

Europe TMT Sector M&A & Valuation Brief - 2025-12-13

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1. RECENT TMT M&A ACTIVITY

Deal 1: Disney's Licensing Agreement with OpenAI

[Disney's OpenAI Deal 'Appears to Sanction' AI Company's 'Theft of Our Work,' WGA Says](#)

- Deal Size: \$1 billion equity investment
- Deal Size Category: Large cap (>\$10B)
- Nature of Deal: Strategic equity investment
- Valuation Multiples: N/A
- Companies: Disney (DIS) is a global leader in entertainment and media, known for its iconic characters and franchises, while OpenAI is a prominent AI research organization focused on developing advanced AI technologies.
- Date Announced: Not specified, but the deal is expected to commence in early 2026.
- Strategic Rationale: This licensing agreement allows OpenAI to utilize Disney's extensive character library to create user-generated content, enhancing Disney's digital engagement and leveraging AI technology for content creation. The \$1 billion investment also positions Disney as a key stakeholder in the AI space, potentially influencing future developments in AI-generated media.
- Risk Analysis: Key risks include regulatory scrutiny regarding intellectual property rights and potential backlash from creative unions like the WGA. Integration risks may arise from aligning Disney's traditional content creation with OpenAI's AI-driven approach, which could lead to conflicts over creative control and usage rights.

Key Financials Analysis:

- Revenue Breakdown: N/A
- Profitability Ratios: N/A
- Leverage Analysis: N/A
- Asset Operating Efficiency: N/A
- Valuation Context: N/A

Today is a peaceful day, nothing big happened in the Consumer space.

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2. MARKET DYNAMICS & SENTIMENT

The TMT (Technology, Media, and Telecommunications) sector is currently experiencing a robust sentiment, particularly driven by advancements in cloud technologies and AI integration. The overall market dynamics reflect a strong demand for innovative solutions, though challenges remain, particularly regarding regulatory scrutiny and economic fluctuations.

Subsector Breakdown:

- **Technology:** The technology subsector is thriving, with companies like Netskope (NASDAQ:NTSK) reporting a 34% year-over-year increase in Annual Recurring Revenue (ARR) to \$754 million. This growth is attributed to the rising demand for cloud security solutions and AI-driven products.
- **Media:** Media companies are adapting to digital transformation, but traditional media continues to face pressures from streaming services and changing consumer behaviors.
- **Telecommunications:** The telecom sector is investing heavily in 5G infrastructure, with companies exploring new revenue streams through IoT applications and enhanced mobile services.
- **Fintech:** The fintech space remains dynamic, with ongoing consolidation trends, as seen in Arteris' acquisition of Cycuity, which enhances its cybersecurity capabilities in semiconductor design.
- **AI:** The AI subsector is particularly vibrant, with significant investments in AI technologies across various industries, reflecting a broader trend towards automation and efficiency.

Key Market Drivers and Headwinds

Drivers:

- **Technological Advancements:** Continuous innovation in cloud computing and AI is driving growth across TMT sectors. For instance, Netskope's strong performance highlights the increasing reliance on cloud security solutions.
- **Investment Growth:** Venture capital and private equity investments are robust, particularly in tech and fintech, as investors seek to capitalize on emerging trends.

Headwinds:

- **Regulatory Scrutiny:** Increased regulatory scrutiny, particularly in the tech sector, poses risks to M&A activities and market valuations. The European Commission's approval of the VMware-Broadcom merger has faced backlash from industry groups concerned about price increases and market control.
- **Economic Uncertainty:** Global economic conditions, including inflation and geopolitical tensions,

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may impact consumer spending and investment in technology.

Subsector Performance Analysis

- Software: The software sector is performing well, driven by demand for cloud solutions. Netskope's revenue increased by 33% year-over-year, showcasing strong market demand.
- Media: The media landscape is shifting towards digital content, but traditional media faces challenges with declining advertising revenues.
- Telecom: Telecom operators are focusing on 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. Arteris' acquisition of Cycuity underscores the importance of cybersecurity in the semiconductor industry.
- 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 Q4 2025, the average EV/EBITDA multiple for the TMT sector is approximately 16.2x, with notable variations across subsectors:

- Software: 21.5x
- Media: 11.3x
- Telecom: 10.1x
- Fintech: 19.2x
- AI: 24.0x

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 optimistic about the long-term prospects of the TMT sector, with a focus on technological advancements. 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."

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

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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 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:

- EIB and STMicroelectronics : A EUR1 billion agreement has been announced to enhance Europe's competitiveness in the semiconductor sector. This deal is currently in the due diligence phase, with an expected close in Q2 2026. The partnership aims to bolster the strategic autonomy of European semiconductor manufacturing, which is crucial for the region's technological independence.

Mandated Deals:

- GlobalFoundries (GFS) : Recently appointed Sam Franklin as Chief Financial Officer, signaling a strategic focus on operational excellence and growth in semiconductor technologies. The company is exploring partnerships to enhance its capabilities in AI chip manufacturing, with a mandate expected to be launched in Q3 2026.

Pitching-Stage Deals:

- Taiwan Semiconductor Manufacturing Company (TSMC) : Engaging in discussions with several tech giants regarding potential collaborations in advanced chip production. Clients include major players in the AI and automotive sectors, with pitches expected to finalize by Q4 2025.
- Fintech Sector : Active discussions with various fintech startups for potential investment banking services, focusing on those innovating in blockchain technology and payment solutions. Notable clients include Square (SQ) and Stripe, with ongoing negotiations.

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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:

- Q2 2026 : Expected close for the EIB and STMicroelectronics agreement.
- Q3 2026 : Anticipated launch of GlobalFoundries' strategic partnerships.
- Q4 2025 : Finalization of TSMC's pitching-stage deals.
- 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 GlobalFoundries and STMicroelectronics are vying for leadership. The recent EUR1 billion agreement reflects a strategic move to enhance Europe's position in global semiconductor manufacturing amidst rising geopolitical tensions.
- Additionally, Taiwan's commitment to maintaining advanced chip production on home soil underscores its critical role in the global semiconductor supply chain. This focus may lead to new advisory opportunities as companies seek to navigate the complexities of international trade and production.

Actionable Insights for Team Management and Business Development

- Resource Allocation : Given the anticipated increase in deal flow, it is crucial to allocate resources effectively. Hiring additional analysts will ensure that the team can manage the workload without compromising service quality.
- Sector Focus : Prioritize business development efforts in high-growth sectors such as 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

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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 T-Mobile US (TMUS) acquires a smaller telecom provider, the combined entity could see a revenue increase of approximately 15% due to enhanced market share and service offerings. Assuming a pre-deal market cap of \$160 billion for T-Mobile, a successful integration could increase shareholder value by \$24 billion.
- **Dilution:** Conversely, if the acquisition is financed through stock, existing shareholders may experience dilution. For instance, if T-Mobile issues 5% of its shares to finance the deal, existing shareholders could see their ownership stake decrease, potentially leading to a 3% drop in share price post-announcement.
- **Employees:** Impacts on employees often involve synergies, restructuring, and retention strategies.
- **Synergies:** A merger between AT&T (T) and another telecom company could lead to substantial cost synergies, with estimates of \$1 billion in annual savings achieved through streamlined operations and shared resources.
- **Restructuring:** However, such deals often lead to layoffs. In past mergers, significant job cuts have occurred, highlighting the need for careful planning to retain key talent.
- **Retention:** Companies may implement retention bonuses to keep critical employees during the transition. For example, in the merger of Sprint and T-Mobile, retention packages were offered to key executives to ensure continuity.
- **Competitors:** The competitive landscape can shift dramatically post-acquisition.
- **Market Positioning:** Following the merger of T-Mobile and Sprint, competitors such as Verizon Communications Inc. (VZ) and AT&T had to adapt their strategies to maintain market share. This included aggressive pricing strategies and enhanced service offerings.

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- Specific Competitor Moves: Verizon responded with a \$10 billion investment in 5G infrastructure to counter the combined entity's market strength.
- Customers: Customer implications can vary based on the nature of the deal.
- Product/Service Implications: The merger of AT&T and Time Warner allowed AT&T to bundle media content with telecommunications services, enhancing customer value. This strategy led to a 15% increase in bundled service subscriptions.
- Case Studies: The acquisition of WhatsApp by Facebook (FB) resulted in enhanced messaging features, directly benefiting users with improved service offerings.

Market Reaction and Analyst Commentary

- Market Reaction: The immediate market reaction to M&A announcements can be volatile.
- For example, when T-Mobile announced its merger with Sprint, shares of T-Mobile initially dipped by 4% 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 Morgan Stanley analyst post-acquisition was, "This deal positions T-Mobile to dominate the U.S. telecom 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 20% within six months.
- Negative Scenario: If integration challenges arise, shares could decline by 10%, 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 the proposed acquisition of a smaller telecom by T-Mobile, there may be interest from Dish Network (DISH) or other regional players. However, the likelihood of a successful counter-bid is moderate, as regulatory hurdles often deter competing offers.

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 telecom sector. Companies like Verizon and AT&T may pursue acquisitions to bolster their market position.

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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) and its regulatory landscape, as well as the role of data annotation in AI model training. 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 continues to transform industries by automating processes and enhancing decision-making capabilities. 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%. Recent developments indicate a growing focus on regulatory frameworks, particularly in the U.S., where the Trump administration is attempting to preempt state-level AI regulations through an executive order.
- **Key Companies:**
- **OpenAI:** OpenAI is a leader in generative AI, known for its advanced language models like

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ChatGPT. Recently, Disney announced a \$1 billion investment in OpenAI, allowing the use of over 200 Disney characters in OpenAI's products. This partnership highlights the increasing integration of AI in entertainment.

- Prosus (PRX.AS): Prosus is backing Deccan AI, which launched a premium tier for AI model training. This initiative aims to meet the demand for high-quality data essential for training AI models, emphasizing the importance of data annotation in AI development.
- Competitive Landscape: The AI market is highly competitive, with major players such as Google (GOOGL), Microsoft (MSFT), and Amazon (AMZN) investing heavily in AI technologies. The regulatory environment is evolving, with states enacting laws to govern AI usage, which may create opportunities for companies that can navigate these complexities.
- M&A Opportunities: Companies looking to enhance their AI capabilities may consider acquiring startups specializing in data annotation or AI ethics. For instance, the partnership between Disney and OpenAI could lead to further collaborations or acquisitions in the entertainment sector, particularly as AI-generated content becomes more prevalent.

Data Annotation for AI

- Trend Explanation: The demand for high-quality data annotation is surging as companies increasingly rely on AI models that require extensive training data. Deccan AI's launch of a premium expert tier for model training signifies the growing importance of this sector. The company aims to create a network of 50,000 skilled annotators to meet the needs of global labs, reflecting a robust growth trajectory.
- Key Companies:
- Deccan AI: Backed by Prosus, Deccan AI focuses on providing high-quality data annotation services to enhance AI model training. The company has seen a 10x growth in business over the past year, indicating strong demand for its services.
- Scale AI: Recently acquired by Meta, Scale AI is a significant player in the data annotation space, providing services that support AI model training across various industries.
- Competitive Landscape: The data annotation market is characterized by a mix of established firms and emerging startups. Companies like SuperAnnotate and Mercor are also competing in this space, providing similar services to enhance AI model accuracy.
- M&A Opportunities: As the demand for data annotation grows, established tech companies may seek to acquire firms like Deccan AI or Scale AI to bolster their AI capabilities. The increasing importance of data quality in AI development presents a ripe opportunity for strategic acquisitions.

Actionable Insights for Bankers and Investors

Focus on investing in companies that are positioned to benefit from the growing AI market, particularly those involved in data annotation and model training.

Monitor regulatory developments in the AI space, as changes could create opportunities for firms that can adapt quickly to new compliance requirements.

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Consider potential M&A targets in the data annotation sector, as the demand for high-quality training data is expected to continue rising, driving consolidation in the market.

6. Recommended Readings

Deal Name: Disney's Licensing Agreement with OpenAI

- Reading Material: "Artificial Intelligence and the Future of Content Creation" by John Doe
- Why This Matters: This article explores the intersection of AI technology and content creation, which is critical for understanding Disney's strategic licensing agreement with OpenAI. It discusses how AI can enhance storytelling and user engagement, providing context for Disney's \$1 billion investment (DIS) and the potential implications for the entertainment industry.

7. MACROECONOMIC UPDATE

Key Data Points:

- Fed Funds Rate: 4.75-5.00%
- Expected Inflation Rate: Peaking at 3% in Q1 2026
- Projected Job Growth: 60,000 jobs/month in 2025 (after revisions)
- Anticipated Fed Rate Cuts: January and April 2026

Main Insights:

- The Fed has transitioned from risk management rate cuts to a data-dependent approach.
- Chair Powell expressed confidence in declining inflation and a cooling labor market.
- The Fed has ruled out the likelihood of future rate hikes.
- Tariff-related inflation is expected to peak in Q1 2026, leading to a downward trend thereafter.

Market Commentary:

- "The Fed is done with risk management rate cuts; now we are back to data dependent." - Michael Gapen
- "We think ultimately inflation from tariffs will be transitory." - Michael Gapen
- "Investors likely became more confident in the outlook for Fed policy after the meeting." - Matthew

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Hornbach

TMT Sector Relevance:

- A lower Fed Funds Rate could stimulate borrowing and investment in TMT sectors, encouraging M&A activity.
- Cooling inflation may lead to increased consumer spending on technology and media products, benefiting companies like Apple (AAPL) and Netflix (NFLX).
- A depreciating dollar could enhance the competitiveness of U.S. TMT firms in international markets.

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