
M&A Market Report

Technology Services

Q3 2022

Introduction

The technology services M&A market thrived in 2021 as deal activity rebounded from the pandemic-induced slowdown in 2020 and broke previous records. Heading into 2022, the market outlook for technology services M&A was initially strong with businesses managing the shift to hybrid and in-person work environments, and emerging technologies becoming more mainstream. However, the recent macroeconomic developments have dampened what were only months ago bullish expectations.

Overall deal value and volume grew 40% YoY between 2020 and 2021 with an uptick in valuation multiples across all segments of technology services. But year-to-date technology sector deal volume is down roughly 35%.

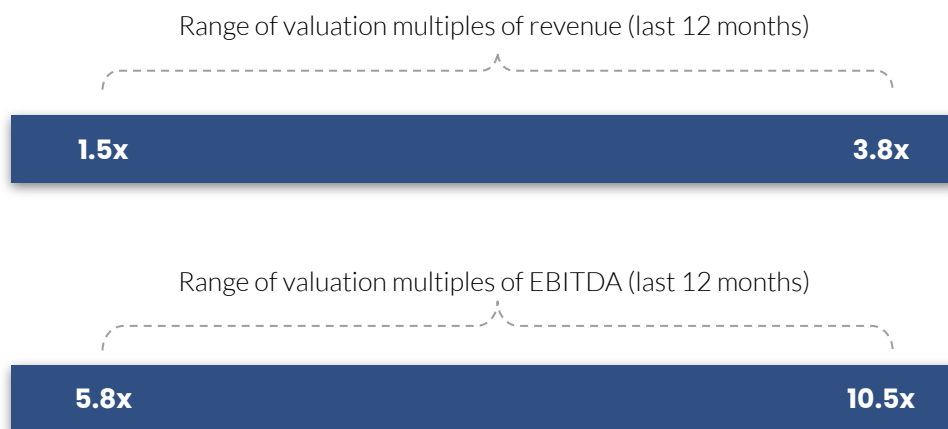
Looking ahead, expect strategic buyers to continue to look to expand capacity and capabilities while addressing gaps in their workforce and services offerings. And financial buyers many of which maintain strong capital positions will continue to seek acquisitions albeit in a more cautious fashion than before.

Valuation Trends

In the last 12 months, the technology services sector has benefited from lofty valuations. Valuations for technology services companies had been in the range of 1.5x - 3.8x revenue and 5.8x - 10.5x EBITDA.

Cheap capital supplied by the Federal Reserve and central banks, combined with relaxed monetary policy had driven asset prices to all-time highs, in pandemic-resistant industries, such as technology services. Now as the Federal Reserve lifts short-term interest rates to combat high inflation the return on investment from M&A initiatives could look less appealing.

While the current economic market environment isn't the ideal backdrop for the aggressive M&A activity that we've witnessed since late 2020, the shift to lower valuations has created opportunities for buyers, as acquisitions previously considered out of reach could become attainable. Sellers will need to rethink valuation expectations and restructure their business models to entice buyers operating with increased capital discipline.



Public Market Basket

Publicly traded technology services company valuations have indeed softened. Discounted public basket multiples yield a median EBITDA multiple of 11.87x and a median revenue multiple of 1.88x both of which are down significantly from this period last year.

Company	Ticker	EV / Revenue	EV / EBITDA
Accenture	ACN	3.12x	16.83x
Capgemini	CAPMF	1.92x	13.78x
Cognizant	CTSH	1.83x	9.95x
Infosys	INFY	4.63x	16.67x
DXC	DXC	.65x	3.40x
CGI	GIB	1.63x	8.11x
Median		1.88x	11.87x

Acquisition Activity

With digital transformation at the top of all companies' priority lists, M&A activity and valuations soared as deal volume grew 40% in 2021. The accelerated spending in managed IT and cloud solutions spurred a rapid increase in M&A activity in 2021 driving record-setting levels of deal volume and values.

The most active buyers in the technology services space included Accenture, Presidio, and Cognizant. Accenture being the most active, closing over 50 acquisitions by year's end. Accenture's spree of acquisitions and \$3bn Cloud First initiative, all point toward its aggressive push into the cloud and cementing its behemoth status as the top-tier IT services and consulting firm.

Acceleration in digital transformation and an uptick in demand for technologies enabling cloud transformation, infrastructure, cybersecurity, data, and analytics will be strategic driving forces across all categories of buyers through 2022. Anticipate a widespread technology talent shortage to drive a lot of dealmaking as buyers will look towards M&A as a way to fill voids in their workforce.

In light of a looming down market industry leaders will continue to lean on M&A as a powerful tool for differentiation in an increasingly competitive environment in 2022 and beyond. However, as previously mentioned year to date M&A activity is down 35% from this point last year and valuations are expected to soften.

Select Transactions

Airiam acquires Syntervision (MSP / Cybersecurity)

Airiam, a managed IT and cybersecurity solutions provider, has acquired five MSPs and MSSPs, the latest being Syntervision. The acquisition of Syntervision extends Airiam's position as a leading provider of IT management and cybersecurity platforms and offers more value by delivering enterprise-grade technology, cyber protection, and digital transformation services. Financial terms were not disclosed.

ASGN acquires GlideFast (IT Services and Consulting)

ASGN (NYSE: ASGN), a leading provider of IT services and solutions, acquired GlideFast in June 2022. GlideFast is an elite ServiceNow Partner and leading IT consulting, implementation, and development company. The deal cements ASGN's status as a major player in the large and growing ServiceNow marketplace. The deal is valued at \$350 million in cash.

Booz Allen Hamilton acquires EverWatch Corp. (Consulting)

Booz Allen Hamilton (NYSE: BAH) announced in March 2022 the acquisition of EverWatch, a leading provider of advanced solutions to the defense and intelligence communities. The deal will help Booz Allen accelerate the delivery of classified software development and analytics capabilities for national security clients. Financial terms were not disclosed.

Wipro Technologies acquires Edgile (IT Services)

Wipro Technologies (NYSE: WIT), a leading global information technology consulting, and services company, acquired cybersecurity consulting provider, Edgile. The acquisition of Edgile will allow Wipro to address the fast-growing cybersecurity consulting space by enhancing its cybersecurity and risk consulting capabilities. The deal is valued at \$230 million.

Unisys acquires CompuGain (IT Services and Consulting)

Unisys, a global IT solutions company, acquired leading cloud solutions provider CompuGain. The acquisition of CompuGain deepens Unisys' expertise in targeted, high-growth segments of the cloud and hybrid cloud market with expanded opportunities to serve customers globally. The deal is valued at \$87.3 million.

Historical IT Services M&A Deal Volume

Year	# of Deals	Value of Deals (\$ in BNs)	Avg. Value of Deals (\$ in BNs)
2015	1,719	76.4	.044
2016	1,692	67.8	.040
2017	1,920	47.4	.024
2018	2,214	80.5	.036
2019	2,325	77.1	.033
2020	1,172	14.6	.012
2021	1,640	20.4	.012

Sources:

<https://imaa-institute.org/m-and-a-by-industries/>

Conclusion

Throughout 2020 and 2021, the challenges related to the pandemic resulted in amplifying the need to leverage technology and as a result spending on technology services has skyrocketed. While companies focused on short-term digital transformation projects that had to be rapidly implemented in late 2020 and 2021, the focus in 2022 and beyond will be on larger initiatives with longer time frames.

The outlook for M&A in the technology service industry was initially robust with revenue in the technology services market projected to reach \$412bn by year's end. The tides have however shifted and there are now many unknowns.

The once rapid pace of deal-making already has and will continue to slow. And many of the hyper-aggressive valuations we saw over the past 12 months will most likely subside. Meaningful M&A activity is still projected to continue as financial buyers and strategic acquirers look for opportunities to fuel the next wave of growth. Perhaps most importantly, technology services M&A market fundamentals still remain stable, and for sellers who are ready to exit there will be plenty of solid opportunities.

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About The Author

Matt Tortora brings over seventeen years of business ownership, sales leadership, and consulting experience in the software and technology services sectors. He has founded three companies and held strategic leadership positions at growth stage B2B software companies. Most notably, Matt was the co-founder and CEO of a Chicago based software company which he successfully grew and sold to a strategic acquirer.