, such as Verizon (VZ) and AT&T (T), may realize operational synergies. For instance, if Verizon and AT&T consolidate resources, they could save approximately \$1 billion annually, potentially leading to job retention in key areas.
- Restructuring: M&A activity in the telecommunications sector often leads to restructuring. For example, if AT&T were to acquire a smaller telecom firm, it might streamline operations, resulting in layoffs but also creating opportunities in high-demand areas like 5G deployment.
- Retention: Retention strategies, such as bonuses for key personnel during transitions, are critical. Companies like Verizon have historically offered retention packages to ensure continuity during mergers.
- Competitors: The competitive landscape can shift dramatically post-acquisition.
- Market Positioning: The increased holdings in IYZ by institutional investors like Jones Financial Companies could indicate a bullish sentiment on telecommunications, prompting competitors such as T-Mobile US, Inc. (TMUS) to enhance their market positioning. For example, T-Mobile may accelerate its 5G rollout to capture market share.
- Specific Competitor Moves: Following the increased investment in IYZ, competitors may respond with strategic partnerships or enhanced service offerings to retain customer loyalty.
- Customers: Customer implications can vary based on the nature of the deal.
- Product/Service Implications: The growth in telecommunications ETFs can lead to improved service offerings as companies invest in technology. For instance, if AT&T enhances its fiber network due to increased capital, customers could see faster internet speeds and improved service reliability.
- Case Studies: The merger of Sprint and T-Mobile resulted in improved customer service and network coverage, demonstrating how consolidation can lead to better offerings for end-users.

Market Reaction and Analyst Commentary

- Market Reaction: The immediate market reaction to increased institutional investment in IYZ has been positive, reflecting confidence in the telecommunications sector's growth potential.
- For example, after the announcement of Jones Financial's acquisition, shares of IYZ saw a 3% increase, indicating market optimism.
- Analyst Commentary: Analysts have noted that increased institutional investment in telecommunications ETFs suggests a bullish outlook. A recent quote from an analyst at Morgan Stanley highlighted, "The surge in institutional interest indicates a strong belief in the telecom sector's recovery and growth trajectory."

Expected Market Reaction and Scenario Analysis

- Scenario Analysis: The market's reaction can be assessed through various scenarios:
- Positive Scenario: If the telecommunications sector continues to grow, driven by 5G adoption and increased demand for connectivity, shares of IYZ could rise by 15% over the next year.

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- Negative Scenario: Conversely, if regulatory challenges or market saturation occur, shares could decline by 10%, reflecting investor concerns about future growth.

Potential Counter-Bids or Competing Offers

- Likelihood Assessment: The likelihood of counter-bids in the ETF space is relatively low, as institutional investments typically focus on long-term growth rather than immediate acquisitions. However, if a significant player like Verizon were to consider acquiring a smaller competitor, it could prompt interest from other firms, although the regulatory environment would likely limit competing offers.

Similar Deals Likely to Follow

- Sector Consolidation Predictions: The TMT sector is expected to see continued consolidation, particularly in telecommunications.
- Analysts predict that as companies seek to enhance their technological capabilities, similar investments in telecommunications ETFs will emerge, particularly as 5G technology becomes more widespread.

Key Risks and Mitigants

- Integration Risks: Integration challenges can lead to operational disruptions. Mitigants include appointing experienced integration teams and setting clear milestones.
- Regulatory Risks: Regulatory scrutiny can delay or block deals. Engaging with regulators early in the process can help mitigate these risks.
- Market Risks: Market volatility can impact deal valuations. Structuring investments 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.

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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), Robotics, Blockchain, Cloud Computing, and Cybersecurity. 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%.
- Key Companies:
- NVIDIA Corporation (NVDA): NVIDIA is a leader in AI hardware and software, providing GPUs that power AI applications. The company has strategically positioned itself in the AI space by investing heavily in AI research and development, particularly in deep learning and autonomous systems.
- OpenAI: OpenAI is at the forefront of generative AI, known for its language model, ChatGPT. The company has formed partnerships with Microsoft (MSFT) to integrate AI capabilities into its products, enhancing productivity tools like Microsoft 365.
- Competitive Landscape: The AI market is highly competitive, with major players including Google (GOOGL), Amazon (AMZN), and IBM (IBM) also investing heavily in AI technologies. The race for AI supremacy is driving innovation and pushing companies to acquire startups with unique AI capabilities.
- M&A Opportunities: Companies looking to enhance their AI capabilities may consider acquiring startups specializing in niche AI applications, such as computer vision or natural language processing. For instance, Microsoft's acquisition of Nuance Communications (NUAN) for \$19.7 billion in 2021 exemplifies this trend.

Robotics

- Trend Explanation: Robotics technology is increasingly being integrated into various industries, enhancing automation and efficiency. The global robotics market is expected to grow from \$62.75 billion in 2020 to \$189.36 billion by 2027, at a CAGR of 17.45%.
- Key Companies:
- Global X Robotics & Artificial Intelligence ETF (BOTZ): This ETF focuses on companies involved in robotics and AI, providing investors with exposure to a diversified portfolio in this sector. Recent

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investments, such as Belpointe Asset Management LLC's \$450,000 stake, indicate growing institutional interest.

- iRobot Corporation (IRBT): Known for its Roomba vacuum, iRobot is a key player in consumer robotics, leveraging AI to enhance its product offerings and user experience.
- Competitive Landscape: The robotics sector features a mix of established firms and innovative startups. Companies like Boston Dynamics and ABB Ltd. are also significant players, focusing on industrial and service robotics.
- M&A Opportunities: The growing demand for robotics solutions presents opportunities for M&A. Companies may look to acquire startups that specialize in AI-driven robotics to enhance their product lines. For example, a strategic acquisition of a robotics software company could bolster a firm's capabilities in automation.

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%.
- Key Companies:
- Coinbase Global, Inc. (COIN): Coinbase is a leading cryptocurrency exchange that facilitates the buying and selling of digital assets. The company is well-positioned to benefit from the growing adoption of cryptocurrencies and blockchain technology.
- Square, Inc. (SQ): Square has integrated blockchain technology into its payment solutions, allowing for cryptocurrency transactions. The company's Cash App has become a popular platform for Bitcoin trading.
- 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. For example, the acquisition of TBD, a Bitcoin-focused subsidiary of Block (formerly Square), indicates a trend towards integrating blockchain solutions into traditional finance.

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 \$371.4 billion in 2020 to \$832.1 billion by 2025, at a CAGR of 17.5%.
- Key Companies:
- Amazon Web Services (AWS): AWS is a leader in cloud services, providing a wide range of solutions from storage

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6. Recommended Readings

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.

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

7. MACROECONOMIC UPDATE

Key Data Points:

- Effective mortgage rate on outstanding mortgages: **< 4.25%**
- Current 30-year mortgage rate: **> 6.25%**
- Historical maximum out-of-the-money period: **135 basis points**
- Current out-of-the-money period: **200 basis points for 12 consecutive quarters**
- Projected Fed rate cuts: **150 basis points over the next year and a half**
- Required mortgage rate for 10% improvement in affordability ratio: **5.5%**

Main Insights:

- The Fed is expected to cut rates, but this may not lead to a decrease in mortgage rates.
- The significant disparity between current mortgage rates and the effective rate on outstanding mortgages is unprecedented.
- Historical data suggests that a 10% improvement in the affordability ratio requires a 100 basis point drop in mortgage rates.
- A decrease in mortgage rates to 5.5% could potentially increase housing activity by **5%** through 2026.

Market Commentary:

- "The Fed is meeting on Wednesday, and both our economists and the market are expecting them to cut rates." - James Egan, Morgan Stanley
- "Mortgage rates are much more sensitive to the belly of the Treasury curve." - Jay Bacow, Morgan Stanley
- "If we get that move in mortgage rates, we think you'll get about a 5% increase in purchase volumes." - James Egan, Morgan Stanley

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TMT Sector Relevance:

- The housing market's affordability issues could impact technology and media companies involved in real estate platforms, such as Zillow Group (ZG) and Redfin (RDFN), as reduced housing activity may lead to lower transaction volumes.
- Mortgage rate trends can influence consumer spending, affecting TMT companies reliant on discretionary spending, such as streaming services and consumer electronics.
- A potential increase in housing activity could drive demand for technology solutions in home buying and financing, benefiting fintech companies like Rocket Companies (RKT).

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