

APAC TMT Sector M&A & Valuation Brief - 2025-12-24

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1. RECENT TMT M&A ACTIVITY

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

2. MARKET DYNAMICS & SENTIMENT

The TMT (Technology, Media, and Telecommunications) sector is currently navigating a landscape marked by cautious optimism. Market sentiment is shaped by macroeconomic factors, regulatory developments, and technological advancements. While the overall outlook remains positive, certain subsectors are experiencing varied performance levels.

Subsector Breakdown:

- Technology: The technology subsector is buoyed by the rapid advancements in artificial intelligence (AI) and cloud computing. For instance, Chinese chipmakers are actively pursuing IPOs to bolster technological self-reliance, reflecting a strong push towards innovation.
- Media: The media landscape is undergoing significant transformation, with traditional media struggling against digital platforms. Companies are adapting their strategies to enhance audience engagement through digital features.
- Telecommunications: The telecom sector is innovating with new technologies, such as low-latency solutions, to enhance user experiences. This is evident in the ongoing investments in 5G infrastructure.
- Fintech: The fintech sector continues to thrive, driven by innovations in payment solutions and digital banking. The recent acquisition of Clearwater Analytics Holdings Inc. for \$8.4 billion by a consortium of private equity firms highlights the ongoing consolidation in this space.
- AI: The AI subsector is particularly vibrant, with companies racing to implement AI solutions across various industries, indicating a strong demand for AI-driven products and services.

Key Market Drivers and Headwinds

Drivers:

- Technological Advancements: Continuous innovation in AI and cloud computing is a significant

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growth driver across TMT sectors. The push for technological self-reliance in China is a prime example of this trend.

- Increased Investment: The influx of private equity into tech firms, such as the acquisition of Clearwater Analytics, demonstrates strong investor confidence and a willingness to capitalize on emerging trends.

Headwinds:

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

Subsector Performance Analysis

- Software: The software sector is thriving, driven by demand for cloud solutions and enterprise software. Companies focusing on SaaS models are particularly well-positioned for growth.
- Media: Media companies are adapting to changing consumer preferences, with a shift towards digital content consumption. However, traditional media faces declining revenues from advertising.
- Telecom: Telecom operators are investing heavily in infrastructure to support 5G deployment, which is expected to drive new revenue streams from IoT and enhanced mobile services.
- Fintech: The fintech sector is thriving, with innovations in payment solutions and digital banking. The acquisition of Clearwater Analytics by private equity firms underscores the consolidation trend in this space.
- AI: The AI subsector is booming, with applications across various industries, including healthcare, finance, and automotive. Companies are investing heavily in AI capabilities to maintain competitive advantages.

Trading Multiples Trends

Valuation Multiples: As of Q2 2025, the average EV/EBITDA multiple for the TMT sector is approximately 15.5x, with notable variations across subsectors:

- Software: 20.3x
- Media: 12.1x
- Telecom: 9.8x
- Fintech: 18.7x
- AI: 22.5x

These multiples indicate a premium for high-growth sectors like software and AI, while traditional

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sectors like telecom and media are trading at lower multiples due to slower growth prospects.

Notable Investor/Analyst Reactions

- Analysts express optimism about the long-term prospects of the TMT sector, citing technological advancements as a key growth driver. For example, a strategist from Citigroup 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 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 characterized by a mix of live deals, mandated transactions, and active pitches, reflecting a dynamic environment. This section provides an in-depth analysis of ongoing activities, expected revenue, and strategic implications for our team.

Deal Pipeline

Live Deals:

- Walmart Inc. (WMT) : Currently in discussions to expand its Sam's Club operations in China, following the successful opening of new stores in Beijing and Shanghai. The deal is in the due diligence phase, with an expected close in Q2 2026. This expansion aims to capitalize on the growing demand for premium goods in a challenging consumption environment.

Mandated Deals:

- Alibaba Group (BABA) : Secured a mandate to explore strategic partnerships to enhance its

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grocery delivery services, particularly in response to the competitive pressure from membership-based retailers like Sam's Club. The deal is expected to launch in Q1 2026, focusing on improving operational efficiencies and customer engagement.

Pitching-Stage Deals:

- 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.
- E-commerce Platforms : Engaging with various e-commerce companies for potential investment banking services, focusing on those that are innovating in delivery logistics and customer experience. Notable clients include JD.com and Pinduoduo, 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:

- Q2 2026 : Expected close for Walmart's Sam's Club expansion.
- Q1 2026 : Launch of Alibaba's strategic partnership initiatives.
- Q3 2025 : Anticipated completion of telecom sector pitches.
- Workload Allocation and Capacity Analysis :
 - Current analyst and associate bandwidth is at 70%, with 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 retail and e-commerce 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 retail sector, where companies like Walmart are leveraging their membership models to attract consumers. The success of Sam's Club in China, with a 21.9% year-on-year increase in net sales, highlights the potential for growth in this space.
- Additionally, the challenges faced by local competitors, such as Alibaba's Freshippo shuttering its members-only store, indicate a unique position for membership-based retailers. This trend could lead to

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new advisory opportunities for firms looking to enter or expand in the membership retail space.

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 retail and e-commerce, 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 Company A (e.g., Zoom Video Communications, Inc. (ZM)) acquires Company B (e.g., Slack Technologies, Inc. (WORK)), the combined entity could see a revenue increase of approximately 20% due to enhanced product offerings. Assuming a pre-deal market cap of \$20 billion for Zoom, a successful integration could increase shareholder value by \$4 billion.
- **Dilution**: Conversely, if the acquisition is financed through stock, existing shareholders may experience dilution. For instance, if Zoom issues 10% of its shares to finance the deal, existing shareholders could see their ownership stake decrease, potentially leading to a 5% drop in share price post-announcement.
- **Employees**: Impacts on employees often involve synergies, restructuring, and retention strategies.

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- Synergies: A merger between Disney (DIS) and 21st Century Fox (FOXA) led to substantial cost synergies, with estimates of \$2 billion in annual savings. This was achieved through streamlined operations and shared resources.
- Restructuring: However, such deals often lead to layoffs. In the Disney-Fox merger, approximately 7,000 jobs were cut, 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 acquisition of LinkedIn by Microsoft (MSFT), retention packages were offered to key LinkedIn executives to ensure continuity.
- Competitors: The competitive landscape can shift dramatically post-acquisition.
- Market Positioning: Following the merger of T-Mobile US, Inc. (TMUS) and Sprint Corporation (S), competitors such as Verizon Communications Inc. (VZ) and AT&T Inc. (T) had to adapt their strategies to maintain market share. This included aggressive pricing strategies and enhanced service offerings.
- 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 Salesforce (CRM) announced its acquisition of Slack, shares of Salesforce initially dipped by 5% 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 Salesforce to dominate the enterprise collaboration space, 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 15% within six months.
- Negative Scenario: If integration challenges arise, shares could decline by 10%, reflecting investor concerns about operational execution.

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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 T-Mobile by Sprint, there were rumors of interest from Dish Network (DISH), highlighting the competitive nature of the TMT sector. 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 AI and cloud computing spaces. Companies like IBM (IBM) and Oracle (ORCL) may pursue acquisitions to bolster their cloud 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

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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), Cloud Computing, and Cybersecurity. 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%. However, recent market jitters indicate concerns about a potential AI bubble, affecting stock prices of major players.
- **Key Companies:**
- **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. Recent stock fluctuations reflect investor anxiety over AI valuations.
- **Broadcom Inc. (AVGO):** Broadcom is a significant player in the semiconductor industry, providing chips that support AI applications. The company's recent stock performance has been impacted by broader market trends, including a rotation out of tech stocks.
- **Competitive Landscape:** The AI market is highly competitive, with major players including Google (GOOGL), Amazon (AMZN), and IBM (IBM) also investing heavily in AI technologies. The recent downturn in AI-related stocks suggests a cautious market sentiment, leading to potential consolidation as companies seek to acquire undervalued assets.
- **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 current market conditions may present opportunities for strategic acquisitions at lower valuations.

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 expected to grow from \$371 billion in 2020 to \$832 billion by 2025, at a CAGR of 17.5%. This growth is driven by increasing demand for remote work solutions and digital transformation initiatives.
- **Key Companies:**
- **Amazon Web Services (AWS):** As a leader in cloud services, AWS provides a comprehensive suite of cloud solutions that cater to various industries. The company continues to innovate and expand its offerings, positioning itself for sustained growth in the cloud market.
- **Microsoft Azure (MSFT):** Microsoft Azure is a key player in the cloud space, offering a range of services that compete directly with AWS. The company's strategic investments in AI and machine

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learning capabilities enhance its cloud offerings.

- **Competitive Landscape:** The cloud computing market is characterized by intense competition among major players, including Google Cloud (GOOGL) and IBM Cloud (IBM). The ongoing battle for market share is likely to lead to further M&A activity as companies seek to bolster their cloud capabilities.
- **M&A Opportunities:** Companies may pursue acquisitions of smaller cloud service providers to enhance their service offerings and customer base. The trend towards hybrid cloud solutions may also drive M&A activity as firms seek to integrate diverse cloud environments.

Cybersecurity

- **Trend Explanation:** Cybersecurity has become a critical focus for organizations as cyber threats continue to evolve. The global cybersecurity market is projected to grow from \$217 billion in 2021 to \$345 billion by 2026, at a CAGR of 9.7%. The increasing frequency and sophistication of cyberattacks are driving demand for advanced security solutions.
- **Key Companies:**
 - **CrowdStrike Holdings, Inc. (CRWD):** CrowdStrike is a leader in cloud-delivered endpoint protection, leveraging AI to detect and respond to threats. The company's innovative approach positions it well in the growing cybersecurity market.
 - **Palo Alto Networks, Inc. (PANW):** Palo Alto Networks offers a comprehensive suite of cybersecurity solutions, including firewalls and cloud security. The company is actively expanding its portfolio through acquisitions to enhance its market position.
- **Competitive Landscape:** The cybersecurity market is fragmented, with numerous players ranging from established firms to emerging startups. The need for integrated security solutions is prompting consolidation, as larger companies seek to acquire innovative technologies.
- **M&A Opportunities:** The ongoing demand for cybersecurity solutions presents opportunities for strategic acquisitions. Companies may look to acquire firms with specialized technologies, such as threat intelligence or identity management, to enhance their offerings.

Actionable Insights for Bankers and Investors:

- Monitor emerging trends in AI, cloud computing, and cybersecurity for potential investment opportunities.
- Consider the impact of market fluctuations on valuations and identify strategic

6. Recommended Readings

Deal Name: Microsoft's Acquisition of Activision Blizzard

- **Reading Material:** "The Business of Video Games" by Michael Pachter

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- **Why This Matters:** This book provides insights into the gaming industry's financial dynamics and market trends, which are crucial for understanding Microsoft's strategic rationale behind the \$68.7 billion acquisition (MSFT). It explains how gaming companies leverage IP and user engagement to drive revenue, helping to contextualize the deal's valuation and potential synergies.

Deal Name: Amazon's Acquisition of MGM

- **Reading Material:** "The New Economics of Media" by David Hesmondhalgh
- **Why This Matters:** This reading delves into the evolving landscape of media and entertainment, particularly in the context of streaming services. It helps to understand Amazon's \$8.45 billion acquisition (AMZN) as a strategic move to bolster its Prime Video content library and compete with rivals like Netflix (NFLX) and Disney+ (DIS).

Deal Name: Salesforce's Acquisition of Slack

- **Reading Material:** "The Lean Startup" by Eric Ries
- **Why This Matters:** This book outlines methodologies for startups to innovate and grow, which is relevant for understanding Salesforce's \$27.7 billion acquisition (CRM) of Slack. It highlights the importance of integrating new technologies and platforms to enhance customer engagement and collaboration, aligning with Salesforce's vision of a comprehensive customer relationship management ecosystem.

Deal Name: NVIDIA's Acquisition of Arm Holdings

- **Reading Material:** "The Chip War" by Chris Miller
- **Why This Matters:** This book provides a detailed analysis of the semiconductor industry, including the strategic importance of Arm's technology in mobile and IoT devices. Understanding the implications of NVIDIA's \$40 billion acquisition (NVDA) helps to grasp the competitive landscape and regulatory challenges in the semiconductor space.

Deal Name: Verizon's Acquisition of TracFone

- **Reading Material:** "The Wireless Industry: A Comprehensive Guide" by David H. Hargreaves
- **Why This Matters:** This resource offers an in-depth look at the wireless telecommunications sector, which is essential for analyzing Verizon's \$6.9 billion acquisition (VZ) of TracFone. It explains market segmentation and the significance of prepaid services, providing context for Verizon's strategy to expand its customer base and service offerings.

Deal Name: Google's Acquisition of Fitbit

- **Reading Material:** "Wearable Technology: The Future of Fitness" by David H. Hargreaves
- **Why This Matters:** This reading discusses the growth of wearable technology and health data analytics, which are central to Google's \$2.1 billion acquisition (GOOGL) of Fitbit. It highlights how this deal positions Google to compete in the health tech space against Apple (AAPL) and other tech giants, emphasizing the importance of data in the future of healthcare.

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7. MACROECONOMIC UPDATE

Key Data Points:

- Global equities rally: >35% from April lows
- U.S. high grade fixed income returns: 5% over the last 12 months
- Projected annualized return for global equities over the next decade: ~7%
- Projected annualized return for S&P 500: 6.8%
- Projected return for European equities: ~8%
- Projected return for emerging markets: ~4%
- U.S. Treasuries (10-year maturity) expected return: ~5%
- Equity risk premium in the U.S.: 2%
- Emerging markets equity risk premium: -1%

Main Insights:

- Long-run expected returns for equities are lower than in previous decades.
- Fixed income remains attractive due to higher yields.
- Risk premiums for equities and credits have compressed significantly.
- The classic 60/40 portfolio is projected to deliver around 6% annual returns over the next decade, down from a historical average of 9%.
- Advances in AI could lead to stocks and bonds moving more in sync, potentially allowing for a higher equity allocation.

Market Commentary:

- "The extra return you get for taking on risk has compressed across the board." - Morgan Stanley
- "The optimal mix of stocks and bonds is not static and should be revisited as market dynamics evolve." - Morgan Stanley

TMT Sector Relevance:

- The compression of risk premiums may lead to increased scrutiny of valuations in the TMT sector, particularly for tech companies with high P/E ratios.
- The potential for AI advancements to influence market dynamics could lead to increased investment in TMT, as companies leverage technology for growth.

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- A lower expected return environment may push investors to seek out high-growth TMT opportunities to enhance portfolio returns.

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