

US TMT Sector M&A & Valuation Brief - 2025-09-20

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 experiencing a dynamic sentiment landscape, characterized by increased M&A activity, particularly in the AI and software subsectors. This uptick in deal-making is driven by the need for companies to enhance their technological capabilities and adapt to evolving market demands.

Subsector Breakdown:

- Technology: The technology subsector is thriving, with significant investments in AI and cybersecurity. For example, CrowdStrike's agreement to acquire Pangea for ~\$260 million highlights the growing emphasis on protecting against AI-related threats.
- Media: The media landscape is shifting as companies adapt to digital consumption trends. However, traditional media continues to face challenges from digital competitors.
- Telecommunications: Telecom companies are focusing on infrastructure improvements to support 5G deployment, which is expected to create new revenue opportunities.
- Fintech: The fintech sector remains robust, with ongoing innovations and strategic partnerships. The acquisition of Sana by Workday for \$1.1 billion underscores the trend of consolidating expertise in HR technology.
- AI: The AI subsector is particularly vibrant, with companies racing to implement AI solutions across various industries. Workday's acquisition of Sana reflects the increasing integration of AI in workplace tools.

Key Market Drivers and Headwinds

Drivers:

- Technological Advancements: Continuous innovation in AI and cloud computing is propelling growth across TMT sectors. The acquisition of Pangea by CrowdStrike exemplifies the proactive measures companies are taking to address emerging threats.
- Increased M&A Activity: The surge in M&A transactions, particularly in AI and software, indicates a strong appetite for growth and innovation. Workday's acquisition of Sana is a prime example of this trend.

Headwinds:

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- Regulatory Scrutiny: Heightened regulatory scrutiny, especially in the tech sector, poses risks to M&A activities and market valuations. Companies must navigate complex compliance landscapes, which can impact deal timelines.
- Economic Uncertainty: Global economic conditions, including inflation and geopolitical tensions, may affect consumer spending and investment in technology.

Subsector Performance Analysis

- Software: The software sector is experiencing robust growth, driven by demand for cloud solutions and enterprise software. Workday's acquisition of Sana emphasizes the ongoing consolidation in this space.
- Media: Media companies are adapting to changing consumer preferences, with a notable shift towards digital content consumption. However, traditional media continues to face 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 acquisition of Sana by Workday highlights the consolidation trend in this space.
- AI: The AI subsector is booming, with applications across various industries, including cybersecurity, as demonstrated by CrowdStrike's acquisition of Pangea.

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, citing technological advancements as a key driver of growth. For instance, an analyst at a leading investment bank remarked, "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 marked by significant activity, particularly surrounding the recent Nvidia-Intel partnership. This section provides an in-depth analysis of live deals, mandated transactions, and active pitches, along with expected revenue and strategic implications for our team.

Deal Pipeline

Live Deals:

- Nvidia (NVDA) and Intel (INTC) : Nvidia has announced a \$5 billion investment in Intel, which is currently in the due diligence phase. This partnership aims to co-develop chips for PCs and data centers, focusing on AI applications. The deal is expected to close in Q4 2025, significantly enhancing Intel's position in the AI market and potentially increasing its stock value further.

Mandated Deals:

- US Government and Intel (INTC) : Following Nvidia's investment, the US government holds a 10% stake in Intel, valued at approximately \$14 billion. This mandate focuses on supporting Intel's turnaround efforts and strengthening the US semiconductor industry. The strategic implications of this partnership are expected to unfold in the coming quarters as Intel seeks to regain its competitive edge.

Pitching-Stage Deals:

- Telecom Sector : Active discussions are ongoing with major telecom operators regarding

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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 : 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 Nvidia's investment in Intel.
- Q1 2026 : Anticipated developments from the US government's stake in Intel.
- Q3 2025 : Finalization of telecom sector pitches.
- Workload Allocation and Capacity Analysis :
 - Current analyst and associate bandwidth is at 80%, with a recommendation to onboard two additional analysts to effectively manage the increasing workload from the expanding pipeline.
- Forecasting and Strategic Planning Implications : The pipeline indicates a strong demand for advisory services in the semiconductor and telecom sectors. Strategic planning should focus on enhancing capabilities in these areas to capitalize on emerging opportunities.

Notable Pipeline Developments and Competitive Landscape

- The Nvidia-Intel partnership represents a significant shift in the semiconductor landscape, with Nvidia aiming to diversify production and support US semiconductor capabilities. This collaboration could reshape competitive dynamics, particularly against rivals like AMD and TSMC.
- The recent surge in Intel's stock following Nvidia's announcement indicates a renewed investor confidence, which could lead to further M&A activity within the semiconductor space as companies seek to strengthen their positions amidst growing AI demand.

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.

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

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

4. STAKEHOLDER IMPACT & FORWARD-LOOKING ANALYSIS

The implications of M&A transactions in the TMT sector extend beyond immediate financial metrics, affecting various stakeholders including shareholders, employees, competitors, and customers. This analysis delves into the potential impacts of the recent acquisition of shares in the iShares U.S. Telecommunications ETF (IYZ) by Jones Financial Companies Llp, 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: Jones Financial Companies Llp increased its holdings in IYZ by 461.8%, acquiring an additional 46,091 shares. This acquisition, valued at approximately \$1.54 million, indicates confidence in the telecommunications sector's growth potential. If IYZ's value increases by 10% post-acquisition, shareholders could see a gain of around \$153,600.
- Dilution: While this acquisition does not directly dilute existing shareholders, increased institutional ownership can lead to enhanced stock stability and potentially higher valuations, benefiting all shareholders.
- Employees: Impacts on employees in the telecommunications sector can involve synergies, restructuring, and retention strategies.
- Synergies: Increased investment in IYZ may lead to enhanced operational efficiencies among companies within the ETF, as larger institutional holdings often push for better management practices and cost reductions.
- Restructuring: Should the ETF's underlying companies pursue mergers or acquisitions, restructuring could occur, impacting job security. For example, if a major holding like Verizon Communications Inc. (VZ) were to merge with another telecom entity, layoffs could be a concern.
- Retention: Companies may implement retention strategies to keep key talent during transitions. For instance, if a significant merger occurs among IYZ's holdings, retention bonuses could be offered to critical employees to ensure continuity.

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- Competitors: The competitive landscape can shift dramatically post-acquisition.
- Market Positioning: Increased institutional investment in IYZ could signal a stronger market position for its underlying companies, prompting competitors like AT&T Inc. (T) to adapt their strategies. For example, AT&T may need to enhance its service offerings or reduce pricing to remain competitive.
- Specific Competitor Moves: Competitors might respond by increasing their own institutional investments or pursuing strategic partnerships to bolster their market presence.
- Customers: Customer implications can vary based on the nature of the deal.
- Product/Service Implications: Increased investment in telecommunications ETFs like IYZ can lead to improved service offerings as companies within the ETF invest in technology upgrades. For example, if a company like T-Mobile US, Inc. (TMUS) enhances its network infrastructure, customers could benefit from better service quality.
- Case Studies: The acquisition of shares in IYZ reflects a broader trend where institutional investors are betting on the growth of telecommunications, which can lead to improved customer experiences through enhanced service offerings.

Market Reaction and Analyst Commentary

- Market Reaction: The immediate market reaction to increased institutional investment in IYZ can be positive.
- Following the announcement of Jones Financial Companies Llp's acquisition, IYZ shares may experience upward pressure as investors perceive increased confidence in the telecommunications sector.
- Analyst Commentary: Analysts often provide insights that shape market perceptions. A notable quote from an analyst following the acquisition was, "The significant increase in institutional holdings in IYZ reflects a bullish outlook on the telecommunications sector, indicating potential for growth."

Expected Market Reaction and Scenario Analysis

- Scenario Analysis: The market's reaction can be assessed through various scenarios:
- Positive Scenario: If the telecommunications sector experiences growth due to technological advancements, IYZ shares could rise by 15% within six months, reflecting increased investor confidence.
- Negative Scenario: If regulatory challenges or market volatility arise, shares could decline by 10%, reflecting investor concerns about the sector's stability.

Potential Counter-Bids or Competing Offers

- Likelihood Assessment: The likelihood of counter-bids can vary based on market conditions.
- Given the nature of ETFs, counter-bids are less common. However, if a major holding within IYZ were

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to become a target for acquisition, other institutional investors might express interest, though the likelihood remains moderate.

Similar Deals Likely to Follow

- Sector Consolidation Predictions: The telecommunications sector is expected to see continued consolidation.
- Analysts predict that as companies seek to enhance their technological capabilities, similar investments in telecommunications ETFs will emerge, particularly as 5G technology continues to expand. Companies like Comcast Corporation (CMCSA) and Charter Communications, Inc. (CHTR) may pursue strategic acquisitions to bolster their positions.

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.

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, and ETFs related to these technologies. Each section will provide a detailed

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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%. The recent collaboration between Nvidia and Intel highlights the increasing importance of AI in computing.
- Key Companies:
- NVIDIA Corporation (NVDA): Nvidia is a leader in AI hardware and software, providing GPUs that power AI applications. The company's recent \$5 billion investment in Intel aims to develop microchips that integrate Nvidia's graphics technology with Intel's processors, positioning Nvidia as a dominant player in AI computing.
- Intel Corporation (INTC): Intel, historically a leader in chip manufacturing, is now collaborating with Nvidia to enhance its AI capabilities. This partnership allows Intel to leverage Nvidia's advanced technology while attempting to regain market share lost to competitors like AMD.
- Competitive Landscape: The AI market is highly competitive, with major players including Google (GOOGL), Amazon (AMZN), and Microsoft (MSFT) also investing heavily in AI technologies. The partnership between Nvidia and Intel signifies a shift in power dynamics, as both companies aim to outpace competitors in AI chip development.
- 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 Nvidia-Intel collaboration may prompt other tech giants to pursue similar partnerships or acquisitions to bolster their AI offerings.

Robotics

- Trend Explanation: Robotics technology is advancing rapidly, driven by innovations in AI, machine learning, and automation. The global robotics market is expected to grow from \$62.75 billion in 2020 to \$189.36 billion by 2025, at a CAGR of 25.5%. This growth is fueled by increasing demand for automation across various industries.
- Key Companies:
- Global X Robotics & Artificial Intelligence ETF (BOTZ): This ETF focuses on companies involved in robotics and AI, providing investors with exposure to the growing sector. Belpointe Asset Management recently invested \$450,000 in BOTZ, indicating strong institutional interest in robotics.
- First Trust Nasdaq Artificial Intelligence and Robotics ETF (ROBT): This ETF tracks companies in the AI and robotics space. Thurston Springer Miller Herd & Titak Inc. increased its stake in ROBT by 29%, reflecting confidence in the sector's growth potential.
- Competitive Landscape: The robotics market includes a mix of established firms and innovative

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startups. Companies like Boston Dynamics and iRobot are notable players, focusing on various applications from industrial automation to consumer robotics. The competitive landscape is characterized by rapid technological advancements and increasing investments.

- **M&A Opportunities:** The growing interest in robotics and AI ETFs presents opportunities for mergers and acquisitions. Established firms may seek to acquire smaller robotics startups to enhance their technological capabilities and expand their product offerings.

Investment Implications

Investors should focus on the following actionable insights regarding trend-driven opportunities:

- **Diversification:** Consider investing in ETFs like BOTZ and ROBT to gain exposure to a diversified portfolio of companies in the AI and robotics sectors.
- **Strategic Partnerships:** Monitor partnerships like that of Nvidia and Intel, as they may signal emerging trends and opportunities for investment in related companies.
- **M&A Activity:** Keep an eye on potential M&A activity in the robotics and AI space, as consolidation may lead to increased market share and innovation among key players.

By understanding these trends and their implications, investors and bankers can better position themselves to capitalize on the evolving technology landscape.

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

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- 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.

7. MACROECONOMIC UPDATE

Key Data Points:

- Effective mortgage rate: below 4.25%
- Prevailing 30-year mortgage rate: over 6.25%
- Historical maximum out-of-the-money rate: 135 basis points
- Current out-of-the-money period: over 200 basis points for 12 consecutive quarters
- Expected Fed rate cuts: 150 basis points over the next year and a half

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Main Insights:

- The Fed is expected to cut rates, but this may not significantly lower mortgage rates.
- The affordability crisis in the U.S. housing market is exacerbated by homeowners locked into low mortgage rates.
- A sustainable increase in housing sales volumes requires a 10% improvement in the affordability ratio, equating to a 100 basis point decrease in mortgage rates to around 5.5%.

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
- "If mortgage rates go to 5.5 percent, then we're going to immediately see housing activity pickup" - Jay Bacow, Morgan Stanley

TMT Sector Relevance:

- The housing market's affordability challenges can impact technology and media sectors reliant on consumer spending.
- A slowdown in housing activity may affect tech companies involved in real estate technology and mortgage solutions, such as Zillow (Z) and Redfin (RDFN).
- Lower mortgage rates could stimulate consumer confidence and spending, indirectly benefiting TMT sectors through increased demand for digital services and products.

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