Connecting the dots: M&A deals in the technology services in 2023

March 2024

EY
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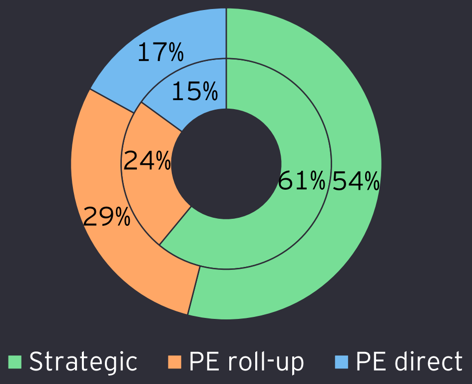
A muted M&A market: deal volume sustained, but values plummet

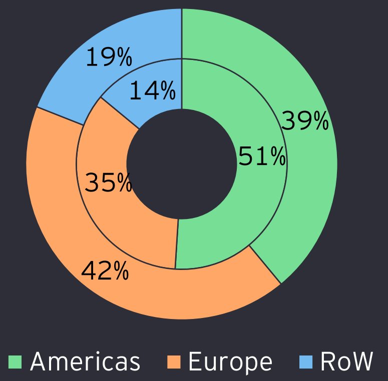
Transaction types by volume

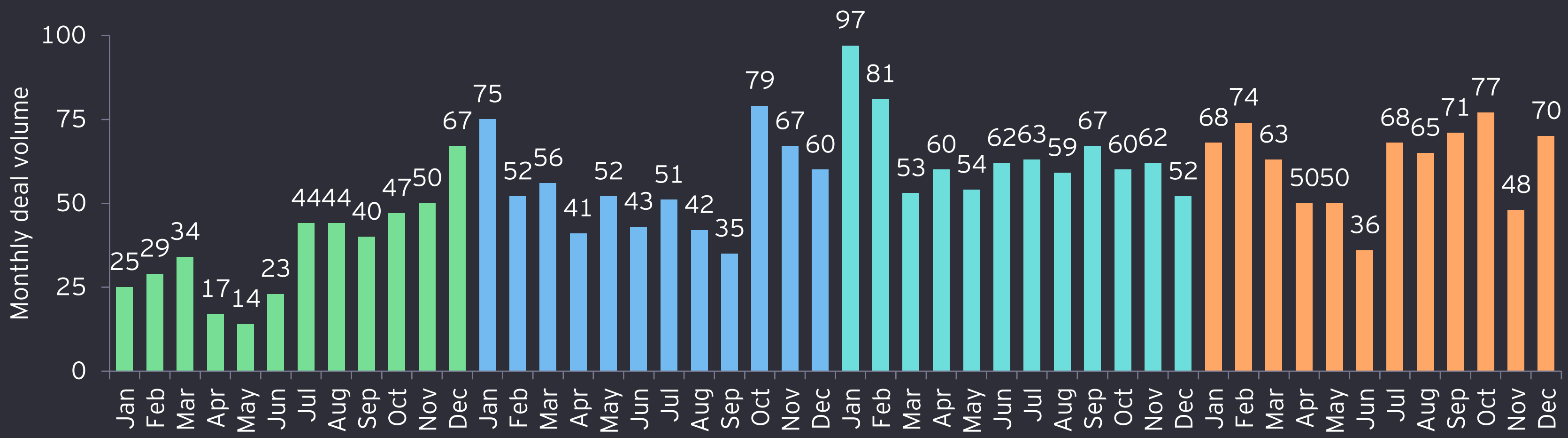
Inner Circle: 2022, Outer Circle: 2023



Target geography by volume

Inner Circle: 2022, Outer Circle: 2023





Year	2020	2021	2022	2023
Volume	434	653	770	740
Value[1]	US$23.9b	US$56.7b	US$34.0b	US$9.7b

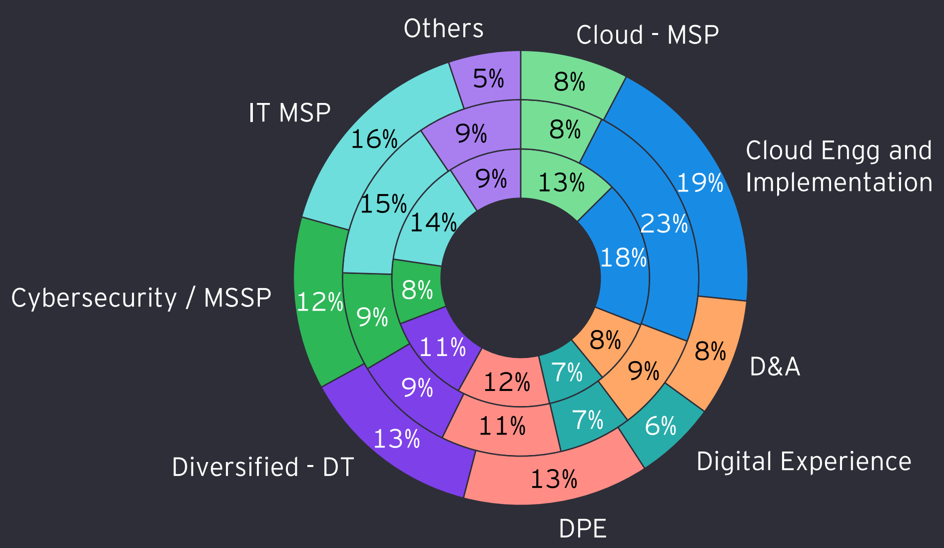
- Consolidation in the mid-market segment led to higher volumes. This trend was supported by the growth of unique strategic buyers from 430+ in 2022 to 480+ in 2023.
- Drop in values owing to fewer large deals (>US$250m). US$1b+ deal[1] totally absent.
- Europe, experiencing a significant change, emerged as the top target geography. This shift was driven by the urgent need to expand digital and technological competencies.
- There was material divergence in valuations between heritage India and international companies, Indian midcaps and large caps, and between private and public markets. The consistent pattern noted is that the market is ascribing higher weightage on profitability and specialization.

Source: MergerMarket, Cap IQ, PitchBook, EY research and analysis
Note: 1. Based on transactions where deal values were disclosed ; 2. PE Roll-Up includes PE-backed platform merger

Underlying digital megatrends continue to drive deal momentum across sub-segments

IT services sub-segment analysis (as a percentage of volume)

Inner Circle: 2021, Middle Circle: 2022; Outer Circle: 2023



Cybersecurity/ MSSP deal activity notably accelerated, reflecting added impetus of Gen AI to the ever-evolving threat landscape

The demand for DPE and digital transformation segments remains high as companies prioritize differentiation and market expansion to minimize risks associated with vendor consolidation.

Marginal drop in deal volumes within Cloud MSP and Cloud Engineering and implementation segments could be attributable to market maturity.

Within the 15 large deals (>US$250m), themes that garnered high interest included Cloud (5), digital transformation (4), and DPE (3)

Drivers of strategic acquisitions[1]

48%
in 2023 vs. 55% in 2022

Capability tuck-in
Continues to top strategic buyers' M&A priority

26%
in 2023 vs. 19% in 2022

Geography expansion
~16% increase in deal volume in Europe, ~25% decline in Americas

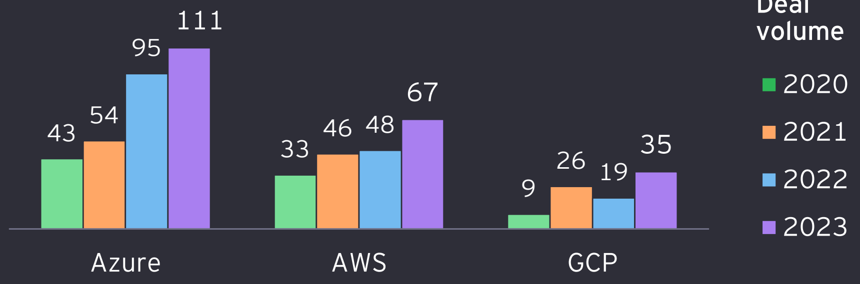
25%
in 2023 vs. 21% in 2022

Scale / consolidation play
MSP and MSSP contributed almost half of the scale/consolidation led deals

Source: MergerMarket, Cap IQ, PitchBook, EY research and analysis
Note: 1. Considers all transactions by strategic buyers and PE portfolio companies in 2023; due to multiple rationales, the sum will not add to 100%

Cloud ecosystem in M&A: unwavering demand for high-quality assets

Sustained deal activity in hyperscaler ecosystem



- Maturity in hyperscaler capabilities is resulting in a focus on acquiring specialized cloud and managed service providers. Broad-based interest in cloud native application development is driving the deal momentum.
- With its emphasis on data, AI/ML, and open-source, GCP has experienced a surge in interest for its capabilities.

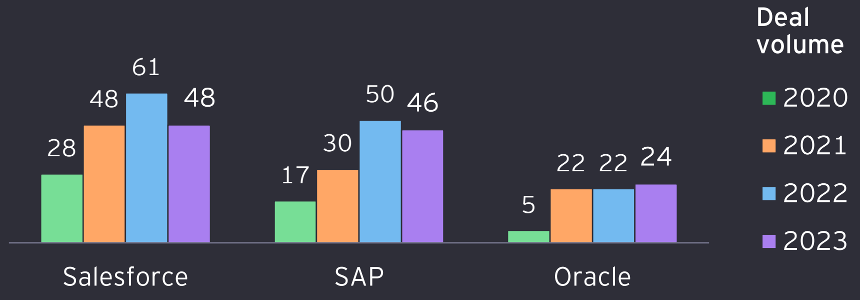
Accenture → **Nextira** *(AWS)*

Proprietary studio to develop and render 3D objects

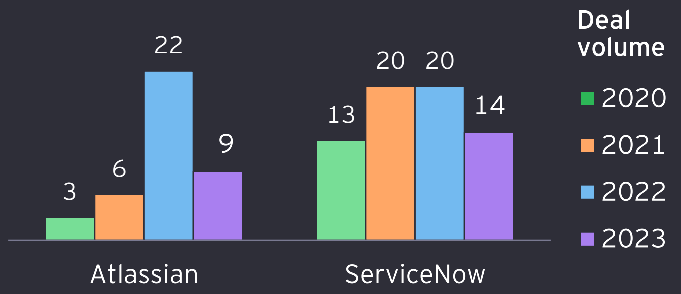
Onix Corporation *(GCP)* → **Datametica** *(GCP)*

Specializing in IP-led data solutions

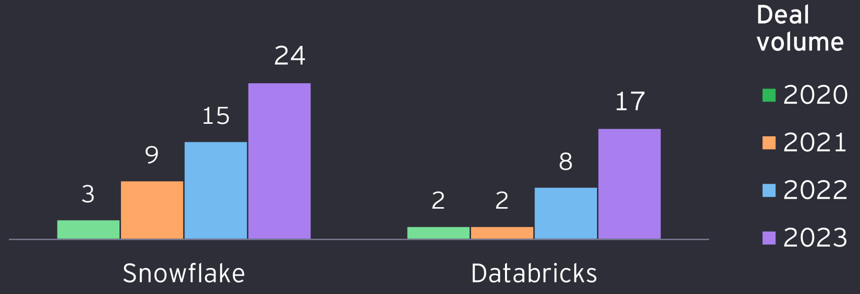
Consolidation in enterprise software partner ecosystem



- Systemic shifts in legacy ERP segments and acceleration to scale Cloud ERP capabilities have resulted in steady M&A driving consolidation over the past years.
- Major Cloud software vendors have projected AI integration advancements leading to expansion of the TAM, creating a fresh impetus for M&A.



High demand for data and analytics assets



- Growth of Snowflake and Databricks' partner ecosystem, scaling of existing partners, and the rise of Gen AI is driving demand for modern data cloud competencies.
- Shift in buyer profile as PEs and PE-backed platforms dominated the deal activity in the data cloud ecosystem.

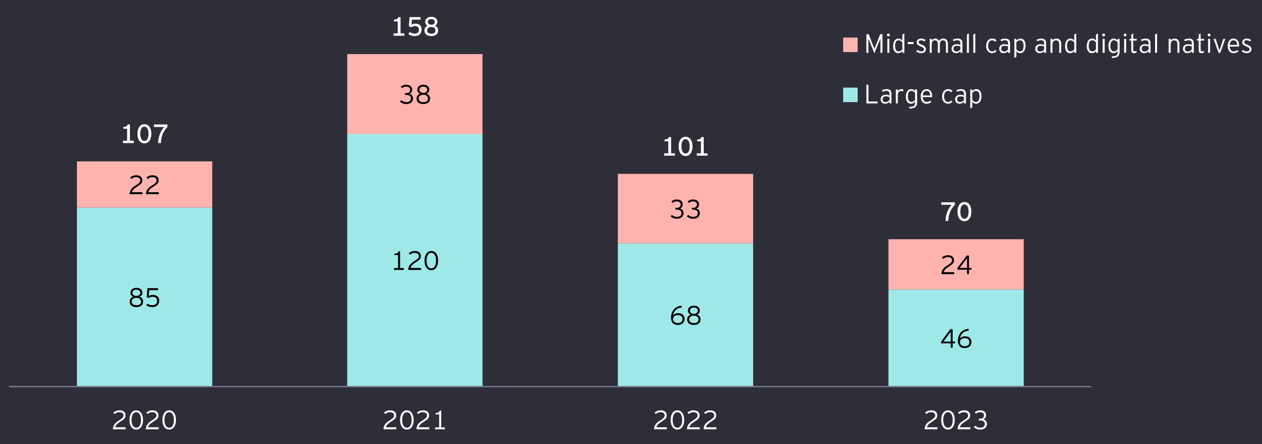
Databricks Venture and Interlock Equity → **Lovelytics** *(AWS)*

ACE & Company → **Blue.Cloud** *(Snowflake, Datbricks)*

Source: MergerMarket, Cap IQ, PitchBook, EY research and analysis

M&A playbook of listed IT services players: a selective and cautious approach

Deal volume trend



Most active players: Accenture (25), Globant (5), IBM (5), Hitachi/ GlobalLogic (3), NTT Data (3)

Large acquisitions: Insight Enterprise - SADA Systems (US$800m), Cognizant - Mobica (US$310m), HCL Tech - ASAP (US$287m), Sonata Software – Quant Systems (US$160m)

High appetite for competencies in cloud ecosystem, specifically in ServiceNow, SAP, and Salesforce, albeit selectively.

Interest for BFSI capabilities softened, HLS is a higher priority owing to its recession-proof attribute and large untapped digitalization opportunity

Recalibration of geography focus beyond Americas resulted in acquisitions of targets based out of Europe, ANZ, and Asia-Pacific.

India-listed companies were passive on the deal street contributing only 10 deals

Cognizant
ThirdEra
Pure-play ServiceNow partner; pivotal to build a $1b AI-driven automation business

Perficient
SMEDIX
Healthcare software engg company with near shore delivery center in Romania

Globant
Pentalog and Vertic
Expansion in Europe

IBM
Equine Global
Expansion to Indonesia; strengthening ERP consulting

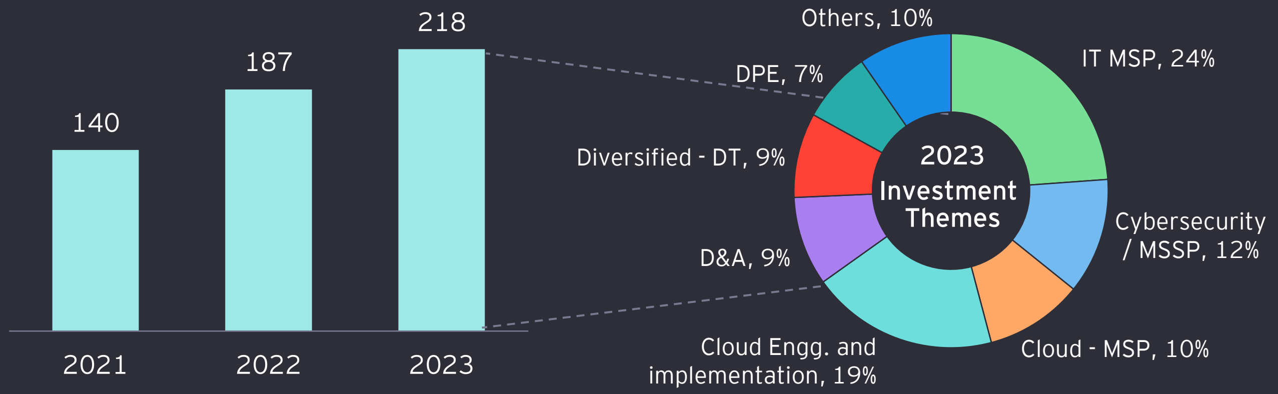
HCL
ASAP
Germany-based automotive engineering services provider

Accenture
Innotec, MNEMO, Morphus
Cybersecurity / MSSP

Source: MergerMarket, Cap IQ, PitchBook, EY research and analysis
Note: 1. Large Cap includes TCS, Infosys, Wipro, HCL, LTIMindtree, Tech Mahindra, Accenture, IBM, Cognizant, Capgemini, Fujitsu, NTT Data, CGI, DXC Technology, Atos, Hitachi, NEC ; 2. Mid-Small Cap includes Mphasis, Persistent, Coforge, LatentView Analytics, Cigniti, Sonata Software, BirlaSoft, Zensar, Mastek, Perficient, Grid Dynamics, Kin and Carta, AgileThought, Quisitive, Calian, Insight Enterprise, SoftCat, Sopra Steria Group, R Systems, Reply Group ; 3. Digital Natives includes EPAM, Globant, Endava, ThoughtWorks, Kainos, NetCompany, Nagarro, HappiestMinds

Notable acceleration in executing roll-up strategies

PE roll-up[1] deal volume and sub-segments



Active PE Platforms: Bain Capital owned Inetum (4), Recognize owned Blend360 (3), Deutsche PE owned Valantic (4), THP owned Dataprise (3)

Sustained trend of PE driven roll-up in the MSP(2) and MSSP space, with most activity occurring in Americas.

Mid-market PE owned platforms were more active, specially making a series of smaller deals which are easier in a difficult financing environment.

Phenomena of PE orchestrating a merger of equal size assets to create mega platforms.

Recognize
SpringML + Egen
GCP-Focused Cloud and data platform

Marlin Equity Partners
CTS + Appsbroker
Europe-based GCP specialist

BV Investment Partners
Tomorrow + Half Helix
A digital experience platform

BC Partners
Valtech + Kin and Carta
European market-focused digital transformation company

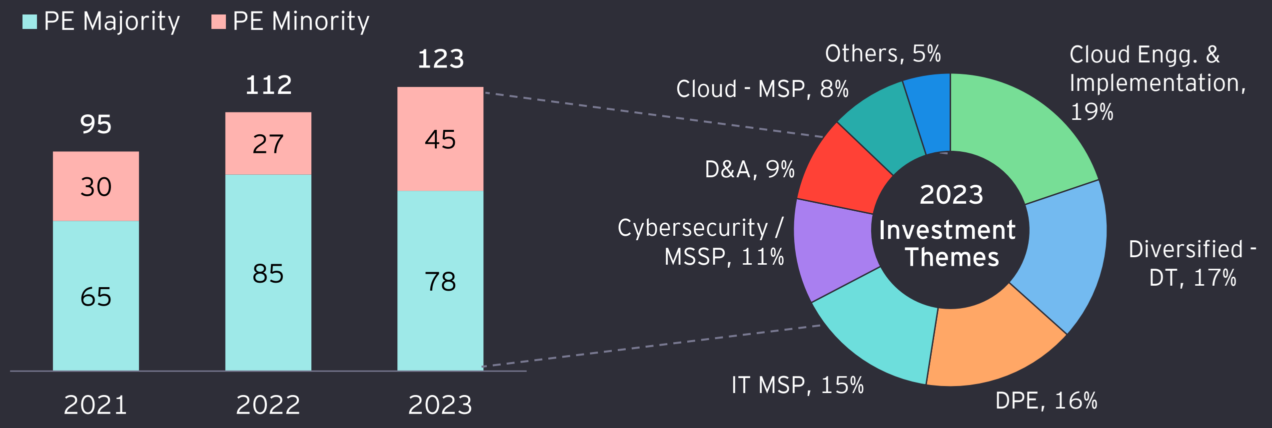
Trive Capital and BayLink Partners
Veltris
A DPE platform by combining Wavelabs and West Agile Labs

Alfar Capital and Walter Capital
MSP Corp
Merger of 15 MSPs across Canada

Source: MergerMarket, Cap IQ, PitchBook, EY research and analysis
Note: 1. PE Roll-Up implies Acquisition by PE portfolio company 2. MSP includes IT MSP and Cloud - MSP

Growth investments on rise, as several new funds participate in the sector's potential

PE Direct[1] investments and sub-segments



Active PEs: Everstone (2), LDC (2), ACE & Company (2), AMP Eleven (2), Gallant Capital (2), Databricks Venture (2)

Notable PE Exits: LogicWorks (Pamplona), Silverline (Pamlico), Thirdera (Sunstone Partners), Excellerate (Frontenac)

Large PE funds were cautious (macroeconomic and financing environment) whereas mid-market PEs across Americas and Europe were resilient driving the deal momentum

Similar to the overall M&A trend in 2023, over half of the bets were placed on European targets, elevated by PEs based out of Europe.

Recognizing the limited window to achieve scale, there was a notable jump in preference to exploring minority deals, adding to PE deal volumes

Fewer PE exits - only 35 in 2023 vs. 55 in 2022. However, liquidity through alternative paths – public markets, GP and LP led secondary transactions, continuation fund, etc. – are gaining prominence.

The Carlyle Group	Goldman Sachs, Everstone Capital	One Equity Partners	Metropolitan Equity	A91 Partners	True North
Pr0ph3cy	**Cprime**	**Kirey Group**	**Sourcepass**	**Kaar Technologies**	**iLink Digital**
France-based one-stop-shop for Cybersecurity services; rebranded to Neverhack	*A leading IT Services Management company; made 2 add-on acquisitions*	*A leading pan-European Digital Transformation expert; acquired Synergyc*	*Primary infusion to support strategic initiatives*	*Growth investment to expand into USA; Acquired Dunn Solutions*	*Growth investment to strengthen M&A firepower*

Key majority transactions   Key minority transactions

Source: MergerMarket, Cap IQ, PitchBook, EY research and analysis
Note: 1. PE Direct implies direct Investment by a PE into the company ;

Public market valuation: growth, profitability and liquidity playing their respective role

▲ NTM Revenue Growth
— NTM EV/EBITDA[1]

	Pre-COVID (Dec'19)	Post-COVID acceleration (Dec'21)	Demand stabilisation (Dec'22)	Where we stand (Dec'23)
Global large caps	14.0x / ▲ 7%	20.4x / ▲ 17%	13.3x / ▲ 5%	13.1x / ▲ 2%
Global mid and small caps (MSC)	26.0x / ▲ 14%	42.0x / ▲ 32%	25.5x / ▲ 17%	17.4x / ▲ 6%
Indian large caps	12.1x / ▲ 4%	20.1x / ▲ 11%	15.0x / ▲ 6%	18.2x / ▲ 4%
Indian mid and small caps (MSC)	9.9x / ▲ 6%	35.6x / ▲ 19%	20.5x / ▲ 21%	25.1x / ▲ 15%
Digital native	28.5x / ▲ 18%	54.7x / ▲ 28%	33.4x / ▲ 15%	22.6x / ▲ 8%

The valuation of global companies witnessed a macro-led mean reversion to pre-COVID-19 level since H2 of 2022, mirroring industry-wide muted growth.

Indian IT companies saw an uptick, trading above the historical average in contrast to industry growth rates, potentially for holding margins and rally in Indian equities led by unprecedented liquidity.

Over the years, the mix of the MSC segment has evolved to include more digital natives and over US$1b assets that are driving the premium within the cohort.

Valuation of digital native players saw a marked re-rating as majority players projected lifetime lows of revenue growth rates, even negative growth in some cases.

Source: MergerMarket, Cap IQ, EY research and analysis
Note: Large Cap - India: TCS, Infosys, Wipro, HCL, TechM, LTIMindtree for Dec'23 period ; Large Cap - Global: Accenture, Capgemini, Cognizant, IBM, EPAM, CGI ; MSC - India: Coforge, Mphasis, Persistent, HappiestMinds, Sonata Software, Mastek, R Systems, LTIMindtree for all periods except Dec'23 ; MSC - Global: Perficient, Globant, Endava, Kainos, Nagarro, Softcat, CI&T, ThoughtWorks, NetCompany ; Digital Natives: EPAM, Endava, Globant, HappiestMinds, ThoughtWorks, Kainos, NetCompany ; 1. Monthly average of quarter ending Dec for respective periods

Source: MergerMarket, Cap IQ, EY research and analysis

Leading technology investment banking practice: making impact globally

150+
Technology M&A professionals

280+
Deals closed

US$15b+
Combined tech client enterprise value

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Source: MergerMarket

Select transactions

Extentia
Advised on its sale to
Merkle

Mastek
Advised on its acquisition of
Bizanalytica

Marlabs
Advised on its majority stake sale to
BV Investment Partners

Hanu
Advised on its sale to
Insight

DigitalOnUs
Advised on its sale to
Tech Mahindra

Accolite Digital
Advised on its strategic partnership with
New Mountain Capital

EY

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

Definitions

- Large Cap IT Services: TCS, Infosys, Wipro, HCL, LTIMindtree, Tech Mahindra, Accenture, IBM, Cognizant, Capgemini, Fujitsu, NTT Data, CGI, DXC Technology, Atos, Hitachi, NEC
- Mid and Small Cap IT Services: Mphasis, Persistent, Coforge, LatentView Analytics, Cigniti, Sonata Software, BirlaSoft, Zensar, Mastek, Perficient, Grid Dynamics, Kin and Carta, AgileThought, Quisitive, Calian, Insight Enterprise, SoftCat, Sopra Steria Group, R Systems, Reply Group
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- Indian IT Services: TCS, Infosys, Wipro, HCL, LTIMindtree, Tech Mahindra, Cognizant, Mphasis, Persistent, Coforge, LatentView Analytics, Cigniti, Sonata Software, BirlaSoft, Zensar, R Systems, HappiestMinds

Glossary

Abbreviations	Meaning	Abbreviations	Meaning
AWS	Amazon Web Services	GCP	Google Cloud Platform
AI	Artificial Intelligence	HLS	Healthcare and Life Sciences
ANZ	Australia and New Zealand	IT	Information Technology
BFSI	Banking, Financial Services, and Insurance	ITSM	IT Service Management
B	Billion	ML	Machine Learning
CPG	Consumer Packaged Goods	MSSP	Managed Security Services Provider
CRM	Customer Relationship Management	MSP	Managed Service Provider
D&A	Data and Analytics	M&A	Mergers and Acquisitions
DPE	Digital Product Engineering	MSC	Mid and Small Cap
DT	Digital Transformation	M	Million
EV	Enterprise Value	PE	Private Equity
ERP	Enterprise Resource Planning	Tech	Technology

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