What can organizations do to address these supply chain issues?

IT solutions providers will benefit from reducing reliance on their product and equipment services while increasing their cloud offerings. IT departments can accelerate digitization of their organizations by migrating components of their physical infrastructure and adopting a network-as-a-service approach, where the organization can plug into a vendor’s infrastructure without having to provision or maintain their own physical networks.

Organizations need to evaluate current vendor relationships and determine whether there is supplier risk and where there is a need to start looking for supplemental or replacement vendors. While there are certainly benefits of having one primary vendor, such as bulk order discounts and one point of contact, the COVID-19 pandemic has shown us that many companies are not fully aware of the vulnerabilities in their supply chain in the event of global shocks. Therefore, employing a multi-vendor approach reduces the supplier risk and increases visibility.

Organizations investing in existing hardware and refurbished hardware will alleviate some of the supply chain issues while also protecting budgets and the environment. Instead of being taken out of service after just a few years — at the manufacturer’s end of service life — servers and other equipment can be run for extended periods. Companies may also consider shifting their offboarding employee checklist and ensuring that company devices are returned for future use upon an employee’s resignation/termination.

Last, we are finding companies are playing with their marketing mix to direct consumers for better-stocked products, which may include higher-end products that carry higher margins. Companies have been successful at using this as a tool to continue to boost overall profitability through the disruptions.

Implications of the current supply chain disruptions on IT hardware providers

The COVID-19 pandemic kickstarted global supply chain issues, while other challenges – including subsequent virus outbreaks, labour shortages and geopolitical uncertainties – have fuelled it. The semiconductor and IT hardware industry has been particularly affected.

According to a survey performed involving IT professionals in the procurement space, more than 78% of businesses have experienced moderate to significant supply chain delays for their IT hardware order in the past 12 months, with the majority of their back orders having a shipment delay of up to six months.1

These delays are taking place as demand for semiconductors and IT hardware has increased significantly during the pandemic and is expected to continue its growth trajectory, with the industry poised to grow by over 13% to US$567 billion globally from 2021 to 2022.2 IT hardware in all industries is pushing demand for semiconductors and computer parts. A few segments in particular are fueling the current spike: increased IT hardware equipment needed for remote work, growth of Internet of Things and 5G, smartphones and the electrification of the automotive industry.

Current implications of the supply chain issues

The industry is grappling with an overall supply-demand mismatch as suppliers face increased input costs for silicon wafers, resins and metals. These additional costs are being passed on to consumers, with prices increasing across the board for popular electronic devices.

Product shortages are spurring a shift away from just-in-time and towards just-in-case. Many IT solutions providers have abandoned their effort to minimize inventory and are instead stockpiling products just in case they need them. While this strategy has benefits, it can also weigh on a company’s finances. Further, there’s a risk that if supply chain shortages diminish, either due to lessened demand or a decline in supply disruption, companies will be caught with meaningful inventory in hand. Just-in-case usually entails longer inventory carry, longer inventory turns and longer cash conversion cycles until items are finally paid for and monetized.

Order backlogs have resulted in long delays for customers, the majority of whom were accustomed to relatively fast delivery options. This has been exacerbated due to shipping delays as major ports around the world battle capacity constraints, leading to an inability to fulfill orders and constant discussions around order fulfillment.

1 “From Cancelled Orders to Rising Costs, Supply Chain Disruption is Hitting IT Ops Where it Hurts,” Supply Chain Disruption IT Ops Report, GetApp, March 14, 2022.
2 “Semiconductors and Electronics Forecast Database, Worldwide, 2022, Update, Gartner, April 2022.”
Select transactions in Q2 2022*

Jun 16, 2022: Swiss Life Asset Management AG and EDF Invest announced the acquisition of a 27% stake in DataBank Holdings, Ltd., a provider of enterprise-class colocation, interconnection and managed services, for a transaction value of $1.2 billion.

Jun 09, 2022: Verint Analytics Corp. (TSXV: VXTR; OTCQB: VXTRF) announced the acquisition of Municipal Tax Equity Consultants Inc., a provider of taxation finance software and technology-enabled services to municipalities, for a transaction value of $3.5 million.

Jun 01, 2022: ASGN Incorporated (NYSE: ASGN) announced the acquisition of GlideFast Consulting LLC, a provider of solutions and professional services for ServiceNow implementations, integrations, managed support and application development, for a transaction value of $350 million.

Jun 01, 2022: Parsons Corporation (NYSE: PSN) acquired Xator Corporation, a provider of security, intelligence and information technology services offering infrastructure protection, enterprise technology and cybersecurity and others, for a transaction value of $400 million.

May 20, 2022: Wipro Limited (NYSE: WIT; BSE: 507685; NSE: WIPRO) acquired Rizing Intermediate Holdings, Inc., a provider of SAP functional and technical consulting services to commercial enterprises, for a transaction value of $540 million. The acquisition represents an enterprise value of 2.8x revenue.

May 19, 2022: Converge Technology Solutions Corp. (TSX: CTS; FSE: 0ZB; OTCQX: CTSDF) announced the acquisition of PC Specialists, Inc., a provider of custom-built IT solutions such as data centre optimization, IT asset management and cloud computing, for a transaction value of $74 million. The acquisition represents an enterprise value of 0.2x revenue and 6.2x adjusted EBITDA.

May 16, 2022: The Carlyle Group Inc. (NasdaqGS: CG) announced the acquisition of ManTech International Corporation, a provider of innovative technologies and solutions for mission-critical national security programs, for a transaction value of approximately $4.2 billion. The acquisition represents an enterprise value of 1.6x revenue and 13.4x EBITDA.

May 09, 2022: Concentrix Corporation (Nasdaq: CNXC) announced the acquisition of ServiceSource International, Inc., a provider of global outsourced go-to-market services that accelerates B2B digital sales and customer success transformation, for a transaction value of approximately $131 million. The acquisition represents an enterprise value of 3.5x EBITDA.

Apr 14, 2022: Instructure Holdings, Inc. (NYSE: INST) acquired Concentric Sky, Inc., a developer of a micro-credentialing platform designed to make issuance and verification of credentials easy, for a transaction value of $52 million.

Apr 13, 2022: Gensource Potash Corporation (TSXV: GSP; AIM: GSP) acquired Innovare Technologies Ltd., a developer of patented selective solution mining and brine processing technology, for a transaction value of $11.5 million.

Apr 12, 2022: Infinite Reality LLC announced the acquisition of ReKTGlobal, Inc., a provider of services including content creation, paid media, marketing, influencer activation, fan relationship building and monetization, etc. for gaming and esports industries, for a transaction value of $470 million.

Apr 04, 2022: Blackline Safety Corp. (TSX: BLN) acquired Ontario-based Swift Labs Inc., an IoT design and engineering consulting firm, for a transaction value of $3.8 million.

Apr 01, 2022: Converge Technology Solutions Corp. (TSX: CTS) acquired Creative Breakthroughs, Inc., a provider of cybersecurity solutions, for a transaction value of $54 million*. The acquisition represents an enterprise value of 0.7x revenue and 8.9x EBITDA.

*Includes earnouts of $17 million

*Deals indicated are Canadian deals
All currencies are in US$.
Data sources: S&P Capital IQ, Mergermarket, Press Releases
Historical M&A activity

Both deal values and deal volumes have declined compared to Q2 2021 levels.

Revenue and EBITDA transaction multiples in Q2 2022 have declined when compared to those in Q2 2021 and Q1 2022.

Public company multiples dip before stabilizing, subsequent to the highs observed in Q4 2021.

Deal value by type of acquirer

Deal volume by type of acquirer

Transaction Multiples Over Time

Revenue and EBITDA transaction multiples in Q2 2022 have declined when compared to those in Q2 2021 and Q1 2022.

Public company multiples dip before stabilizing, subsequent to the highs observed in Q4 2021.

Both deal values and deal volumes have declined compared to Q2 2021 levels.

1. Q2 2022 is based on a smaller sample of publicly reported deal values than previous quarters.

* Sample size for M&A multiples has been sourced from S&P Capital IQ and comprises transactions completed between Jul 1, 2018 and Jun 30, 2022 in Canada and the US. The sample has been compiled by EY Orenda Corporate Finance Inc. based on a subjective assessment of transactions in the IT Services sector. Furthermore, the categorization of the sample across various sub-sectors and any analysis thereof by EY Orenda Corporate Finance Inc. is solely for illustrative purposes and were not created to serve as benchmarks. Every transaction has specific characteristics that impact value and corresponding multiples. It is necessary to understand the background and circumstances surrounding each transaction to extract meaningful insights.
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