

INFORMATION TECHNOLOGY SERVICES

Mid-Year Report

2023



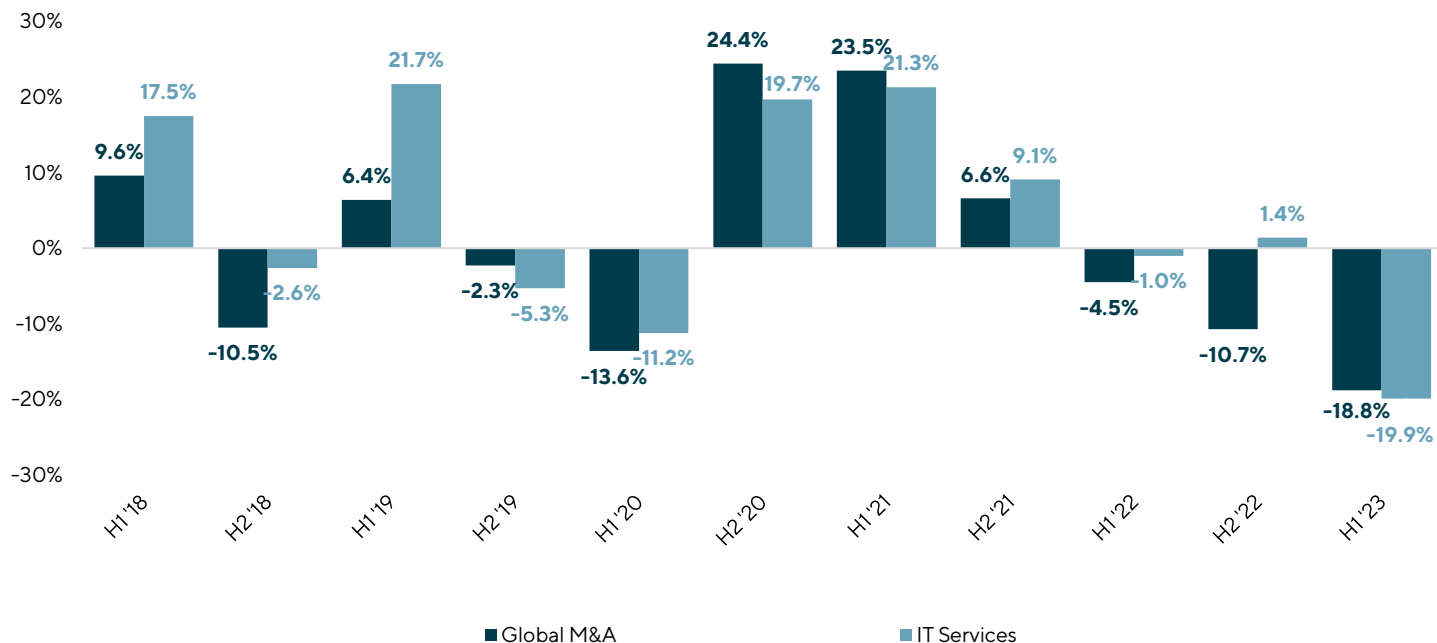
SUMMARY

- **For the first half of 2023, the number of M&A transactions in the global IT Services sector totaled 589, compared to 735 in H2 2022, representing a notable decline of 19.9%.** The IT Services sector also slightly underperformed the global M&A markets, which saw transaction volume decline 18.8% over the same period.
- **IT Services valuations decreased slightly in the first half of 2023, underperforming the broader market which experienced growth in public valuations.** At the end of Q2 2023, the average EV / EBITDA trading multiple in the IT Services sector was 15.7x, which declined from 15.9x at the end of 2022.
- **At a subsector level, the Outsourced Software Development enterprise value performance declined by 16% during the first half of 2023** due to a slowdown in project activity, partly offset by strong performance from the Value-Added Resellers subsector.
- **Many companies within the IT Services sector have continued to experience inflationary pressures on labor costs; however, so far in 2023, companies have on average been able to offset labor cost increases** through reductions in workforce, productivity improvements and price increases.
- **Spend in the IT Services industry is forecasted to reach \$1.4 trillion in 2023, which would represent 8.5% growth compared to 2022⁽¹⁾.** This trend is expected to continue through 2027, with a forecasted CAGR of 8.3% leading to a 2027 market size of \$1.9 trillion⁽¹⁾. However, this may be moderated slightly in the short term as higher prices create headwinds for spend that is more discretionary in nature.
- **While long term demand in IT Services remains focused on growth and transformational initiatives, near term spend has been focused on cost reduction and operating efficiency initiatives⁽¹⁾.**
- **Optimism remains that deal activity will increase in the next 12 months as pressure to deploy capital for investment firms builds and a backlog of quality assets comes to market.** In the first half of 2023, strategic acquirers exhibited lower activity while private equity buyers remained more consistently active, both in terms of new platforms and add-on acquisitions, demonstrating their long-term belief in the IT Services space.
- **Lincoln continues to be highly active in IT Services having announced eight transactions YTD.**

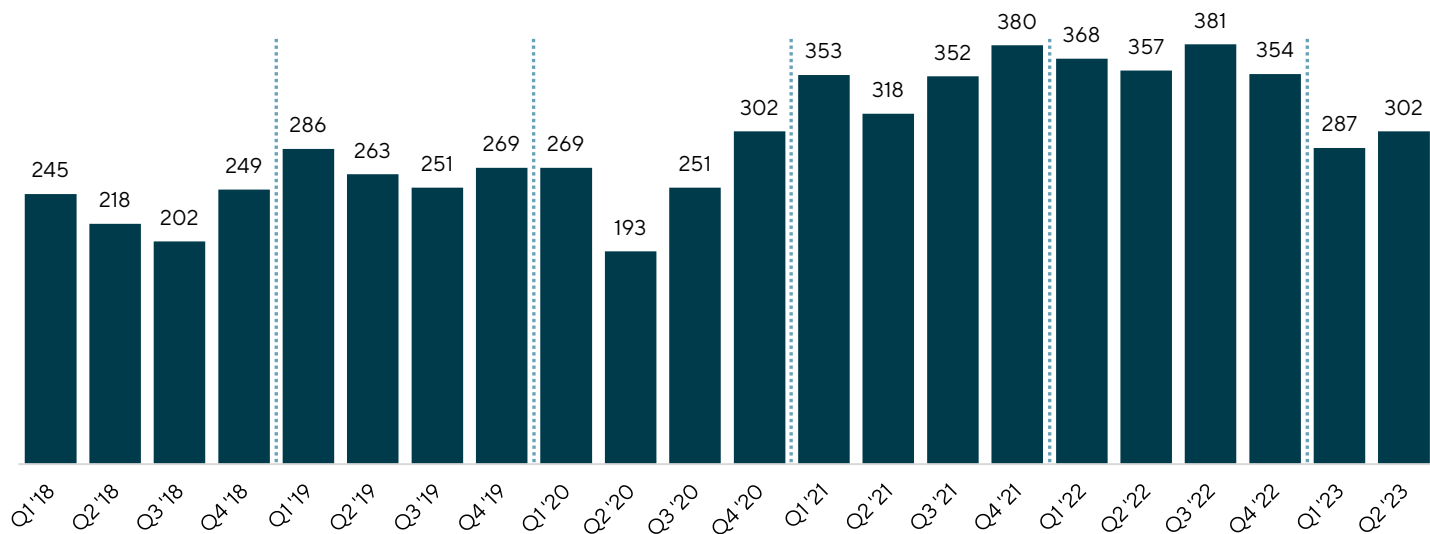
Source: (1) Gartner

2023 Information Technology (IT) Services M&A Activity

PERIOD-OVER-PERIOD CHANGE IN M&A VOLUME FROM H1 2018 - H1 2023



IT SERVICES M&A TRANSACTION VOLUME FROM Q1 2018 - Q2 2023



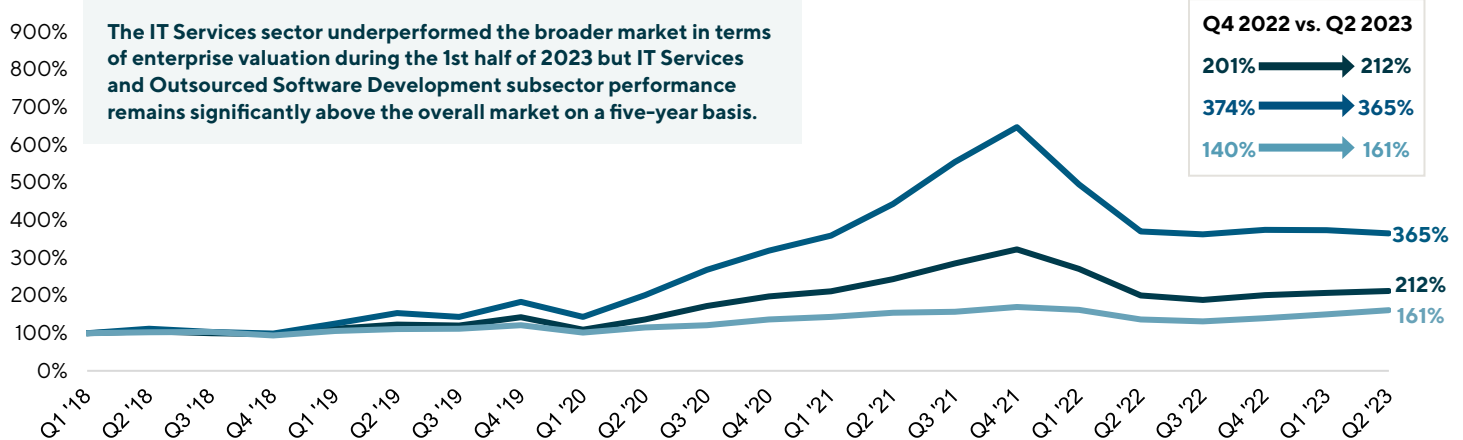
Acquisition volumes in the IT Services sector have receded from record levels in 2021-2022, and also underperformed the broader M&A market in H1 2023; however, secular trends toward digital transformation will continue to provide tailwinds to M&A activity.

Sources: S&P Capital IQ, Mergermarket, Pitchbook and proprietary information

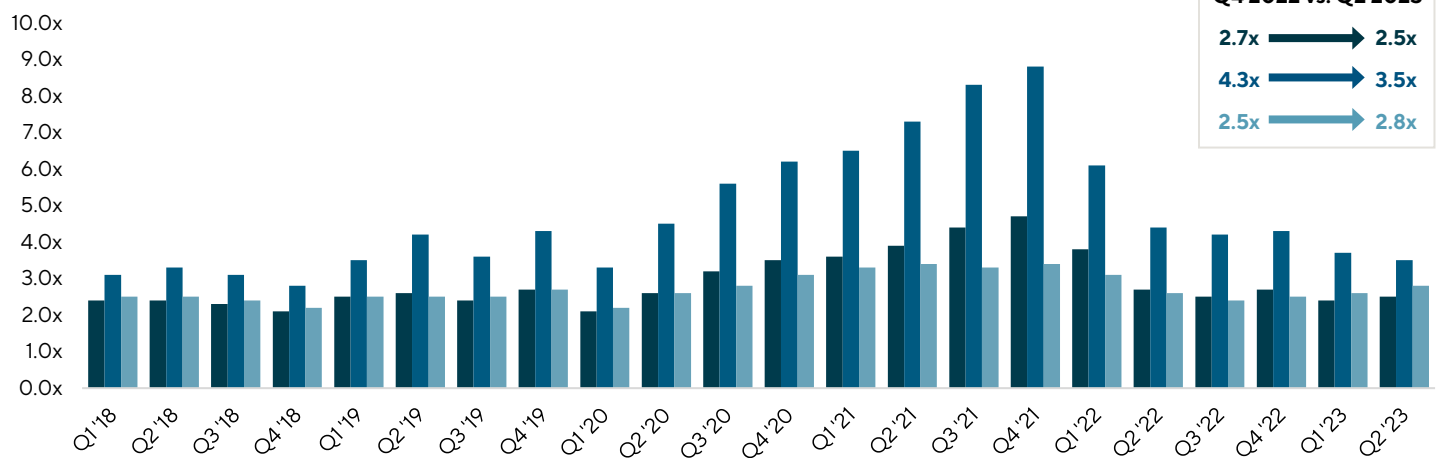
Note: Considers closed and reported transactions on S&P Capital IQ. Transaction totals are subject to change from prior report versions as additional transaction data is made available.

2023 IT Services Public Company Trading Performance Versus the Broader Market

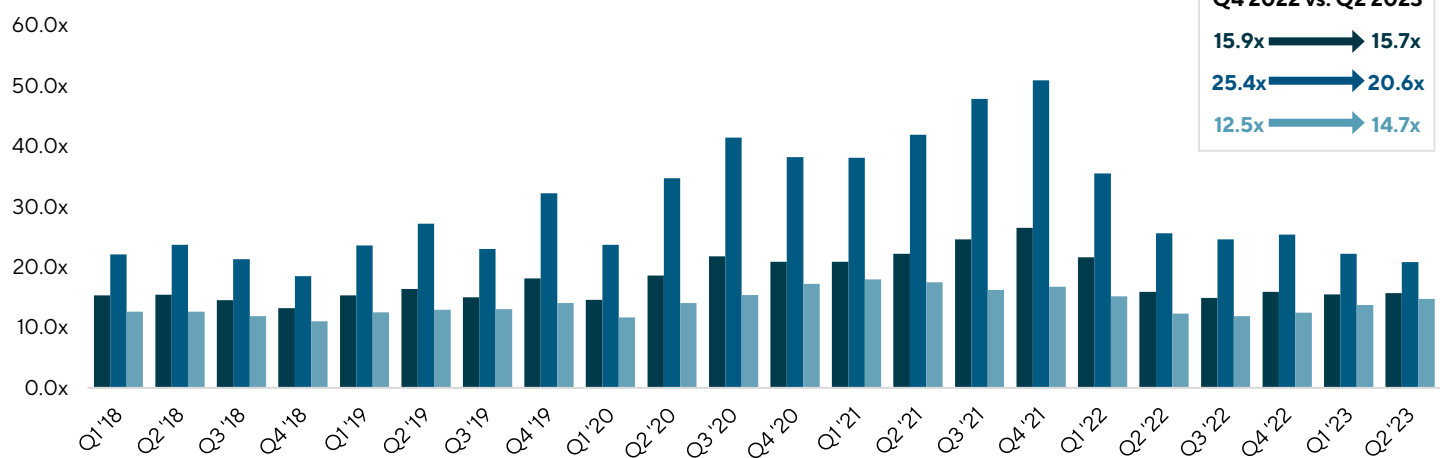
ENTERPRISE VALUE INDEXED TO JANUARY 2018



ENTERPRISE VALUE / LTM REVENUE VALUATION MULTIPLES



ENTERPRISE VALUE / LTM EBITDA VALUATION MULTIPLES



Legend: LI IT Services Composite Index (Dark Blue), LI Composite Outsourced Software Development Index (Medium Blue), S&P 500 (Light Blue)

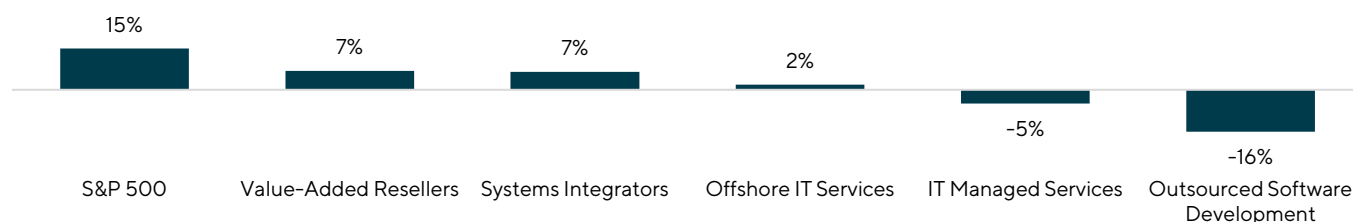
Source: S&P Capital IQ, proprietary information

Note: The "LI IT Services Composite Index" is comprised of public companies operating within one of Lincoln's tracked subsectors: North American and European system Integrators, North American and European Value-Added Resellers, Offshore IT Services, North American and European IT Managed Services and Outsourced Software Development.

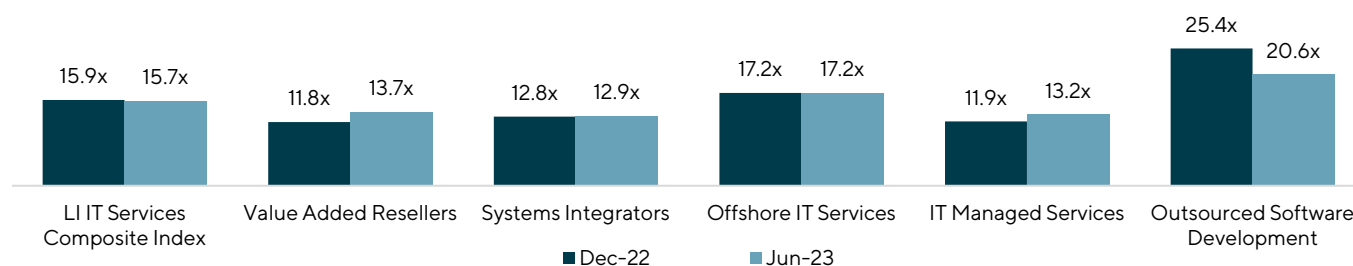
Subsector Market Update – Contrasting Performance

- The decline in the IT Services enterprise value (EV) / last-twelve-months (LTM) EBITDA multiple over the first half of 2023 can be primarily attributed to the decrease in valuations for the Outsourced Software Development index, which fell from 25.4x to 20.6x over the same period
- The EVs of Outsourced Software Developers Endava and EPAM declined by 34% and 35%, respectively, over the first half of 2023 primarily as a result of an ongoing slowdown in project activity within the Outsourced Software Development market
- During the first half of 2023, average valuation multiples increased for Value-Added Resellers, from 11.8x to 13.7x. Value-Added Resellers also experienced a 7% surge in EVs, driven by Insight Enterprises and Softcat with impressive increases of 26% and 27%, respectively, offsetting a portion of the market’s decline since the highs of late 2021
- Performance in the IT Managed Services (ITMS) subsector is mixed, with Iomart’s EV up by 33% and United Internet’s down by 15%, resulting in an overall subsector decline of approximately 5%. Despite a significant decrease in reported earnings (EBITDA) for half of the companies in the ITMS index, market valuations stayed relatively stable for all, with the average EVs only declining 5%, resulting in an increase in the average subsector EV / EBITDA multiple from 11.9x to 13.2x

ENTERPRISE VALUE PERFORMANCE BY SUBSECTOR (H1 2023)



EV / LTM EBITDA VALUATION MULTIPLES



MARKET TRENDS AND CEO COMMENTARY – GEN AI EXPECTED TO LIFT PRODUCTIVITY AND GROWTH

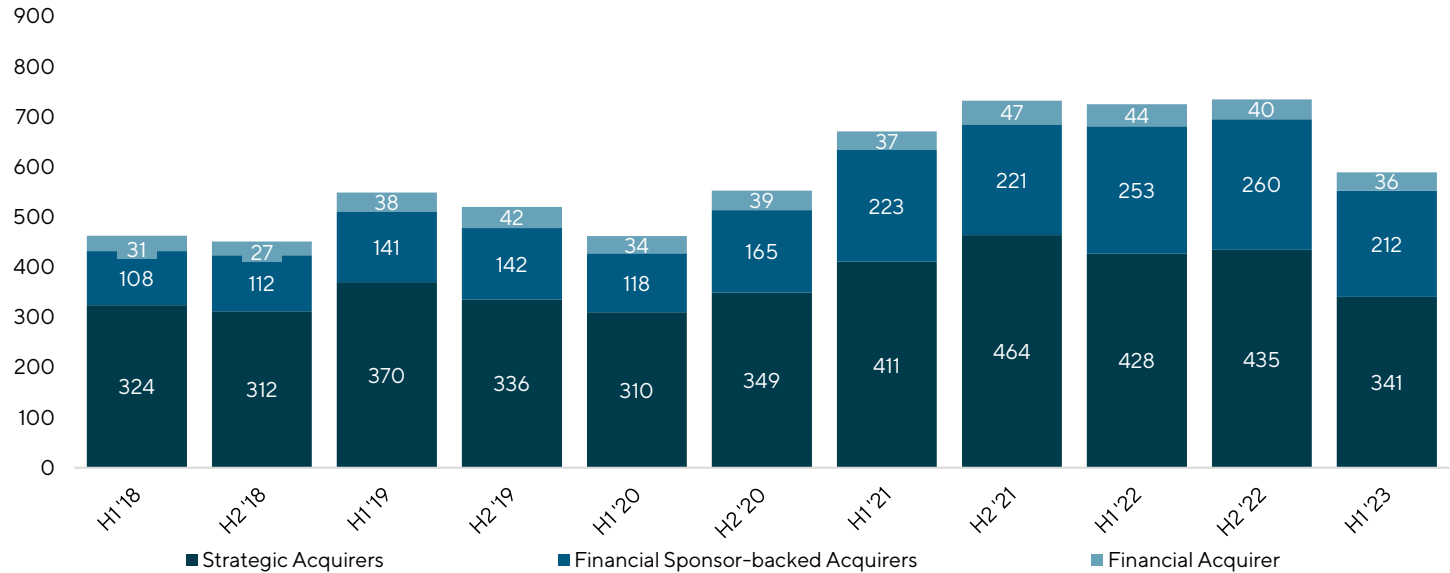
- Gartner predicts the IT Services industry will reach \$1.4 trillion in 2023, reflecting an 8.5% growth. They also predict this growth trajectory will continue through 2027 resulting in an estimated market size of \$1.9 trillion in 2027
- Digital transformation continues to be a primary focus for companies, even amidst economic challenges, as it stands out as one of the most significant trends of recent years and was accelerated by the pandemic
- Companies across subsectors are reflecting on how to integrate generative AI into their product suite to improve customer experience as well as use automation to reduce cost to serve
- Accenture observed clients achieving 70% time savings with generative AI, highlighting its potent ability to drive growth; successfully scaling companies realize a 3x return on their AI investments compared to those stuck in the pilot stage
 - “Generative AI has emerged as a top priority for companies. The AI marketplace has propelled into a new era fueled by an unparalleled convergence of trends.” – Amar Maletira, Chief Executive Officer of Rackspace
 - “Given the economic headwinds on the horizon, companies need to be smarter about how they invest in data, analytics and AI, and track their investments.” – Harvard Business Review

Source: S&P Capital IQ, Gartner, company press releases and public filings

Note: The “LI IT Services Composite Index” is comprised of public companies operating within one of Lincoln’s tracked subsectors: North American and European System Integrators, North American and European Value-Added Resellers, Offshore IT Services, North American and European IT Managed Services and outsourced Software Development.

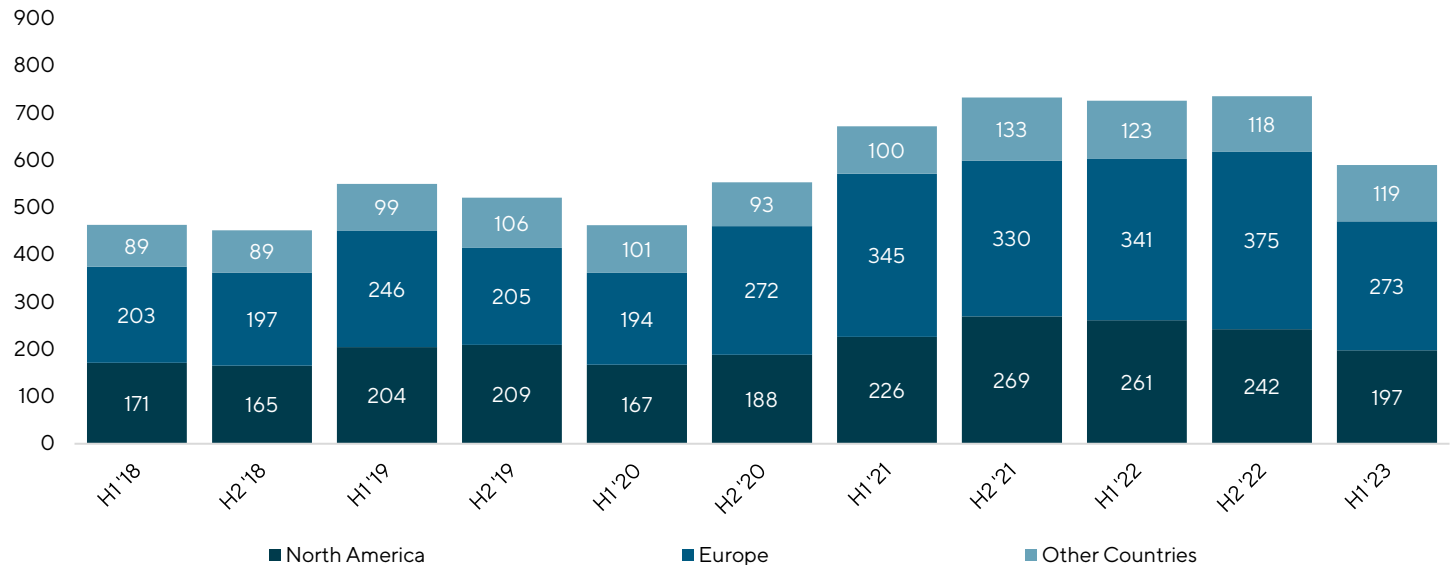
IT Services M&A Snapshot

GLOBAL IT SERVICES TRANSACTION VOLUME BY ACQUIRER TYPE



Strategic acquirers exhibited lower activity in the first half of 2023 while private equity buyers remained more consistently active, both in terms of new platforms and add-on acquisitions, demonstrating their long-term belief in the IT Services space.

IT SERVICES TRANSACTION VOLUME BY GEOGRAPHIC LOCATION



Deal volume in North America and the Rest of the World returned to pre-pandemic norms in the first half of 2023. While Europe continues to account for the majority of acquisitions in the sector globally, M&A volume for the continent declined 27% from H2 2022 to H1 2023. In North America over the same period, transaction volume declined 19%.


Source: S&P Capital IQ, Mergermarket, Pitchbook, company press releases and proprietary information

IT SERVICES M&A SNAPSHOT

Closed	Target	Business Description	Acquirer
Jun-23	Eministration	Provides IT management and consulting services including managed services, Microsoft solutions and VMware solutions for the healthcare, government, legal and construction sectors	General Informatics
Jun-23	RevelSec	Provides security-first managed services including managed services, cloud services and IT consulting services throughout the U.S.	Dataprise
Jun-23	Sparq	Provides IT outsourcing services including application development services, business intelligence and analytics services, cloud solutions and integrations throughout the U.S.	Harvest Partners
Jun-23	Epm Intelligence	Provides implementation, training, managed services and staffing solutions for the technology-enabled solution and public sectors	Centroid SYSTEMS
Jun-23	3XM Group Corporation	Provides IT consulting services in the areas of custom software development, data analytics and big data, application programming interface development and integration and security	Allata
Jun-23	Snow Commerce	Provides e-commerce IT solutions including digital marketing, business modeling, creative direction, print-on-demand products and web design	Printful
Jun-23	Nextira	Provides cloud-based solutions and services including cloud migration, DevOps, managed engineers, AI and machine learning services	Accenture
May-23	hallo	Provides telecommunication and data management solutions, including wireless internet and voice services to small and medium-sized enterprises	Vortex Capital Partners & KLAR Partners
May-23	Systems Solutions	Provides managed technology services including IT consulting, business continuity planning, cloud services, telephone systems and video security to small and medium-sized businesses	Meriplex Communications
May-23	ICCS & Co.	Provides managed IT, cybersecurity and cloud services to clients in the New York metropolitan area	Nexus Technologies
May-23	WCS Consulting	Provides digital supply chain solutions including process transformation, inventory assessment, managed services and support services	ArchLynk
May-23	Objectivity	Provides customized IT software and solutions that offers support and maintenance services throughout the UK	Accenture
May-23	Definitive Solutions	Provides IT managed services, IT consulting, cloud and security services designed to provide secure cloud and remote working solutions	Nostra Technologies
May-23	Wise Consulting Associates	Provides human capital management technology consulting, workforce management and payroll management technology and compliance solutions	RSM U.S.
Apr-23	Caliber Security Partners	Provides information security consulting services intended to help manage and communicate risk including cloud security, business continuity and contingency planning	Central Security Group-Nationwide
Apr-23	ExperienceIT	Provides business and technology consulting services intended to help clients transform healthcare with better outcomes and affordability	Globant
Mar-23	New CMI	Provides system support, network management, disaster recovery and hosting solutions throughout the UK	BCN Group
Mar-23	Vohkus	Provides IT-enabled business solutions and services for private and public sector clients in the UK and internationally	Specialist Computer Centres
Mar-23	ACT Business Machines	Provides IT services including document management, managed technology solutions and business communication services to the Chattanooga, Tennessee-area business community	Novatech
Mar-23	Monaco Advisory Group	Provides enterprise technology advisory services based in Boca Raton, Florida	UPSTACK
Feb-23	Lanlogic	Provides IT consulting and infrastructure support services including hosted exchange, server hosting, backup, web hosting, data protection and IT infrastructure services	Quest Media & Supplies
Feb-23	Be Intelligent	Provides cloud-based customer relationship management services for business clients, enabling them to make their businesses efficient through automation	PWC
Feb-23	Detron / Zetacom	Provides managed IT services to the Dutch healthcare market	Avedon Capital Partners
Feb-23	AdEPT Technology Group	Provides unified communication and IT services throughout the UK through their two segments	Wavenet
Feb-23	Highlander Computing Solutions	Provides IT services including managed services, cloud services and cloud infrastructure services delivering accelerated end-to-end cloud adoption for small and medium-sized enterprises	FluidOne
Feb-23	Livingstone Technologies	Provides software and cloud asset management and optimization services to complex multinational corporations	Trustmarque Solutions
Jan-23	Prime Technology Group	Provides software solutions and services including IT service management, cloud storage and integration services for the insurance, financial services and healthcare industries	Encora Digital
Jan-23	Mobica	Provides software development and integration services including technology consulting, user experience and interface, quality assurance and testing and software engineering services	Cognizant Technology Solutions
Jan-23	PathMaker Group	Provides identity and security management consulting services and solutions focused on protecting sensitive information	Simeio Solutions
Jan-23	The TNS Group	Provides managed IT support services including managed security solutions, managed IT services and IT consulting services in the U.S. and internationally	Omega Systems Consultants
Jan-23	Cloud Technology Solutions	Provides cloud transformation and infrastructure services intended to make data-driven decisions	Marlin Equity Partners
Jan-23	CalTech Software Systems	Provides IT network assessment and managed services including performance monitoring, preventative maintenance and virtual IT infrastructure setup to financial institutions	Integris

Source: S&P Capital IQ, Mergermarket, Pitchbook, company press releases and proprietary information

Lincoln's Recent IT Services Transactions

 <p>has agreed to acquire</p>  <p>from</p>  <p>Buy-Side Acquisition Financing</p> 	 <p>has invested in</p>  <p>a portfolio company of</p>  <p>Sell-Side Staple Financing</p> 	 <p>has made an investment in</p>  <p>Buy-Side</p> 	 <p>and its Israeli entity</p> <p>have been sold to</p>  <p>a part of</p>  <p>Sell-Side</p> 
 <p>has acquired a stake in</p>  <p>from private shareholders and management</p> <p>Buy-Side Acquisition Financing</p> 	 <p>has been sold to</p>  <p>Sell-Side</p> 	 <p>has been sold to</p>  <p>a portfolio company of</p>  <p>Sell-Side</p> 	 <p>has been sold to</p>  <p>a portfolio company of</p>  <p>Sell-Side</p> 
 <p>has received an investment from</p>  <p>Sell-Side</p> 	  <p>have sold</p>  <p>to</p>  <p>Sell-Side</p> 	 <p>has received a significant investment from</p>  <p>Sell-Side</p> 	 <p>has been sold to</p>  <p>Sell-Side</p> 

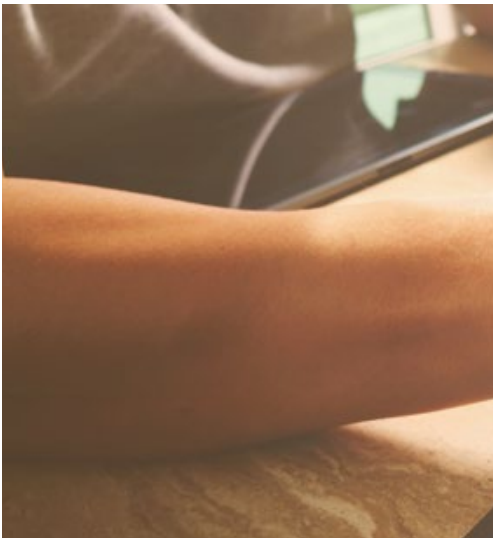
Source: S&P Capital IQ, Mergermarket, Pitchbook, company press releases and proprietary information

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Lincoln's IT Services Practice

Committed to Serving our Clients

We are immersed in the constantly evolving, rapidly growing service-based economy. Our breadth of transactional, operational and technical experience enables us to intuitively communicate the underlying dynamics in key subsectors and generate excellent outcomes based on our clients' individual needs.

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