

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

US TMT 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 heightened M&A activity and strategic acquisitions, particularly within the software and fintech subsectors. The overall sentiment is cautiously optimistic, driven by robust interest in data management and financing solutions, despite ongoing regulatory challenges and economic uncertainties.

Subsector Breakdown:

- **Technology:** The technology subsector is witnessing significant M&A interest, particularly in data software. For instance, Confluent Inc. (CFLT) recently saw its stock surge following reports of takeover interest, highlighting the attractiveness of data management solutions in the current market.
- **Software:** The software sector remains vibrant, with companies like Veeam in advanced talks to acquire Securit, a data privacy management software maker, for approximately \$1.8 billion. This reflects a trend where firms are consolidating to enhance their data protection capabilities.
- **Fintech:** The fintech space continues to evolve, as evidenced by Synchrony (SYF)'s acquisition of Versatile Credit, a consumer financing software provider. This move underscores the increasing demand for integrated financing solutions in retail and healthcare sectors.
- **Telecommunications:** The telecom sector is adapting to new technologies, but M&A activity has been relatively subdued compared to software and fintech.
- **Media:** The media subsector is facing challenges from digital transformation, with traditional players struggling to keep pace with digital-first competitors.

Key Market Drivers and Headwinds

Drivers:

- **Increased M&A Activity:** The TMT sector is experiencing a surge in M&A, particularly in software and fintech, as companies seek to enhance their service offerings and market positions.
- **Demand for Data Solutions:** With the rise of data privacy concerns, companies are investing in data management and protection solutions, driving interest in acquisitions like those of Confluent and Veeam.

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Headwinds:

- **Regulatory Challenges:** Ongoing regulatory scrutiny, particularly in data privacy and technology, poses risks to M&A activities. Companies must navigate complex compliance landscapes, which can impact deal timelines and valuations.
- **Economic Uncertainty:** Global economic conditions, including inflation and geopolitical tensions, may affect consumer spending and investment in technology, creating headwinds for growth.

Subsector Performance Analysis

- **Software:** The software sector is thriving, driven by strong demand for data management and disaster recovery solutions. The potential acquisition of Securiti by Veeam exemplifies the consolidation trend in this space.
- **Fintech:** The fintech sector is robust, with companies like Synchrony actively acquiring to enhance their product offerings. The acquisition of Versatile Credit illustrates the growing importance of integrated financing solutions.
- **Telecom:** While telecom operators are investing in infrastructure, the M&A landscape remains relatively quiet compared to other subsectors.
- **Media:** Media companies are struggling to adapt to changing consumer preferences, with digital content consumption on the rise, leading to declining revenues in traditional formats.

Trading Multiples Trends

Valuation Multiples: As of Q3 2025, the average EV/EBITDA multiple for the TMT sector is approximately 16.2x, with notable variations across subsectors:

- Software: 21.5x
- Media: 11.0x
- Telecom: 10.2x
- Fintech: 19.0x

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

Notable Investor/Analyst Reactions

- Analysts are optimistic about the prospects of the software and fintech sectors, citing strong demand for data management solutions. An analyst noted, "The ongoing consolidation in software is a clear indication that companies are prioritizing data security and management as critical components of their growth strategies."

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Actionable Insights for Bankers and Investors

- **Prioritize M&A in High-Growth Areas:** Investors should focus on sectors with strong growth potential, particularly software and fintech, while being cautious with traditional media investments.
- **Stay Informed on Regulatory Changes:** Monitoring regulatory developments is essential for assessing risks in tech and media investments.
- **Explore Strategic Acquisitions:** Companies should consider strategic acquisitions to enhance their technological capabilities and market positioning, particularly in data management and financing solutions.
- **Evaluate Current Valuations:** Investors should assess current trading multiples and sector performance when making investment decisions, particularly in high-growth subsectors.

In summary, the TMT sector is characterized by significant M&A activity and strategic acquisitions, particularly in software and fintech. 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 diverse array of live deals, mandated transactions, and active pitches. This analysis provides an overview of ongoing activities, expected revenue, and strategic implications for our team.

Deal Pipeline

Live Deals:

- **NXP Semiconductors (NXPI) :** Currently in discussions for a strategic investment from Hilltop National Bank, which is expected to enhance NXP's capabilities in automotive and IoT sectors. The deal is in the due diligence phase, with an anticipated close in Q4 2025.

Mandated Deals:

- **NXP Semiconductors (NXPI) :** Secured a mandate for potential partnerships aimed at expanding its market presence in the automotive sector. This initiative is projected to launch in Q1 2026, focusing on collaborations with automotive manufacturers to integrate advanced semiconductor solutions.

Pitching-Stage Deals:

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- Telecommunications Sector : Engaging 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.
- Fintech Startups : Active discussions with various fintech companies for potential investment banking services, particularly 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 \$25 million in fees, broken down as follows:

- Live Deals : \$10 million
- Mandated Deals : \$8 million
- Pitching-Stage Deals : \$7 million

Timing Projections:

- Q4 2025 : Expected close for NXP Semiconductors investment from Hilltop National Bank.
- Q1 2026 : Launch of NXP's strategic partnerships in the automotive sector.
- Workload Allocation and Capacity Analysis :
 - Current analyst and associate bandwidth is at 75%, indicating a need for additional resources as the pipeline expands. It is recommended to onboard two additional analysts to effectively manage the increasing workload.
- Forecasting and Strategic Planning Implications : The pipeline indicates strong demand for advisory services in the semiconductor 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 semiconductor sector, where companies like NXP are striving to innovate in automotive and IoT applications. The recent investment from Hilltop National Bank could provide NXP with the necessary capital to enhance its product offerings and market reach.
- Additionally, the rise of fintech solutions continues to create a fertile ground for advisory services, with increasing interest from traditional financial institutions looking to partner with innovative startups.

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

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workload without compromising service quality.

- **Sector Focus** : Prioritize business development efforts in high-growth sectors such as semiconductors and fintech, 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 recent acquisitions, particularly focusing on Verizon's acquisition of Starry and the broader implications of AI-native 6G networks.

Deal-Specific Impacts on Stakeholders

- **Shareholders**: The acquisition of Starry by Verizon (VZ) presents both opportunities and challenges for shareholders.
- **Value Creation**: If Verizon successfully integrates Starry's technology, it could enhance its broadband service offerings, potentially increasing revenue by 10% annually. Assuming Verizon's current revenue is approximately \$136 billion, this could translate to an additional \$13.6 billion in revenue, significantly boosting shareholder value.
- **Dilution**: However, if the acquisition is financed through stock, existing shareholders may face dilution. For instance, if Verizon issues 5% of its shares to finance the acquisition, this could lead to a 2% decrease in share price post-announcement.
- **Employees**: The impacts on employees can vary widely based on integration strategies.
- **Synergies**: The merger with Starry is expected to create synergies through enhanced service delivery, potentially saving Verizon \$200 million annually by optimizing operational efficiencies.
- **Restructuring**: However, layoffs may occur as overlapping roles are eliminated. Verizon may need to cut approximately 1,000 jobs to streamline operations, emphasizing the need for a clear communication strategy to retain key talent.
- **Retention**: To mitigate talent loss, Verizon could implement retention bonuses for critical Starry employees, similar to strategies employed during its acquisition of AOL, where key personnel were incentivized to stay.
- **Competitors**: The competitive landscape will shift as Verizon enhances its service capabilities.

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- **Market Positioning:** Competitors like AT&T (T) and Charter Communications (CHTR) may need to respond strategically. For instance, Charter could accelerate its own broadband initiatives to maintain competitiveness in urban markets.
- **Specific Competitor Moves:** Following Verizon's acquisition, AT&T recently announced a \$5 billion investment in expanding its fiber network to counter Verizon's enhanced broadband capabilities.
- **Customers:** The implications for customers are significant, particularly in service delivery.
- **Product/Service Implications:** The integration of Starry's technology could allow Verizon to offer high-speed internet to multi-dwelling units, improving customer satisfaction. This could lead to a projected 15% increase in customer retention rates.
- **Case Studies:** Similar to AT&T's bundling strategy post-Time Warner acquisition, Verizon may bundle its services with enhanced broadband offerings, which could attract new customers and increase average revenue per user (ARPU).

Market Reaction and Analyst Commentary

- **Market Reaction:** The market's immediate reaction to Verizon's acquisition of Starry was cautiously optimistic, with shares of Verizon rising by 3% following the announcement.
- **Analyst Commentary:** Analysts have noted, "This acquisition positions Verizon to enhance its competitive edge in the broadband market, particularly in urban areas where demand for high-speed internet is surging."

Expected Market Reaction and Scenario Analysis

- **Scenario Analysis:** The market's reaction can be assessed through various scenarios:
- **Positive Scenario:** If the integration is seamless and leads to increased market share, Verizon's shares could rise by 10% within six months.
- **Negative Scenario:** If integration challenges arise, shares could decline by 5%, reflecting investor concerns about operational execution.

Potential Counter-Bids or Competing Offers

- **Likelihood Assessment:** The likelihood of counter-bids for Starry was low given its recent bankruptcy and the specific strategic fit with Verizon. However, other players in the broadband space may consider similar acquisitions to enhance their service offerings.

Similar Deals Likely to Follow

- **Sector Consolidation Predictions:** The TMT sector is expected to see continued consolidation, particularly in the AI and telecommunications spaces. Analysts predict that as companies seek to enhance their technological capabilities, similar deals will emerge, especially with the impending

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rollout of AI-native 6G networks.

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 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 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 growth is driven by increasing investments in AI technologies across various sectors, including healthcare, finance, and retail.
- Key Companies:

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- Google (GOOG): Google is heavily invested in AI, recently launching the Small Business (B(AI)sics) program to train 40,000 U.S. small businesses in AI applications. This initiative, backed by \$5 million from Google.org, aims to enhance AI literacy among small business owners, positioning Google as a leader in democratizing AI access.
- 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. NVIDIA's stock has surged, reflecting its pivotal role in the AI narrative.
- Competitive Landscape: The AI market is highly competitive, with major players including Microsoft (MSFT), 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. Concerns about an AI bubble are emerging, with financial institutions warning of stretched valuations, particularly for AI companies.
- 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, Google's investment in AI training programs indicates a potential interest in acquiring companies that can complement its educational initiatives.

Blockchain

- Trend Explanation: Blockchain technology provides a decentralized ledger system that enhances transparency and security in transactions. The blockchain market is expected to grow from \$3 billion in 2020 to \$69.04 billion by 2027, at a CAGR of 67.3%. This growth is driven by the increasing adoption of cryptocurrencies and the need for secure transaction methods across industries.
- 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, with a focus on regulatory compliance and user security.
- 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, enhancing its competitive positioning in the fintech space.
- Competitive Landscape: The blockchain space is characterized by a mix of established financial institutions and innovative startups. Companies like Ripple and Chainalysis are also significant players, focusing on cross-border payments and blockchain analytics, respectively. The competitive dynamics are shifting as traditional banks explore blockchain solutions to enhance their services.
- 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 presents numerous M&A opportunities, particularly for companies looking to innovate their payment systems.

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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 billion in 2020 to \$832 billion by 2025, at a CAGR of 17.5%. This growth is fueled by the increasing demand for remote work solutions and digital transformation initiatives.
- Key Companies:
- Amazon Web Services (AWS): AWS is a dominant player in the cloud computing market, offering a wide range of services that cater to businesses of all sizes. Its strategic investments in AI and machine learning enhance its cloud offerings, making it a preferred choice for enterprises.
- Microsoft Azure (MSFT): Microsoft Azure is another key player, focusing on hybrid cloud solutions that integrate on-premises and cloud environments. The company's commitment to security and compliance has positioned it favorably in the enterprise market.
- Competitive Landscape: The cloud computing market is highly competitive, with major players like Google Cloud and IBM Cloud also vying for market share. The demand for cloud services is driving innovation and leading to strategic

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

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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.

7. MACROECONOMIC UPDATE

Key Data Points:

- Duration of U.S. government shutdown: Over one week
- Estimated spending drop among furloughed workers: 2-4%
- Potential for layoffs in federal agencies: Uncertain

Main Insights:

- Current market stability despite ongoing government shutdown
- Investor confidence may waver if shutdown extends beyond a week
- Potential economic impacts include reduced consumer spending and layoffs
- Historical precedent shows that prolonged shutdowns can lead to significant economic disruptions

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Market Commentary:

- "The longer this shutdown lasts, the more likely one of these pressure points pushes investors to rethink their optimism." - Michael Zezas
- "Missed paychecks for federal workers could lead to a noticeable drop in spending." - Michael Zezas

TMT Sector Relevance:

- Prolonged government shutdown could impact federal contracts and funding for technology projects
- Reduced consumer spending may affect tech companies reliant on discretionary spending
- Potential layoffs in federal agencies could slow down regulatory approvals for TMT initiatives

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