Tech services

Deal insights series

Q3 2024

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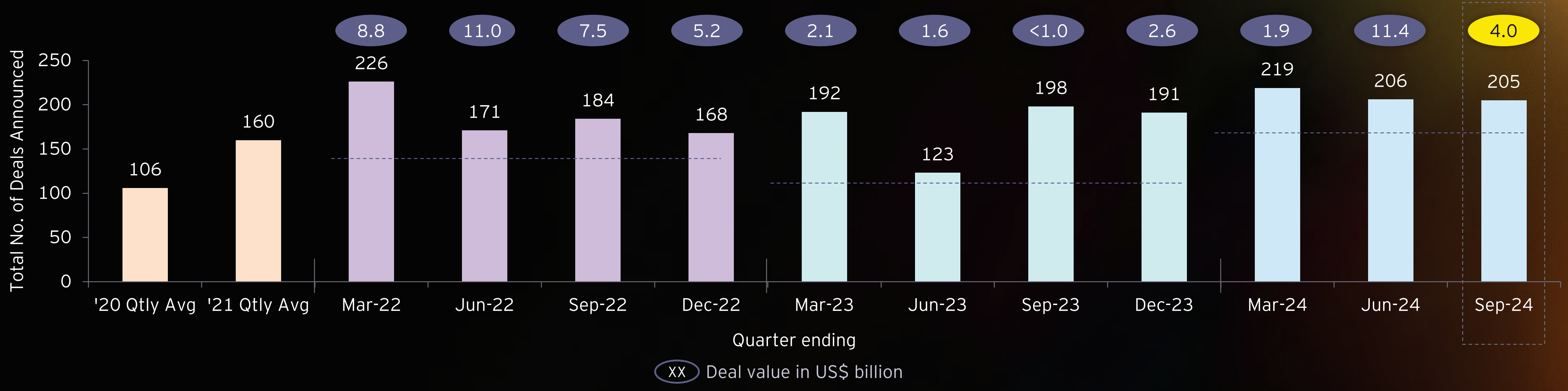
01

Overview of deal activity

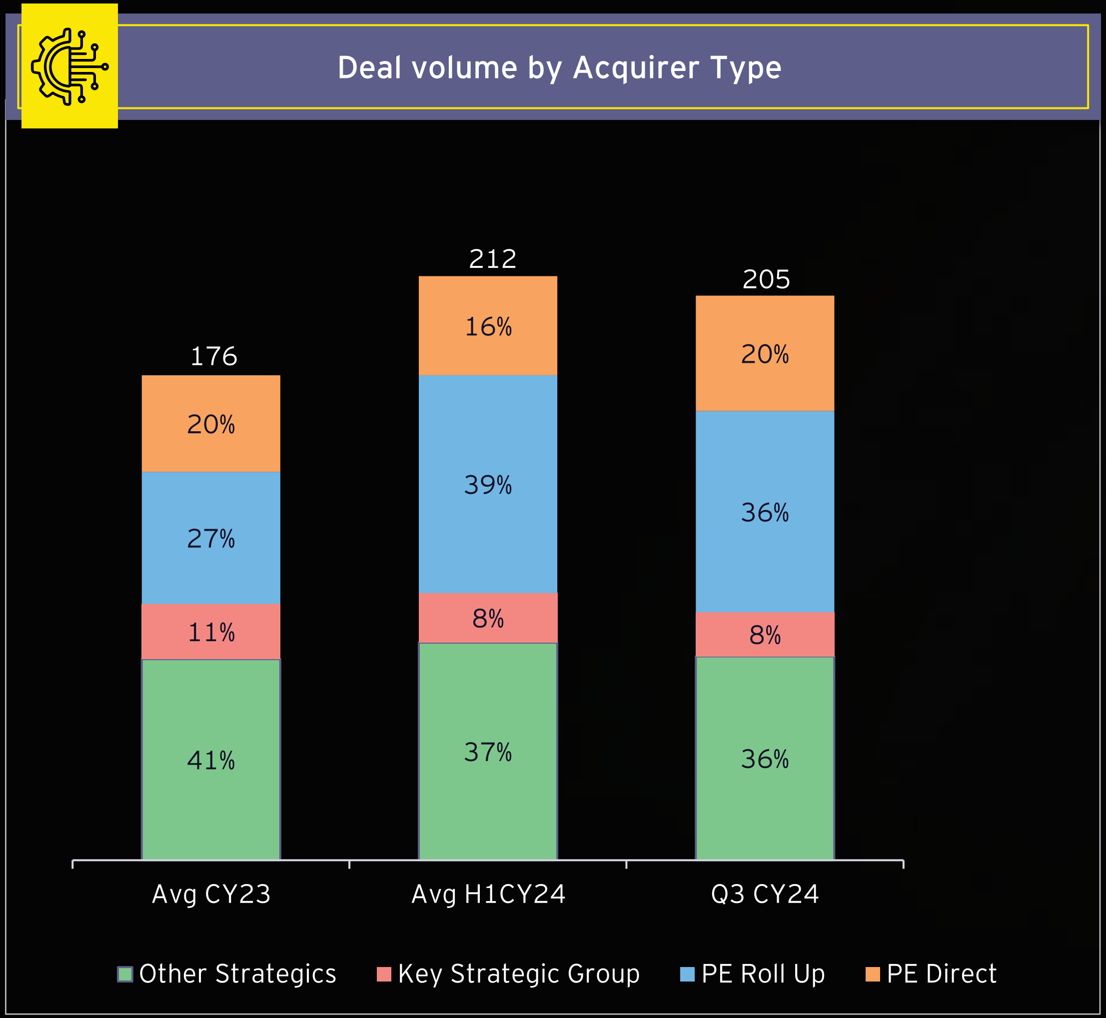
Large deals have gained momentum over the last two quarters



- IT spend outlook remains cautionary with subdued discretionary growth and overhang from macro and geo-political factors.
- PEs demonstrate strong appetite for large deals as take-private opportunities provide attractive entry points in a monetary easing cycle. Notable deals include Thoughtworks (Apax), and Fuji Soft (Bain, KKR1), following Q2 transactions like Perficient (EQT) and Kin & Carta (Valtech / BC Partners). These deals provide owners greater flexibility to strengthen team, invest in growth, and drive operational efficiencies.
- Strategic buyers, in contrast, focused on selective, smaller acquisitions to address specific industry (Federal/public sector, healthcare, BFS) or technology gaps, with only one transaction above US$500m (EPAM - NEORIS) announced this quarter.
- Leading IT services firms are enhancing generative AI capabilities through partnerships – such as Accenture/NVIDIA, Capgemini/Google Cloud, and Wipro/Dell. Challenges like limited generative AI experience and rapid technology evolution have made collaborations vital.

Source: Mergermarket, Pitchbook, EY research and analysis
1. KKR and Bain have separately bid for Fuji Soft, with final buyer and deal value to be determined. Hence, this deal value of ~$4 bn is not included in Sep-24 chart above

PE firms dominate deal volume whereas strategic buyers remain selective

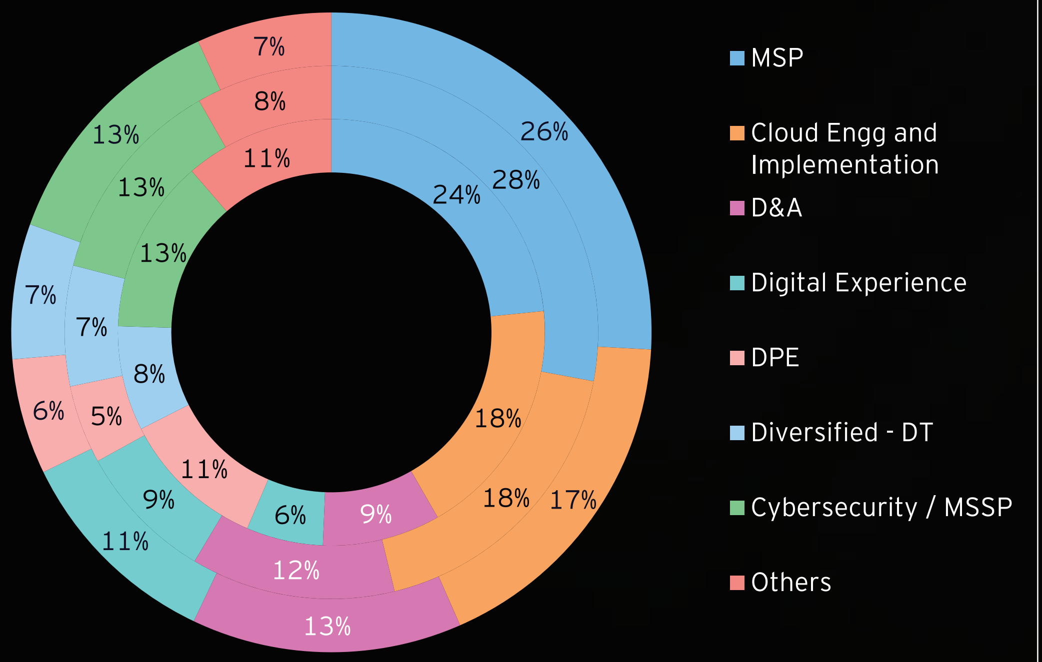


- YTD'24, PE firms accounted for 85% of total deal value, amounting to US$15b, which is a substantial increase from 50% (US$4b) in CY23.
- **PE Direct:** Q3 continued to witness steady volume increase, with highest deal count in the last four quarters. Notably, category leading scaled players across consult-build-manage-run continuum garner strong interest from PEs.
- **PE Roll-up:** Volume remain robust as PEs "buy down multiples" through existing PE platforms and cater to the strong demand for niche digital, cloud and AI capabilities.
- **Key Strategic Group:** Deal volume remains unchanged from CY23 levels as buyers exercise caution and private sellers postpone sale processes, amid subdued growth and valuations.
- **Other Strategics:** D&A segment experienced significant growth, with enterprises' data and AI engineering priorities creating strong demand for niche assets specializing in key sub-verticals or cloud platforms.

Source: Mergermarket, Pitchbook, EY research and analysis

Targeted technology specialism is attracting investor interest

Deal volume by IT Services Sub Segment



Q3: Outer Circle, YTD 2024: Middle Circle, CY 2023: Inner Circle

- **PE Direct:** There was a surge in interest in new MSP / MSSP platforms, primarily driven by their recurring revenue models, which are particularly appealing in the current market characterized by uncertain demand and growth.
- **PE Roll-Up:** Companies specializing in Data, AI, and Salesforce-focused firms saw growing interest, alongside continued momentum for mission-critical managed services.
- **Global large cap buyers** acquired companies focused on the public sector industry, driven by a strategic intent of enhancing stable revenue streams and rising public sector demand for digital transformation.
- **Mid and small Cap** buyers targeted specific sub-verticals such as payments, capital markets and life sciences to enhance their domain expertise and competitive advantage.

Source: Mergermarket, Pitchbook, EY research and analysis; DT – Digital Transformation;

Roll-ups are driving deal volume, as PEs grow their portfolios through acquisitions

Platform creation (25%)

Scaled digital transformation

- Blackstone » **Chartis Group** — Healthcare-focused consulting-ledplayer

MSP / MSSP

- FFL Partners » **Medicus IT** — Healthcare focussed MSP
- Recognize Partners » **Blue Mantis** — North America focussed MSSP
- Waterland » **Dacoso** — Germany-based MSSP

Growth equity (12%)

MSSP

- BGF » **PureCyber** — UK-based MSSP
- Pheonix Partners » **Cybanetix** — UK-based MSSP

Digital transformation

- Blue Delta » **ITC Federal** — Scaled digital transformation
- VR Equitypartner » **Accso** — German digital transformation player

PE Roll-up (63%)

D&A

- Twoday (CVC) » **Kaito** — Finnish Snowflake Elite player
- Dataciders (Rivean) » **Paso** — Data & AI

Salesforce specialists

- Infogain (Apax) » **Impaqtive** — Salesforce Summit partner
- Bridgenext (Kelso) » **CodeScience** — PDO expert
- Xoriant (ChrysCap) » **Fexle** — Sales, Marketing, & Service cloud

Spotlight deals

Apax » Thoughtworks

Apax already owned a majority stake in Thoughtworks and announced its intention to take the company private in Aug-24.
Enterprise Value: ~US$1.8b

Blackstone » Chartis

Blackstone acquired a majority stake in Chartis, which is focused on the US healthcare sector.
Enterprise Value: ~US$1.4b

Carlyle » Seidor

Carlyle acquired Seidor, a Spain based digital transformation player with 9,000+ employees.
Enterprise Value: ~US$1.1b

Source: Mergermarket, Pitchbook, EY research and analysis; pie charts indicate % of deal count vis-à-vis total PE deal count for the quarter

Strategics pursuing targeted acquisitions in key sub-verticals and capabilities

Global large Cap

Vertical play

- Accenture » Logic Information — Retail-focused consulting services
- CGI » Ayeon — Federal-focused D&A player
- IBM » SiXworks — UK public sector focus

Capability strengthening

- Accenture » ANSR — GCC development for F500 companies
- IBM » Accelalpha — Oracle Cloud Apps

Mid and small Cap

Vertical play

- Zensar » BridgeView — Life sciences focus
- Globant » Blankfactor — Payments, capital markets
- Grid Dynamics » JUXT — BFS (UK)
- EXL » ITI Data — BFS & Healthcare focussed data mgmt.

Others

Capability strengthening

- Saksoft » Ceptes — Salesforce
- Omnicom » LeapPoint — Adobe
- Fulcrum IT » Fortress SRM — Cybersecurity
- Bureau Veritas » Security Innovation — Cybersecurity

Geographic expansion

- Aspire » Method4 — UK

Spotlight deals

EPAM » NEORIS

Strengthens delivery capabilities in Latin America and Europe with over 4,700 professionals specialising in DPE, SAP, D&A, AI/ ML
Enterprise Value: ~US$0.6b

IBM » Accelalpha

Oracle Cloud Applications expertise, enhancing IBM's consulting prowess in supply chain and logistics, finance, EPM, and customer transformation

Accenture » Camelot

Strengthens SAP and supply chain capabilities with over 700 experienced professionals in analytics, data strategy, and modernization across large and mid-sized companies

Source: Mergermarket, Pitchbook, EY research and analysis

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Sector spotlight: Healthcare and Life Sciences (HLS)

Growth catalysts driving HLS momentum for IT services players...

Multiple pockets of investment to drive innovation

Global HLS IT services market

2023		2030E
~US$183b	CAGR: +12.9% vs IT Services market CAGR of 6.8%	~US$428b

- Rising demand for digital capabilities to enhance customized patient experiences with payers driving ~48% of demand
- Increasing GenAI usage for quicker drug development, commercialization, and protein engineering
- Real World Data (RWD) analytics to enhance patient centricity and improve clinical trial design

HLS is growing 1.7x faster than other verticals

Jun-22 to Jun-24[1]	HLS Rev. Growth	Ex-HLS Rev. Growth
Middle and Small Cap/ Digital Natives	10.6%	6.7%
Large Cap	4.3%	2.5%

...led to increased M&A activity in the vertical

Key transactions - YTD 2024

Acquirer	Target (Headcount)	Details
Blackstone	Chartis 1,000	**Specialization:** Providers, payers **Segment:** Digital transformation **Enterprise value:** ~US$1.4b
Endava	GalaxE 1,650	**Specialization:** Payers, pharmaceuticals **Segment:** Digital transformation **Enterprise value:** ~US$405m
Accenture	Intellera Consulting 1,400	**Specialization:** Healthcare, public administration **Segment:** Consulting-led D&A
NTT Data	ProvenTech 350	**Specialization:** Pharmaceuticals, healthcare **Segment:** Cloud implementation (SAP)
Zensar	BridgeView 100-150 (Headcount)	**Specialization:** Pharmaceuticals, biotechnology, medical devices **Segment:** Cloud implementation **Enterprise value:** ~US$25m

Source: Mergermarket, Pitchbook, Industry reports, EY research and analysis, EYP Estimates
Note: 1. Based on players' that report HLS as a segment

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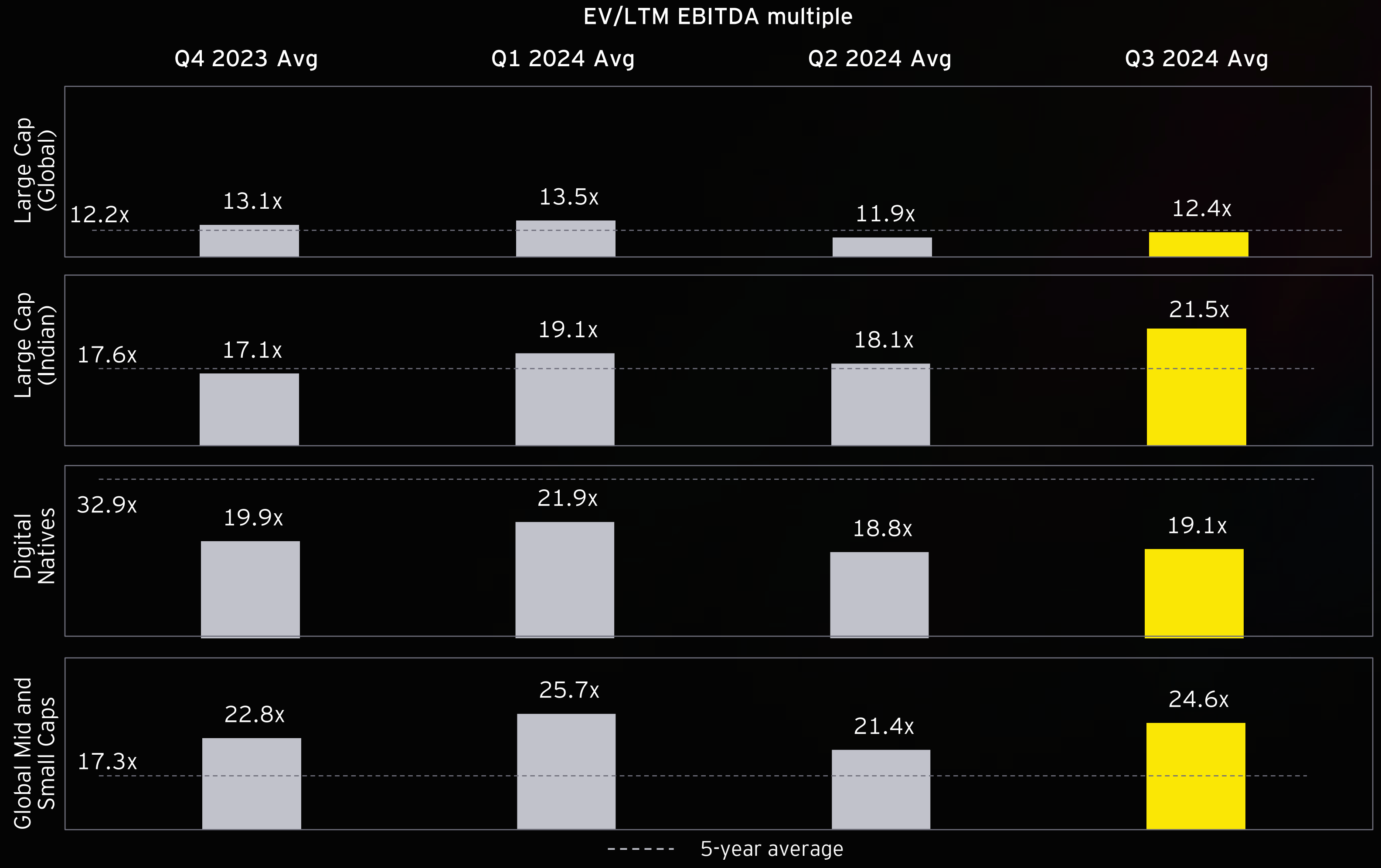
Public market valuations improved in Q3 compared to Q2, despite a cautious demand environment

Valuation trend over last four quarters



	Q3 stock price change	Median Revenue	Median EBITDA %
Large Cap (Global)	17%	US$26b	18%
Large Cap (Indian)	13%	US$12b	20%
Digital Natives	3%	US$1b	14%
Global Mid and Small Caps	8%	US$1b	15%

Source: S&P Capital IQ

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Mark Sheikh
Belgium


Michal Plotnicki
Poland


Isabel de Dios
Spain


Colin McNeil
Australia


Anil Menon
MENA

Select Transactions

Happiest Minds
Advised on its acquisition of
Pure Software

Verti Systems
Advised on its sale to
MOURI Tech

Aureus Tech
Advised on its majority stake sale to
Happiest Minds

Mastek
Advised on its acquisition of
BizAnalytica

Marlabs
Advised on its majority stake sale to
BV Investment Partners

Accolite Digital
Advised on its strategic partnership with
New Mountain Capital

Methodology

The report is based on secondary data. The information is sourced from MergerMarket, PitchBook, CapIQ, Press Releases, Company Reports, News Articles, Industry Reports, etc. The quarterly data is based on deal announcement date.

Definitions

- **Indian Large Cap IT Services:** TCS, Infosys, Wipro, HCL, TechM, LTIMindtree
- **Global Large Cap IT Services:** Accenture, Capgemini, Cognizant, CGI, NTT Data
- **Mid & Small Cap IT Services (MSC):** Coforge, Mphasis, Persistent, Zensar, Mastek, Birlasoft, Sonata
- **Digital Natives:** EPAM, Globant, Endava, Nagarro, Kainos, NetCompany, Happiest Minds
- **Large Buyer group:** Includes all of the above and Big 4 & Consultancies (EY, Deloitte, KPMG, PwC, McKinsey, BCG, Bain), Agency (WPP, Dentsu, Havas, Publicis, IPG), Hitachi, CDW, HPE, ThoughtWorks, Salesforce, Sopra Steria, SeSa, Grid Dynamics, Alten, AFRY, Etteplan, Assystems, Bertrandt, EDAG, KPIT, L&T Technology Services, Tata Elxsi, Cyient, WNS, Genpact, EXL, TaskUs, Ibex, Telus, Teleperformance, Concentrix, TDCX, TTEC, Majorel, Hinduja Global Solutions, Insight Enterprises

Glossary

Abbreviations	Meaning	Abbreviations	Meaning
Avg	Average	IT	Information Technology
AWS	Amazon Web Services	IP	Intellectual Property
AR	Augmented Reality	LLM	Large Language Models
B	Billion	M&A	Mergers and Acquisition
BeNeLux	Belgium, Netherlands and Luxembourg	ML	Machine Learning
BPM	Business Process Management	MSD 365	Microsoft Dynamics 365
CX	Customer Experience	MSP	Managed Services Provider
D&A	Data and Analytics	MSSP	Managed Security Services Provider
DPE	Digital Product Engineering	PE	Private Equity
ER&D	Engineering Research and Development	SDLC	Software Development Life Cycle
EV	Enterprise Value	SI	System Integration
FS	Financial Services	Tech	Technology

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