A Year of Paradoxes: M&A Trends and Outlook in the Technology Services Sector

Tech Insights Series

May 2023

nasscom

EY
Building a better working world

Foreword

The year 2022 proved to be a year of paradoxes for the technology services (IT Services, BPM, and ER&D) deal market. After eight consecutive quarters of hypergrowth in deal activity, signs of an impending slowdown began to emerge near the end of 2022 and continued to the first quarter of 2023. 2022 saw the most transaction activity in the preceding five years, with the aim of accelerating competitive advantage in both emerging technologies and the talent market as a result of an increase in technology services investment after the pandemic. Not surprisingly, these were the key themes for strategic M&A and were driving private equity (PE) to build platforms. As the year progressed, macroeconomic uncertainties began to creep in, affecting the demand outlook and supply environment. This was exacerbated by the increase in the cost of capital.

Despite the current slowdown from economic uncertainties, enterprise digital transformation is a multi-decade, multi-billion dollar trend. In response to the current environment, spending priorities and the nature of vendor partnerships will likely change. Enterprise buyers are likely to re-prioritize some of the digital spending that drives cost optimization and prefer to work with providers who can deliver transformation on outcome-based models. Technologies such as AR, VR, IoT, and edge intelligence, are now finding applications in manufacturing, automotive, and supply chain. Some of these trends are expected to keep inorganic strategy at the forefront of strategic buyers and PE roll-ups growth agendas. PE investors would likely enter the market with a refined understanding of value creation levers and will pursue such opportunities. Overall, valuations may be cautious, with an emphasis on quality assets. Buyers are likely to deploy appealing deal structures to manage bid-ask spreads.

EY's analysis of deal activity in 2022 as compared to 2021 and 2020 provides valuable insights into buyer strategies, key acquisition themes, and public and private market valuation trends. The report also covers analysis by subsegment within IT Services, ER&D and BPM. Conversations with industry leaders by EY and nasscom indicate that strategic buyers continue to view M&A as a key driver for growth and differentiation and PE investors will aggressively compete for quality assets and resume a pricing war at the first turn of events in the macro environment.

We hope that you find this report insightful, engaging and thought-provoking. As always, we look forward to your feedback and suggestions.

Sangeeta Gupta
Senior Vice President
nasscom

Achyuta Ghosh
Head, Insights
nasscom

Nitin Bhatt
Technology Sector Leader
Partner, EY LLP India

Shivani Nagpaul
Technology M&A Leader
Partner, EY LLP India

Contents

Key Insights

1

Key Insights

Overall Deal Activity

- With **947** deals, 2022 saw highest deal activity in last 5 years
- Record deal values at **~$57 B** in 2022 comparable to 2021 level (excluding two $10 B+ deals of 2021)
- PE direct investment and roll-ups were significant contributors to deal volume

PE Participation

- Recorded **highest deal** activity in value and volume terms
- Driving **consolidation** in **BPM** and **MSP** segments
- Placed several large bets - **15** out of **23** large ($500 M+) deals in 2022
- Rich private market valuations warranted the **shortening** of investment horizons

Emerging Themes

- Emerging technologies like **IoT, AR/VR, Hyper-automation, Low Code No Code** are garnering strong interest from large strategic buyers
- Services players are acquiring equity interest in **IP/product** companies for access to technology and create differentiation

IT Services

- **PE interest** (value, volume, large deals) at a **high** point and **broad based** strategic buyer activity
- Preference for **tuck-in** acquisitions
- Top imperatives: **Technology** (cloud value chain) and **vertical specialists** (BFSI & Life Science) and some pockets of **consolidation** (IT MSP & MSSP)

Engineering R&D (ER&D)

- Industry consolidation and **convergence** of ER&D and IT Services are driving M&A
- **North America** and **Europe** are most prominent target geographies for deals
- Elevated deal activity across subsegments, **automotive** segment is seeing selective bets

BPM

- Acquiring **digital** capabilities and expanding **multi-shore** delivery constitute the core focus
- Consolidation prevailed within CX-led players
- 2022 saw large PE bets in **RCM** and portfolio roll-ups

Public and Private Market Valuation

- Globally, public markets valuations are **near pre-COVID** levels after sharp corrections.
- Public and private markets are paying **premium** valuation to **'best-in-breed'** assets in the digital continuum or catering to industry megatrends

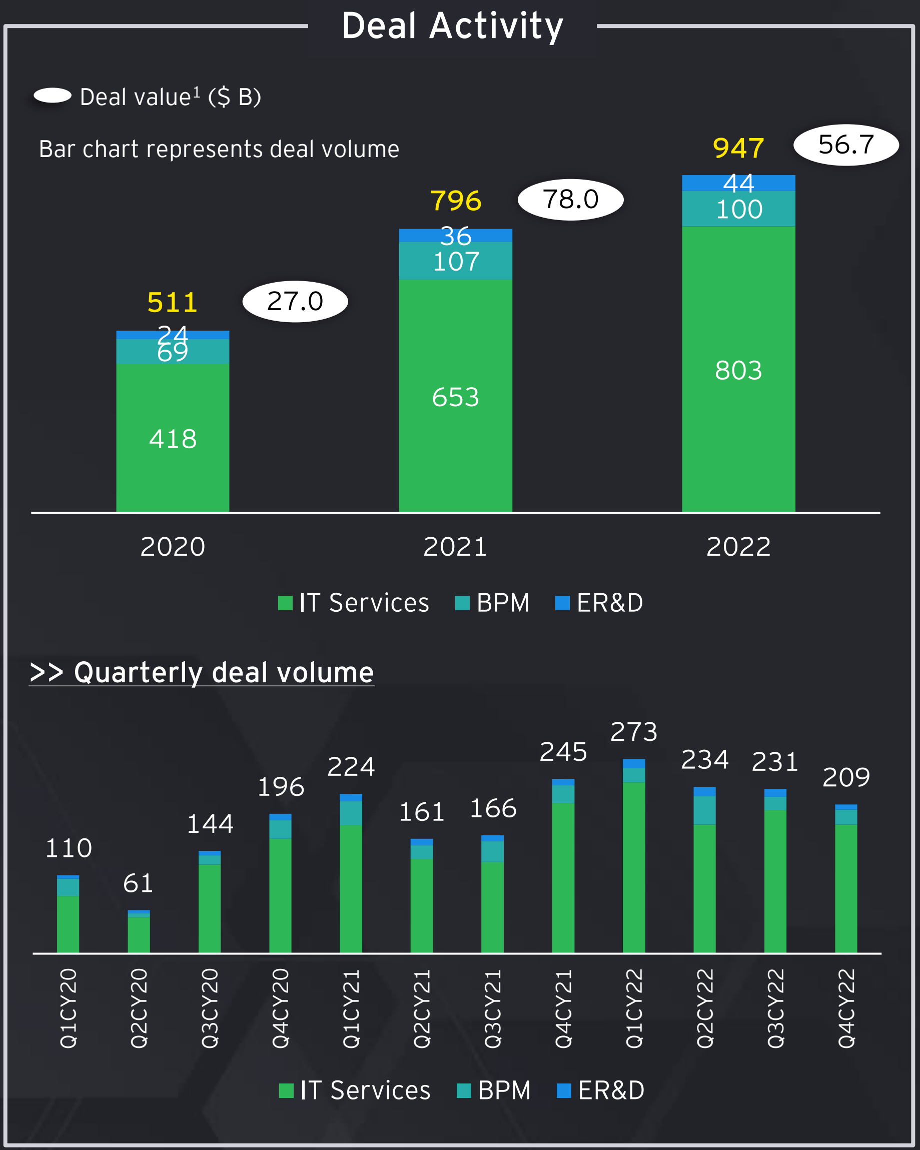
Outlook

- Deal activity **softened** in **Q1 CY23**
- Select pockets of strategic buyers and PE roll-ups are expected to drive deal momentum
- PE is expected to be cautious on large deals, till the demand environment stabilizes
- Buyers expected to be reticent and adopt creative deal structures to manage the spreads

Overview

2

Buoyant deal activity – deal value and volume doubled since 2020



- 2022 saw record deal volume across industry segments. IT services and ER&D segments stood out, with activity levels exceeding the previous five years. Deal volume in the BPM segment increased significantly in 2021 and remained stable in 2022.
- A strong demand environment, driven by an increase in digital spending following the pandemic, as well as supply-side challenges, has sustained transaction activity over the last two years. Interestingly, we noticed distinct shifts in technology hot spots/priorities within the broader cloud and digital themes in the last two years.
- Expansion in the buyer universe with board participation across the strategic buyer group was observed, with a number of first-time buyers and few placing multiple bets in a single year. More specifically, PE investors have contributed to the significant increase in transaction volume through direct investments and roll-ups. Interestingly, incumbents were looking to establish a distinct competitive edge as it was evident in variations in their acquisition priorities.
- The deal value jumped 2x from 2020 levels but was flattish across 2022/2021 (excluding two $10 B deals in 2021). The buyers appeared inclined toward tuck-in acquisitions. Deals valued at more than $500 M came down from 30 in 2021 to 23 in 2022 (IT Services: 16, BPM: 7) . Interestingly PE investors orchestrated 15 of the 23 large deals in the industry.
- The notable mega deal of 2022 in IT Services was the $7 B merger of LTI and Mindtree (IT services) . CloudMed - R1 RCM ($4.0 B) and Vinci Energies – Kontron ($400 M) were the largest[1] deals in the BPM and ER&D segments respectively.
- Slight decline in deal activity was noticed from Q2 CY22 onwards. However, it remained higher than corresponding periods of 2020 and 2021. In the backdrop of macro factors and reduced spending forecast, buyers appear to be in a wait and watch mode – resulting in selective deal making. Interest in quality assets and their valuation have sustained thus far in this slowdown.

Notes: 1. Based on transactions where deal values were disclosed.

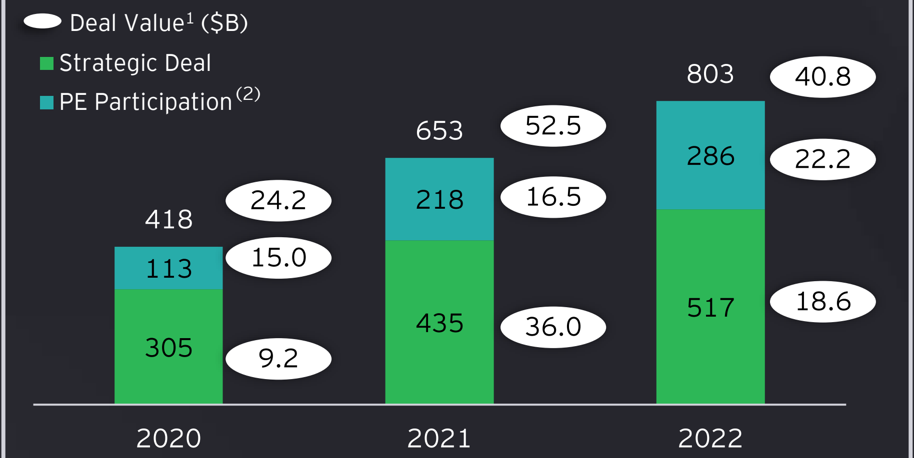
Source: MergerMarket, PitchBook, Press Releases, EY Analysis.

IT services M&A and fund-raising activities

3

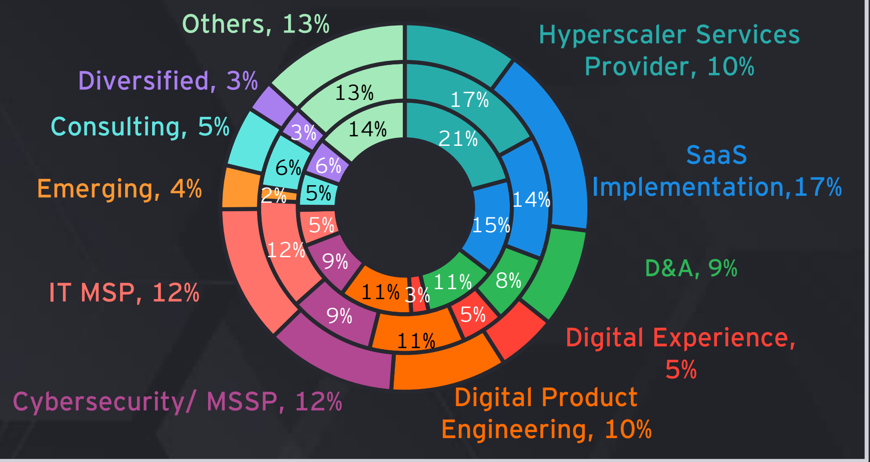
Broad based buyer participation driving record deal activity

Deal Activity



>> IT Services sub-segment deal analysis (as % of deal volume)

Inner Circle: 2020, Mid Circle: 2021, Outer Circle 2022



Elevated deal activity across the buyer spectrum

PE interest at a hight point compared to the past 5 years

- The PE space saw a 2.5x jump in deal volume in 2022 compared to 2020.
- PE dominated the large deal ($500 M+) segment with a 62.5% share in 2022 and 50% in 2021.
- Buyout/majority deals sharply jumped to ~40% in 2022, after a relatively flat 2021.
- 2022 had a ~4x jump in add on acquisitions by PE portfolio companies as compared to 2020.

Strategic buyers across the scale spectrum pursuing inorganic growth/expansion

- Unique buyers increased from ~200 in 2020 to ~350 in 2022.
- ~60 players acquired more than 1 asset in 2022.
- Big4s[3] were a highly acquisitive (38 deals, 2x of 2021) buyer group.
- Accenture (29 deals) was the most acquisitive, followed by Capgemini (8 deals).

Focus on gaining depth and specialization in the cloud value chain

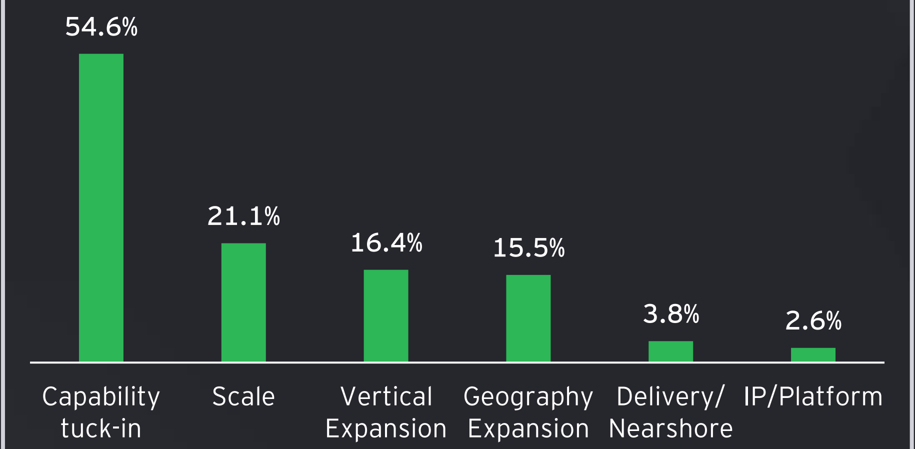
M&A spends in 2022 indicate a subtle shift towards SaaS implementation capabilities. Additionally, interest in Digital Product Engineering (DPE) and Cybersecurity/MSSP continued to prevail.

- SaaS implementation, when combined with D&A and DX[4], suggests an acceleration in building capabilities across the SaaS ecosystem. Salesforce, SAP, ServiceNow, Snowflake were the most sought-after capabilities. PE and PE portfolio companies supported high interest in this segment.
- Digital Product Engineering (DPE) witnessed high interest from strategic buyers and PE investors alike. Scaled DPEs attracted interest from PE investors and PE portfolio companies are prioritizing vertical capabilities and expansion of delivery footprint. Emerging tech areas like AI, microservices, vertical specialists, delivery footprint expansion to address talent crunch are driving strategic buyers' interest.
- Cybersecurity/MSSP deal volume increased by ~150% compared to 2020. The exponential growth is driven by MSSPs seeking to expand regional footprints or acquire talent in fast-growing areas (e.g. XDR). Furthermore, active PE interest is adding to deal velocity.

Note: 1. Based on transactions where deal values were disclosed; 2. PE Participation includes PE majority, PE minority and transactions made by PE portfolio companies; 3. Big4s include EY, Deloitte, KPMG & PWC; 4. Digital Experience or DX includes services provider which offer UI/UX, experience engineering and implementation partner of Digital Experience Platforms like Adobe, Sitecore, Salesforce etc.
Source: MergerMarket, PitchBook, Press Releases, EY Analysis.

Strategic buyers' M&A imperative – capability tuck-in tops the chart

Drivers of Strategic Acquisitions



Note: The above chart considers all transactions by strategic buyers and PE portfolio companies in 2022. As some of the transactions have more than one rationale, the sum total of all the bar charts will not add to 100%.

- Digital native players, Big4s and IT MSPs leveraged acquisitions to expand into new markets or reinforce their presence in existing geographies.
- ANZ, South-East Asia, Nordic countries and UK are new geographies with high deal activity compared to previous years.
- Strategic investment in products to build differentiated offerings or lock-in preferential access to technology is an emerging theme.

Capability tuck-in – expanding technology competencies

Acquirers are scouting for new-age competencies to stay ahead of the curve in an industry disrupted by the rapid pace of innovation.

Most sought-after capabilities are in the ecosystem of hyper-scalers and SaaS powerhouses, a phenomenon consistent with pre-COVID days. 2022 witnessed the emergence of niche themes amongst tuck-in acquisitions comprising Metaverse, AR/VR, IoT, Low Code No Code, Hyper-automation and ESG.

Scale - consolidation play in a fragmented segment

The highly fragmented IT MSP and MSSP subsegment, with 50,000 regional players in USA, is swiftly consolidating. IT MSP or MSSP contributed to more than two-thirds of the transactions where scale was the key. PE investors are also playing an instrumental role through platform-led roll-up acquisitions.

Vertical strengthening – key for differentiation

Razor-sharp focus on deepening vertical expertise to create differentiation is high on the M&A agenda of incumbents, notably amongst Digital Native and Large Global IT Services companies.

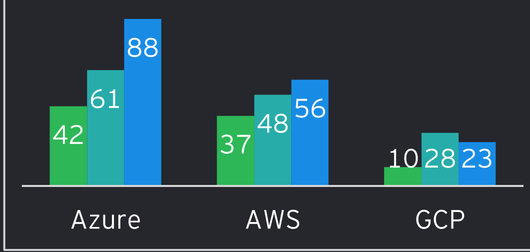
Increasing adoption of cloud has made stitching together a la carte applications easy – building a package of similar use cases within single industry vertical. Hyper-scalers are capitalizing on this opportunity by introducing Industry Cloud solutions helping end clients be more nimble. More specifically, industry specific new age SaaS solutions like Avaloq, Finastra (Financial services), Veeva, Reltio (Life Sciences) have emerged in addition to traditional software vendors.

Source: MergerMarket, PitchBook, Press Releases, EY Analysis.

Partner ecosystem of leading software vendors – focal point of capability tuck-ins

High demand for new age competencies in hyper-scaler ecosystems

>> Deal volume in 2020, 2021, 2022



Demand for Azure competencies increased multi-fold with Microsoft's leadership position[1] in the hyper-scaler ecosystem and focus on continuous product innovation. Competencies in AI/ML, Analytics, Power App, Kubernetes are high in demand. AWS and GCP are also not far behind.

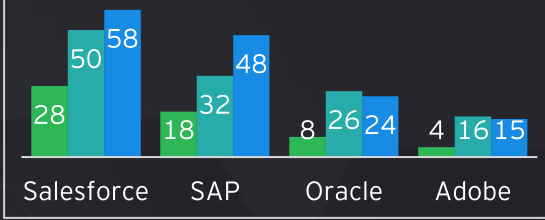
Hyper-scalers' collaboration with other software vendors (e.g. SAP on Azure/AWS, Databricks on Azure, AWS and Salesforce) has further expanded the horizon. Strategic buyers continuously evaluate opportunities to bridge skill-gaps in such high value competencies.

7 Kubernetes transactions

5 Hashicorp transactions

Deal activity in horizontal application partner ecosystem

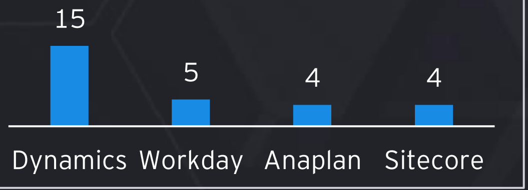
>> Deal volume in 2020, 2021, 2022



Reinforcing its dominant position in the CRM and digital experience space, Salesforce[2] continues to be a must-have competency for service providers. Deal momentum picked up noticeably in the ERP/ERM and SCM partner ecosystems – specifically in SAP.

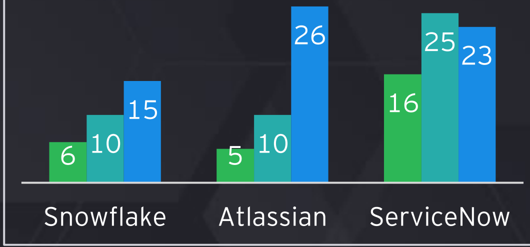
Competencies in horizontal application ecosystem comprising other vendors such as Dynamics, Workday, Infor, Epicor, Anaplan and experience management tools like Acumatica, Sitecore, Shopify is increasingly becoming central to end-to-end service providers.

>> Deal Volume in 2022



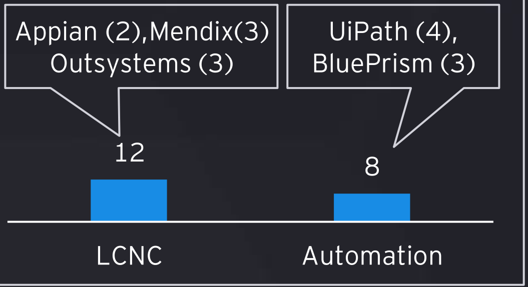
Emergence of new-age business critical SaaS ecosystem

>> Deal volume in 2020, 2021, 2022



The emergence of cloud has resulted in multiple new technology ecosystems to co-exist. Cloud-based data platforms, workflow management tools are now central to business agility discussions. This trend translated into record high M&A in Snowflake and Atlassian partner ecosystem in 2022.

Emerging technologies, including Low Code No Code, Hyper-automation and RPA, are bringing nimbleness and efficiency in business critical processes and are gaining traction with services providers.

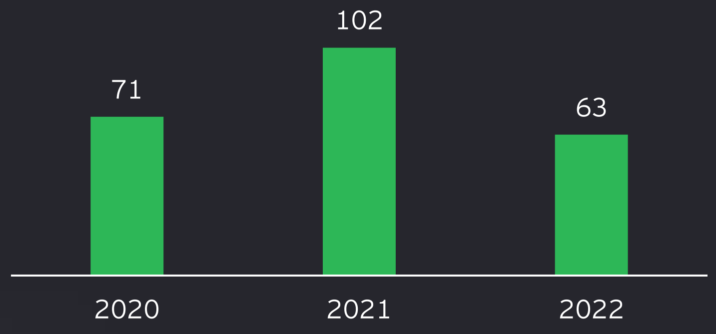


Notes: 1. Microsoft has the largest market share of PaaS and SaaS as per IDC's Worlwide Market share report; 2.Salesforce has the second largest market share of SaaS as per IDC's Worldwide SaaS market share report.

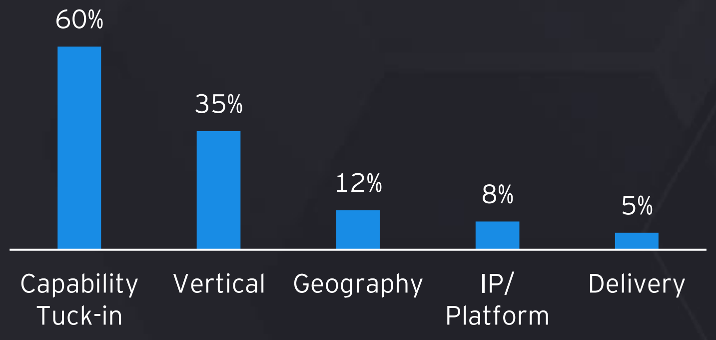
Source: MergerMarket, PitchBook, Press Releases, EY Analysis.

Large Global IT Services[1] – frontrunners in betting on emerging technologies

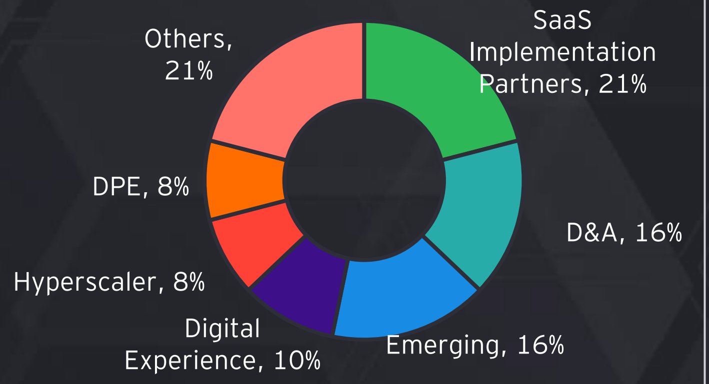
Deal volume



Strategic rationale (2022)



Capability- focus (2022)



- Selective approach to M&A resulted in 45% decline in deal volume in 2022 as compared to 2021.
- IBM's acquisition of Octo ($1 B), Wipro's acquisition of Rizing ($540 M), TechM's acquisition of Com Tec Co ($354 M) are the top 3 acquisitions by deal value.
- Differentiated capabilities in cloud ecosystem: 2022 saw a paradigm shift in adding best-in-class competencies across the cloud value chain, including cloud native app dev, API integration, containerization and data engineering. There was active M&A interest in SaaS implementation partner ecosystem of SAP (6), Salesforce (4), Oracle (3), ServiceNow (2).
    - NTT Data – Apisero (MuleSoft), Aspirent (Snowflake, Databricks)
    - Wipro – Rizing (SAP)
    - Cognizant – Utegration (SAP), OneSource (Workday)
- Building deep domain expertise: Asset management, insurance, clinical and regulatory solutions in life sciences, utilities were key domains. Interest in acquiring implementation partners of vertical specific solutions like Avaloq, Finastra, Guidewire, Veeva, Reltio etc. is a noticeable trend of 2022.
    - HCL – Confinale (BFSI – Avaloq Partner)
    - Infosys – BASE Life Sciences (Veeva)
    - Tech Mahindra – ComTecCo (Insurance), Thirdware (Automotive)
- Emerging themes: Automation, Low Code No Code platform, IoT, Metaverse, ESG consulting are no longer just buzz-words. Incumbents are now adding these to their M&A priorities. Accenture executed 9 acquisitions - ESG (4), Automation (3) and Metaverse (2).
    - Accenture – Cintoo, Strivr (Metaverse/VR)
    - Accenture – Carbon Credentials, Avieco (ESG)
    - Capgemini – Knowledge Expert (LCNC)

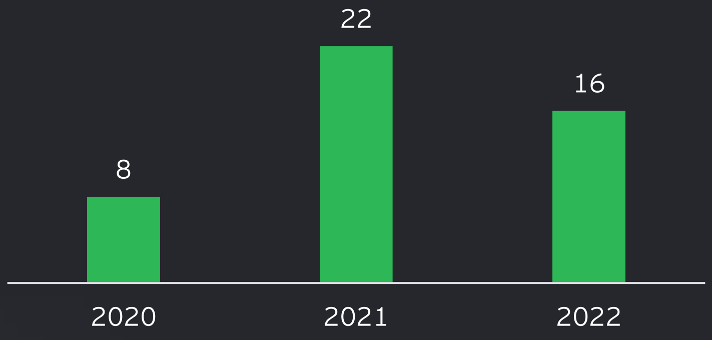
^ Illustrative transactions

Notes: 1. Includes Accenture, TCS, Infosys, Wipro, Cognizant, Capgemini, IBM, HCL, Tech Mahindra, NTT Data, Atos, CGI, DXC Technology, Fujitsu, Hitachi, NEC.

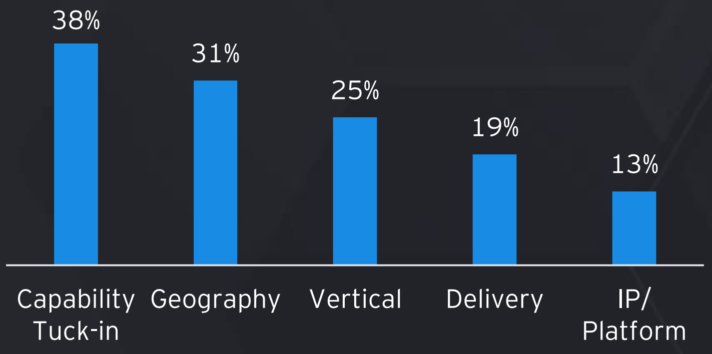
Source: MergerMarket, PitchBook, Press Releases, EY Analysis.

Digital Native[1] – continue to expand geography presence and build vertical capability

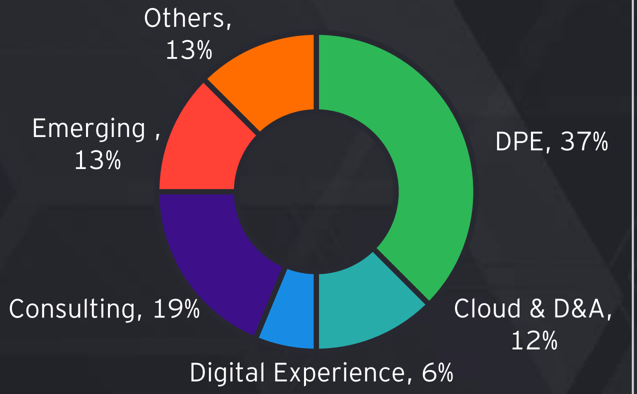
Deal volume



Strategic rationale (2022)



Capability- focus (2022)



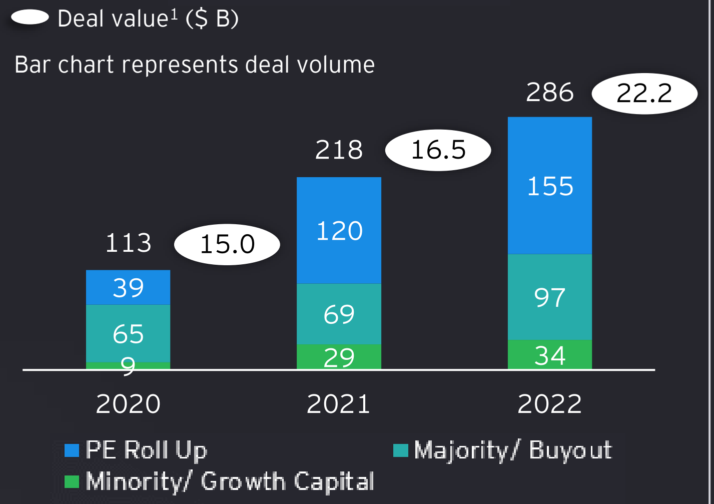
- **Geographic expansion and reinforcing existing presence:** EPAM, Globant and Endava added new markets, reinforced existing presence (Europe, Australia) and expanded nearshore delivery locations (Vietnam, Serbia). Grid Dynamics, another company disrupted by the Russia-Ukraine crisis, expanded its offshore delivery in India through the acquisition of Mutual Mobile.
  - Endava – Lexicon (Enhance presence in Australia & nearshore delivery in Vietnam)
  - Globant – Sysdata (Expansion in Italy)
  - EPAM – Vivify (Expansion in Serbia)
- **Focus on deepening BFSI specific capabilities:** BFSI constitutes 40-50% of the verticals for top Digital Native players. Their priority remains doubling down in specific domains like insurance, wealth management, micro-finance and co-operative banking, where end-clients are facing digital disruption. Augmenting implementation capabilities of specialized software, like Temenos and Guidewire, was an added dimension to deepen capabilities in the domain.
  - Endava – Business Agility (Guidewire)
  - Nagarro – TechMill (Temenos)
  - Endava – Lexicon (Marquee clientele in insurance and wealth management)
- **Heightened interest in product-oriented acquisitions:** Service providers are altering their business models and establishing a portfolio of products (IPs/platforms) to achieve competitive advantage. Players like Globant[2] and EPAM acquired product-oriented companies with a potential to turn them into scalable platforms. Globant became one of the first leading digital players to invest in a low-code platform.
  - Globant – GeneXus (Low-code development platform)
  - EPAM – Superhub (DevOps automation platform developer)

^ Illustrative transactions

Note: 1. Top Digital Native players include EPAM, Globant, Endava, Happiest Minds, Kainos, Nagarro, ThoughtWorks, Grid Dynamics, Netcompany;
2. Acquired Walmeric in July 2021, a firm specialized in developing marketing automation technology. This was Globant's first product-oriented acquisition.
Source: MergerMarket, PitchBook, Press Releases, EY Analysis.

High PE interest representing a third of all deals, albeit placing much larger bets

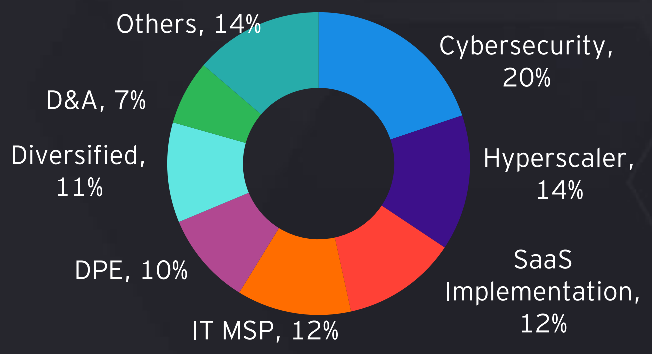
Deal Activity



- The past 5 years recorded the highest investments and activity levels.
- 2022 logged 7 out of 10 *'billion-dollar plus'* transactions.
- The largest buyout deals in the past year, included The Carlyle Group -ManTech International ($4.2 B), Berkshire - Ahead ($3.0 B) and Bain Capital - Inetum ($2.1 B).
- Abry Partners (3), Advent (2), Bain Capital (2), Brighton Park (2), H.I.G. Capital (2), KKR (2) and Recognize Partners (2) were among the more active investors.

PE Direct[1]

Investment themes (2022)



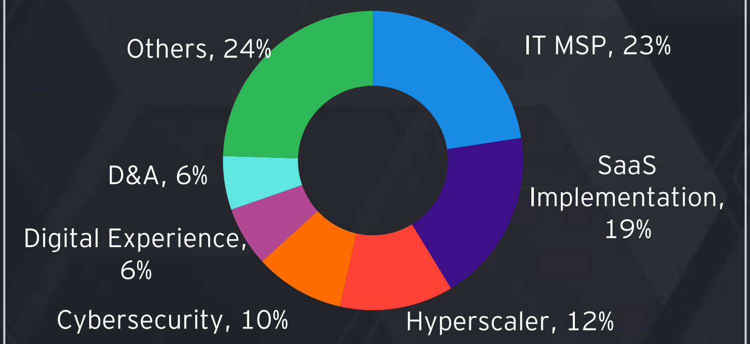
- Large and mid-market PE investors are building specialized platforms across similar interest areas
- Digital-first company owners opted for growth capital for scale and differentiation, thereby increasing velocity of minority transactions.
- Partial liquidity by existing PE investors emerged as another minority deal vector.

Notable deals:

Cybersecurity: KKR - NetSpi, Temasek -BlueVoyant
DPE: Bain Capital - Citius Tech, FTV - DataArt
D&A: TPG - Fractal, Brighton Park - TheMathCo.
Hyperscaler: Charles Thayne Capital - nClouds

PE Roll-up[2]

Investment themes (2022)



- While 2021 was the year of new digital platform creation, 2022 turned out to be year for roll-ups.
- Aggressive roll-ups played an instrumental role in fuelling IT MSP consolidation.
- Atlassian (11), Salesforce (9), Dynamics (5), Oracle (5) top the chart of SaaS implementation partner ecosystem-led roll-up.

Notable deals:

IT MSP: Logically (The Riverside) - CornerstoneIT, Ntiva (Southfield Capital) - MXOtech
Hyperscaler: Thrive (Court Square Capital) - DSM
DX: Emtec (Kelso & Co.) - Definition6

Note: 1. PE Direct - Direct Investment by PE into the company 2. PE Roll-Up - Acquisition by PE portfolio company.

Source: MergerMarket, PitchBook, Press Releases, EY Analysis.

nasscom EY

Varied PE strategies to leverage the digital adoption wave

PE backed platforms have been aggressively building scale through multiple acquisitions over a period. Although fewer platform were created in 2022, the existing ones were highly acquisitive.

New Platforms

Supply Chain (SAP) Consulting — Nov'22
BV Investment Partners owned
Novigo and **Krypt** merged and rebranded as **ArchLynk**

Appian Specialist — Jul'22
Washington Harbour Partners owned
CollabraLink acquired **Groundswell Consulting** and rebranded as **GroundsWell**

GCP Specialist — Jan'22
Sunstone Partners owned
Cloudbakers and **Qwinix** merged and rebranded as **66Degrees**; acquired **Pandera** as bolt-on

Existing Platforms Rolling Up

Atlassian Specialist — Dec'21
JLL Partners owned
Modus Create made 4 add-on acquisitions: **Twybee, Tweag, Promptworks, Atlas Authority**

DX Specialist — Jul'21
BC Partners owned
Valtech made 6 add-on acquisitions: **Absolunet, TBG, Evident, Union, Wings it, Appsolutely**

ERP/ERM Specialist — May'21
Trinity Hunt Partners owned
Argano made 4 add-on acquisitions: **MS3, Echelon, NorthPoint, InTheKnow**

Salesforce Specialist — May'21
Sunstone Partners, Delta-V Capital, Salesforce Ventures funded
OSF Digital made 4 add-on acquisitions: **Datarati, Oegen, Arin, Kolekto**

Hyper-automation Specialist — Feb'21
Thomas H. Lee Partners owned
Ashling Partners made 2 add-on acquisitions: **Touch Intelligent Solutions, FourTens**

Digital Product Engg — Feb'21
New Mountain Capital owned
Accolite Digital made 2 add-on acquisitions: **TeamTek Consulting, Xerris**

Investment in Public Companies

- Blackstone acquired R Systems' 52% stake; to launch a delisting offer to acquire the remaining 48%.
- Carlyle acquired ManTech International at $4.2 B to take it private.
- Centerbridge and Bridgepoint Partners acquired CSI at $1.6 B by delisting from OTCQX market.

Transformational Play

This involves acquiring assets at attractive valuations and then growing them, organically and inorganically, through the digital continuum.

- The Acacia Group acquired The Baer Group to create a large digital-first company by leveraging a diverse and skilled resource pool.
- Recognize Partners acquired Blend360 to build a niche D&A company.
- H.I.G. Capital made growth investment into GDT to propel GDT's digital business.

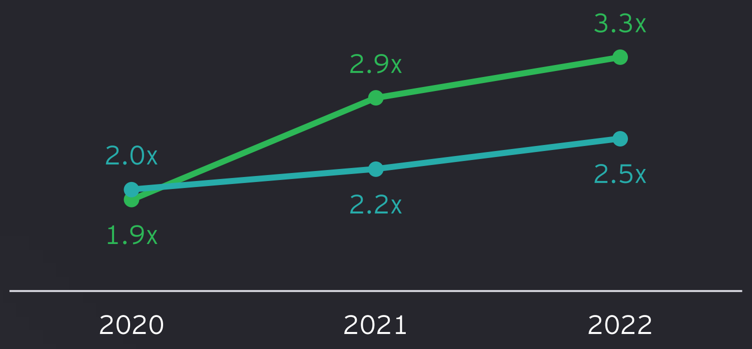
Note: Transactions presented on this page are illustrative in nature.

Source: MergerMarket, PitchBook, Press Releases, EY Analysis.

Healthy private market valuations are accelerating PE exits

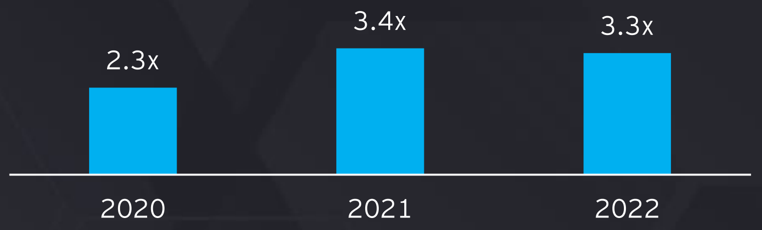
Resilient Valuation

>> Median EV/Revenue (PE Participation, Strategic Deal) (1)



PE investors continued to pay significantly higher premium than strategic buyers for niche digital assets

>> Median EV/Revenue (PE Exit) (1)



Exit valuation in the first half of 2022 held on to 2021 level. In the second half, despite muted environment, a few scaled assets commanded scarcity premium thus keeping the average level similar to 2021.

Rise in PE exits despite muted macro-economic environment

There were 55+ notable PE exits (~60% in first half and ~40% in second) in 2022 as compared to 43 in 2021 and 24 in 2020. Strategic buyers and other PE investors drove these exits and almost one-third of these exits were PE recapitalizations.

Target Company	Acquirer	Exited by	Deal Value/Indicative Valuation
Rizing	Wipro	One Equity Partners	$540 M/~2.8x Revenue
WillowTree	Telus	Insignia Capital	$1,200 M/~6.0x Revenue
Ness Digital	KKR	The Rohatyn Group	$ 600-700 M/NA
Citius Tech	Bain Capital	BPEA EQT	$950-1,000 M for ~40% stake/NA

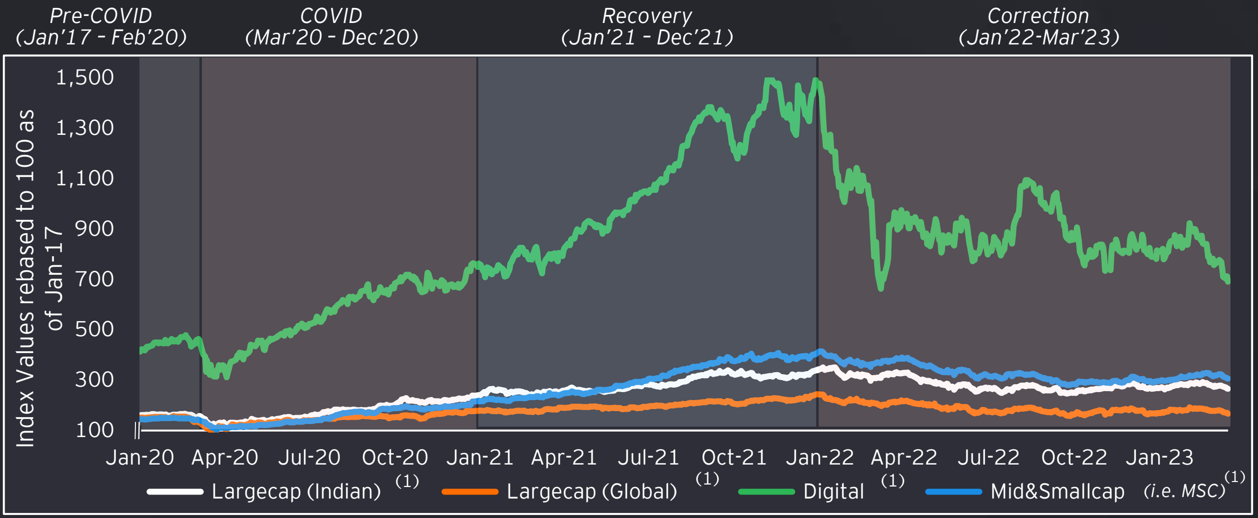
Increasing trend of shorter investment horizon

The investment horizon has shortened from typical 5-7 years to less than 3 years as PE investors look to take advantage of rich valuations in the private market.

Target Company	Acquirer	Exited by	Investment Horizon
Glide Fast Consulting	ASGN	BV Investment Partners	**21 months** *(Invested in Sep'20, exited in Jun'22)*
Ahead	Berkshire Partners	Centerbridge	**24 months** *(Invested in Oct'20, exited in Sep'22)*
Odin	Apax Partners	Fortino Capital Partners	**32 months** *(Invested in Jul'19, exited in Feb'22)*
RafterOne	Inter Public Group	BV Investment Partners	**23 months** *(Invested in Dec'20, exited in Oct'22)*

Note: Transactions presented on this page are illustrative in nature.
1. Based on deals where multiples were reported.
Source: MergerMarket, PitchBook, Press Releases, EY Analysis.

Select Mid and Small Caps outperformed over a three-year period in public markets

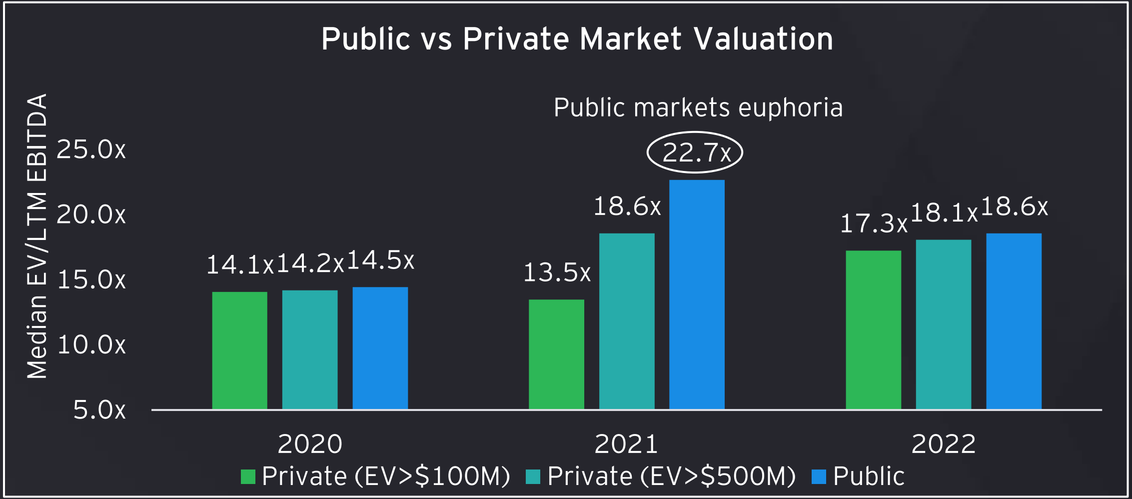


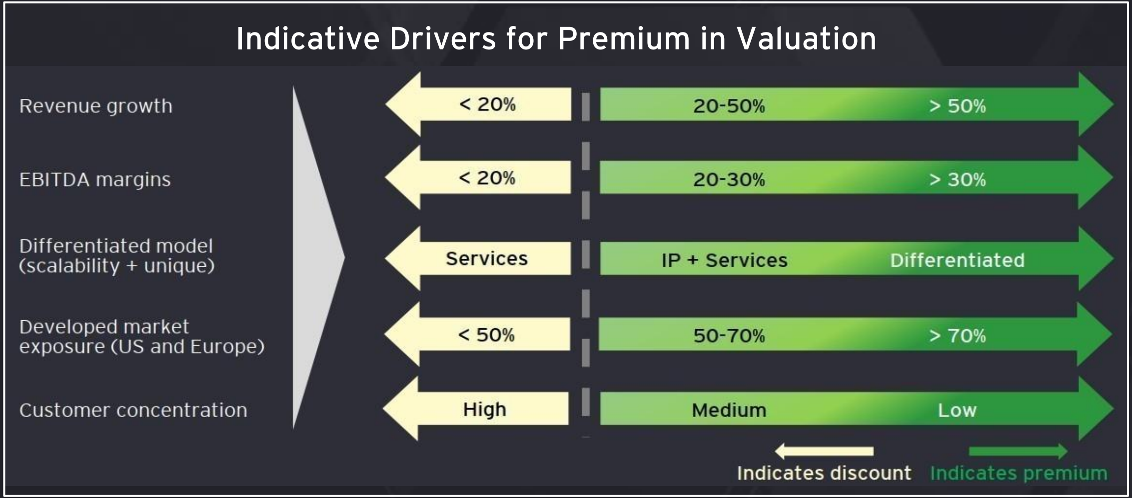
Metric/Period		Pre-COVID (Jan'17 - Feb'20)	COVID (Mar'20 - Dec'20)	Recovery (Jan'21 - Dec'21)	Correction (Jan'22 - Mar'23)
Largecap (Global)	Median LTM EV/EBITDA	12.9x	13.2x	16.7x	12.5x
	Ann. Return	10%	39%	35%	(27)%
Largecap (Indian)	Median LTM EV/EBITDA	15.0x	16.0x	21.6x	18.5x
	Ann. Return	14%	73%	45%	(20)%
Digital	Median LTM EV/EBITDA	28.6x	45.0x	57.0x	28.6x
	Ann. Return	62%	83%	87%	(45)%
MSC	Median LTM EV/EBITDA	9.4x	8.1x	21.3x	14.9x
	Ann. Return	12%	65%	91%	(22)%

Strong performance despite sharp correction	► Since 2022, steepest correction was observed in Digital (**-45%**), followed by Largecap Global (**-27%**). Between Mar'20 and Mar'23, Digital and Mid and Small Caps (MSC) returned **14%** and **29%** respectively *(Annualized return)*.
Markets favour profitability amid downturns	► Largecap (Global) valuation ballooned to **~17x** in 2021 and corrected around the pre-COVID median of **~13x** in 2022/23. However, markets continue to reward the sustained and profitable growth demonstrated by Largecap (Indian) with their multiples soaring to **~22x** in 2021 and correcting to **~19x** *(23% above pre-COVID level)*. ► Public Markets focus in 2022/23 is shifting towards profitability. Correlation between valuation and EBITDA margin spiked to 0.7 (2022/23) from 0.3 (2021).
Broad-based correction in digital premium	► Digital assets historically traded at 100%+ premium to other assets. The premium spiked to 167% in the recovery period before narrowing to ~90% in the correction period. Souring macroeconomic expectations, geopolitical unrests and leapfrogs by diversified players in digital contributed to shrinking premium (*~65% in Jan-Mar'23*).
MSC discount is shrinking	► MSC traded at a discount to Largecap (Indian) during the pre-COVID phase, but their valuations converged in 2022. Despite the market correction, MSC discount remains at 19% to Largecap (Indian) (compared with 37-49% earlier), led by rising demand for digital projects. Acceleration of digital transformation during/after the pandemic provided additional growth opportunities to MSCs by leveraging nimbler teams to execute cloud and digital engineering projects.

Note: 1. Largecap (Indian): TCS, Infosys, Wipro, HCL, TechM; Largecap (Global): Accenture, Capgemini, Cognizant, Atos, DXC, CGI, NTT Data; Digital: EPAM, Globant, Endava, Thoughtworks, Nagarro, Happiest Minds, Latent View; MSC: Coforge, Mphasis, Persistent, Perficient, Zensar, Kin&Carta, Mastek, Birlasoft, Sonata.
Source: S&P Capital IQ and Refinitiv; EY Analysis from Jan-2017 through Mar-2023.

Digital assets with strong fundamentals to command premium in private markets





Lower correction in private markets but high caution	▸ Moderation of multiples in private markets has been less acute than public markets. However, the median valuation level in H2 CY22 (11.6x EV/EBITDA) is lower than in H1 CY22 (15.5x EV/EBITDA) indicating a downward sloping trend. ▸ Buyers are exercising higher levels of caution with lower proportion of upfront cash payments, longer tenure of earn-outs, increased scrutiny of growth during the COVID period and deeper analysis of technical competence/differentiation in digital sub-domains.
Market values scale	▸ In a fragmented market, scaled assets receive a premium as buyers flock towards a limited pool of differentiated and scaled targets. Valuations for assets with unique capabilities, even at a medium scale ($100 M EV and above) increased considerably in 2022 compared to 2021, as buyers/investors started increasingly discerning the quality of companies. As a result, high quality private assets were valued similar to listed companies.
High interest for differentiated digital assets	▸ Differentiated digital assets continue to command premium valuations in private markets. ▸ Valuation drivers include (i) strong demand for digital capabilities in emerging technologies, (ii) growing wallet share of digital projects across verticals by F500/G2000 accounts, and (iii) smaller players carving a niche in verticalized digital capabilities providing a strong growth runway for digital assets. ▸ The trend is evident in public markets as well with digital assets trading at a premium to other assets, as shown on the previous page.

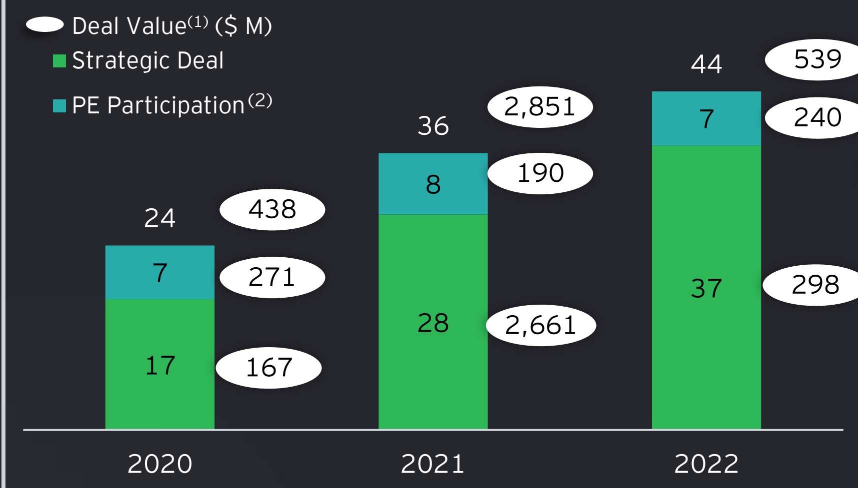
Source: MergerMarket, CapIQ, Company Reports and Filings, EY Analysis.

Engineering Research & Development (ER&D)

4

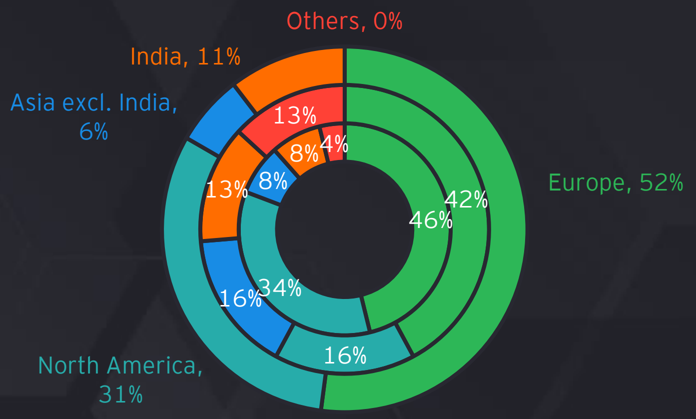
Strategic buyers leading deal activity with their focus on Europe and North America

Deal Activity



>> ER&D Deal Analysis – By Geography (% share of deal volume)

Inner Circle: 2020, Mid Circle: 2021, Outer Circle 2022



Uptick in deal activity by strategic buyers

Strategic buyers continue to fill capability gaps through inorganic route

- Deal volume was at 2.2x of 2020 levels.
- Strategic buyers have dominated total deal volume, with 75% share in the last 3 years.
- Unique buyers increased from 14 in 2020 to 25 in 2022 and 8 players made more than 1 acquisition in 2022.
- 2022 had 2 deals greater than $100 M deals(1), similar to 2021 while 2020 had no such deals. No deal above $1 B in 2022 as compared to one in 2021 (Adecco-AKKA: $2.4 B)
- Accenture (13 deals) was most acquisitive, followed by Etteplan (8 deals) and AFRY (6 deals)

Low PE participation

- Deal volume continues to remain at similar levels for all 3 years (2020-2022).
- PE deals in 2022 were primarily PE roll-ups as compared to similar number of direct investments and PE roll-ups in 2021 and 2020.
- PE investors participated in 1 deal each in the last 3 years with more than $100 M(1) deal value.

Prominent geographies adding to majority of the transactions

Europe-based target companies garnered high interest from global acquirers

- Deal volume increased by more than 100% compared to 2020 levels.
- Germany is a favoured destination, followed by Sweden, France and Finland
- The automotive industry in Germany and France is playing a pivotal role in the global transition to electric mobility. A rich ecosystem of engineering players with relevant capabilities exists in these geographies attracting buyers.

Targets in North America – Semiconductor and Industry 4.0/smart manufacturing

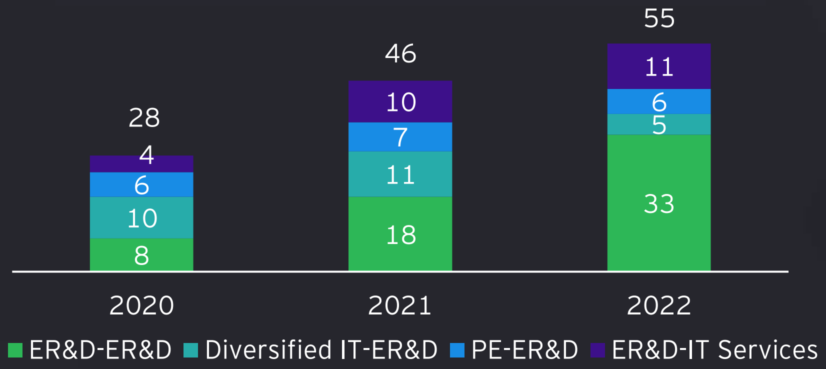
- Semiconductor design services companies are operating closer to hubs of hi-tech industries.
- Manufacturers are relocating back to US and Canada due to global supply chain disruptions, this has resulted in niche players in manufacturing automation expertise come up.

Notes: 1. Based on transactions where deal values were disclosed; 2. PE Participation includes PE majority, PE minority and transactions made by PE portfolio companies.

Source: MergerMarket, CapIQ, Company Reports and Filings, EY Analysis.

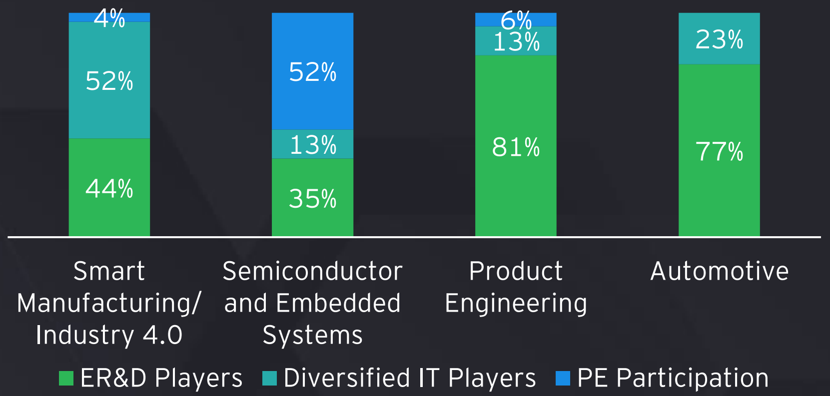
Strategic buyers' M&A imperative - consolidation and convergence with IT services

Deal activity across buyer categories



Legends: Acquirer category-Target category

>> Acquisition theme in subsegments by buyer category(1)



- Semiconductor & Embedded Systems attracted PE participation, favourable government policies (e.g. US CHIPS act) will directly/indirectly benefit the segment.
- ER&D players driving consolidation in product engineering and capability buy in automotive segment.

ER&D players repositioning themselves as digital engineering players

- Reducing the number of vendors and entrusting ER&D spend with the most trusted vendor with end-to-end capabilities is an imminent trend in the ER&D segment.
- With the growing push towards digital transformation across verticals, ER&D players traditionally focussed on execution are ramping up consulting, design and digital capabilities through acquisitions.
- Leading players like Alten (4), Expleo (4), Afry (1) have looked beyond ER&D services in 2022 acquiring capabilities in IT Consulting, DPE, Data & Analytics, Cybersecurity etc.

Global IT players focusing on building ER&D capabilities

- ER&D service emerged as added growth engine for IT services players, IT + ER&D play positions to capture a larger part of IT buyers' value chain.
- The acquisition route enables scaling high barriers to entry built upon deeply entrenched client relationships and multi-decade deals in ER&D.
- Accenture built Industry 4.0 expertise through eight acquisitions since 2020 - capabilities across automation and robotic solutions, PLM and MES. Cognizant acquired three companies in Industry 4.0 and automotive since 2020.

Market is conducive for PE interest

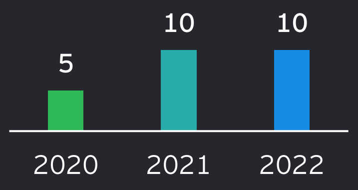
- The market is attractive for PE investors due to (a) secular growth in R&D spends (b) underpenetrated outsourcing (c) highly fragmented market (d) long term multi year customer contracts and (e) significant interest from large strategic buyers ensuring exit.
- PE investors are investing in niche players to help them scale and expand capabilities.
- Novo Tellus Capital backed Tessolve acquired P2fsemi to deepen its silicon design solutions in 2022. Bain Capital and Advent backed Quest Global acquired EXB solutions (embedded software specialist) and Adept Chips (ASIC design services and verification expert).

Note: 1.Transactions considered for the period 2020, 2021 and 2022. Analysis buyer activity by category (ER&D, IT Diversified IT and PE) into different subsegments. | ( ) indicates # of acquisitions in 2022

Source: MergerMarket, CapIQ, Company Reports and Filings, EY Analysis.

Elevated deal activity across subsegments and selective bets in automotive

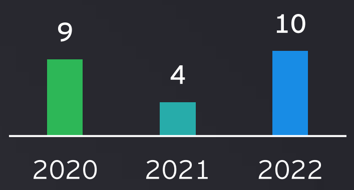
Smart Manufacturing & Industry 4.0



- Supply chain disruptions in the last couple of years accelerated digitization of factory floor for enhanced tracking, monitoring, performance and maintenance optimization.
- Demand for customized manufacturing automation and robotics solutions leveraging cloud, data and AI is a key driver for M&A (3). Consolidation is SI capabilities in PLM, SCADA and MES software (4) is happening for large vendor ecosystems such as Dassault.
- Strategic players making strategic minority/majority investment in product companies to gain access to new technologies and create differentiation is on the rise. (Etteplan – Ekkono; CT Ingenieros – Infodream; ZS -Quartic).

- Accenture – Eclipse Automation (Automation and robotic solutions), Trancom ITS (Hyper-automation)
- Technia – Desys (PLM: Dassault)
- Hitachi – Flexware Innovations (MES, SCADA)

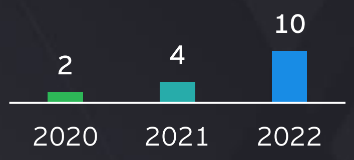
Semiconductor & Embedded Systems



- Rapid digitalization through intelligent and connected devices across verticals and demand to lay smaller sized low power silicon chips is fuelling demand for semiconductor design and embedded systems capabilities.
- Acquirers are scouting for design IP (Semifive acquired Analog Bits) and other design capabilities - ASIC front-end design expertise (4). Embedded systems players are leveraging M&A to rapidly deepen domain expertise in highest R&D spend verticals such as aerospace, defence and med-tech (4).

- Quest Global – Adept Chips (ASIC design and verification)
- Accenture – XtremeEDA (Digital design verification)
- Prevas – BitSim Now (Embedded systems specialist)

Product Engineering



- Demand for CAE capabilities in simulation and analysis has grown multi-fold with the transition from physical prototype in product development to digital twins entailing lower cost of product R&D and faster feedback loops.
- There is a strong interest in Dassault Systemes' partner ecosystem focussed on modelling and simulation (2), industrial design capabilities with a focus on UX (ergonomic and efficient) (1), technical information lifecycle management (2).

- Technia – JBL Technologies (Dassault systems: Simulia), Claytex (Dassault systems: Dymola)
- Prevas – Myra (UX led industrial design services)

Automotive

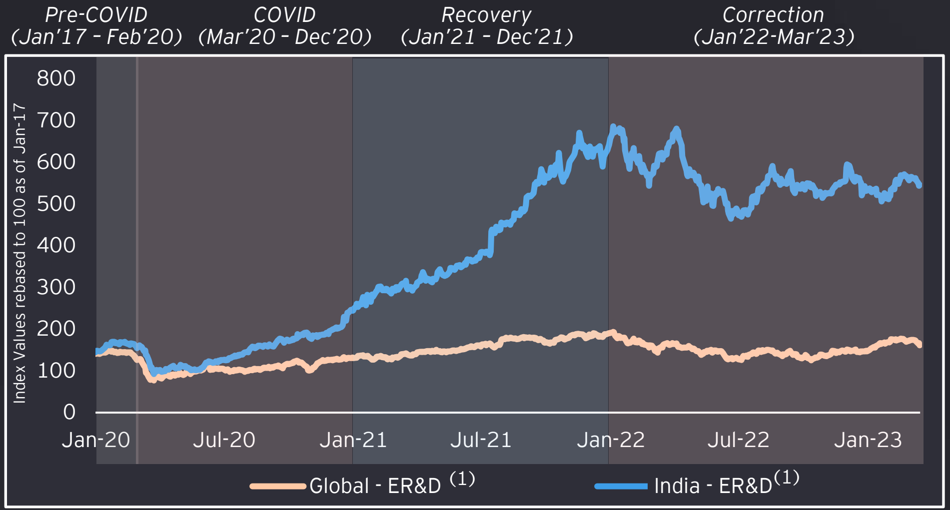
- The automotive industry is transitioning to SDV fuelled by the global CASE mobility trend.
- Deal activity has cooled down from 2021 highs but service providers continue to acquire for deep domain expertise at global scale to win in front of OEMs. Acquiring capabilities in electric mobility, SDV, ADAS are dominant underlying themes.

- KPIT – Technica (EV architecture), Somit solutions (Aftersales vehicles diagnostic platform)
- Hinduja tech – Drive System Design (Electrified propulsion system design and development)

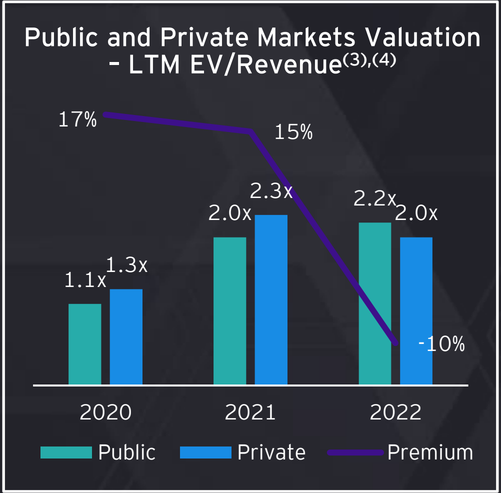
Note: ( ) indicates # of acquisitions in 2022; Select transactions presented are illustrative in nature.

Source: MergerMarket, CapIQ, Company Reports and Filings, EY Analysis.

Digital and offshore capabilities driving premium public market valuation after COVID



Period/Metric		Pre-COVID (Jan'17 - Feb'20)	COVID (Mar'20 - Dec'20)	Recovery (Jan'21 - Dec'21)	Correction (Jan'22 - Mar'23)
Global ER&D	EV/LTM EBITDA	10.1x	8.0x	12.7x	9.2x
	EBITDA margin(2)	6%-12%	5%-11%	5%-11%	6%-11%
	Ann. Return	8%	3%	46%	(14%)
India ER&D	EV/LTM EBITDA	14.9x	12.7x	29.2x	29.5x
	EBITDA margin(2)	10%-23%	10%-25%	11%-30%	13%-30%
	Ann. Return	15%	69%	164%	(16%)



Market return	▶ Since 2022, a similar level of correction was observed in both Global ER&D (**-14%**) and India ER&D (**-16%**). Between Mar'20 and Mar'23, Global ER&D and India E&RD returned **8%** and 50% annualized returns respectively. *(Annualized return)*
Markets valuing new-age capabilities and profitability	▶ India ER&D valuation soared to ~29x LTM EBITDA post COVID, despite market corrections in 2022/23, as compared to median multiple of ~15x pre-COVID ▶ India ER&D with significant exposure to the automotive segment is expected to gain from $250 B+ multi year spend by OEMs(3). Deep capabilities in CASE and highly mature automotive software engineering practice positions them well vis-à-vis Global ER&D focussed on automotive with service portfolio still skewed towards traditional services like vehicle design and physical engineering. ▶ Further, focus on fast-growing subsegments including Industry 4.0, 5G, med-tech, etc. is priming India ER&D for future growth.
	▶ Global ER&D is trading at a discounted median LTM EBITDA multiple of ~9x compared to ~10x pre-COVID despite no significant slowdown in ER&D services owing to lower profitability with limited/no offshore presence.
Public v/s private markets	▶ Public and private markets continue to pay scarcity premium to automotive focussed ER&D players with deep capabilities in SDV, ADAS, connected car and electric mobility. Overall private market valuation saw a correction (~10%) as compared to public market valuations.

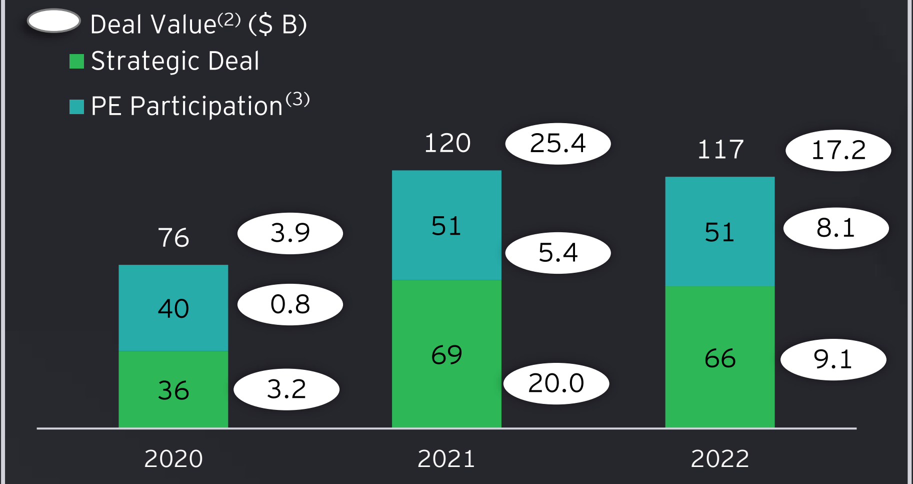
1. Global ER&D - Alten, AFRY, Etteplan, Assystems, Bertrandt and EDAG; India ER&D - KPIT, LTTS, Tata Elxsi and Cyient. 2. EBITDA % represents LTM EBITDA margin range during the period of the companies considered. 3. Based on disclosed deals data. 4. Excludes multiple for Tata Elxsi trading at significantly high revenue multiple as compared to peers; 3. Based on equity research reports estimates.
Source: S&P Capital IQ and Refinitiv; EY Analysis from Jan-2017 through Mar-2023.

Business Process Management (BPM)

5

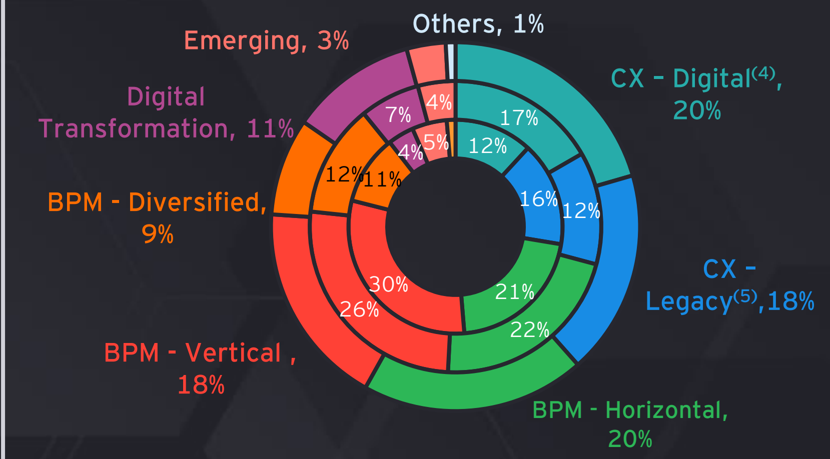
PE interest and building deep specialization (tech or domain) driving deal momentum

Deal Activity[1]



>> Sub-segment deal analysis (as % share of deal volume)

Inner Circle: 2020, Mid Circle: 2021, Outer Circle 2022



PE deployment, steadily increasing in the past 4 years - highest in 2022

Large PE deals led to an increase in deal value in 2021 and 2022

- ~2x increase in the number of add-on acquisitions in 2022 over 2021, from 12 to 23.
- 7-8x increase in capital deployed when compared to 2020, from $0.9 B to $8.1 B.
- PE dominated the large deal ($500 M+) segment with 57% share in 2022 and 45% in 2021.
- Successful exits of sector portfolio companies have attracted elevated interest in the space.
- Bain Capital, BPEA, Berkshire Partners, FTV Capital, TPG are among the more active investors.

Large strategic buyers and select mid-tier players drove the deal activity in 2021 and 2022

- Deal volume of 2022 are comparable to 2021.
- A focus on smaller tuck-ins has seen a drop in large deals ($500 M+) from 6 to 3 in 2022.
- Concentrix, EXL, Genpact, Majorel, Teleperformance, Telus and WNS are the most acquisitive large buyers and Answernet in the mid-tier category.

Dominant themes - sector consolidation, CX, RCM

- Sector consolidation: As a theme it was prominent in 2022 with the competition intensifying. It was marked by the mega merger of Konecta and Comdata and AnswerNet closing 9 deals to expand contact center services. Market consolidation is expected to continue in RCM to add services lines and new technology capabilities.
- CX: The focus on talent sharpened by directing M&A spends on acquiring multi-shore delivery, enabling gig-work strategies and HR tech/talent management capabilities. Buyers are prioritizing acquisition of digital, consulting, experience design capabilities to drive non-linear growth.
- BPM - Horizontal: There are continued investments in business functions such as accounting, procurement, human resource. Companies are increasingly pivoting toward offering suite-solutions instead of point-solutions to facilitate overlapping use cases requiring both digital capabilities and BPM services.
- BPM - Vertical : Active buyer participation in RCM, from both strategic buyers and PE investors. Specialized providers with AI enabled systems or process automation tools are gaining market share in high-growth end markets such as finance, banking, insurance and healthcare.

Note: 1. Deal activity includes BPM companies acquiring 7, 13 and 17 IT Services companies in 2020, 2021 and 2022 respectively; 2. Based on transactions where deal values were disclosed; 3. PE Participation includes PE majority, PE minority and transactions made by PE portfolio companies; 4. CX - Digital includes contact centre with digital capabilities such as an omni-channel customer experience and embedded with technologies such as automation, analytics, AI; 5. CX - Legacy includes traditional customer contact centre with minimal or no digital capabilities

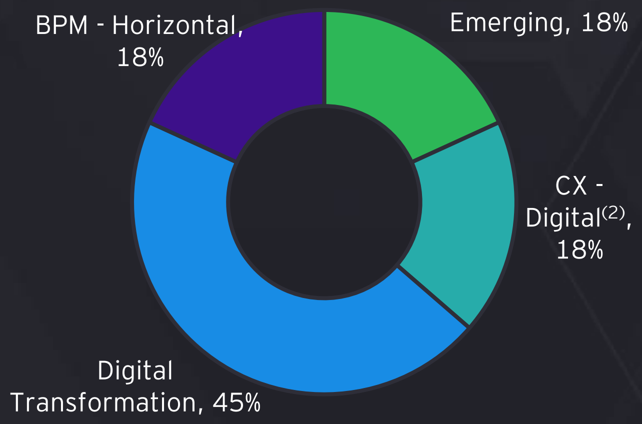
Source: MergerMarket, PitchBook, Press Releases, EY Analysis.

Strategic buyers’ M&A imperatives – adding specializations and shifting focus on talent

Deals done by active buyers (2022)

- 3 Majorel
- 3 WNS
- 2 Telus
- 1 Genpact
- 1 Teleperformance
- 1 Concentrix

Deals by sub-segments



- Since the pandemic, swift recovery in growth and profitability of outsourced CX and BPM functions has triggered better valuations.
- Large diversified BPM and CX players have been prioritizing M&A to deepen domain and digital capabilities.
  - This led to relative jump in the size of such bets in 2022 from 2021.
  - Strategic buyers are emphasizing on data, AI and automation themes to drive non-linearity (emerging technologies).
- Talent emerged as a key theme in 2022, for companies across segments. M&A was deployed towards expanding multi-shore delivery, alternate talent models and solutions.
- The depth of digital capabilities, including cloud services, analytics, automation and AI-led platforms in specialized business functions and quality of clients are in high demand and buyers are readily paying a ‘scarcity’ premium.
- Amongst the BPM vertical deals, RCM was the most active sub-segment. The mega deal in that segment was R1 RCM’s acquisition of CloudMed for $4.1 B. Billing, consulting and coding were the most traded services.
- Among BPM horizontal deals, there was heightened interest in procurement (WNS – SmartCube).

Illustrative Deals

Digital Transformation:

- Telus – WillowTree (A product engineering company with deep capabilities in experience engineering)
- HGS – TekLink (A data engineering company with competencies in SAP, Azure ecosystem)
- Genpact – HooDoo Digital (Adobe Platinum partner with deep competences in experience engineering)

Data & Automation

- WNS – Vuram (Largest Appian partner with capabilities in automation and LCNC)
- WNS – SmartCube (A data analytics company with strong domain expertise in supply chain & procurement)

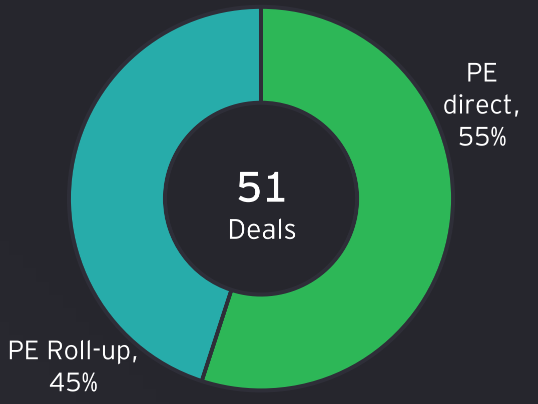
Talent/Geo M&A

- Teleperformance – PSG (Talent – Recruitment service provider)
- ResultsCX – 60K (European language capability)
- TaskUS – Heloo (European language capability)

Note: 1.Buyer analysis considered for companies with of $1B+ LTM 2022 revenue. Select transactions presented are illustrative in nature;
2. CX - Digital includes contact centre with digital capabilities such as an omni-channel customer experience and embedded with technologies such as automation, analytics, AI.
Source: MergerMarket, PitchBook, Press Releases, EY Analysis.

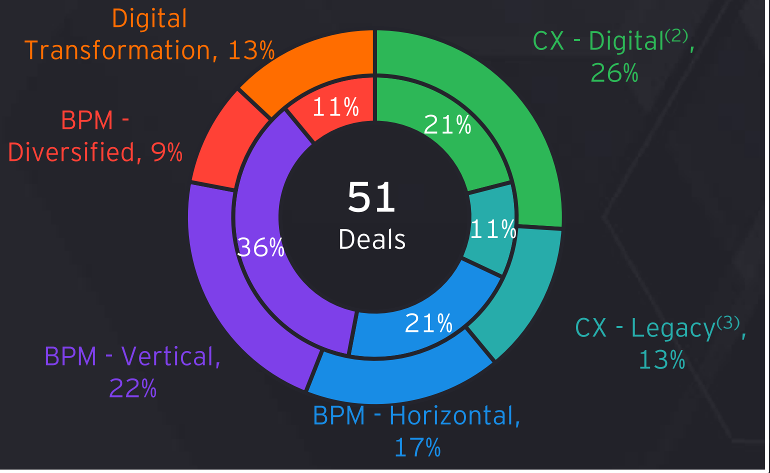
PE investors continue to drive significant deal momentum

PE deal activity (2022)



Deals by subsegments (2022)

Inner Circle: PE direct, Outer Circle: PE Roll-up



- Buy and build strategy fuelled deal activity in 2022 –
  - PE direct (55%) indicates continued investments from large and mid market PE investors across CX, horizontal BPM, vertical BPM.
  - PE roll-up (45%) indicates heightened deal activity observed in CX and RCM. Several tuck-in acquisitions were undertaken to accelerate growth, augment digital capabilities and foray into new markets
- Large PE investors' appetite was observed for digital CX focused businesses serving high- growth end markets.
- BPM Horizontal: Mid-market PE investors are building large scale platforms with broad horizontal capabilities and capabilities across emerging technologies.
- BPM Vertical: Large bets by PE investors were seen in RCM. Behavioural health & emergency segments also witnessed heightened deal activity.
- PE Exits: PE investors witnessed successful exits through strategic buyers and other financial investors. 2022 itself witnessed $10 B of activity in PE exits.

Illustrative Deals

CX - Digital:

- Bain Capital – VXI Global
- BPEA – IGT Solutions
- ResultsCX (backed by Chrys Capital) – 60K

Data & Automation:

- FTV Capital – LogicSource (Procurement)
- AS Equity & L Capital – SPS Global (Digital document processing)

BPM Vertical:

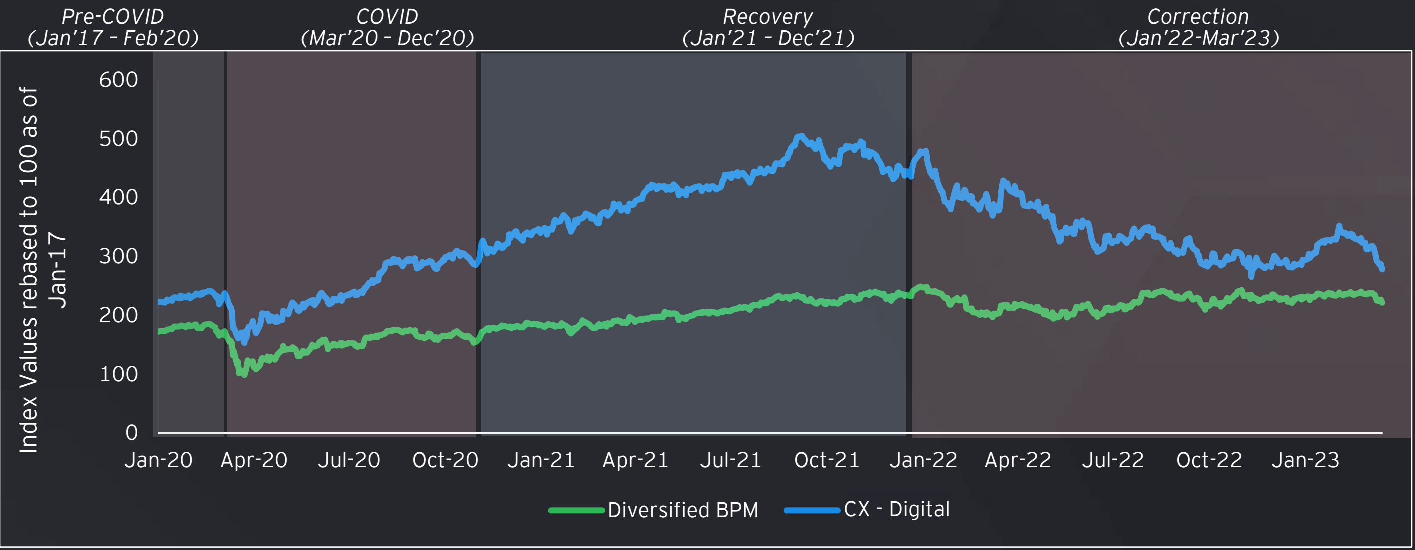
- Berkshire Partners – Ensemble Health (RCM)
- TPG Capital – ClaimsXten (RCM)
- FTV Capital – Patra Corporation (Insurance)

Illustrative PE Exits

- Konecta – Comdata ((Exit: The Carlyle Group)
- Bain Capital – VXI Global (Exit: The Carlyle Group)
- R1 RCM – Cloud Med (Exit: New Mountain)
- Telus – Willow Tree (Exit: Insignia Capital)
- BPEA – IGT Solutions (Exit: AION Capital)

Note: 1.Buyer analysis considered for companies with of $1B+ LTM 2022 revenue. Select transactions presented are illustrative in nature; 2. CX - Digital includes contact centre with digital capabilities such as an omni-channel customer experience and embedded with technologies such as automation, analytics, AI; 3. CX - Legacy includes traditional customer contact centre with minimal or no digital capabilities
Source: MergerMarket, PitchBook, Press Releases, EY Analysis.

CX companies valuation reached pre-COVID levels after soaring high in 2021



Metric/Period		Pre-COVID (Jan'17 - Feb'20)	COVID (Mar'20 - Dec'20)	Recovery (Jan'21 - Dec'21)	Correction (Jan'22 - Mar'23)
Diversified BPM	*Median LTM EV/EBITDA*	*16.4x*	*16.5x*	*15.6x*	*15.8x*
	Ann. Return	*65%*	*8%*	*37%*	*(10)%*
CX	*Median LTM EV/EBITDA*	*13.8x*	*15.3x*	*18.8x*	*12.8x*
	Ann. Return	*119%*	*48%*	*36%*	*(42)%*

CX valuation similar to pre-COVID levels	▸ CX companies' valuation increased during COVID and recovery time periods due to multiple factors, including (i) increased call centre demand, (ii) higher revenue growth, and (iii) digital focused CX companies (TaskUs, Telus, TDCX) listed in 2021 at attractive multiples. ▸ We observed correction in CX companies' valuation from ~19x in 2021 to ~13x in 2022/23, bring the multiples back to near pre-COVID levels.
Markets favour sustainable growth stories	▸ Markets value sustainable growth companies, with predictable revenue and stable margin profile. These factors led to attractive valuation multiples for Diversified BPM companies, throughout the pre-COVID to correction time frames. ▸ CX companies attracted investor interest due to their large and high growth addressable markets, focus on new economy clients and specialization in providing higher value added services.
Public companies paying premium over their own valuation[1] for digital assets	▸ With prevailing vendor consolidation, businesses are continuing to invest in emerging technologies like AI, Analytics, RPA, etc. Targets with strong digital capabilities are commanding premium valuation compared to public market valuations: Willow Tree - Telus (>6x EV/LTM Revenue)[(1)], Vuram - WNS (>6x EV/LTM Revenue)[(1)], Smart Cube - WNS (>3x EV/LTM revenue)[(1)]. These were at a premium compared to 2.7x median EV/Revenue for diversified BPM and 2.5x for CX in 2022. ▸ Valuation drivers were differentiated digital capabilities in high-end markets, niche capabilities in specialized verticals, and access to blue chip customer base.

Notes: 1. Estimated multiples basis press releases, news articles; Diversified BPM: WNS, Genpact, EXL; CX - Digitak: TaskUs, Ibex, Telus, Teleperformance, Concentrix, TDCX, TTEC, Majorel, FirstSource. All multiples basis LTM EV/EBITDA unless specified otherwise.
Source: S&P Capital IQ and Refinitiv; EY Analysis from Jan-2017 through Mar-2023.

Outlook

6

Outlook

Q1 CY23 Review	**Visible slowdown in deal activity:** Over 150 deals were announced in Q1 CY23 compared with 270+ in Q1 CY22 and 220+ in Q1 CY21. **Soft guidance by Large IT Services players:** Alludes to a cautious outlook in the near-term precipitated by delayed client decision-making and an uncertain environment compounded by the recent banking crisis.

Deal activity to drop from 2022 peak but remain buoyant	▸ Deal activity for mid-sized companies (EV<$300 M) is expected to **remain resilient** across the broader M&A market and would likely hold true for the highly fragmented tech services industry, albeit moderated from 2022/2021 levels. ▸ Fundamentals of IT services and BPM, i.e. high profitability and structural resilience in down cycles (especially for offshoring), would continue to attract new buyers to the table.
Strategic buyers'/PE roll-up market	▸ Inorganic strategy is likely to remain a key lever for growth as service providers across segments (IT/ER&D/BPM) capture value from adjacencies and transform into end-to-end solutions providers. ▸ These are the ideal market dynamics for **cash-rich strategic buyers** considering reduced competition from financial sponsors (PE/SPACs), muted IPO market and increasing cost of debt. ▸ PE investors have sufficient dry powder and are expected to place selective large bets as the demand environment unfolds. Mid-market buy out and growth capital deals are anticipated to grow.
Valuation divergence in leaders versus others	▸ Barring valuations for 'best-in-breed' assets, valuations **could be under pressure** for the rest of the market. ▸ Although listed company valuations have corrected to pre-COVID levels, **potential downsides remain** as markets react to missing estimates/guidance, weakening in orderbooks, protracted deal cycles or macro challenges. ▸ **Structured deals** expected to be dominant in 2023, with lower upfront cash and higher levels of earn-outs.
Digital premium likely to continue	▸ **Differentiated digital assets will remain decoupled** from bearishness in broader markets as demand for digital capabilities such as Data Analytics, Automation, Digital Product Engineering, Digital CX, Industry 4.0 etc. remains high among large/midsize IT, engineering companies, BPM/BPOs, PE investors and agencies.
Tactical opportunities will emerge in spin-offs/divestitures	▸ **Spin offs/divestitures** of non-core or legacy businesses will create opportunities for buyers to enter segments as incumbents look to sharpen leadership focus and unlock value. IBM playbook of divesting legacy IT business (Kyndryl) and underperforming business (Merative) is playing out well[1], other players may look to replicate the success. ▸ Clients which are facing business challenges (e.g. banks) could divest/monetize non-core businesses or captives. This is reminiscent of the 2008 crisis when leading IT companies acquired captive businesses of Citi, ABN Amro, UBS among others.

Note: 1. Since the completion of spin-off in Nov'21 and announcement of IBM Watson Health (now Merative) sale to Francisco Partners in Jan'22, IBM's valuation has increased from ~10x in 2020-2021 to 11-12x LTM EBITDA

Industry Speaks

"Across multiple business and technology cycles, the India Tech Services sector has proven incredibly innovative and resilient. If we look beyond near-term concerns, we continue to be excited about the opportunities in Digital Transformation over the next decade and expect to see increasing M&A and private equity investments in this sector.

Hari Gopalakrishnan
Partner, BPEA-EQT, Co Head of Services, Co Head of India

"The post-COVID landscape has seen a significant shift in enterprise investment towards digitization and business transformation, resulting in a need to accelerate returns and improve adoption of new digital infrastructures. This need is driving M&A activity between IT and BPM firms, with a focus on generating returns and becoming the Business Transformation partner of choice for enterprises. Meanwhile, high-interest rates are slowing deal flow, leading to extended hold periods and updated investment theses. PE firms are turning to operations transformation to drive short-term cost reduction and set themselves up for profitable growth, creating a growing interest in data and process harmonization technologies. In this changing landscape, M&A and PE activity will be driven by companies seeking to fill gaps in their portfolios and deliver hard outcomes without growing operating teams.

Katie Stein
Chief Strategy Officer and Global Business Leader, Enterprise Services and Analytics Business, Genpact

"Global IT services spend is likely to grow in ~8% range next few years. Given macroeconomics, there will be caution rest of calendar 2023 and increased scrutiny on new investments, but customers will continue to repurpose to areas of high impact such as CX and data/analytics to gain market share. Clients are also looking to get more ROI from their cloud & digital investments, so they can drive business value, while balancing with cost optimization initiatives. Enterprises are driving data-driven programs, and large platform leaders such as Oracle, Salesforce, ServiceNow, AWS, Microsoft, Snowflake and SI's continue to differentiate with industry solutions – patient experience & interoperability in Healthcare, or connected devices with IoT in discrete industries, or AI driven competitive intelligence in Retail/Consumer are some examples.

Hiral Chandrana
Global CEO, Mastek group

Industry Speaks

"M&A is an integral part of Infosys' strategy. Executing on our priorities, we are focused on inorganic investments to strengthen digital capabilities, expand into new buying centres, penetrate further into untapped markets, and deepen vertical expertise. Over the years, we have built a systematic M&A approach and a framework that is repeatable with lots of cumulative experience, creating significant value. Our success from all the recent investments, built on a framework of acquisition design principles, ability to retain entrepreneurial culture, right integration with collaboration as the secret sauce, gives us the edge and we continuously evaluate acquisition opportunities. As clients look upon us as the digital transformation partner and the market sees favorable valuations, with our capital allocation policy and a strong balance sheet, we stay invested into inorganic growth opportunities to create a multiplier effect and influence the organic.

Shyam Mundhada
VP, M&A, Infosys

"At Quest Global, we strive to be the most trusted partner for the world's hardest engineering problems. To support this ambition, we prudently plan our M&A strategy to accelerate innovation, expand access to new markets, and deepen our expertise in emerging technologies to service our customers. Companies that can navigate this landscape strategically and acquire firms that complement their current capabilities will be better positioned for long-term customer relevance and success.
Strategic deployment of capital towards M&A is a critical lever for companies to build capabilities. Regardless of the current economic slowdown, the ER&D sector globally has strong demand drivers as organizations undergo structural changes, while still facing increased pressure for innovation, reduced time-to-market, and operational excellence. This context creates a vibrant market for M&A and private equity investment.

Ajit Prabhu
CoFounder, Chairman & CEO, Quest Global

Acknowledgement

We would like to thank the industry leaders for their time and valuable insights that helped us develop this report.

Contributors

nasscom Team

Achyuta Ghosh
Head - Insights
achyuta@nasscom.in

Nirmala Balakrishnan
Insights Practice Lead
nirmala@nasscom.in

Prajwal Pandey
Insights Analyst
prajwal@nasscom.in

EY Team

Shivani Nagpaul
Technology M&A Leader, Partner, EY LLP India
shivani.nagpaul@in.ey.com

Karthik H
Partner, EY LLP India
kathik.h@in.ey.com

Anubhav Mishra
Director, EY LLP India
anubhav1.mishra@in.ey.com

Milan Sar
Senior Associate, EY LLP India
milan.sar@in.ey.com

Methodology

The report is based on secondary data. The information is sourced from MergerMarket, PitchBook, Channele2e, Press Releases, Company Reports, News Articles, Industry Reports etc

Definition

- Diversified BPM: WNS, Genpact, EXL;
- CX-Digital: TaskUs, Ibex, Telus, Teleperformance, Concentrix, TDCX, TTEC, Majorel, FirstSource
- Large Cap IT Services: Accenture, TCS, Infosys, Wipro, Cognizant, Capgemini, IBM, HCL, Tech Mahindra, NTT Data, Atos, CGI, DXC Technology, Fujitsu, Hitachi, NEC
- Mid & Small Cap IT Services (MSC): Coforge, Mphasis, Persistent, Perficient, Zensar, Kin&Carta, Mastek, Birlasoft, Sonata
- Digital Native IT Services: EPAM, Globant, Endava, Happiest Minds, Kainos, Nagarro, ThoughtWorks, Grid Dynamics, Netcompany
- Global ER&D: Alten, AFRY, Etteplan, Assystems, Bertrandt and EDAG;
- India ER&D: KPIT, LTTS, Tata Elxsi and Cyient

Glossary

Abbreviations	Meaning	Abbreviations	Meaning
ADAS	Advanced Driver Assistance Systems	M&A	Mergers and Acquisition
AWS	Amazon Web Services	ML	Machine Learning
AR	Augmented Reality	M	Million
B	Billion	MES	Manufacturing Execution System
BPM	Business Process Management	MSP	Managed Services Provider
CAE	Computer Aided Engineering	MSSP	Managed Security Services Provider
CASE	Connected Vehicle Tech, Autonomous Driving, Shared Mobility & Electrification	OEM	Original Equipment Manufacturer
CX	Customer Experience	PLM	Product Lifecycle Management
CRM	Customer Relationship Management	RCM	Revenue Cycle Management
D&A	Data and Analytics	RPA	Robotic Process Automation
DX	Digital Experience	SaaS	Software-as-a-Service
ER&D	Engineering Research and Development	SCADA	Supervisory Control and Data Acquisition
ESG	Environmental, Social and Governance	SDV	Software Defined Vehicles
EV	Enterprise Value	SI	System Integration
GCP	Google Cloud Platform	Tech	Technology
IoT	Internet of Things	VR	Virtual Reality
IT	Information Technology	XDR	Extended Detection and Response

Ernst & Young LLP

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EYG member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

Ernst & Young LLP is one of the Indian client serving member firms of EYGM Limited. For more information about our organization, please visit www.ey.com/en_in.

Ernst & Young LLP is a Limited Liability Partnership, registered under the Limited Liability Partnership Act, 2008 in India, having its registered office at 9th Floor, Golf View Corporate Tower B, Sector 42, Golf Course Road, Gurgaon Haryana 122002

EYIN2305-006
ED None

This publication contains information in summary form and is therefore intended for general guidance only. It is not intended to be a substitute for detailed research or the exercise of professional judgment. Neither EYGM Limited nor any other member of the global Ernst & Young organization can accept any responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. On any specific matter, reference should be made to the appropriate advisor.

SA1

ey.com/en_in

@EY_India EY EY India EY Careers India @ey_indiacareers

About nasscom

Nasscom is the industry association for the technology sector in India. A not-for-profit organization funded by the industry, its objective is to build a growth led and sustainable technology and business services sector in the country with over 3,200 members. Nasscom Insights is the in-house research and analytics arm of nasscom generating insights and driving thought leadership for today's business leaders and entrepreneurs to strengthen India's position as a hub for digital technologies and innovation.

Contact

Plot 7 to 10, Sector 126, Noida - 201303

Uttar Pradesh, INDIA

Phone: +91-120-4990111

Email: research@nasscom.in

@NasscomR

nasscom insights

@nasscomcommunityandinsights

nasscom insights

nasscom_insights

Visit our community at community.nasscom.in

Disclaimer

The information contained herein has been obtained from sources believed to be reliable. nasscom and its advisors & service providers disclaims all warranties as to the accuracy, completeness or adequacy of such information. nasscom and its advisors & service providers shall have no liability for errors, omissions or inadequacies in the information contained herein, or for interpretations thereof. The material or information is not intended to be relied upon as the sole basis for any decision which may affect any business. Before making any decision or taking any action that might affect anybody's personal finances or business, they should consult a qualified professional adviser. Use or reference of companies/third parties in the report is merely for the purpose of exemplifying the trends in the industry and that no bias is intended towards any company. This report does not purport to represent the views of the companies mentioned in the report. Reference herein to any specific commercial product, process or service by trade name, trademark, manufacturer, or otherwise, does not necessarily constitute or imply its endorsement, recommendation, or favoring by nasscom or any agency thereof or its contractors or subcontractors. The material in this publication is copyrighted. No part of this report can be reproduced either on paper or electronic media without permission in writing from nasscom. Request for permission to reproduce any part of the report may be sent to nasscom.

Building a better working world