

Tech Services

Deal Insights Series
Summary of Q1 and Q2, 2023



EY

Building a better
working world

Contents

1

Emerging Themes

2

Deal Activity
Overview

3

Public Market
Overview

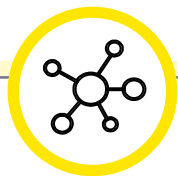
4

EY Tech Investment
Banking



Emerging Themes

Generative AI – seismic shift for Technology Services ecosystem



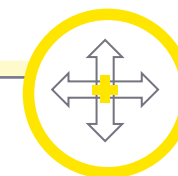
Ecosystem players at varying level of maturity

- ▶ While some Hyperscalers have announced products, others are rushing to embed GenAI capabilities across their tech stack including:
 - ▶ **Microsoft:** CoPilot, Data Fabric
 - ▶ **Google:** PaLM API, MakerSuite
 - ▶ **AWS:** \$100M GenAI investment
 - ▶ **Salesforce:** \$500M investment including Anthropic
 - ▶ **Databricks:** \$1.3B MosaicML deal
 - ▶ **Oracle:** Cohere investment and partnership
- ▶ Emerging ecosystem of players addressing a specific niche and use-cases:
 - ▶ **Foundational Models:** StabilityAI, Cohere, Anthropic, AI21, InflectionAI
 - ▶ **Tooling:** Hubs or MLOps providers like Hugging Face, LangChain, MosaicML
 - ▶ **Applications:** Apps leveraging fine-tuned models for IT, Marketing and Sales, Customer Service, and Product Development use-cases
 - ▶ **Services:** Niche providers addressing specific horizontal or vertical use-cases







Services Playbook

- ▶ Service providers are laying the groundwork to address expected revenue opportunities while preparing for revitalization in upstream digital transformation demand. Some examples include:
 - ▶ **Accenture:** \$3B investment over three years, sold over 100 GenAI projects
 - ▶ **Capgemini:** Trained 65,000 employees, developing 500+ use-cases for FS, Insurance, Auto and Retail verticals
 - ▶ **TCS:** Training 25,000 employees in OpenAI, expanded partnership with GCP to launch GenAI services
 - ▶ **Infosys:** Trained 40,000 employees in GenAI, working on 80 GenAI projects in a five year \$2B AI mega deal
- ▶ Productivity benefits may prove to be a double-edge sword, as service providers inevitably share the gains with customers (deflating pricing) and invest in training and building IP



GenAI impact permeating across digital horizons

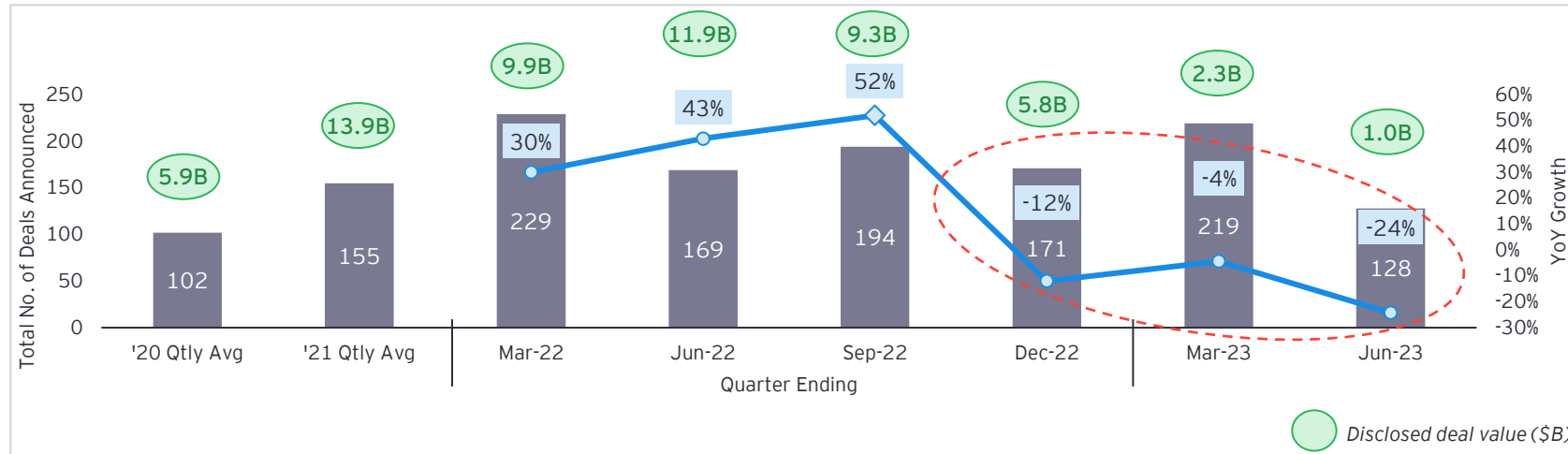
-  **Custom LLM:** While product companies continue to launch AI integrations which provide human-in-the-loop opportunities, enterprises will also invest in custom LLMs leveraging proprietary/internal data
-  **Hyperautomation:** Next-gen hyper-personalized automation across back and front office functions
-  **Cloud and Cybersecurity:** Automated DevSecOps in SDLC, strategic cyber defense, governance, and MLOps to embed additional security in the ML layer
-  **DPE:** With ~100% efficiency gains in software development, product engineering and testing services are at the precipice of transformation as Enterprises embed AI across application stack and service providers accelerate time-to-market

GenAI, even in its nascency, is on more than a quarter of Board agendas. Given the tremendous opportunity, we expect to see heightened M&A interest in early stage companies that address specific use-cases across horizontals and verticals. As services players - especially the existing D&A ecosystem - build credentials, we expect more companies to 'shift left' on buy/partner/build continuum to catch up.

A hand holding a smartphone against a bokeh background of city lights. The background is filled with out-of-focus lights in shades of blue, white, and orange, creating a bokeh effect. The hand is holding the phone horizontally, and the screen is visible. The overall mood is modern and tech-oriented.

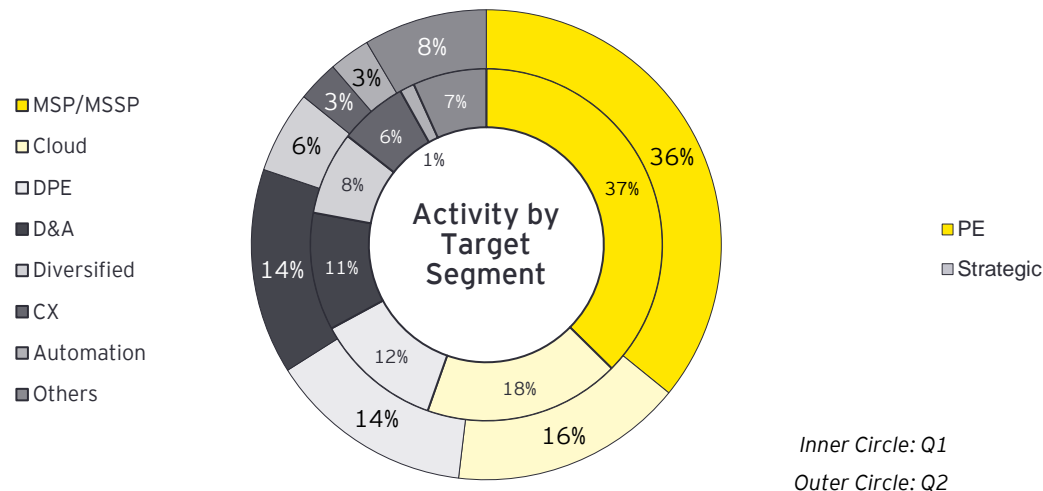
Deal Activity Overview

Tech Services deal activity enters its third consecutive negative quarter



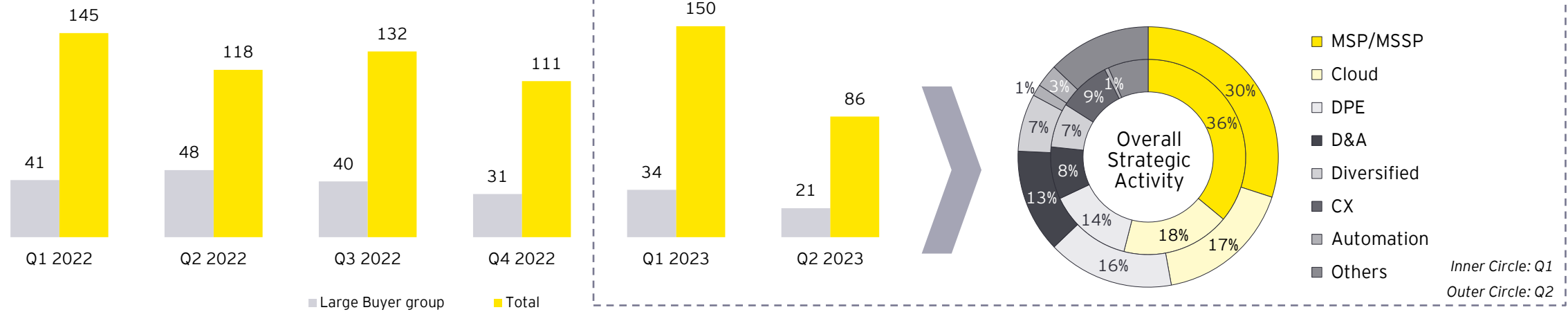
Key Highlights- Q1 and Q2, 2023

- ▶ Deal volumes cooled off from 2022 levels
- ▶ Marked reduction in disclosed deal values
- ▶ Mega deals (\$500M+ EV) inconspicuous in 2023 with only 1 deal: *Sopra Steria's \$560M acquisition of Ordina to expand in BeNeLux region*
- ▶ Portfolio roll ups dominated PE deal activity with a notable reduction in platform bets
- ▶ **MSP/MSSP consolidation** playbook continues to unfold with 40+ transactions in Q2
- ▶ **Activity in the Cloud segment has been resilient** with ~40 deals per quarter since Q1 2022 driven by PE roll-ups and highest activity in SAP, Salesforce and ServiceNow ecosystems



Industry consolidation driving overall M&A...

No. of deals



- ▶ Notable deceleration in inorganic initiatives by Large Buyer group,¹ where BPMs and large caps slammed the brakes on inorganic initiatives. Mid and small caps selectively pursued M&A in DPE, Cloud, and D&A segments to fill whitespaces and unlock new markets
- ▶ Accenture and Globant buck the slowdown, announcing **ten²** and **four acquisitions** respectively in H1 2023
- ▶ Sticky and mission critical Cybersecurity/MSSP demand continues to drive consolidation in the market with ~18 deals in Q1 and ~10 in Q2

Digital Native

Globant > ExperienceIT

Globant, Endava, and Grid Dynamics announced four deals, of which three are capability led (DPE) and one is geo-led

Global Large Cap

Accenture > Objectivity

Accenture announced three deals across DPE, Cloud, and D&A strengthening its **SAP, AWS** and **Platform Engg** practices

Mid/Small Cap

Mphasis > eBECS

Muted quarter for Mid/small caps with two notable acquisitions, led by Mphasis acquiring a **MS D365** specialist from DXC

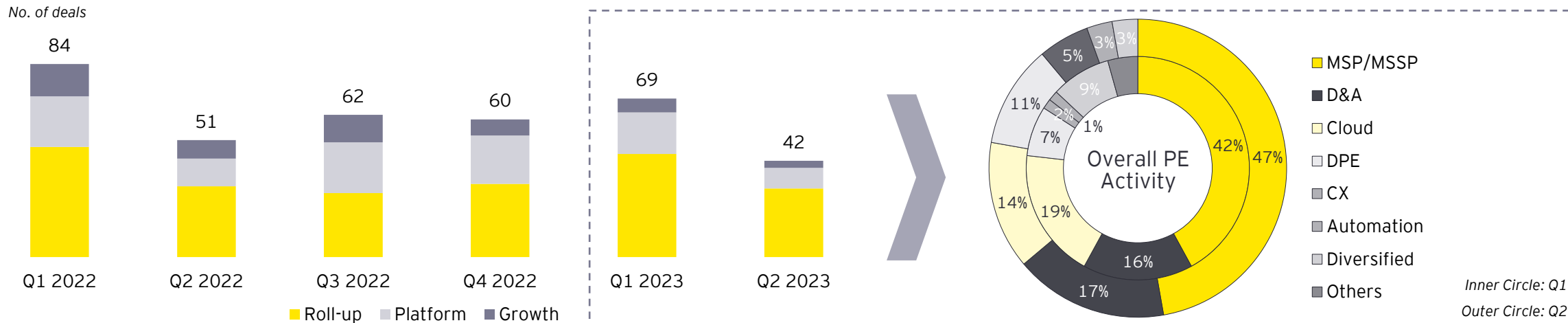
Others

Publicis Sapient > Corra

Publicis Sapient acquired an UK-based **Adobe Commerce** specialist

¹ Large Buyer Group includes Large Cap, Mid & Small Cap, Digital Native, BPM, ER&D, Big 4, & Agencies; ² IT services acquisitions
Source: MergerMarket, S&P Capital IQ, Channele2e, Company Announcements, EY Research & Analysis

...as PE participation recedes from previous highs



- ▶ Q2 2023 saw the lowest level of PE participation over the last seven quarters
- ▶ While PEs continue placing selective bets, we note a marked slowdown in growth and platform deals indicating a contraction in average deal sizes
- ▶ Roll-up activity, especially in the lower/mid market, has been buoyant with resilient activity in MSP/MSSP space and continued consolidation in D&A, Cloud and DPE segments
- ▶ Data and Analytics, Cloud, and Digital Product Engineering segments continue to observe platform activity. Almost half of roll-up deals are in the MSP/MSSP segments where platforms leverage inorganic strategy to consolidate geographies and build the digital “one stop shop”

Select Deals		
Select PE Platform	Select Roll-ups	
<p><i>Australian Automation Specialist</i></p> <p>Liverpool Partners > SimplyAI</p>	<p><i>Australian DevOps Specialist</i></p> <p>Goldman Sachs/Cprime > Elabor8</p>	<p><i>Romanian DPE specialist for BFSI</i></p> <p>Advent International / Encora > Softelligence</p>
<p><i>US-based IT MSP/MSSP</i></p> <p>Metropolitan > Sourcepass</p>	<p><i>Brazilian DPE Specialist</i></p> <p>BV Investment Partners / Marlabs > Monitora</p>	<p><i>US/India-based Data & Analytics Co</i></p> <p>Charlesbank / Motive Capital Corp / Accordian > Merilytics</p>
<p><i>Lifesciences Digital Transformation Specialist</i></p> <p>TA Associates > Zifo</p>		

Source: MergerMarket, S&P Capital IQ, Channele2e, Company Announcements, EY Research & Analysis

A hand is shown holding a complex, multi-colored network of lines and nodes, resembling a globe or a data visualization. The nodes are small circles in various colors (blue, yellow, red, purple, white) and are connected by thin, curved lines of the same colors. The background is dark blue. A yellow vertical bar is on the left side. A yellow horizontal bar with a rounded right end is at the bottom, containing the text "Public Market Overview".

Public Market Overview

Steep corrections observed in 2022 show signs of reversal in 2023

Valuations near five-year averages across segments, barring Digital Native companies where premiums have cooled off materially



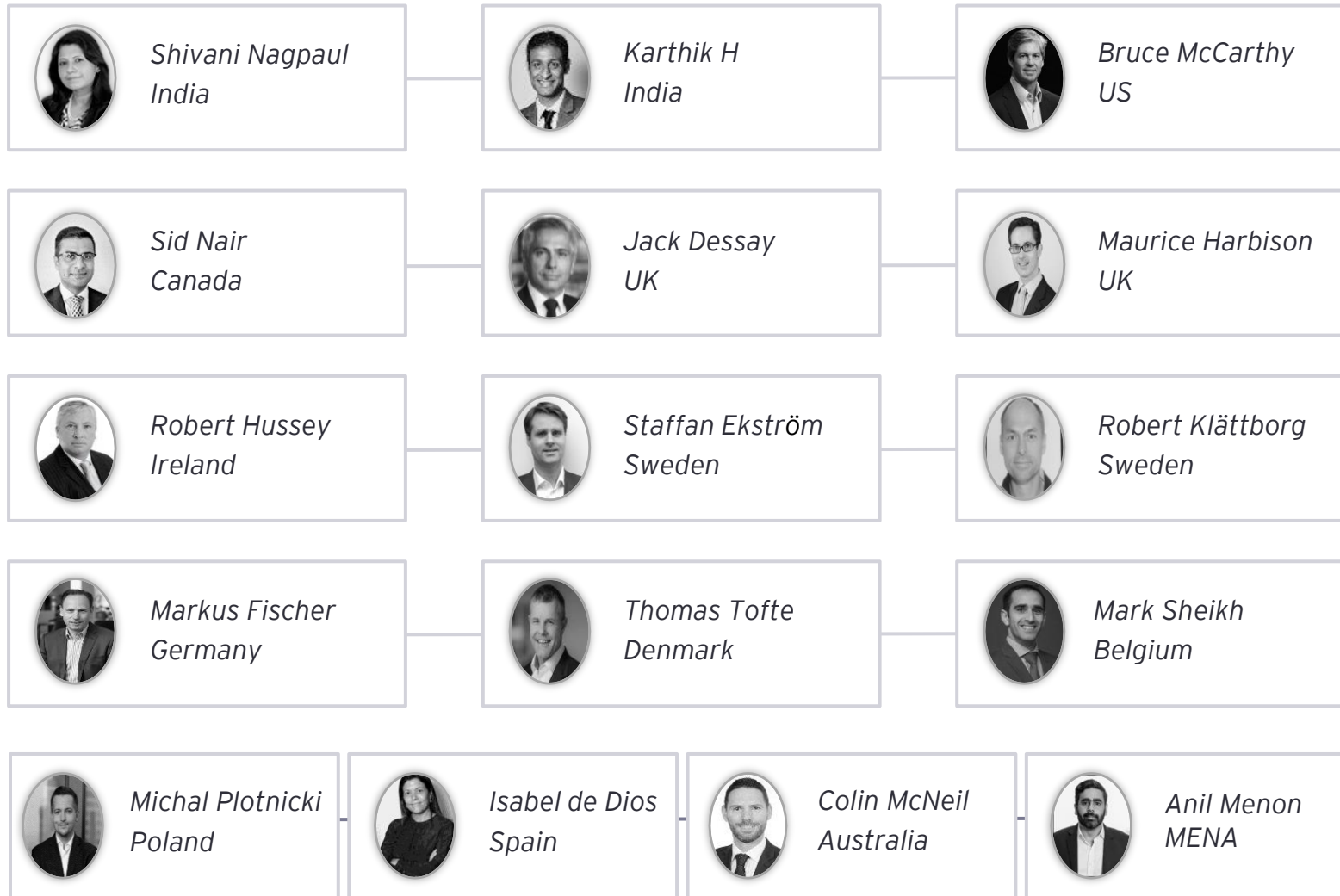
- ▶ Strong orderbook weighed by run-off risks, softening outlook on FY24 growth
- ▶ Select mid-caps driving overall market performance and premium to large cap
- ▶ The gap between the top quartile and median revenue and EBITDA multiples is narrowing in the private markets and compressions in revenue multiples and convergence with public markets is noticeable
- ▶ Growth and differentiation continues to command premium

Source: S&P Capital IQ, Current = 30th June 2023, Gartner, IDC

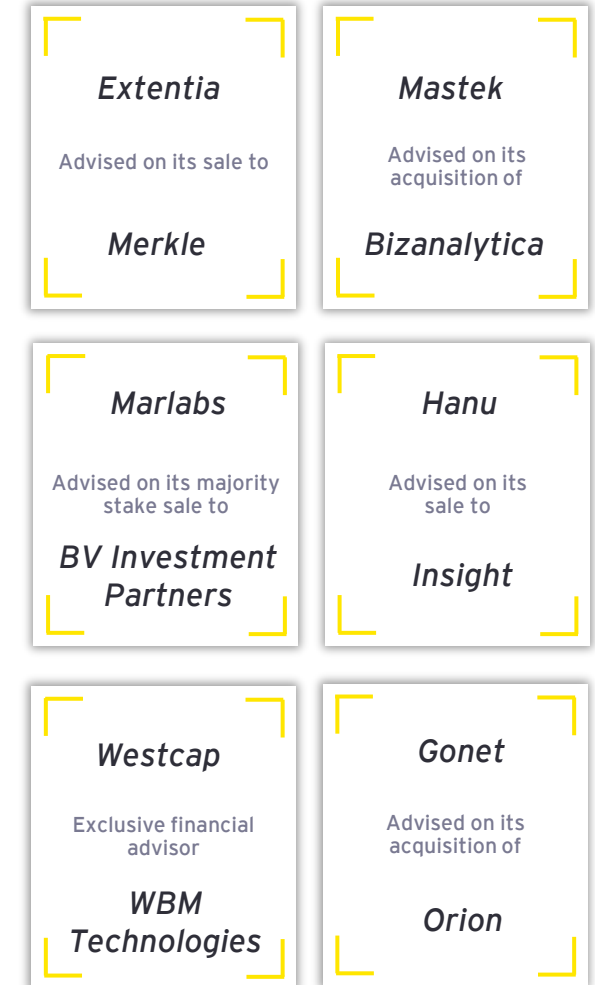
A group of business professionals are silhouetted against a large window with a sunset or sunrise view. They are seated around a table, engaged in a meeting. The scene is backlit by the bright sun, creating a warm, golden glow. The silhouettes of the people and their chairs are clearly visible against the bright light. The overall atmosphere is professional and collaborative.

EY Tech Investment Banking

Global EY Technology Investment Banking Team



Select Transactions



Methodology

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

Definition

- ▶ **Indian Large Cap IT Services:** TCS, Infosys, Wipro, HCL, TechM
- ▶ **Global Large Cap IT Services:** Accenture, Capgemini, Cognizant, Atos, DXC, CGI, NTT Data
- ▶ **Mid & Small Cap IT Services (MSC):** Coforge, Mphasis, Persistent, Perficient, Zensar, Kin&Carta, Mastek, Birlasoft, Sonata
- ▶ **Digital Natives:** EPAM, Globant, Endava, and Nagarro
- ▶ **ER&D:** Alten, AFRY, Etteplan, Assystems, Bertrandt, EDAG, KPIT, L&T Technology Services, Tata Elxsi and Cyient
- ▶ **BPM:** WNS, Genpact, EXL, TaskUs, Ibex, Telus, Teleperformance, Concentrix, TDCX, TTEC, Majorel, Hinduja Global Solutions
- ▶ **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, IBM, LTI Mindtree, ThoughtWorks, Happiest Minds, Salesforce, Sopra Steria, Sesa & Grid Dynamics

Glossary

Abbreviations	Meaning	Abbreviations	Meaning
Avg	Average	IT	Information Technology
AWS	Amazon Web Services	IP	Intellectual
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

Our Offices

Ahmedabad

22nd Floor, B Wing, Privilon
Ambli BRT Road, Behind Iskcon
Temple, Off SG Highway
Ahmedabad - 380 059
Tel: +91 79 6608 3800

Bengaluru

12th & 13th floor
"UB City", Canberra Block
No.24 Vittal Mallya Road
Bengaluru - 560 001
Tel: +91 80 6727 5000

Ground Floor, 'A' wing
Divyasree Chambers
11, Langford Gardens
Bengaluru - 560 025
Tel: +91 80 6727 5000

Chandigarh

Elante offices, Unit No. B-613 & 614
6th Floor, Plot No- 178-178A
Industrial & Business Park, Phase-I
Chandigarh - 160 002
Tel: +91 172 6717800

Chennai

Tidel Park, 6th & 7th Floor
A Block, No.4, Rajiv Gandhi Salai
Taramani, Chennai - 600 113
Tel: +91 44 6654 8100

Delhi NCR

Ground Floor
67, Institutional Area
Sector 44, Gurugram - 122 003
Haryana
Tel: +91 124 443 4000

3rd & 6th Floor, Worldmark-1
IGI Airport Hospitality District
Aerocity, New Delhi - 110 037
Tel: +91 11 4731 8000

4th & 5th Floor, Plot No 2B
Tower 2, Sector 126
Gautam Budh Nagar, U.P.
Noida - 201 304
Tel: +91 120 671 7000

Hyderabad

THE SKYVIEW 10
18th Floor, "SOUTH LOBBY"
Survey No 83/1, Raidurgam
Hyderabad - 500 032
Tel: +91 40 6736 2000

Jamshedpur

1st Floor, Fairdeal Complex
Holding No. 7, SB Shop Area
Bistupur, Jamshedpur - 831 001
East Singhbhum Jharkhand
Tel: +91 657 663 1000

Kochi

9th Floor, ABAD Nucleus
NH-49, Maradu PO
Kochi - 682 304
Tel: +91 484 433 4000

Kolkata

22 Camac Street
3rd Floor, Block 'C'
Kolkata - 700 016
Tel: +91 33 6615 3400

Mumbai

14th Floor, The Ruby
29 Senapati Bapat Marg
Dadar (W), Mumbai - 400 028
Tel: +91 22 6192 0000

5th Floor, Block B-2
Nirlon Knowledge Park
Off. Western Express Highway
Goregaon (E)
Mumbai - 400 063
Tel: +91 22 6192 0000

Pune

C-401, 4th floor
Panchshil Tech Park, Yerwada
(Near Don Bosco School)
Pune - 411 006
Tel: +91 20 4912 6000

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 Ground Floor, Plot No. 67, Institutional Area, Sector - 44, Gurugram - 122 003, Haryana, India.

© 2023 Ernst & Young LLP. Published in India.
All Rights Reserved.

EYIN2308-005

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.



**Building a better
working world**

ey.com/en_in

[@EY_India](https://twitter.com/EY_India) [in](https://www.linkedin.com/company/ey) EY [You Tube](https://www.youtube.com/channel/UC8Xm11111111111111111111) EY India [f](https://www.facebook.com/EY Careers India) EY Careers India [ig](https://www.instagram.com/ey_indiacareers) @ey_indiacareers