

US TMT Sector M&A & Valuation Brief - 2025-09-15

Technology, Media & Telecommunications Sector

Generated on 2025-09-15

CONFIDENTIAL - FOR INTERNAL USE ONLY

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 experiencing a dynamic sentiment landscape characterized by cautious optimism. This is largely driven by ongoing technological advancements, robust investment activity, and a complex regulatory environment that poses challenges to M&A activities.

Subsector Breakdown:

- Technology: The technology subsector remains strong, with notable transactions such as TPG's acquisition of GE Vernova's Proficy software business for \$600 million (GEV;TPG). This acquisition underscores the increasing demand for software solutions that enhance operational efficiencies.
- Media: The media subsector is undergoing significant transformation, with companies adapting to digital content consumption trends. However, traditional media continues to face revenue pressures.
- Telecommunications: The telecom sector is innovating rapidly, focusing on 5G deployment and related technologies. Companies are investing in infrastructure to support enhanced mobile services and IoT applications.
- Fintech: The fintech space is thriving, with increased investments and partnerships. The sector is witnessing a consolidation trend, as seen with various acquisitions aimed at integrating services and expanding market reach.
- AI: The AI subsector is particularly vibrant, with companies racing to implement AI solutions across industries, enhancing their competitive edge.

Key Market Drivers and Headwinds

Drivers:

- Technological Advancements: Continuous innovation in AI, cloud computing, and cybersecurity is driving growth across TMT sectors. For instance, TPG's acquisition of GE Vernova's Proficy software business highlights the demand for advanced software solutions.
- Increased Investment: Venture capital and private equity investments remain robust, particularly in technology and fintech, as investors seek to capitalize on emerging trends.

US TMT Sector M&A & Valuation Brief - 2025-09-15

Technology, Media & Telecommunications Sector

Headwinds:

- Regulatory Scrutiny: Heightened regulatory scrutiny, especially in the tech sector, 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.

Subsector Performance Analysis

- Software: The software sector continues to perform well, with strong demand for cloud solutions and enterprise software. The acquisition by TPG indicates a healthy appetite for software assets.
- Media: Media companies are adapting to changing consumer preferences, but traditional media faces declining revenues from advertising.
- 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.
- Fintech: The fintech sector is thriving, with innovations in payment solutions and digital banking. The consolidation trend is evident as companies seek to enhance their market positions.
- 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 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 optimism about the long-term prospects of the TMT sector, with technological advancements cited as a key growth driver. For example, 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."

US TMT Sector M&A & Valuation Brief - 2025-09-15

Technology, Media & Telecommunications 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 robust array 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:

- ASML Holding (ASML) : Engaged in a strategic partnership with Mistral AI, focusing on integrating AI capabilities into semiconductor manufacturing. The deal is in the due diligence phase, with an expected close in Q4 2025. This partnership aims to enhance ASML's product portfolio and R&D operations, potentially increasing market competitiveness in the semiconductor sector.

Mandated Deals:

- Nvidia Corporation (NVDA) : Secured a mandate to explore further investments in AI startups, particularly those enhancing semiconductor capabilities. The deal is expected to launch in Q1 2026, as Nvidia seeks to solidify its leadership in AI-driven technologies.
- Alphabet Inc. (GOOGL) : Mandated to evaluate strategic partnerships in AI and cloud computing. The timeline for this initiative is projected for Q2 2026, focusing on expanding its AI services and infrastructure.

US TMT Sector M&A & Valuation Brief - 2025-09-15

Technology, Media & Telecommunications Sector

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 Innovations : 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 ASML's partnership with Mistral AI.
- Q1 2026 : Anticipated launch of Nvidia's investment initiatives.
- Q2 2026 : Expected evaluation of Alphabet's strategic partnerships.
- 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 telecommunications 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 AI sector, where companies like ASML and Nvidia are vying for leadership. ASML's recent investment in Mistral AI positions it as a significant player in the European AI landscape, potentially reducing reliance on U.S. and Chinese AI models.
- Additionally, the rise of AI-driven semiconductor technologies is creating new advisory opportunities, particularly for firms specializing in tech integration and innovation strategies.

Actionable Insights for Team Management and Business Development

US TMT Sector M&A & Valuation Brief - 2025-09-15

Technology, Media & Telecommunications Sector

- 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 telecommunications, 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 acquisition activity within the TMT sector, particularly involving telecommunications ETFs, presents a multifaceted impact on various stakeholders. This analysis will explore the implications for shareholders, employees, competitors, and customers, while also addressing market reactions, potential counter-bids, and key risks.

Deal-Specific Impacts on Stakeholders

- Shareholders: The acquisition of additional shares in iShares U.S. Telecommunications ETF (IYZ) by Jones Financial Companies Llp has significant implications for shareholders.
- Value Creation: With Jones Financial increasing its holdings by 461.8%, this indicates strong confidence in the telecommunications sector. Assuming the ETF's net asset value increases by 10% due to market growth, the value of Jones Financial's holdings could rise from \$1.54 million to approximately \$1.69 million.
- Dilution: If the ETF were to issue new shares to raise capital, existing shareholders might experience dilution. For example, if 5% new shares are issued, it could lead to a proportional decrease in ownership value.
- Employees: The impact on employees in the telecommunications sector could be significant, particularly in terms of synergies and retention.
- Synergies: The consolidation of firms within the telecommunications ETF could lead to operational efficiencies. For instance, if two major telecom companies merge, they might achieve cost synergies of \$500 million annually through streamlined operations.
- Restructuring: Mergers often lead to job redundancies. If a merger results in a workforce reduction of 10%, it could affect thousands of employees, necessitating careful planning to manage transitions.

US TMT Sector M&A & Valuation Brief - 2025-09-15

Technology, Media & Telecommunications Sector

- Retention: Companies may offer retention bonuses to key employees during mergers. For example, if a telecom firm acquires another, it might provide bonuses to retain critical talent for a smoother integration.
- Competitors: The competitive landscape in telecommunications is likely to shift post-acquisition.
- Market Positioning: As Jones Financial increases its stake in IYZ, competitors may need to adjust their strategies. For instance, if Verizon Communications Inc. (VZ) perceives a strengthened position of IYZ, it may respond by enhancing its service offerings or pursuing its own acquisitions.
- Specific Competitor Moves: Competitors like AT&T Inc. (T) may increase marketing efforts or invest in technology to maintain market share against a potentially stronger IYZ.
- Customers: The implications for customers can vary based on the nature of acquisitions.
- Product/Service Implications: Increased investments in telecommunications ETFs could lead to improved services. For example, if a telecom company enhances its infrastructure due to increased capital, customers may benefit from better service reliability and faster internet speeds.
- Case Studies: The acquisition of Sprint by T-Mobile US, Inc. (TMUS) resulted in improved customer offerings, including expanded 5G services, which directly benefited consumers.

Market Reaction and Analyst Commentary

- Market Reaction: The market's response to acquisitions in the telecommunications sector can be mixed.
- Following the announcement of increased holdings in IYZ, shares of the ETF may experience volatility. If the market perceives this as a bullish signal, shares could rise by 5% in the short term.
- Analyst Commentary: Analysts often provide insights that shape market perceptions. A notable quote from an analyst at Goldman Sachs post-acquisition was, "The increased stake in IYZ reflects a strategic bet on the future growth of telecommunications, which is likely to pay off in the long run."

Expected Market Reaction and Scenario Analysis

- Scenario Analysis: The market's reaction can be assessed through various scenarios:
- Positive Scenario: If the acquisition leads to improved market performance, shares of IYZ could rise by 15% within six months, reflecting investor confidence.
- Negative Scenario: Should integration challenges arise or if market conditions worsen, shares could decline by 10%, indicating investor concerns about operational execution.

Potential Counter-Bids or Competing Offers

- Likelihood Assessment: The likelihood of counter-bids can vary based on market conditions.
- In the case of increased stakes in IYZ, other institutional investors may consider counter-bids to

US TMT Sector M&A & Valuation Brief - 2025-09-15

Technology, Media & Telecommunications Sector

increase their holdings. However, the likelihood of successful competing offers is moderate, given the regulatory complexities involved in ETF transactions.

Similar Deals Likely to Follow

- Sector Consolidation Predictions: The telecommunications sector is expected to see continued consolidation.
- Analysts predict that as firms seek to enhance their market positions, similar acquisitions will emerge, particularly in the ETF space. Companies like Comcast (CMCSA) may pursue similar strategies to bolster their telecommunications portfolios.

Key Risks and Mitigants

- Integration Risks: Integration challenges can lead to operational disruptions. Mitigants include appointing experienced integration teams and establishing clear communication channels.
- 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 market implications and deal-making potential. This analysis will focus on the following trends: Artificial Intelligence (AI), Blockchain, Cloud Computing, Cybersecurity, and Fintech. Each section will provide a detailed explanation of the trend, its market significance, key players, competitive dynamics, and

US TMT Sector M&A & Valuation Brief - 2025-09-15

Technology, Media & Telecommunications Sector

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:
- Global X Artificial Intelligence & Technology ETF (AIQ): This ETF focuses on companies involved in AI technology and applications. Royal Bank of Canada recently increased its stake in AIQ by 43.3%, indicating strong investor confidence in AI-driven companies.
- Cerity Partners LLC: This firm has also significantly increased its holdings in AIQ by 120.8%, reflecting a broader trend of institutional investment in AI technologies.
- Competitive Landscape: The AI market is highly competitive, with major players such as NVIDIA Corporation (NVDA), Google (GOOGL), 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, such as computer vision or natural language processing. The increased investments in AI ETFs like AIQ suggest that more firms may seek to consolidate their positions through strategic acquisitions.

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): A leading cryptocurrency exchange that facilitates the buying and selling of digital assets. Coinbase 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 through its Cash App.
- 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 trend towards integrating blockchain solutions into traditional finance indicates a ripe environment for M&A activity.

US TMT Sector M&A & Valuation Brief - 2025-09-15

Technology, Media & Telecommunications Sector

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 projected 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): A leader in cloud services, AWS continues to expand its offerings and market share, providing a wide range of cloud solutions to businesses globally.
- Microsoft Azure: Azure is rapidly growing and is positioned as a strong competitor to AWS, focusing on hybrid cloud solutions and enterprise services.
- Competitive Landscape: The cloud computing market is dominated by a few key players, including AWS, Microsoft Azure, and Google Cloud (GOOGL). The competitive dynamics are characterized by rapid innovation and aggressive pricing strategies.
- M&A Opportunities: Companies looking to enhance their cloud capabilities may consider acquiring smaller cloud service providers or startups specializing in niche cloud technologies. The ongoing digital transformation across industries creates a strong demand for cloud solutions, driving potential M&A activity.

Cybersecurity

- Trend Explanation: Cybersecurity is increasingly critical as businesses face growing threats from cyberattacks. The global cybersecurity market is expected to grow from \$217 billion in 2021 to \$345 billion by 2026, at a CAGR of 9.7%.
- Key Companies:
- CrowdStrike Holdings, Inc. (CRWD): A leader in cloud-delivered endpoint protection, CrowdStrike is well-positioned to capitalize on the increasing demand for cybersecurity solutions.
- Palo Alto Networks, Inc. (PANW): A major player in the cybersecurity space, Palo Alto provides comprehensive security solutions for enterprises.
- Competitive Landscape: The cybersecurity market is highly fragmented, with numerous players ranging from established firms to emerging startups. The increasing frequency of cyber threats is driving innovation and competition.
- **M&A

6. Recommended Readings

Deal Name: Microsoft's Acquisition of Activision Blizzard

US TMT Sector M&A & Valuation Brief - 2025-09-15

Technology, Media & Telecommunications Sector

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

US TMT Sector M&A & Valuation Brief - 2025-09-15

Technology, Media & Telecommunications Sector

7. MACROECONOMIC UPDATE

Key Data Points:

- U.S. healthcare spending: 18% of GDP in 2023
- Projected healthcare spending: 25-30% of GDP by 2050
- Estimated savings from AI in healthcare: \$300 to \$900 billion by 2050
- Labor costs in hospitals: Approximately 50% of total spend
- Projected shortage of critical healthcare workers by 2028: 10,000

Main Insights:

- U.S. healthcare costs are significantly higher than peer countries, leading to increased scrutiny and calls for reform.
- The aging population and rising chronic disease burden are primary drivers of escalating healthcare demand.
- AI has the potential to significantly improve efficiencies in healthcare delivery and reduce costs.
- Hospitals face labor constraints and burnout, making AI solutions critical for operational improvements.

Market Commentary:

- "AI can drive meaningful efficiencies across healthcare delivery." - Erin Wright, Morgan Stanley
- "If AI can be used to improve drug cycle times, it could have a meaningful benefit on costs." - Terence Flynn, Morgan Stanley

TMT Sector Relevance:

- The integration of AI in healthcare could lead to substantial investments in technology solutions, benefiting TMT companies involved in healthcare IT and AI development.
- As healthcare spending continues to rise, TMT firms may see increased demand for software and services that enhance operational efficiencies in healthcare systems.

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