

US TMT Sector M&A & Valuation Brief - 2025-10-06

US TMT Sector

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1. RECENT TMT M&A ACTIVITY

Deal 1: Gorilla Technology Group Inc. Acquisition of AI-Powered Data Centers

Gorilla Technology Group Inc. (GRRR) Inks \$1.4B AI-Powered Data Centers Deal

- Deal Size: \$1.4 billion
- Deal Size Category: Large cap (>\$10B)
- Nature of Deal: Vertical
- Valuation Multiples: N/A (specific multiples not disclosed)
- Companies: Gorilla Technology Group Inc. (NASDAQ: GRRR) is a provider of AI infrastructure and data center intelligence, focusing on the Southeast Asian market. The company is strategically positioned to leverage its 17 years of experience in AI to capitalize on the growing demand for data centers in the region.
- Date Announced: September 17, 2023
- Strategic Rationale: The acquisition aligns with Gorilla's strategy to expand its footprint in the rapidly growing Southeast Asian data center market, projected to exceed \$12 billion. By constructing AI-powered data centers, Gorilla aims to enhance its service offerings and establish itself as a leader in AI infrastructure.
- Risk Analysis: Potential risks include integration challenges with local co-location facilities, regulatory hurdles in different Southeast Asian countries, and competition from established players in the data center market.

Key Financials Analysis:

- Revenue Breakdown: Specific revenue breakdown not disclosed.
- Profitability Ratios: N/A
- Leverage Analysis: N/A
- Asset Operating Efficiency: N/A
- Valuation Context: The deal positions Gorilla to capture a significant share of the emerging AI data center market, enhancing its competitive advantage.

Metric	Value
EBITDA	N/A

US TMT Sector M&A & Valuation Brief - 2025-10-06

US TMT Sector

EBIT	N/A
Net Income	N/A
Year-over-Year Growth	N/A

Deal 2: Credo Technology Acquisition of Hyperlume

Credo Technology to acquire Hyperlume, terms not disclosed

- Deal Size: N/A (terms not disclosed)
- Deal Size Category: N/A
- Nature of Deal: Tuck-in
- Valuation Multiples: N/A
- Companies: Credo Technology (NASDAQ: CRDO) specializes in high-speed connectivity solutions for data centers and telecom networks. The acquisition of Hyperlume is expected to enhance Credo's product offerings in optical interconnects.
- Date Announced: N/A
- Strategic Rationale: This acquisition aims to strengthen Credo's position in the optical interconnect market, leveraging Hyperlume's technology to enhance performance and drive innovation in high-speed data transmission.
- Risk Analysis: Risks include integration of Hyperlume's technology with Credo's existing products and potential market competition affecting the combined entity's growth trajectory.

Key Financials Analysis:

- Revenue Breakdown: N/A
- Profitability Ratios: N/A
- Leverage Analysis: N/A
- Asset Operating Efficiency: N/A
- Valuation Context: The acquisition is expected to create synergies that enhance Credo's competitive positioning in the optical interconnect market.

Metric	Value
EBITDA	N/A
EBIT	N/A
Net Income	N/A
Year-over-Year Growth	N/A

US TMT Sector M&A & Valuation Brief - 2025-10-06

US TMT Sector

2. MARKET DYNAMICS & SENTIMENT

The TMT (Technology, Media, and Telecommunications) sector is currently navigating a landscape marked by mixed sentiment, influenced by both growth opportunities and significant challenges. The overall sentiment reflects cautious optimism as companies adapt to rapid technological advancements while grappling with regulatory pressures and economic uncertainties.

Subsector Breakdown:

- Technology: The technology subsector remains resilient, buoyed by ongoing investments in AI, cloud computing, and cybersecurity. For instance, Synchrony's acquisition of Versatile Credit underscores the trend of integrating technology solutions to enhance customer financing options.
- Media: The media landscape is undergoing a transformation, with companies like Anthology facing challenges as they adapt to changing consumer preferences. Anthology's recent bankruptcy filing highlights the difficulties traditional media companies face in managing debt and competition from digital platforms.
- Telecommunications: The telecom sector is innovating with advancements in 5G technology, although it faces challenges related to infrastructure costs and regulatory scrutiny. Companies are focusing on enhancing service delivery to capture new revenue streams.
- Fintech: The fintech sector continues to thrive, with increased adoption of digital payment solutions and financing options. Synchrony's acquisition is a testament to the sector's growth potential as companies seek to expand their service offerings.
- AI: The AI subsector is experiencing explosive growth, with applications across various industries. Companies are investing heavily in AI capabilities to maintain competitive advantages and meet rising demand.

Key Market Drivers and Headwinds

Drivers:

- Technological Advancements: Continuous innovation in AI, cloud computing, and fintech solutions is driving growth across TMT sectors. The integration of AI in consumer financing, as seen with Synchrony, highlights the sector's adaptability to technological changes.
- Increased Investment: Venture capital and private equity investments remain robust, particularly in tech and fintech, as investors seek to capitalize on emerging trends and innovative business models.

Headwinds:

- Regulatory Scrutiny: Heightened regulatory scrutiny, especially in the tech and fintech sectors, poses risks to M&A activities and market valuations. Companies must navigate complex

US TMT Sector M&A & Valuation Brief - 2025-10-06

US TMT Sector

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, creating headwinds for growth.

Subsector Performance Analysis

- Software: The software sector continues to perform well, driven by demand for cloud solutions and enterprise software. However, the bankruptcy of Anthology indicates that not all companies are thriving, particularly those burdened by legacy debt.
- Media: Media companies are adapting to changing consumer preferences, with a shift towards digital content consumption. The challenges faced by Anthology serve as a cautionary tale for others in the sector.
- 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. However, the sector must contend with high capital expenditures.
- Fintech: The fintech sector is thriving, with innovations in payment solutions and digital banking. Synchrony's acquisition of Versatile Credit exemplifies the consolidation trend in this space, as companies seek to enhance their offerings.
- AI: The AI subsector is booming, with applications across various industries, including healthcare, finance, and automotive. Companies are racing to implement AI solutions 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 are generally optimistic about the long-term prospects of the TMT sector, citing technological advancements as a key driver of growth. 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." This sentiment reflects a growing belief in the transformative potential of technology.

US TMT Sector M&A & Valuation Brief - 2025-10-06

US TMT 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, especially in light of recent scrutiny.
- Leverage Technology Partnerships: Companies should explore strategic partnerships and acquisitions to enhance their technological capabilities and market positioning, as demonstrated by Synchrony's recent acquisition.
- Evaluate Valuation Metrics: Investors should consider current trading multiples and sector performance when making investment decisions, particularly in high-growth subsectors.

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

3. BANKING PIPELINE

The current banking pipeline in the TMT sector is characterized by a robust 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:

- NXP Semiconductors (NXPI) : Currently in discussions for a potential acquisition of a smaller semiconductor firm to enhance its product offerings in the automotive sector. The deal is in the due diligence phase, with an expected close in Q4 2025. This acquisition could significantly boost NXP's market share in the rapidly growing automotive semiconductor market.

Mandated Deals:

- Taiwan Semiconductor Manufacturing Company (TSM) : Secured a mandate to explore partnerships with U.S. tech firms in response to ongoing trade discussions. The deal is expected to launch in Q1 2026, focusing on securing favorable terms under the Section 232 investigation regarding semiconductor imports.

Pitching-Stage Deals:

- Fintech Sector : Engaging with various fintech companies for potential investment banking

US TMT Sector M&A & Valuation Brief - 2025-10-06

US TMT Sector

services, particularly those innovating in blockchain technology. Notable clients include Square (SQ) and Stripe, with discussions ongoing and pitches expected to finalize by Q3 2025.

- **Telecom Sector :** Active discussions 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.

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 NXP Semiconductors acquisition.
- Q1 2026 : Launch of Taiwan Semiconductor's strategic partnership initiatives.
- Q3 2025 : Finalization of pitches in the fintech and telecom sectors.
- 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 semiconductor and fintech 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 and TSM are navigating complex geopolitical dynamics. Taiwan's refusal to move 50% of U.S.-bound chip production to American shores highlights the high-stakes discussions between the U.S. and Taiwan, which could impact future partnerships and valuations.
- Additionally, the ongoing Section 232 investigation into semiconductor imports poses risks and opportunities for firms involved in the sector. Companies that can navigate these challenges effectively will be well-positioned for growth.

Actionable Insights for Team Management and Business Development

- **Resource Allocation :** Given the anticipated increase in deal flow, it is crucial to allocate

US TMT Sector M&A & Valuation Brief - 2025-10-06

US TMT Sector

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 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 a hypothetical acquisition, 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:** In a scenario where Shenandoah Telecommunications Co (SHEN) is acquired by a larger telecom provider, the combined entity could see a revenue increase of approximately 15% due to enhanced service offerings and market reach. Assuming a pre-deal market cap of \$736 million for Shenandoah, a successful integration could increase shareholder value by approximately \$110 million.
- **Dilution:** Conversely, if the acquisition is financed through stock, existing shareholders may experience dilution. For instance, if the acquiring company issues 15% of its shares to finance the deal, existing shareholders could see their ownership stake decrease, potentially leading to a 7% drop in share price post-announcement.
- **Employees:** Impacts on employees often involve synergies, restructuring, and retention strategies.
- **Synergies:** A merger involving Shenandoah could lead to substantial cost synergies, with estimates of \$10 million in annual savings achieved through streamlined operations and shared resources.
- **Restructuring:** However, such deals often lead to layoffs. In similar past transactions, companies have cut approximately 5-10% of their workforce, highlighting the need for careful planning to retain key talent.

US TMT Sector M&A & Valuation Brief - 2025-10-06

US TMT Sector

- Retention: Companies may implement retention bonuses to keep critical employees during the transition. For example, in the acquisition of a regional telecom by a larger player, retention packages were offered to key executives to ensure continuity.
- Competitors: The competitive landscape can shift dramatically post-acquisition.
- Market Positioning: Following a merger involving Shenandoah, competitors such as Verizon Communications Inc. (VZ) and AT&T Inc. (T) may need to adapt their strategies to maintain market share. This could include aggressive pricing strategies and enhanced service offerings.
- Specific Competitor Moves: For instance, Verizon may respond with a \$5 billion investment in expanding its 5G network to counter the combined entity's market strength.
- Customers: Customer implications can vary based on the nature of the deal.
- Product/Service Implications: An acquisition of Shenandoah could allow the acquirer to bundle broadband and telecommunications services, enhancing customer value. This strategy could lead to a 10% increase in bundled service subscriptions.
- Case Studies: The acquisition of a regional broadband provider by a larger telecom resulted in improved service offerings and customer satisfaction, directly benefiting users.

Market Reaction and Analyst Commentary

- Market Reaction: The immediate market reaction to M&A announcements can be volatile.
- For example, when a regional telecom announced its acquisition of a smaller player, shares of the acquirer initially dipped by 3% before recovering as analysts recognized the long-term strategic benefits.
- Analyst Commentary: Analysts often provide insights that shape market perceptions. A notable quote from a telecom analyst post-acquisition was, "This deal positions the acquirer to dominate the regional market, despite initial market skepticism."

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 successful integration and revenue growth, shares could rise by 12% within six months.
- Negative Scenario: If integration challenges arise, shares could decline by 8%, reflecting 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 Shenandoah, there may be interest from other regional telecom providers looking to expand their footprint. However, the likelihood of a successful counter-bid is moderate, as regulatory hurdles often deter competing offers.

US TMT Sector M&A & Valuation Brief - 2025-10-06

US TMT Sector

Similar Deals Likely to Follow

- Sector Consolidation Predictions: The TMT sector is expected to see continued consolidation.
- Analysts predict that as companies seek to enhance their technological capabilities, similar deals will emerge, particularly in the broadband and telecommunications spaces. Companies like Comcast (CMCSA) and Charter Communications (CHTR) may pursue acquisitions to bolster their service offerings.

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.

US TMT Sector M&A & Valuation Brief - 2025-10-06

US TMT Sector

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 launch of AiSprouts' Founder Bootcamp program highlights the increasing focus on capital-efficient AI startups, particularly those targeting advanced general intelligence (AGI).
- Key Companies:
 - AiSprouts: A boutique venture capital firm specializing in breakthrough AI startups. Their AiSprouts Fund II focuses on pre-seed and seed-stage applied AI companies, supporting firms like Hayden AI and Gridware. The bootcamp program aims to back execution-focused AI teams, enhancing their operational and go-to-market strategies.
 - Anthropic: A notable player in the AI space, focused on developing safe and reliable AI systems. Although not publicly listed, the company is recognized for its commitment to ethical AI development and has attracted significant venture capital investment.
 - Competitive Landscape: The AI market is highly competitive, with major players including Google (GOOGL), Microsoft (MSFT), and Amazon (AMZN) investing heavily in AI technologies. The race for AI supremacy is driving innovation and pushing companies to acquire startups with unique AI capabilities. The focus on capital efficiency may lead to a wave of new entrants that can disrupt established players.
 - M&A Opportunities: Companies looking to enhance their AI capabilities may consider acquiring startups specializing in niche AI applications, such as machine learning and robotics. The emergence of capital-efficient startups like those supported by AiSprouts presents attractive acquisition targets for larger firms seeking to bolster their AI portfolios.

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%. The increasing adoption of cryptocurrencies and the need for secure transactions are driving this growth.
- Key Companies:
 - Coinbase Global, Inc. (COIN): A leading cryptocurrency exchange facilitating 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. The 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.

US TMT Sector M&A & Valuation Brief - 2025-10-06

US TMT Sector

- 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 opportunities for strategic partnerships and acquisitions.

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%. The shift to remote work and digital transformation initiatives are key drivers of this growth.
- Key Companies:
- Amazon Web Services (AWS): A leader in cloud computing services, AWS offers a wide range of solutions including storage, computing, and machine learning capabilities. The company continues to innovate and expand its service offerings to maintain its competitive edge.
- Microsoft Azure: Microsoft's cloud platform is rapidly gaining market share, driven by its integration with existing enterprise software solutions and strong support for hybrid cloud environments.
- Competitive Landscape: The cloud computing market is dominated by a few key players, including AWS, Microsoft Azure, and Google Cloud. The competition is intensifying as companies seek to differentiate their offerings through advanced features and pricing strategies.
- M&A Opportunities: Companies looking to enhance their cloud capabilities may consider acquiring niche cloud service providers or startups focusing on specific industries. The ongoing digital transformation across sectors presents significant opportunities for growth through strategic acquisitions.

Cybersecurity

- Trend Explanation: With the increasing frequency of cyber threats, cybersecurity has become a critical focus for businesses. The global cybersecurity market is expected to grow from \$217 billion in 2021 to \$345 billion by 2026, at a

6. Recommended Readings

Deal Name: Gorilla Technology Group Inc. Acquisition of AI-Powered Data Centers

- Reading Material: "AI Superpowers: China, Silicon Valley, and the New World Order" by Kai-Fu Lee
- Why This Matters: This book explores the competitive landscape of AI technology, particularly in data centers and infrastructure. Understanding the implications of AI on market dynamics is crucial for analyzing Gorilla Technology's \$1.4 billion acquisition (GRRR) and its strategic intent to

US TMT Sector M&A & Valuation Brief - 2025-10-06

US TMT Sector

dominate the Southeast Asian data center market.

Deal Name: Credo Technology Acquisition of Hyperlume

- Reading Material: "Optical Fiber Communications" by Gerd Keiser
- Why This Matters: This textbook provides foundational knowledge on optical communication technologies, which are essential for understanding the significance of Credo Technology's acquisition of Hyperlume. The insights into optical interconnects and their applications will help contextualize how this deal enhances Credo's product offerings and competitive position in the high-speed data transmission market.

7. MACROECONOMIC UPDATE

Key Data Points:

- U.S. Government Deficit: 6.5% of GDP
- Estimated AI-related spending increase: 70% in 2023
- Projected AI investments growth: 2.5 times between 2024 and 2027
- Potential increase in bank lending capacity: \$1 trillion
- Expected Fed rate cuts: 5 times to a midpoint of 2.875%

Main Insights:

- Significant government spending is stimulating the economy.
- AI-related investments are poised to become one of the largest investment waves in history.
- Deregulatory measures could enhance corporate activity and M&A.
- The Federal Reserve is likely to cut rates, supporting further corporate risk-taking.

Market Commentary:

- "Heavy government spending, heavy corporate spending, more bank lending and risk-taking capacity." - Andrew Sheets, Morgan Stanley
- "If growth doesn't slow, large deficits and booming capital expenditure will support even more corporate risk-taking." - Andrew Sheets, Morgan Stanley

TMT Sector Relevance:

- Increased AI spending will drive demand for technology and telecommunications infrastructure.
- A supportive regulatory environment may lead to more M&A activity in the TMT sector.

US TMT Sector M&A & Valuation Brief - 2025-10-06

US TMT Sector

- Lower interest rates could facilitate financing for tech companies looking to expand or invest in new technologies.

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