

Tech services Deal insights series

Q2 2024



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Overview of the deal activity

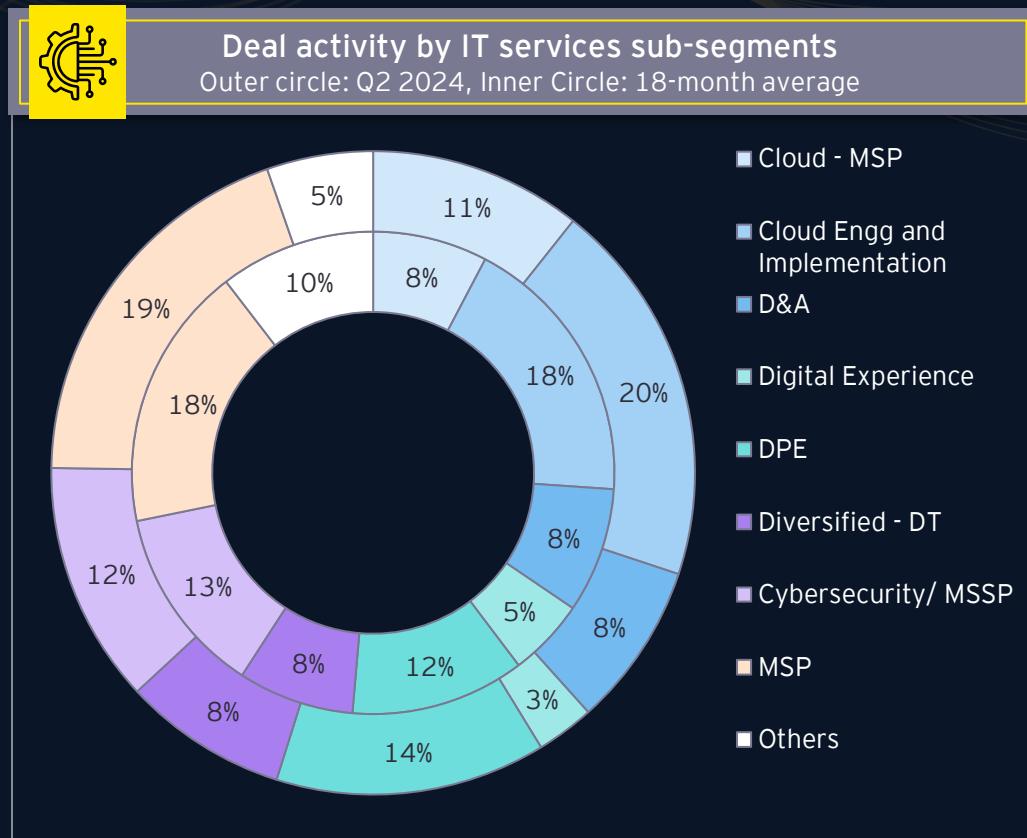
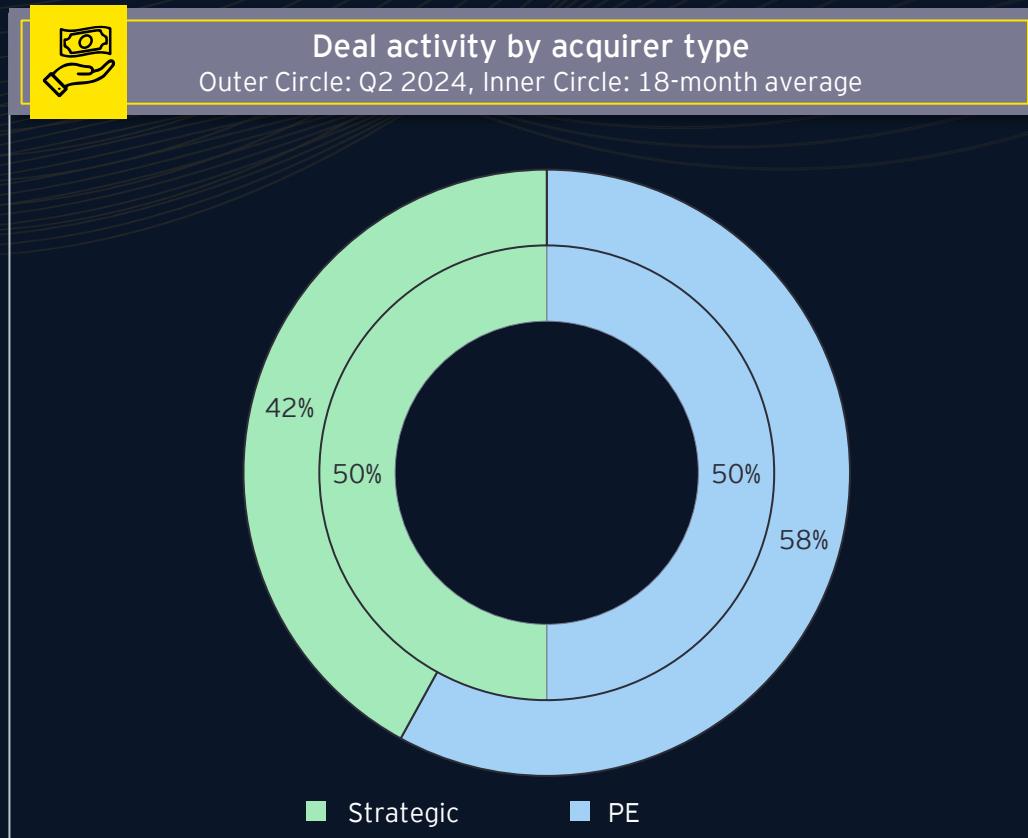


Large deals return to the tech services segment with US\$11bn+ deal value in Q2



- IT spend growth outlook for 2024 remains cautious as enterprises re-prioritize budgets away from discretionary spend. Consequently, service players' growth profile and market performance, in both public and private markets, has been constrained.
- Industry leaders are augmenting the sputtering organic engine with inorganic strategies to enter new resilient verticals and spend pockets, evident in the emerging convergence of IT service providers with Engineering Research & Development (ER&D). Refer to page 7 for the sector spotlight.
- We note several large deals announced in the quarter, including four deals worth over US\$1b across digital transformation value chain (Altimetrik, Perficient) and MSP/VAR segment (SMX, Presidio). PE appetite for the segment remains high, underscored by their participation in all four US\$1b+ deals. Overall deal activity remains range bound.

PEs drive deal count as buy and build strategies continue to unfold across markets



- ▶ PE: Roll up activity (primarily capability tuck-in of category leading platforms) drives deal count. Growth capital is now a mainstay as specialists carve a niche providing a defensible growth runway for platforms like SAP, ServiceNow, Snowflake, etc.
- ▶ Strategics: Industry leaders maintain focus on building scale in key strategic verticals, including public sector and healthcare. Mid-market players are increasing focus on strengthening horizontal capabilities in select platforms (led by ServiceNow and SAP) and digital engineering.

Source: Mergermarket, Pitchbook, EY research and analysis; DT - Digital Transformation; 18-month average is from Jan'23 to Jun'24

PEs place selective platform bets across majority and minority positions



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

Strategies pursuing inorganic route to add scale in key verticals and service lines



Global large Cap

Vertical play		
Accenture	»»	Intellera Consulting Public Sector and Health
Accenture	»»	Partners in Performance Industrials, Metal & mining
Accenture	»»	Openstream Japan Manufacturing
Accenture	»»	Climb Japan Japan Public Sector & FS
Accenture	»»	Cognosante Public Sector

Mid and small Cap

Digital engineering scale		
Coforge	»»	Cigniti DPE - QE
Happiest Minds	»»	PureSoftware DPE
Cloud eng. and implementation		
SeSa	»»	Real Time Cloud - SAP
Datamatics	»»	Dextara Digital Cloud - Salesforce

Others

Capability tuck-in		
EY	»»	Nuvalence DPE
Telus	»»	Vumetric Cybersecurity
Insight	»»	InfoCenter ServiceNow Elite
Havas	»»	Ted Consulting AI-led Hyperautomation
EY	»»	BGP SAP

Spotlight deals

Coforge	»»	Cigniti
Creates scaled retail and hi-tech/HLS verticals, supports expansion into western US with 28 F500 logos, and adds testing capability.		
Deal value: \$460mn		
<hr/>		
Happiest Minds	»»	PureSoftware
Strengthens domain capability in BFSI and HLS with over 1,200 digital engineering talent and Banking-as-a-Service platform.		
Deal value: \$95mn		
<hr/>		
Happiest Minds	»»	Aureus Tech
Strengthens domain capability in Insurance, with F500 logos and Azure-native digital engineering capability		

Source: Mergermarket, Pitchbook, EY research and analysis

Sector spotlight: ER&D emerging as hotbed for strategic M&A activity



Diversified IT increasing focus and investment in ER&D...

Attractive growth avenue in an otherwise subdued market

\$2.5 - 3.3T
Global ER&D (2030E)

50% of spend
Automotive, software, and health/medical devices

9-13% CAGR
Software, telecom, and semiconductor

Diversified IT gaining market share

40%

Broad-based players grew ~17% v/s ~13% for pure-plays

64%

2020

2022

and actively placing inorganic bets over last 5 years				
ER&D Rank				
#1	Capgemini	➤	Altran (2019)	
#2	HCLTech	➤	ASAP (2023)	
#5	Accenture	➤	Eclipse (2022), XtremeEDA (2022), Trancos ITS (2022), Advoco (2021), DI Square (2021)	
#7	Cognizant	➤	ESG Mobility (2021)	
#10	Wipro	➤	Eximus (2020)	

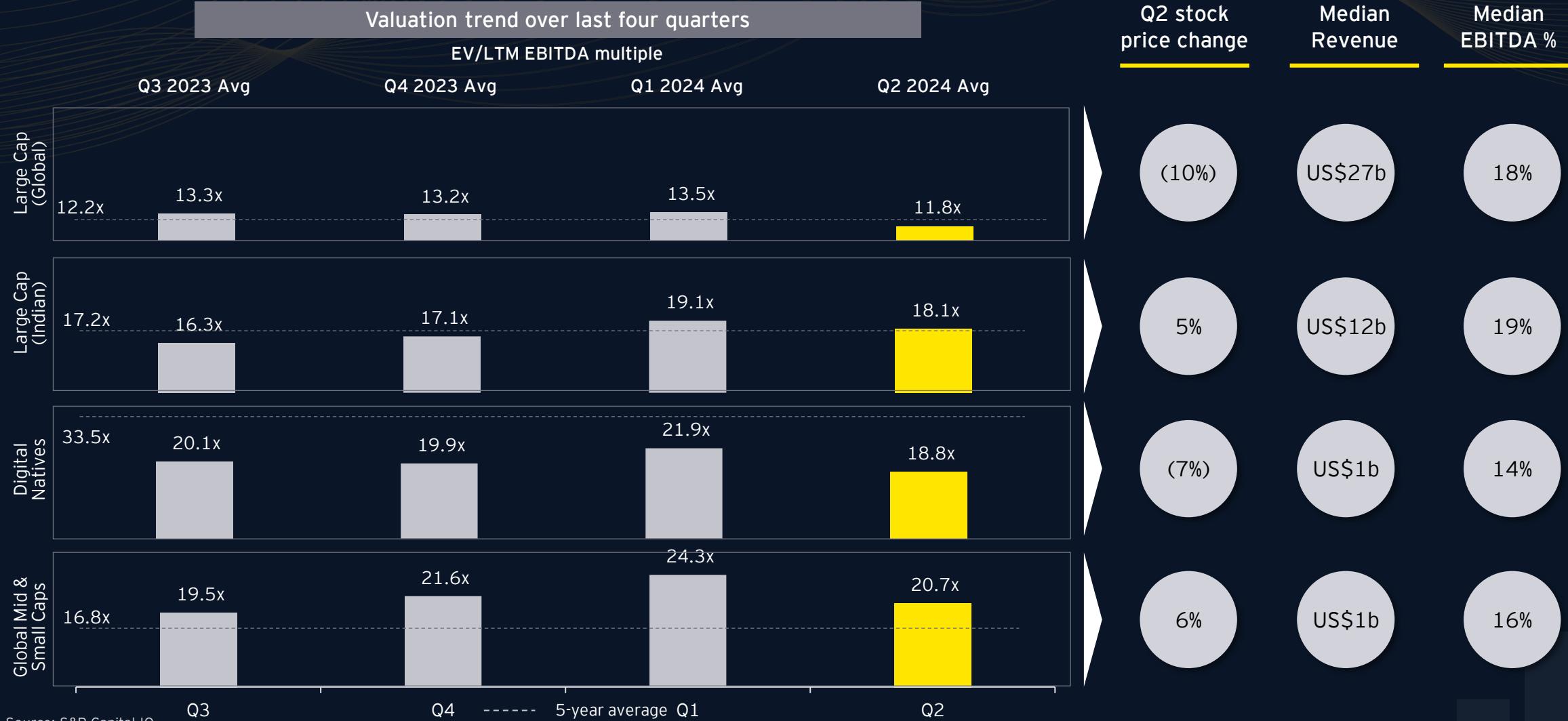
...with Q2 2024 seeing several notable deals

Auto, semicon, and aero verticals seeing heightened traction

Cognizant	➤	Belcan	US, UK	Vertical play - Aerospace & defence
Quest	➤	PeopleTech	US	Vertical play - Automotive & hi-tech
Infosys	➤	Intech	Germany	Vertical play - Automotive
Infosys	➤	Insemi	India	Vertical play - Semiconductor
Capgemini	➤	D+I	ANZ	Capability play - Product design, mechanical & electronic
Accenture	➤	Teamexpat	DACH	Vertical play - Semiconductor

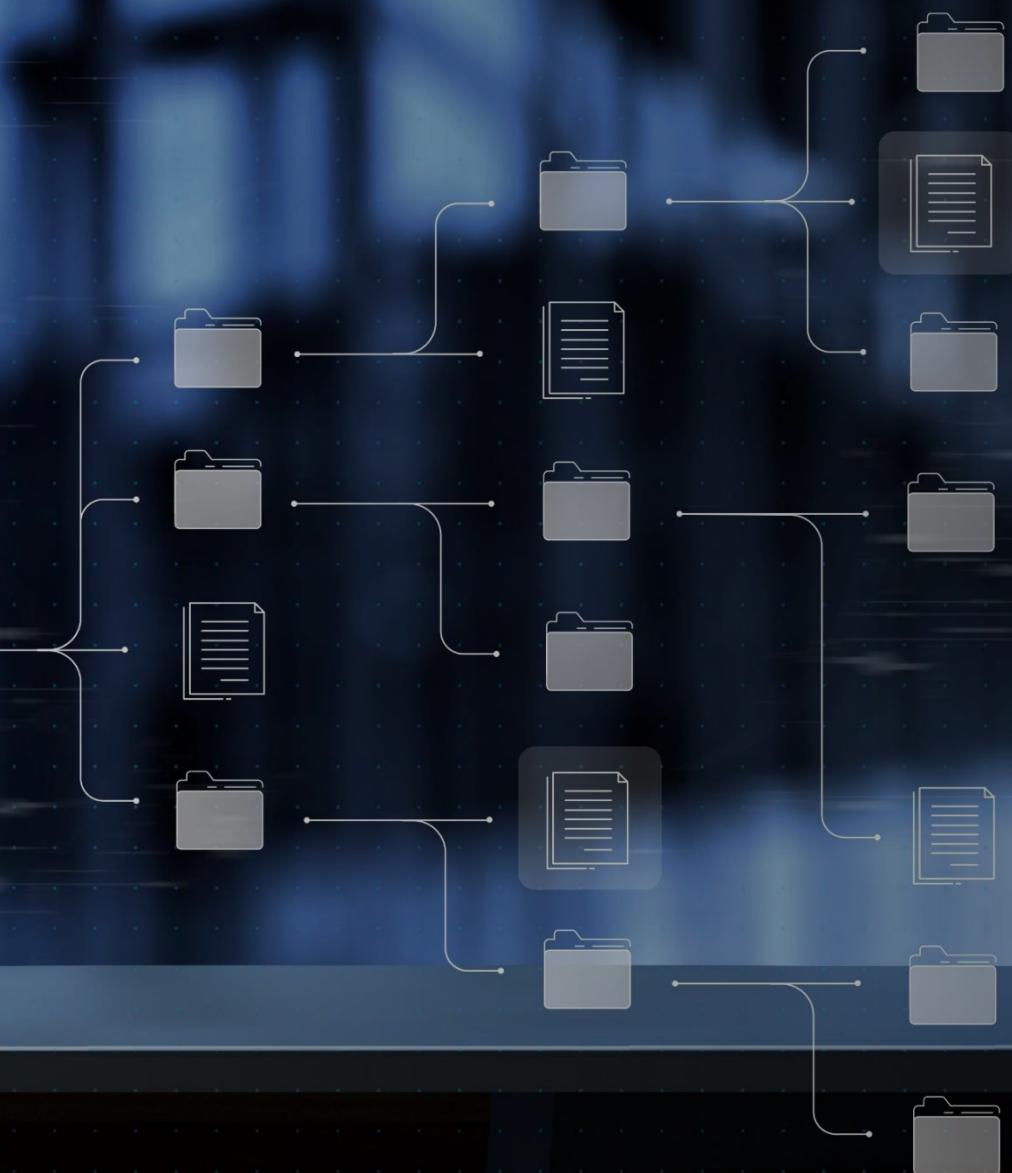
Source: BCG Nasscom Seizing the ER&D Advantage Oct'23, Everest Group Engineering Services Top 50 2023, various press releases, EY research & analysis

Public market performance weakening amid muted growth outlook



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EY Technology
Investment
Banking Advisory



EY Technology Investment Banking Advisory



Shivani Nagpaul
India



Karthik H
India



Irfan Iqbal
US



Bruce McCarthy
US



Sid Nair
Canada



Jack Dessay
UK



Maurice Harbison
UK



Robert Hussey
Ireland



Staffan Ekström
Sweden



Robert Klättborg
Sweden



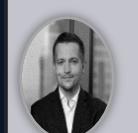
Markus Fischer
Germany



Thomas Tofte
Denmark



Mark Sheikh
Belgium



Michal Plotnicki
Poland



Isabel de Dios
Spain



Colin McNeil
Australia



Anil Menon
MENA

Select Transactions

Happiest Minds

Advised on its acquisition of

Pure Software

Aureus Tech

Advised on its majority stake sale to

Happiest Minds

Marlabs

Advised on its majority stake sale to

BV Investment Partners

Verti Systems

Advised on its sale to

MOURI Tech

Mastek

Advised on its acquisition of

BizAnalytica

Accolite Digital

Advised on its strategic partnership with

New Mountain Capital



Methodology

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



Definitions

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



Glossary

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

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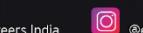
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