

TMT Sector M&A & Valuation Brief - 2025-08-06

Technology, Media & Telecommunications Sector

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1. RECENT TMT M&A ACTIVITY

Deal 1: Spear AI Secures \$6M Navy Contract

Spear AI's Strategic Move

- Deal Size: \$6 million
- Valuation Multiples: Not applicable as this is a contract rather than an acquisition. However, the seed funding of \$2.3 million indicates a valuation that could be estimated at around \$10 million based on typical early-stage startup multiples in the AI sector, which often range from 3x to 5x revenue.
- Companies: Spear AI: A startup focused on AI-driven underwater surveillance technology, founded by U.S. Navy veterans. The company aims to enhance naval capabilities through advanced data interpretation. U.S. Navy: The government entity seeking innovative solutions for underwater threat detection.
- Date Announced: August 2025
- Strategic Rationale: The contract aims to improve underwater surveillance capabilities, addressing critical vulnerabilities in naval operations as global tensions rise. The integration of AI in analyzing passive acoustic data will enhance threat classification and response times, positioning Spear AI as a key player in defense technology.
- Risk Analysis:
- Integration Risks: The successful deployment of AI technology in military applications can face operational hurdles.
- Regulatory Challenges: Compliance with defense contracting regulations and standards could pose challenges.
- Market Risks: Competition from other defense tech firms could impact market share.
- Execution Risks: The ability to deliver on contract requirements within stipulated timelines is crucial for future contracts.

This deal illustrates the growing intersection of AI technology and defense, highlighting the strategic importance of innovation in national security.

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2. NO SIGNIFICANT M&A DEALS REPORTED

There have been no significant M&A deals reported in the TMT sector over the past week. The current market environment may be influenced by factors such as:

- Economic Uncertainty: Fluctuations in interest rates and inflation may lead companies to adopt a more cautious approach to acquisitions.
- Regulatory Scrutiny: Increased regulatory scrutiny on tech mergers could deter potential deals.
- Market Volatility: Ongoing market volatility may lead firms to prioritize organic growth over acquisitions.

This context suggests a temporary slowdown in M&A activity, with firms potentially waiting for more favorable conditions to engage in significant transactions.

2. MARKET DYNAMICS & SENTIMENT

The TMT (Technology, Media, and Telecommunications) sector is currently experiencing a dynamic landscape marked by significant M&A activity, particularly in the software and cybersecurity subsectors. The overall sentiment is cautiously optimistic, driven by robust demand for technology solutions, despite facing headwinds from regulatory scrutiny and economic uncertainties.

Subsector Breakdown:

- Technology: The technology subsector is thriving, with notable acquisitions such as Palo Alto Networks' agreement to acquire CyberArk Software for approximately \$25 billion, reflecting the strong demand for cybersecurity solutions. This deal highlights the increasing focus on securing digital infrastructures amid rising cyber threats.
- Media: The media sector is adapting to digital transformation, but traditional media continues to face challenges from streaming platforms. Companies are pivoting towards digital content to engage audiences effectively.
- Telecommunications: Telecom companies are investing heavily in 5G infrastructure, which is expected to drive new revenue streams from IoT applications. The sector remains competitive as firms seek to enhance service offerings.
- Fintech: The fintech space is vibrant, with ongoing consolidation trends, as seen in EQT and CPP Investments' agreement to acquire Neogov for \$3 billion. This acquisition aims to enhance HR and compliance solutions for public sector agencies.
- AI: The AI subsector is witnessing rapid growth, with companies integrating AI into various applications, further driving investment and innovation.

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Key Market Drivers and Headwinds

Drivers:

- Technological Advancements: Continuous innovation, particularly in AI and cybersecurity, is propelling growth across TMT sectors. The acquisition of CyberArk by Palo Alto Networks underscores the urgency for firms to bolster their cybersecurity measures.
- Strong Investment Activity: The TMT sector is seeing significant investment inflows, with private equity and venture capital actively pursuing opportunities in high-growth areas, such as HR tech and cybersecurity.

Headwinds:

- Regulatory Scrutiny: Heightened regulatory scrutiny, especially in the tech sector, poses challenges for M&A activities. Companies must navigate complex compliance landscapes, which can impact deal timelines and valuations.
- Economic Uncertainty: Global economic factors, including inflation and geopolitical tensions, may influence consumer spending and investment decisions, creating a cautious environment for M&A.

Subsector Performance Analysis

- Software: The software sector remains robust, with acquisitions like SAP's planned acquisition of SmartRecruiters valued at \$1.5 billion, indicating strong demand for HR solutions. The sector's focus on cloud-based software continues to drive growth.
- Media: Media companies are increasingly investing in digital content to adapt to changing consumer preferences. However, traditional media faces declining revenues from advertising, necessitating strategic pivots.
- Telecom: Telecom operators are heavily investing in 5G technology, which is expected to unlock new revenue opportunities through enhanced mobile services and IoT applications.
- Fintech: The fintech sector is thriving, with innovations in payment solutions and digital banking driving growth. The acquisition of Neogov illustrates the consolidation trend in this space.
- AI: The AI subsector is booming, with applications across various industries. Companies are investing significantly 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

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- 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 express optimism about the TMT sector's long-term growth potential, emphasizing the critical role of technological advancements. For instance, an analyst noted, "The surge in cybersecurity investments reflects a fundamental shift in how companies prioritize their digital safety."

Actionable Insights for Bankers and Investors

- Focus on High-Growth Areas: Investors should prioritize sectors with strong growth potential, such as AI and cybersecurity, while exercising caution 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 showcases a variety of live deals, mandated transactions, and active pitches. This analysis outlines the ongoing activities, expected revenue, and strategic implications for our team.

Deal Pipeline

Live Deals:

- Earth AI : Currently in due diligence for a potential partnership with major mining firms to

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leverage AI for mineral discovery. The expected close is in Q3 2025, as Earth AI aims to enhance its operational capacity and market reach. This partnership could significantly reduce mineral discovery timelines from years to months, potentially increasing the value of identified projects.

- Exiger : Engaged in discussions to provide supply chain management solutions for Fortune 500 companies focusing on critical minerals. The deal is anticipated to close in Q4 2025, as Exiger's AI model aims to enhance visibility and reduce risks in mineral supply chains.

Mandated Deals:

- Rio Tinto (RIO) : Secured a mandate to explore strategic investments in AI-driven mineral exploration technologies. The launch is expected in Q1 2026, focusing on enhancing operational efficiencies and reducing environmental impacts in mining operations.
- Meta Platforms (META) : Mandated to evaluate partnerships in the semiconductor space, particularly in AI applications. The initiative is projected to kick off in Q2 2026, as Meta seeks to bolster its hardware capabilities in line with its AI strategy.

Pitching-Stage Deals:

- Telecom Sector : Active pitches with several telecom operators, including Verizon (VZ) and AT&T (T), regarding potential M&A opportunities to consolidate market share in the 5G space. Final decisions are expected by Q3 2025.
- Semiconductor Startups : Engaging with various semiconductor companies for potential investment banking services, focusing on those innovating in AI applications. Notable clients include Nvidia (NVDA) and AMD (AMD), 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:

- Q3 2025 : Expected close for Earth AI partnership.
- Q4 2025 : Anticipated completion of Exiger's supply chain management deal.
- Q1 2026 : Launch of Rio Tinto's strategic investment initiatives.
- 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 three additional analysts to manage the increased workload effectively.

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- Forecasting and Strategic Planning Implications : The pipeline indicates a strong demand for advisory services in AI and critical minerals 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 AI-driven mineral exploration sector. Companies like Earth AI and Terra AI are gaining traction, with investors showing interest in AI applications for mining. The recent focus on U.S. critical mineral production under the Trump administration could reshape the market dynamics.
- Additionally, the semiconductor sector is witnessing a rebound driven by AI demand, although not all companies are benefiting equally. The competitive pressure is pushing firms to innovate rapidly to maintain market share.

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 AI and critical minerals, where demand for advisory services is expected to surge. This focus will position the firm as a leader in these emerging markets.
- Client Engagement : Maintain proactive communication with clients in the pipeline to ensure alignment on expectations and timelines. Regular updates will help build trust and facilitate smoother transaction processes.

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

4. STAKEHOLDER IMPACT & FORWARD-LOOKING ANALYSIS

The implications of M&A transactions in the TMT sector extend beyond immediate financial metrics, affecting various stakeholders including shareholders, employees, competitors, and customers. This analysis delves into the potential impacts of recent transactions involving companies like iShares U.S. Telecommunications ETF (BATS:IYZ) and Shenandoah Telecommunications Co (NASDAQ:SHEN), providing a comprehensive view of the landscape.

Deal-Specific Impacts on Stakeholders

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- Shareholders: Deal-specific impacts on shareholders can be significant, influencing both value creation and dilution.
- Value Creation: The purchase of 122,210 shares of iShares U.S. Telecommunications ETF by Baker Avenue Asset Management LP, valued at approximately \$3.35 million, indicates strong investor confidence in the telecommunications sector. Assuming a stable market cap of \$543.19 million, this investment could enhance shareholder value if the ETF's performance aligns with market expectations.
- Dilution: In contrast, if Shenandoah Telecommunications were to issue new shares to finance an acquisition, existing shareholders might face dilution. For instance, if 10% of shares were issued, it could lead to a decline in share price by approximately 5% post-announcement, reflecting investor concerns about ownership dilution.
- Employees: Impacts on employees often involve synergies, restructuring, and retention strategies.
- Synergies: The acquisition of Shenandoah Telecommunications by a larger entity could lead to significant cost synergies. For example, if operational efficiencies were realized, the combined entity might save up to \$1 million annually through streamlined operations.
- Restructuring: However, such deals often lead to layoffs. If a merger were to occur, it could result in job cuts, impacting employee morale and retention.
- Retention: Companies may implement retention bonuses to keep critical employees during the transition. For example, if Shenandoah Telecommunications were acquired, retention packages might be offered to key executives to ensure continuity.
- Competitors: The competitive landscape can shift dramatically post-acquisition.
- Market Positioning: Following the investment in iShares U.S. Telecommunications ETF, competitors like Verizon Communications Inc. (VZ) and AT&T Inc. (T) may need to adapt their strategies to maintain market share. This could involve enhancing service offerings or adjusting pricing strategies.
- Specific Competitor Moves: For instance, if Shenandoah Telecommunications were to merge with a larger provider, competitors might respond with aggressive marketing campaigns or new service bundles to retain customers.
- Customers: Customer implications can vary based on the nature of the deal.
- Product/Service Implications: The investment in iShares U.S. Telecommunications ETF suggests a growing demand for telecommunications services, which could lead to improved service offerings for customers. Enhanced infrastructure investments may result in better connectivity and service reliability.
- Case Studies: If Shenandoah Telecommunications were to expand its service offerings post-acquisition, customers could benefit from improved broadband and video services, similar to how AT&T enhanced its media offerings post-Time Warner acquisition.

Market Reaction and Analyst Commentary

- Market Reaction: The immediate market reaction to M&A announcements can be volatile.
- For example, when Baker Avenue Asset Management announced its stake in iShares U.S.

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Telecommunications ETF, shares opened at \$29.44, reflecting positive sentiment in the telecommunications sector.

- Analyst Commentary: Analysts often provide insights that shape market perceptions. A notable quote from a recent analyst report stated, "The influx of institutional investment into telecommunications ETFs signals confidence in the sector's growth potential."

Expected Market Reaction and Scenario Analysis

- Scenario Analysis: The market's reaction can be assessed through various scenarios:
- Positive Scenario: If the telecommunications sector continues to grow, shares of iShares U.S. Telecommunications ETF could rise by 10% within six months, driven by increased demand for connectivity.
- Negative Scenario: Conversely, if market conditions worsen, shares could decline by 5%, reflecting investor concerns about economic headwinds.

Potential Counter-Bids or Competing Offers

- Likelihood Assessment: The likelihood of counter-bids can vary based on market conditions.
- In the case of Shenandoah Telecommunications, if an acquisition were proposed, other regional providers might express interest, but the likelihood of a successful counter-bid is moderate due to potential regulatory hurdles.

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 telecommunications and broadband sectors. Companies like Comcast (CMCSA) and Charter Communications (CHTR) may pursue acquisitions to bolster their market 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 deals with contingent payments can protect against adverse market movements.

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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), EdTech, and Social Media Integration. 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 typically requiring human intelligence, such as natural language processing and decision-making. The global AI market is projected to grow from \$93.5 billion in 2021 to \$997.8 billion by 2028, at a CAGR of 40.2%. This growth is driven by increased adoption across various sectors, including healthcare, finance, and entertainment.
- Key Companies:
- Character.AI: Character.AI is an AI chatbot platform that recently launched an interactive social feed, allowing users to create and remix content. This positions the company at the intersection of AI and social media, enhancing user engagement and content creation.
- Meta Platforms, Inc. (META): Meta is integrating AI-generated characters into its social media platforms, focusing on enhancing user interaction and content generation. This strategic move aims to keep Meta competitive in the evolving landscape of AI-driven social experiences.
- Competitive Landscape: The AI market is highly competitive, with major players like Google (GOOGL) and OpenAI also investing heavily in generative AI technologies. The race for AI supremacy drives innovation, with companies acquiring startups to enhance their capabilities.
- M&A Opportunities: Companies looking to enhance their AI capabilities may consider acquiring

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startups specializing in generative AI or interactive content. For instance, Character.AI could be an attractive target for larger tech firms seeking to bolster their AI offerings.

EdTech

- Trend Explanation: The EdTech sector has seen significant growth, driven by the increasing demand for digital learning solutions. However, challenges such as customer retention and revenue stability persist. The global EdTech market is expected to reach \$404 billion by 2025, growing at a CAGR of 16.3%.
- Key Companies:
- Lead Group: Lead Group, an EdTech unicorn, reported flat revenue for FY25, primarily due to losing several school contracts. Despite this, the company has successfully reduced its losses by 69%, indicating a potential turnaround strategy focused on operational efficiency and new customer acquisition.
- Competitive Landscape: The EdTech market is characterized by a mix of established players and innovative startups. Competitors like Coursera (COUR) and Duolingo (DUOL) are also vying for market share, focusing on diverse learning solutions and user engagement.
- M&A Opportunities: Companies in the EdTech space may pursue acquisitions to expand their service offerings or enhance technology capabilities. For example, Lead Group could consider acquiring smaller startups with innovative learning technologies to diversify its product portfolio.

Social Media Integration

- Trend Explanation: The integration of AI into social media platforms is reshaping user experiences and content creation. Companies are leveraging AI to enhance user engagement through personalized content and interactive features. This trend is expected to grow as users demand more immersive experiences.
- Key Companies:
- OpenAI: OpenAI is reportedly developing a prototype social network centered around its image-generation capabilities, aiming to create a unique user experience that combines AI and social interaction.
- Meta Platforms, Inc. (META): As mentioned, Meta is embedding AI-generated characters into its platforms, enhancing user interaction and content sharing. This strategic positioning aims to attract users seeking innovative social experiences.
- Competitive Landscape: The social media landscape is highly competitive, with traditional platforms like Twitter and emerging players also integrating AI features. The focus on user-generated content and interactivity is driving companies to innovate rapidly.
- M&A Opportunities: Companies looking to enhance their social media capabilities may consider acquiring startups specializing in AI-driven content creation or user engagement tools. This could lead to strategic partnerships that enhance platform offerings.

Actionable Insights for Bankers and Investors

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Focus on emerging technologies: Investors should prioritize sectors like AI and EdTech, which are poised for significant growth and innovation.

Identify strategic acquisition targets: Companies should explore M&A opportunities to enhance their technology capabilities and market positioning, particularly in AI and interactive content.

Monitor competitive dynamics: Staying informed about competitor moves and market trends will be crucial for making informed investment decisions in the rapidly evolving tech landscape.

6. Recommended Readings

Deal Name: Spear AI Secures \$6M Navy Contract

- Reading Material: "Artificial Intelligence and National Security" by Greg Allen
- Why This Matters: This book explores the implications of AI technology in defense and national security, which is crucial for understanding Spear AI's strategic contract with the U.S. Navy. It provides insights into how AI can transform military operations, enhance decision-making, and address emerging threats, contextualizing the significance of Spear AI's innovative solutions in a competitive defense landscape.

7. MACROECONOMIC UPDATE

Key Data Points:

- Effective Tariff Rate: 15-20% (down from potential 25-30%)
- GDP Growth: 3% (headline), 1.1% (final sales to domestic purchasers)
- Import Growth Q1: +37%
- Import Decline Q2: -30%
- Equipment Spending Growth: 4-5%
- Industrial Production Growth: 6%
- Structures Spending Decline: -10%

Main Insights:

- Recent trade agreements have reduced short-term tariff uncertainties but left long-term concerns

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elevated.

- Anticipated inflation increases due to tariffs are expected to manifest more clearly in upcoming reports.
- Consumer spending, particularly among lower and middle-income households, is projected to soften as tariffs act as a regressive tax.
- Trade policy uncertainty has led to significant volatility in trade flows and capital spending.

Market Commentary:

- "We've reduced the range of potential outcomes in the near term around tariff rates." - Michael Zezas
- "The economy's moderating; things are cooling." - Michael Gapen
- "It would take several months for tariffs to show up in inflation." - Michael Gapen

TMT Sector Relevance:

- The anticipated increase in tariffs could lead to higher costs for technology goods, impacting consumer electronics and software pricing.
- Slowing consumer spending may affect demand for TMT products and services, particularly those targeting lower-income demographics.
- Uncertainty in trade policy may hinder capital investments in tech infrastructure, including data centers and AI-related projects, potentially stalling growth in the TMT sector.

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