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Investment Banking for a Better Future

IT SERVICES UPDATE

The digital transformation steams ahead



THE DIGITAL TRANSFORMATION STEAMS AHEAD

The digital transformation steams ahead: towards a soft landing. European IT Services firms experienced very strong lfl revenue growth on average since Q2 2021, at levels way above those which prevailed before 2020 and unseen since 2007. In Q3 2022, we estimate European IT Services firms posted average 14% lfl revenue growth, in line with the +12%/+15% range observed over the last four quarters – while the trend was +7%/+8% over 2016-2018 and up +4%/+5% in 2019. These outstanding growth numbers suggest though the economic slowdown is here, digital transformation is still at the top of corporate agendas

Outstanding net staff hiring provide solid embedded revenue growth at least until mid-2023. Another sign of the good health of the IT Services industry at this stage of the crisis is reflected in the exceptionally high level of net staff hiring, despite incredibly high staff attrition rates. This has been particularly visible for global players, but smaller player have benefited from that trend too. We expect net staff hiring, which has slowed down from Q2

2022, to return to pre-2020 levels as soon as Q4 2022. Admittedly, staff attrition is likely to keep rising on an annualised basis until H1 2023, but it is already declining on a quarterly basis. Based on these elements, we deem the market overheat which has prevailed since mid-2021 is fading, but there is no turmoil from a HR standpoint.

Attractive valuation levels unseen since 2020. Since the peak in December 2021 / January 2022, valuations multiples in IT Services market have fallen by 34% for European companies and 20% for US and Indian companies. This has driven 12-month forward EV/EBITDA multiples to reasonable levels: 10.1x in Europe and 15.8x in the US and India. Such levels in Europe have not been seen since July 2020, and the discount of European IT Services stocks vs. US/Indian IT Services stocks has significantly increased to 36% – a level which during the last 15 years was observed only between late 2014 and early 2015, between late 2010 and 2013, and in 2008.

Slowdown in M&A deals, but private equity funds remain very active. Due to this decline in valuation multiples for listed companies, the number of M&A deals in IT Services has slowed since early 2022 due to the difficulty in reconciling the demanding multiples requested by potential sellers and those demanded by potential acquirers. We flagged 91 M&A deals completed in IT Services in 2022, vs. 142 in 2021. However, private equity funds, which in general offer better valuation multiples than in the case of a listing, remained very active in acquisitions and equity investments in 2022, with deals on NNIT IO (Agilitas), Inetum (Bain Capital and Neuberger Berman), SQLI (Dbay Advisors), Atos Italia (Apax Partners), Intys Partners (Ardian), Amexio (Qualium) and Audensiel (Sagard).

The spinoff wave continues. Following the spinoff of IBM's IT infrastructure services business (Kyndryl), the announcement from Atos of a spinoff of its digital, big data and IT security business under the name of Evidian and that of NNIT under the name of NNIT IO, and recent rumours of a potential spinoff of Indra's IT Services business Minsait, Tietoenvy plans to spin off its managed services and transformation businesses in Nordic countries. The rationale for this project is to refocus Tietoenvy on its most growing and profitable businesses.

The digital transformation steams ahead: towards a soft landing

Although the economic slowdown is here, digital transformation is still at the top of corporate agendas. Corporations and institutions started their digital transformation about a decade ago. It is - generally speaking - not yet completed. Stopping projects half way through implementation would have negative consequences in terms of competitiveness, efficiency, revenue generation, and cost management. Behind the expressions “digitisation” or “Industry 4.0”, there are several strategic trends such as **business model transformation, process automation, digital experience, supply chain resilience, and, more recently, sustainable operations**. What were isolated projects implemented at the line-of-business level are now **large-scale transformation projects initiated and supported by top management**. Accenture has called this large-scale transformation cumulating several programmes in accelerated time frames “compressed transformation”. Within these projects, some areas are more mature than others (e.g. digital experience, omnichannel commerce, cloud migration), while others are

emerging (e.g. supply chain management, digital manufacturing, “sustainability”), but transformation goes on. Finally, **all large enterprise software vendors such as Microsoft, Oracle, SAP, Salesforce and Workday still have a globally positive stance on the demand environment**, although, here and there, some customers have lengthened their decision cycles. For instance, among others, **in October 2022 SAP benefited from a current Cloud backlog for S/4HANA Cloud up an explosive 90% cc to EUR2,662m**. With this in mind, while the industry is not immune to economic headwinds, we forecast a soft landing scenario in IT Services for 2023-2024 -as long as there is no economic or geopolitical shock disrupting demand and/or financing channels like in 2008-2009 and 2020.

As such, as shown in Fig. 1 below, **European IT Services firms experienced very strong lfl revenue growth on average since Q2 2021, at levels way above those which prevailed before 2020 and unseen since 2007. In Q3 2022, we estimate European IT Ser-**

vices firms posted average 14% lfl revenue growth (provisional figures), in line with the +12%/+15% range observed over the last four quarters – while the trend was +7%/+8% over 2016-2018 and up +4%/+5% in 2019.

Figs. 2-5 show the **historically high levels of growth in European IT Services and Consulting. The top performers were GFT** (Germany) with 30% lfl growth in H1 2022, **Sword** (France/Luxembourg) with +25%, **Itera** (Norway) and **Kainos** (UK) with +22%, **Adesso** (Germany) with +21%, **Allgeier** (Germany) with +19%, **Reply** (Italy) and **Trifork** (Denmark) at +18%, **Capgemini** (France) with +17%, and **Infotel** (France) and **Siili** (Finland) with +16%, while the **clear underperformers were NNIT** (Denmark) with -7%, **Cancom** (Germany), with -6% and **Atos** (France) with -2%, primarily due to their heavy exposure to managed services.

FIG. 1: QUARTERLY LFL REVENUE GROWTH – EUROPEAN IT SERVICES (2017-2022)

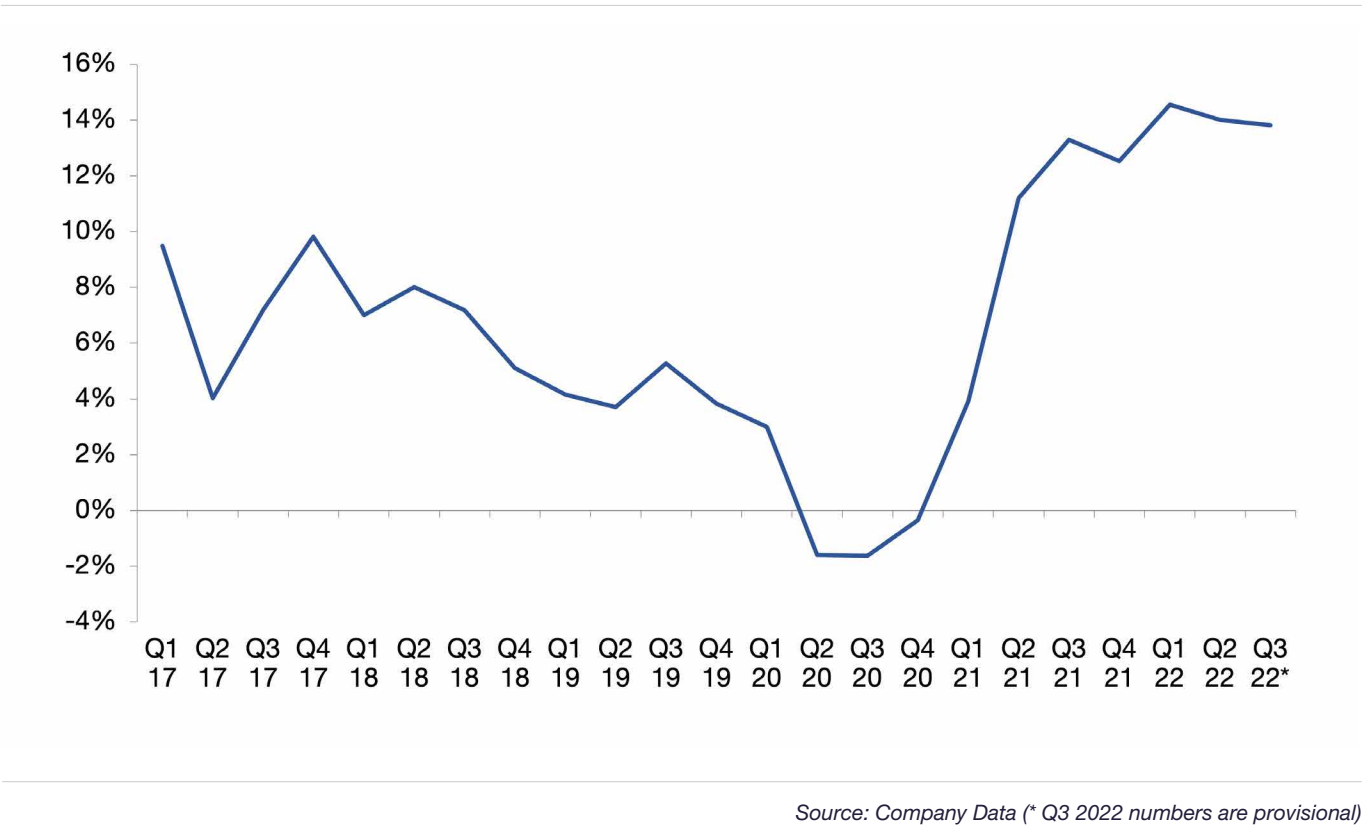


FIG. 2: LFL REVENUE GROWTH IN IT SERVICES – FRANCE (H2 2021 – H1 2022)

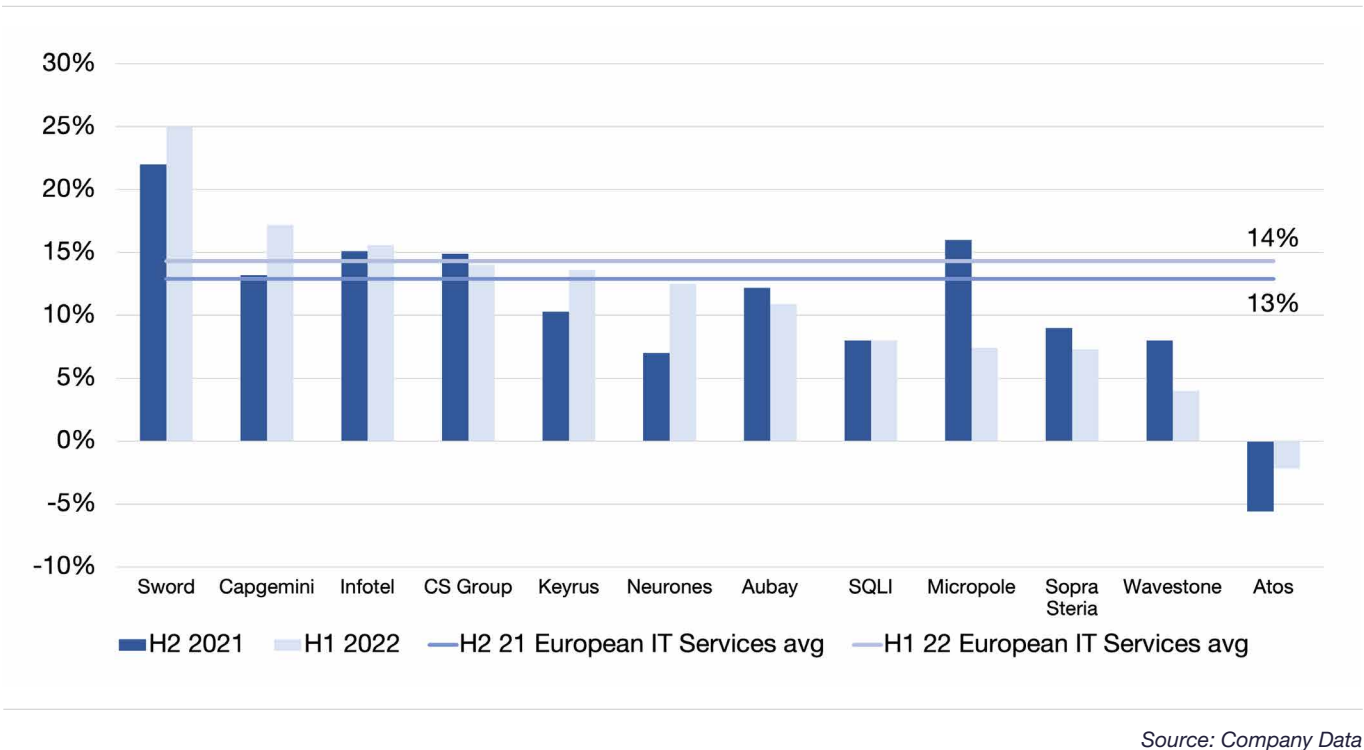
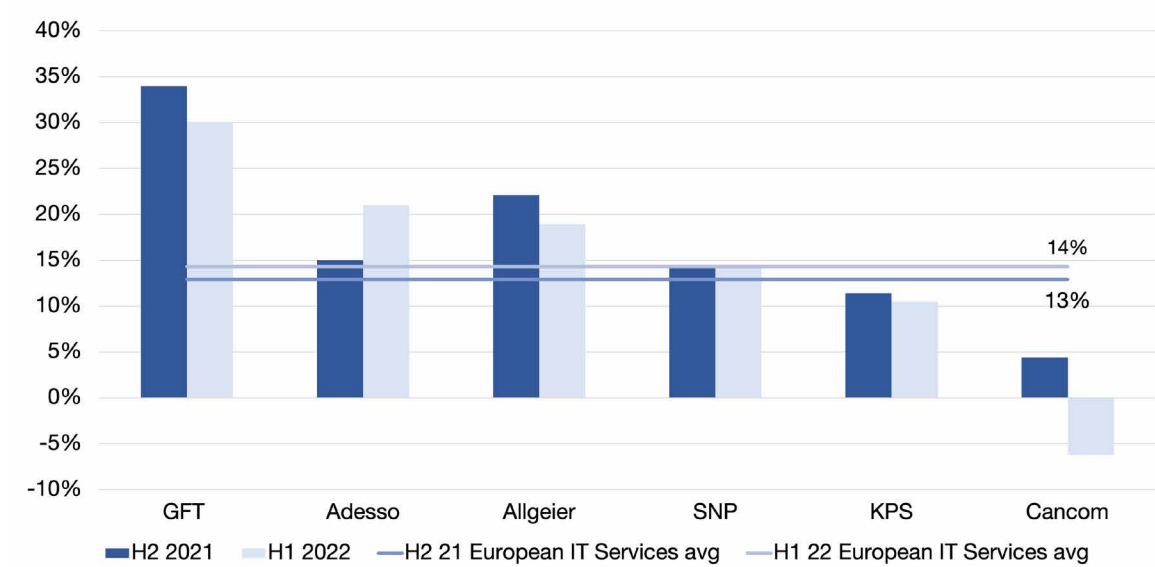
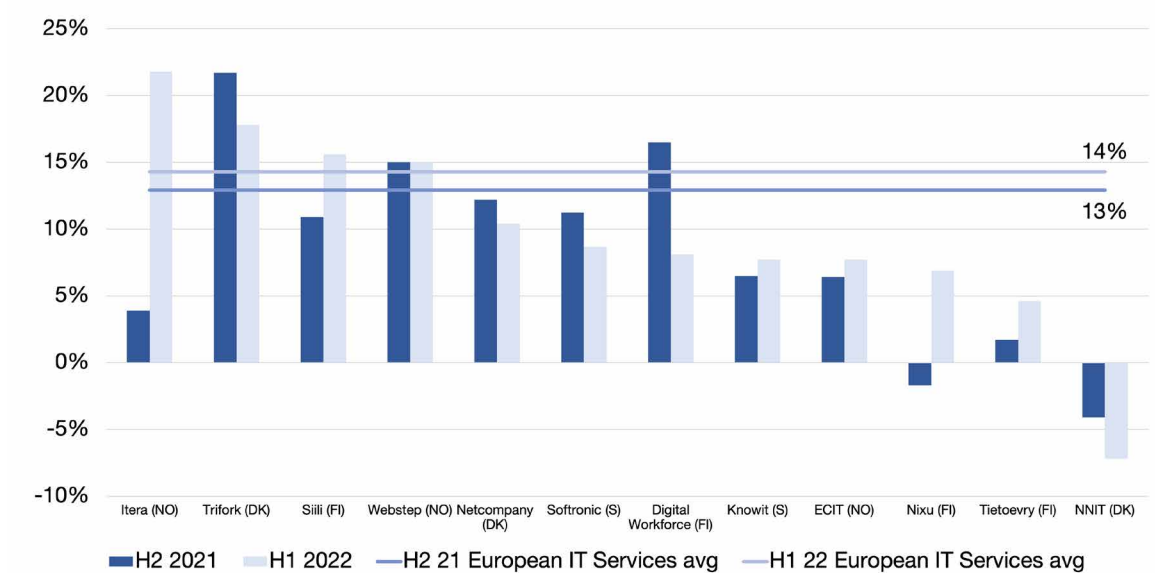


FIG. 3: LFL REVENUE GROWTH IN IT SERVICES – GERMANY (H2 2021 – H1 2022)



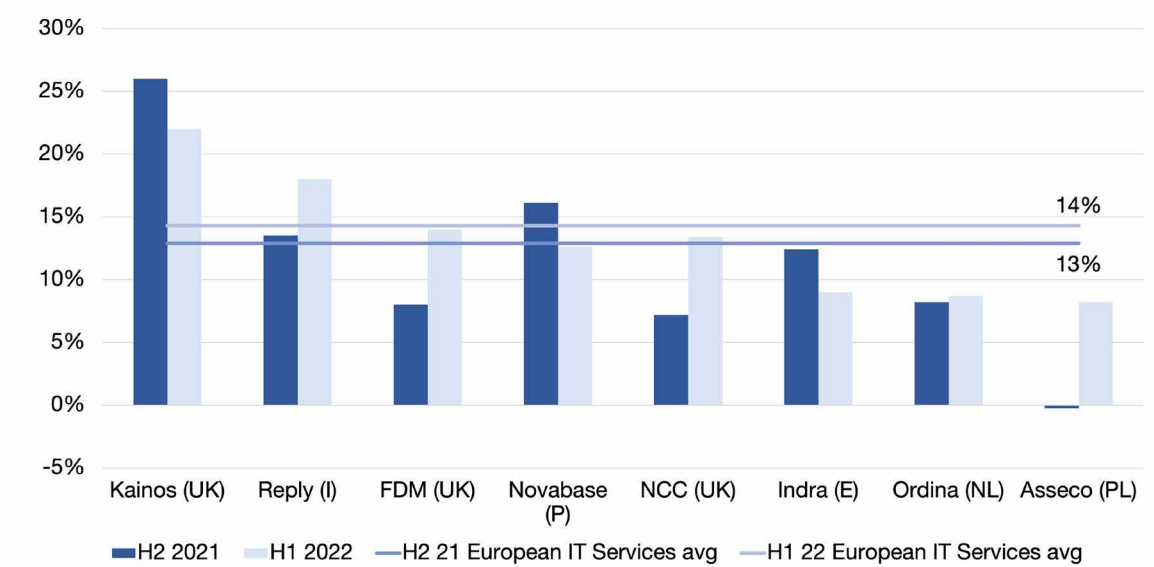
Source: Company Data

FIG. 4: LFL REVENUE GROWTH IN IT SERVICES – NORDIC COUNTRIES (H2 2021 – H1 2022)



Source: Company Data

FIG. 5 LFL REVENUE GROWTH IN IT SERVICES – REST OF EUROPE (H2 2021 – H1 2022)



Source: Company Data

IT Services firms which are best-positioned to gain market share are those primarily positioned on **application services**, covering a **large span of industry and technology expertise** (including enterprise transformation, cloud, data, AI, product engineering, digital experience, cost optimisation, “sustainability”), “**intimacy**” with top-level executives (CXOs) through a consulting offering which matches with current customer needs, and a well-rounded **global delivery model**. However, some specialised IT Services firms can do very well indeed, provided they are on the right topics of the moment and that they are agile enough to benefit from the right positioning matching with client needs. That said, **smaller firms offering digital application development and maintenance**

services keep benefiting from a very positive trend.

On the other hand, IT Services players heavily positioned on managed services are likely to keep suffering for a while. Managed services have already suffered since 2020 from a heavy transfer of workloads from traditional data centres to public or hybrid cloud infrastructure. Although the decline has tended to slow in 2022 as the transition is well-advanced now, we believe this market will stay under pressure as: 1) the move to the cloud continues; 2) managed services players are likely to struggle to raise their prices on medium-term contracts while the cost of energy consumption for running IT infrastructure (e.g. data centres) is surging.

Overall, the demand environment is not really concerning, although there is more caution in high-tech, telecom and parts of financial services (e.g. mortgage). Growth will continue to slow over the next quarters, in our view, but this primarily stems from exceptional growth in previous quarters amidst demand overheat. Recent comments from managements all players have been pretty reassuring, and imply a **soft landing as long as there is no economic shock**.

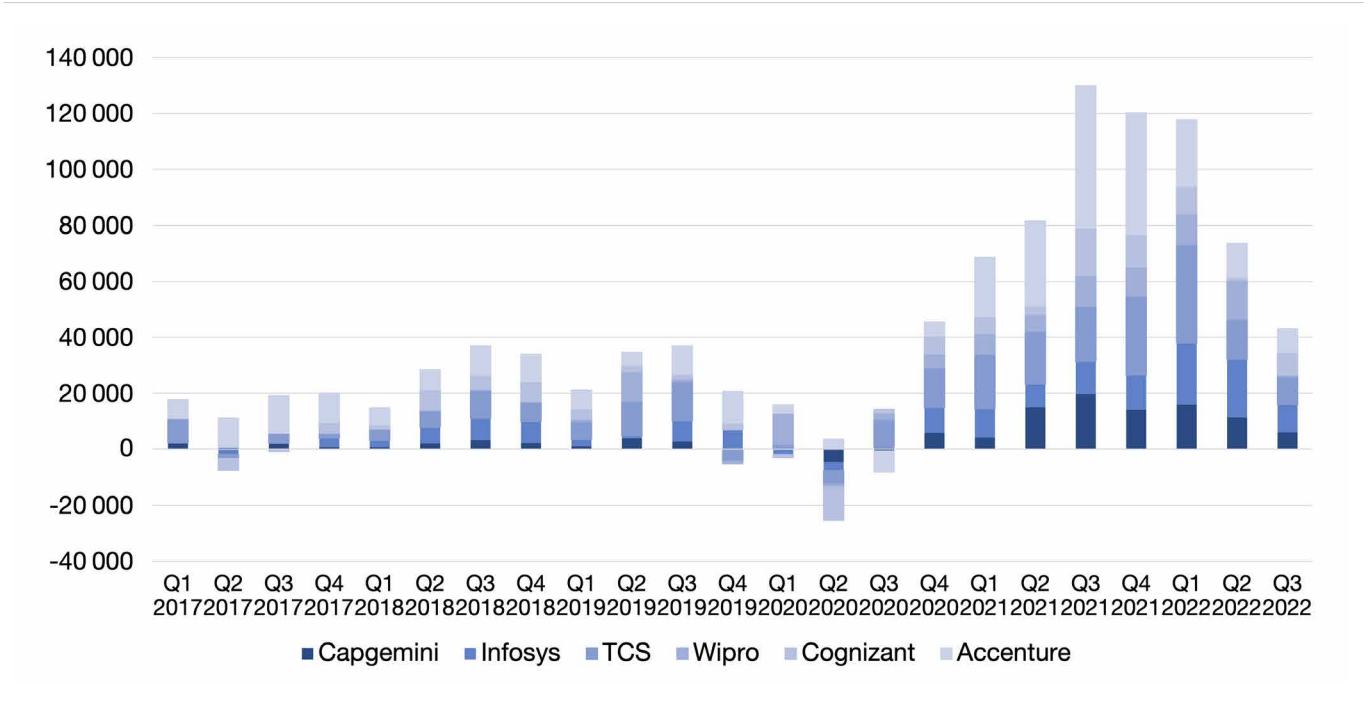
Outstanding net staff hiring provide solid embedded revenue growth at least until mid-2023

Another sign of the good health of the IT Services industry at this stage of the crisis is reflected in the exceptionally high level of net staff hiring, despite incredibly high staff attrition rates. This has been particularly visible for global players such as Accenture, Capgemini, TCS, Infosys, Cognizant and Wipro. They hired massively in 2021 and early 2022 with net peaks of 50,000 for Accenture in Q3 2021 and 35,000 for TCS in Q1 2022. Capgemini

peaked in Q3 2021 (20,000) and hired more than 10,000 staff per quarter between Q1 2021 and Q2 2022 before slowing to 6,000 in Q3 2022, where it never hired more than 4,000 staff per quarter before 2020. Other European IT Services firms have recorded net staff hiring levels above those of prior 2020 too, but clearly at significantly lower levels than Capgemini, Accenture and offshore players. For Atos, it peaked at 2,200 in Q4 2021 then slowed to 1,500 in Q1 2022

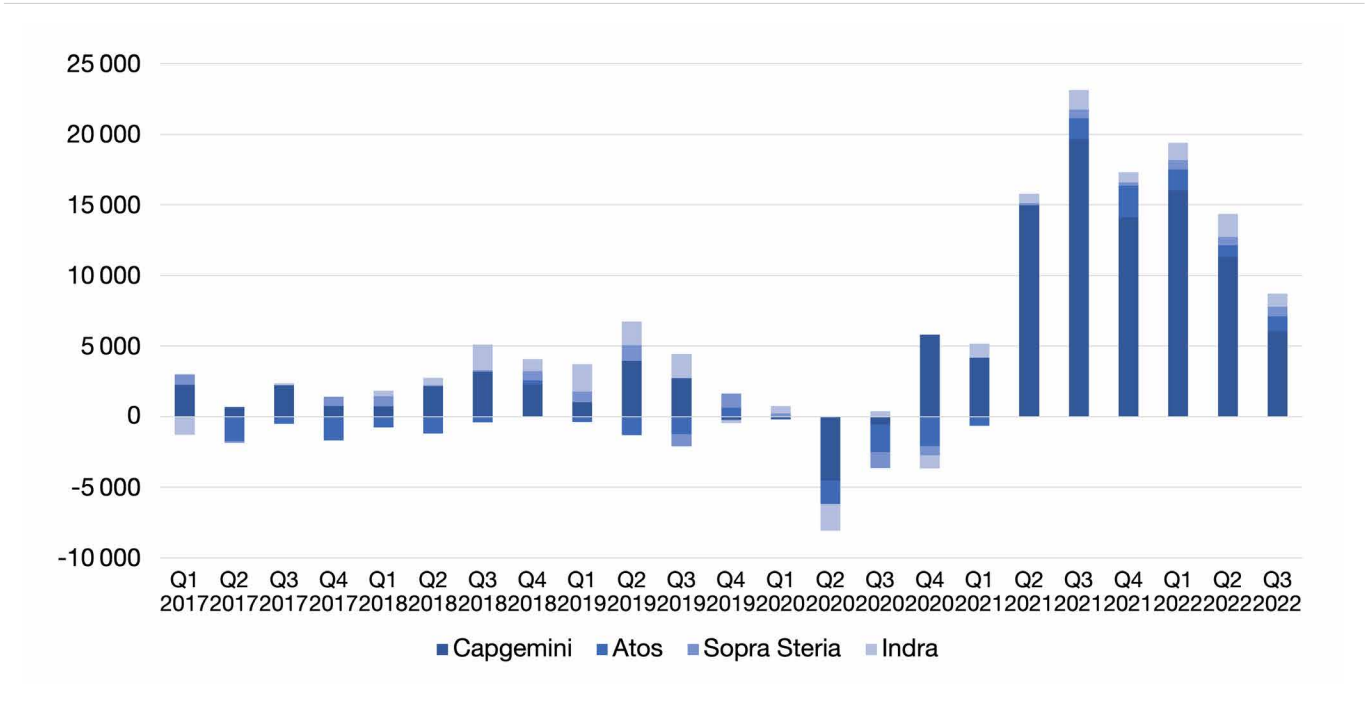
then 800 in Q2 2022 and 1,050 in Q3 2022. For Sopra Steria, it peaked to 700 in Q1 2022, returned to 600 in Q2 2022, then peaked again to 700 in Q3 2022, but the company has a significant recourse to subcontractors (subcontracting costs +2ppt in H1 2022). Finally, for Indra it has peaked to 1,600 in Q2 2022 after 1,200 in Q1 2022, before slowing down to 900 in Q3 2022. Such a trend is valid for smaller IT Services firm as well.

FIG. 6: QUARTERLY NET STAFF HIRING – GLOBAL IT SERVICES COMPANIES (2017-2022)



Source: Company Data; Bryan, Garnier & Co ests

FIG. 7: QUARTERLY NET STAFF HIRING – EUROPEAN IT SERVICES COMPANIES (2017-2022)



Source: Company Data; Bryan, Garnier & Co ests

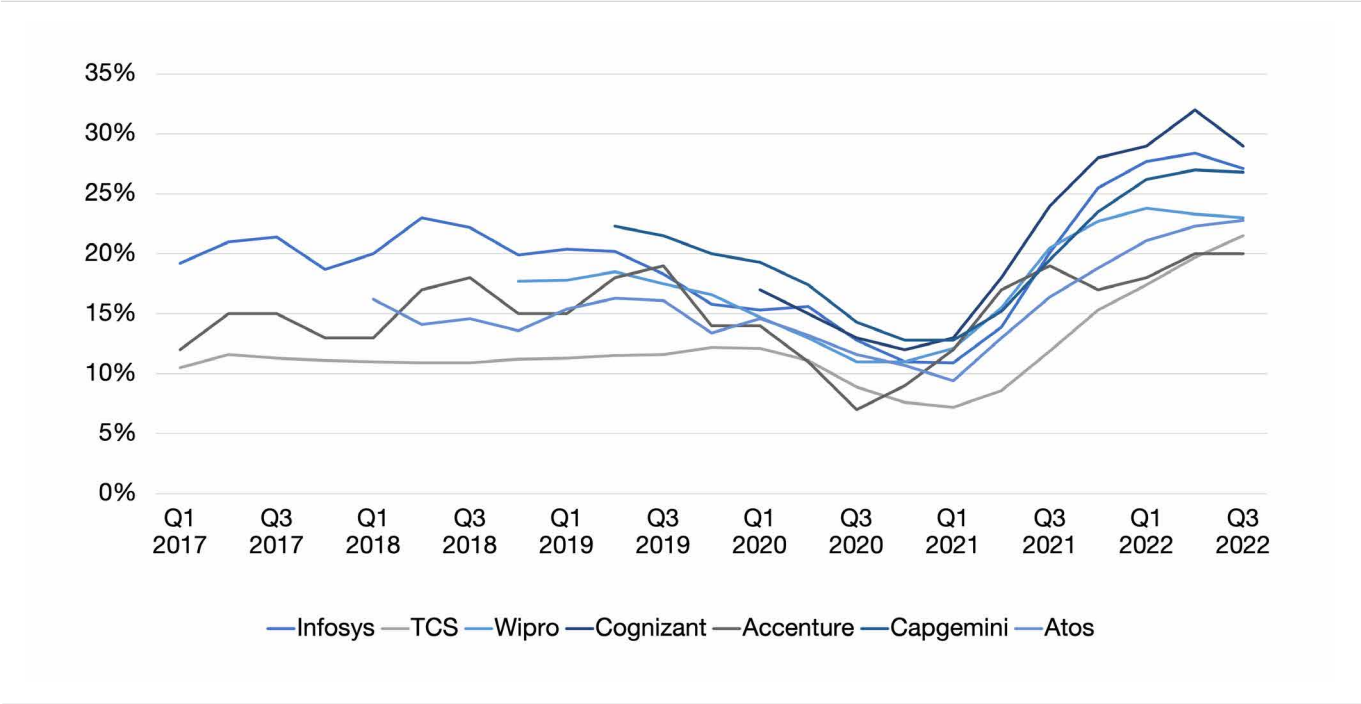


We expect net staff hiring to return to pre-2020 levels as soon as Q4 2022. TCS has reported 9,800 net hires in Q3 2022, down from 14,100 in Q2, while its quarterly run rate in 2019 was between 6,400 and 14,100. Infosys has reported 10,000 net hires in Q3 2022, down from 20,900 in Q2, while its quarterly run rate in 2019 was between 800 and 7,500. We estimate Accenture's net staff hiring was 8,500 between June and August 2022, down from est. 12,300 between March and July 2022 and est. 23,900 between December 2021 and February 2022, while we estimate it hired between 4,700 and 11,500 staff per quarter in 2019. The Indian press has recently reported a number of cases of fresh graduates who have seen their job offers revoked by IT Services companies – arguing more selectivity in the profiles chosen. As such, we would not be surprised if Capgemini returns 3,000-4,000 net hires per quarter very soon. Admittedly, staff attrition is likely to keep rising on an annualised basis until H1 2023, but it is already declining on a quarterly basis. Based on these elements, we deem the market overheat which has prevailed since mid-2021 is fading,

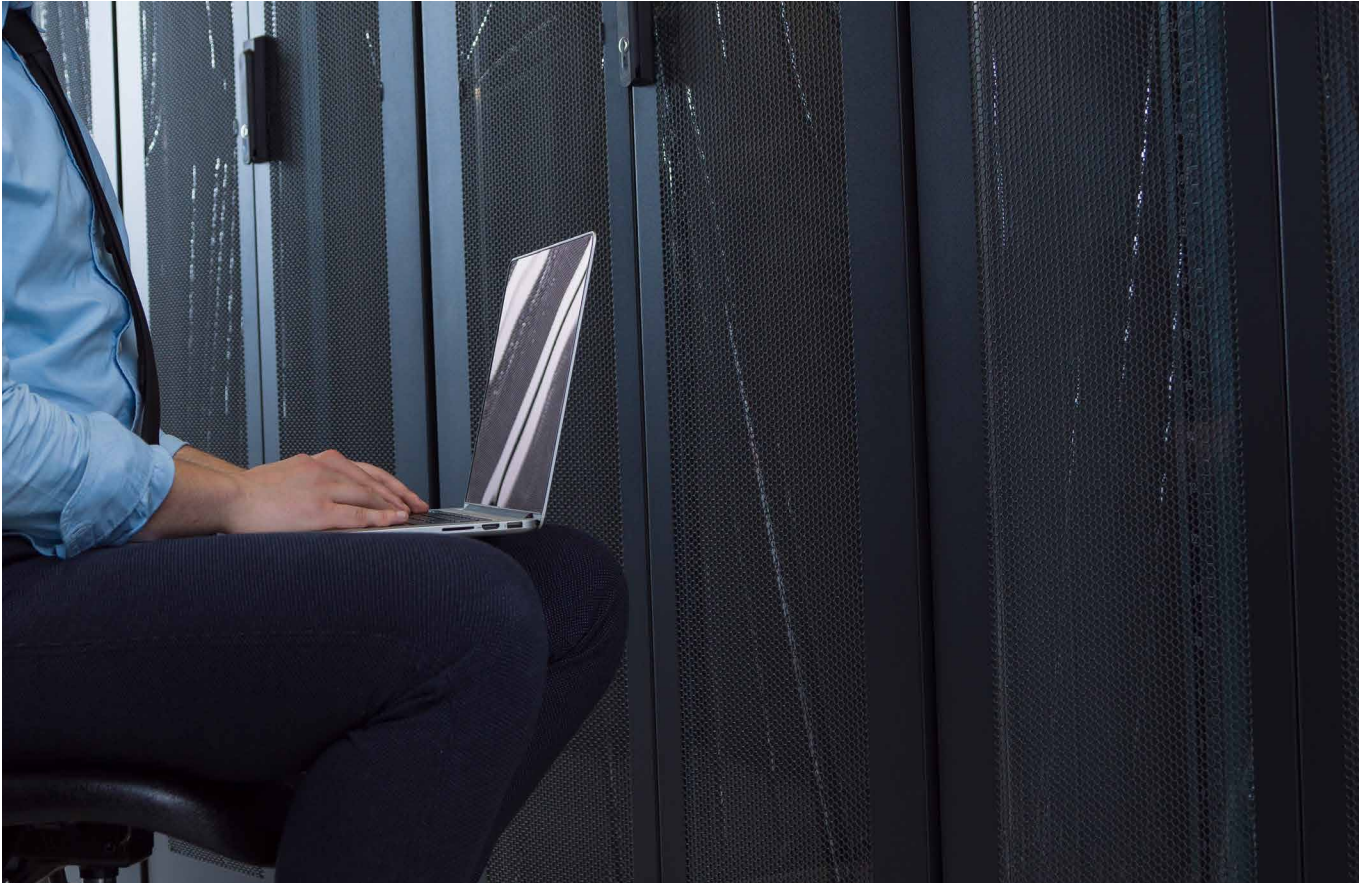
but there is no turmoil from a HR standpoint. Consequently, we do not anticipate a return to lfl revenue declines like in 2002-2003, 2009 and 2020, but rather low-to-mid single-digit growth for European IT Services companies. Accenture forecasts for FY 2023 (ending on 31st August) revenues up 8-11% cc (of which 2.5ppt from acquisitions, which translates into +5.5%/+8.5% lfl), TCS anticipates double-digit growth for FY 2023 and FY 2024 (ending on 31st March), and Infosys, which reported 20.1% lfl revenue growth between April and September implies in H2 FY23 +10%/+12% lfl based on updated guidance for FY 2023 (+15%/+16% lfl) ending on 31st March. As Accenture still aims to grow at least twice the pace of the IT Services market, it assumes this market is likely to grow c. 4-5% within the next 12 months, with global players likely to grow above that rate and IT infrastructure players to grow below it. Net staff hiring peaks one year ago had a lot to do with the post-lockdown demand catch-up. 80% of the new recruits were fresh graduates, and the majority of net staff hiring is done in low-cost

countries, primarily India. Consequently, even though net staff hiring levels are slowing down and back to normative levels, fresh graduates take a couple of quarters to become productive. Those massively hired in 2021 have started to generate revenues between mid-2021 and mid-2022, and, as hiring continues albeit converging to pre-2020 levels, the tailwinds from these recruitments are expected to generate a positive impact to lfl revenue growth for IT Services firms at least until mid-2023.

FIG. 8: STAFF ATTRITION IN IT SERVICES (2017-2022)



Source: Company Data; Bryan, Garnier & Co ests



Wage inflation is offset by some operating levers

Although wage inflation is a concern (3-6% on average for European IT Services firms depending on the geo mix) and opex are back to normalised levels as governments lifted all Covid restrictions in Spring 2022 (travel, events, work from home), we deem operating margins in 2022 and even in 2023 will keep growing.

• **Work from home keeps providing cost savings for IT Services companies.** As of today, although almost all employees are back at the office in Europe, most IT Services firms are still enjoying cost savings as most of them provide “flex work” or “flex office” policies. In addition, remote working has become widespread in the US and the vast majority of Indian IT Service employees are still working remotely despite calls from management to return to offices. The global return to the office is taking longer than initially expected because, in a tight labour market, lots of young IT engineers in India who have been remotely hired and onboarded during the Covid crisis live far from the office or service centre to which they are attached.

• **Wage inflation is partly offset by price increases for new contracts, fresh graduates and additional offshore leverage.** Wage inflation is now above the normal levels of 1-2% per year at 3-6%, but salary hikes broadly started to be effective from April 2022, and the average remuneration can stay flat-ish (or rise marginally) this year by increasing offshore leverage (Capgemini raised its average by 3ppt in H1 2022 to 59%) or by maintaining a very high proportion of fresh graduate hiring. In H1 2022, 70% of Sopra Steria’s gross staff hiring was fresh graduates, while 80% of Atos’ hiring was offshore (est. 70-75% in India), and 65% of Capgemini’s net staff hiring was offshore (est. 56-57% in India). In addition, while existing contracts do not really offer flexibility on prices, new contracts offer the ability for IT Services firms to raise prices based on the scarcity of IT engineers in the market. IT Services companies have more opportunities to increase their prices quickly when they are more exposed on shorter time & materials assignments than on longer-term

contracts such as managed services. For instance, in H1 2022, Sopra Steria has seen in France its prices rise 3% on average while wage inflation was 2% on average – yet the latter may be close to 3% for the full-year.

• **Room for improvement on utilisation rates.** As demonstrated by the numbers reported by Accenture and Capgemini, utilisation rates have declined by a couple of percentage points for one year due to the massive hiring of fresh graduates who take a couple of quarters to be billable, then fully productive. As hiring activity is returning to “normative” levels, utilisation rates are likely to return to their optimum, thus translating into improved gross margins.

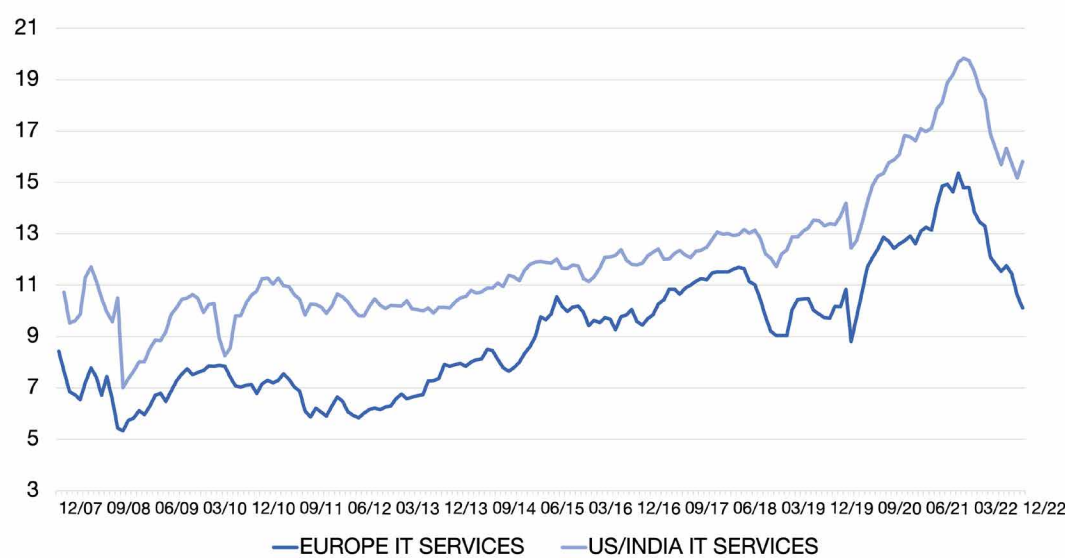
Attractive valuation levels unseen since 2020

Fig. 9 below shows that, since the peak in December 2021 / January 2022, **valuations multiples in IT Services market have fallen by 34% for European companies and 20% for US and Indian companies.** This has driven 12-month

forward EV/EBITDA multiples to reasonable levels: 10.1x in Europe and 15.8x in the US and India. Such levels in Europe have not be seen since July 2020, and the discount of European IT Services stocks vs. US/Indian IT Services stocks

has significantly increased to 36% - a level which during the last 15 years was observed only between late 2014 and early 2015, between late 2010 and late 2013, and in 2008.

FIG. 9: 12-MONTH FORWARD EV/EBITDA MULTIPLES IN IT SERVICES: EUROPE VS. US/INDIA



Source: Refinitiv

More in detail, **we have started to see European IT Services stocks trading at 5-6x EV/EBIT multiples for 2023e. This is currently the case for Indra (est. 5.2x) and Sopra Steria (est. 5.7x),** which basically have the same multiples as IT distributors/integrators such as Econocom (Belgium). On the other hand, despite seeing their valuations fall, some players are still trading at high EV/EBIT multiples for 2023e (Reply, Netcompany, FDM, Datagroup), primarily due to double-digit organic growth and/or double-digit margins.

Globally, IT Services firms are globally benefiting from better valuation multiples than in March 2000, 2011-2012, 2008-2009 and 2002-2003 as they have proven increased resilience both in terms of revenues and margins. The sector has quickly recovered from the Covid lockdowns of 2020, with operating margins for 2021 above those of 2019 for many of them (Capgemini, Reply, Tietoenvy, Sopra Steria, Indra, Aubay, Neurons, Adesso, GFT, Wavestone, Sword). The only cases of operating margin decline in 2021 vs. 2020 were Atos (accelerated decline in the legacy infrastructure business,

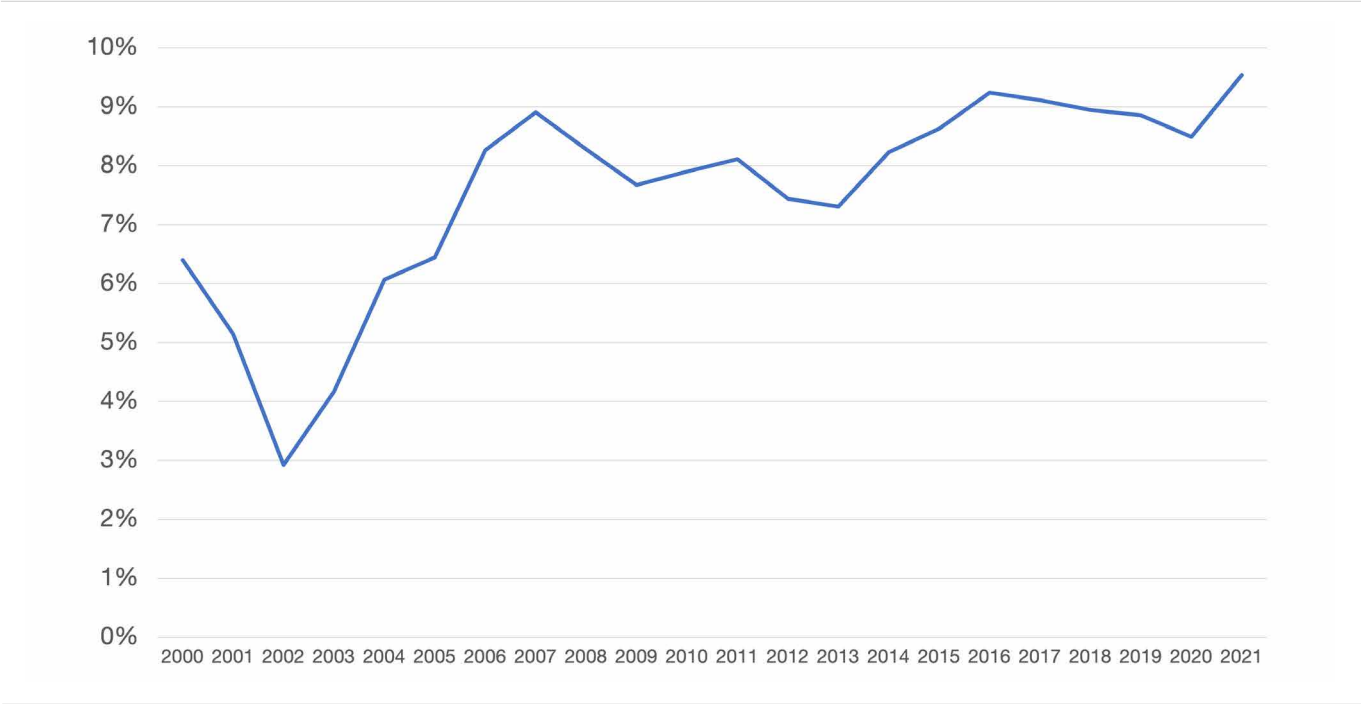
cost reassessment on a BPO contract, and project slippages) and Netcompany (dilution from the acquisition of the Greek IT Service company Intrisoft). Most of all, **operating margins in IT Services in Europe have never been so high (even in 2000), with an average of 9.6% in 2021** according to our estimates. Clearly, efforts to industrialise IT services at all levels over the last 20 years (recruitment, utilisation, automation, cost optimisation, offshoring, service centres, risk management, tools, methodologies...) have paid off.

FIG. 10: VALUATION MULTIPLES – IT SERVICES

IT Services	Currency	Price	Market cap	PER (x)			EV/sales (x)			EV/EBIT (x)		
		10-Jan-23	(m)	2021	2022e	2023e	2021	2022e	2023e	2021	2022e	2023e
Capgemini	EUR	163,6	28 398	17,8	14,3	12,8	1,7	1,4	1,3	13,5	11,0	9,5
Reply	EUR	108,6	4 063	26,9	23,0	19,9	2,6	2,1	1,8	18,3	15,1	12,9
Sopra Steria Group	EUR	147,3	3 027	12,4	10,0	8,8	0,7	0,6	0,5	8,8	7,1	5,9
Tietoenvy	EUR	27,6	3 266	12,5	11,9	11,1	1,4	1,3	1,2	10,6	11,6	10,6
Netcompany Group	DKK	302,6	15 130	27,0	21,7	18,6	4,2	3,0	2,7	21,6	17,5	15,1
Indra Sistemas	EUR	10,7	1 894	12,1	9,7	8,8	0,6	0,5	0,5	7,5	6,2	5,1
Asseco Poland	PLN	74,8	6 208	13,3	12,8	12,6	0,5	0,6	0,3	4,5	5,8	3,6
Atos	EUR	11,6	1 281	NM	NM	6,9	0,2	0,3	0,3	6,8	9,1	8,0
Atea	NOK	116,2	13 059	15,3	15,2	13,2	0,3	0,3	0,3	13,0	10,0	9,3
Cancom	EUR	31,4	1 105	-	23,2	21,2	0,4	0,6	0,5	6,7	10,8	9,3
FDM Group	GBP/p	764,0	834	23,3	22,0	20,4	3,0	2,5	2,2	16,8	15,2	13,8
GFT Technologies	EUR	33,2	887	23,5	18,7	16,9	1,6	1,2	0,9	22,7	12,8	10,5
Adesso	EUR	142,2	947	18,6	29,4	22,3	1,3	1,0	0,9	13,5	16,6	13,6
Wavestone	EUR	43,1	870	33,9	16,9	16,2	2,0	1,7	1,6	15,7	10,8	10,8
Neurones	EUR	39,1	947	25,1	20,0	18,4	1,2	1,0	0,9	11,6	9,4	8,1
Know IT	SEK	197,2	5 405	16,1	14,9	14,3	1,1	0,9	0,8	15,0	11,0	10,8
Econocom Group	EUR	3,0	662	7,1	6,3	5,6	0,3	0,3	0,3	5,5	6,0	5,0
Aubay	EUR	49,5	657	19,1	17,5	16,4	1,3	1,1	1,0	12,5	11,1	10,1
NCC Group	GBP/p	207,0	646	21,8	19,2	16,3	2,2	2,3	2,1	15,2	15,2	12,3
Datagroup	EUR	64,3	535	25,5	24,4	17,1	1,5	1,3	1,2	22,6	15,6	13,2
Sword Group	EUR	40,0	382	18,1	15,8	15,3	1,5	1,3	1,1	13,6	12,8	10,6
Allgeier	EUR	32,2	361	NM	18,7	14,2	1,2	1,0	0,9	24,3	12,7	10,5
Infotel	EUR	55,6	383	27,9	19,3	17,4	1,2	0,9	0,9	14,0	9,9	8,6
SQLI	EUR	44,0	203	NM	24,4	18,0	1,0	0,9	0,8	16,8	12,6	10,4
KPS	EUR	3,3	121	14,4	14,4	11,0	0,8	0,6	-	8,9	7,9	-
Micropole	EUR	1,1	32	NM	10,1	6,9	0,4	0,3	-	8,8	5,8	-
European IT Services average				19,6	17,3	14,6	1,3	1,1	1,0	13,4	11,1	9,9
Accenture	USD	274,9	181 011	31,2	25,7	23,9	3,4	2,8	2,7	22,7	18,5	17,5
IBM	USD	144,8	130 917	18,3	15,9	14,9	3,1	2,8	2,7	20,0	17,4	14,8
Cognizant Technology Solutions	USD	61,2	31 457	14,9	13,8	13,0	1,6	1,5	1,4	10,3	9,6	8,8
CDW	USD	186,4	25 234	23,4	19,1	17,8	1,5	1,3	1,2	19,3	15,0	14,2
CGI Group	CAD	114,5	27 276	21,1	18,7	17,1	2,2	2,1	2,0	13,7	13,1	11,9
EPAM Systems	USD	326,9	18 800	36,1	30,7	26,4	4,6	3,6	2,9	25,7	21,3	17,5
Leidos Holdings	USD	100,0	13 666	15,1	15,7	14,5	1,3	1,3	1,2	12,8	13,3	12,6
DXC Technology	USD	28,5	6 552	8,1	8,1	6,2	0,5	0,6	0,5	6,4	8,0	5,6
North American IT Services average				19,6	17,4	15,7	2,1	1,9	1,7	15,5	14,0	12,2
Tata Consultancy Services	INR	3286,4	12 025 090	37,9	31,7	28,4	7,1	6,1	5,3	27,6	24,0	21,7
Infosys	INR	1469,8	6 165 842	32,3	28,0	25,1	5,9	4,9	4,0	24,2	21,3	18,8
HCL Technologies	INR	1063,9	2 880 206	25,9	21,4	20,0	3,8	3,3	2,7	18,3	17,4	15,0
Wipro	INR	393,1	2 152 055	20,6	17,6	19,2	3,1	2,5	2,2	15,7	14,6	14,6
MindTree	INR	3433,9	566 082	50,9	34,3	-	7,0	5,1	4,0	40,0	27,6	21,5
Coforge	INR	3974,4	242 720	52,2	37,3	29,7	5,0	3,8	3,0	39,5	27,7	20,7
Indian IT Services average				36,6	28,4	24,5	5,3	4,3	3,5	27,5	22,1	18,7
Alten	EUR	123,4	4 266	18,2	14,7	13,2	1,4	1,1	0,9	12,7	10,3	8,4
Afry	SEK	182,7	20 691	16,3	16,0	15,5	1,2	1,1	1,0	14,1	17,6	13,1
SII	EUR	44,3	885	35,4	14,4	12,3	1,3	0,9	0,8	24,4	9,6	8,1
Bertrandt	EUR	42,9	435	63,0	20,5	12,6	0,7	0,5	0,5	29,4	12,8	10,0
Ricardo	GBP/p	511,0	318	22,8	16,4	15,7	1,1	1,0	0,8	17,1	9,7	10,6
EDAG Engineering Group	EUR	10,1	244	NM	8,9	8,1	0,6	0,5	0,5	NM	8,3	7,2
Sogeti	EUR	20,9	67	NM	43,5	17,7	0,6	0,5	0,5	NM	19,1	11,1
High-tech consulting average				31,1	19,2	13,6	1,0	0,8	0,7	19,5	12,5	9,8

Source: Refinitiv; Bryan, Garnier & Co ests.

FIG. 11: AVERAGE OPERATING MARGIN FOR EUROPEAN IT SERVICES FIRMS (2000-2021)



Source: Company Data

Slowdown in M&A deals, but private equity funds remain very active

The number of M&A deals has slowed since early 2022 due to this decline in valuation multiples for listed IT Services companies and the difficulty in reconciling demanding multiples requested by potential sellers and those demanded by potential acquirers. **We flagged 91 M&A deals completed in IT Services in 2022, vs. 142 in 2021.** M&A priorities have changed too, with **more selectiveness on firms specialised in the digital transformation** (more on filling some gaps rather than building up), security, data science and digital/customer experience, and **significantly more emphasis placed on vertical solutions** (primarily finan-

cial services), consulting, ESG/sustainability and digital supply chain. That said, quality is still paid at a high price:

- In July, the **acquisition of Umanis by CGI for EUR310m** or EV/sales and EV/EBIT multiples of 1.3x and 15x for 2021, in order to accelerate Canada-based CGI's presence in Western and Southern Europe.
- The **preliminary agreement for the acquisition of CS Group by Sopra Steria for EUR289m** or EV/sales and EV/EBIT multiples of 1.2x and 29x for 2021 (to be completed in Q1 2023), in order to accelerate Sopra Steria's presence in defence, homeland security, aerospace and cybersecurity. **Sopra Steria has**

also signed an agreement for acquiring Tobania in Belgium for an undisclosed sum (to be completed in Q1 2023), which will double its market share in the Belgian market to more than EUR200m.

- **Thales acquired S21sec** (cybersecurity) and **Excellium** (cybersecurity) in October from Sonae IM for EUR120m or 2.0x sales.
- **Accenture acquired Albert** (AI and big data analytics services) in November for USD105m or 3.5x sales and 26x EBIT.
- **We estimate Capgemini acquired Rufus Leonard** (brand design and experience agency) in June for 3.4x sales.

- **We estimate Wipro acquired Convergence Acceleration Solutions** (business/technology transformation for large CSPs) in April for 2.8x sales
- **Wavestone acquired NewVantage Partners** (data strategy consulting) in March for EUR3.5m or 1.5x sales.
- **Sopra Steria acquired Footprint** (ESG consulting) in July for EUR4.2m or 2.1x sales.

In addition, private equity funds, which in general offer better valuation multiples than in the case of a listing, remained active in acquisitions in 2022, after Perspecta (Veritas Capital), Groupe Open (Montefiore), Mphasis (Blackstone) and TVH Consulting (21 Invest France) in 2021, and Devoteam (KKR), Sword France (Argos Wityu), HiQ (Triton), DXC Gainwell (Veritas Capital) and Engineering (Bain Capital) in 2020. In France, private equity funds also took minority stakes in Artemys (Andera Partners) in 2021 and in Talan (Towerbrook Capital) in 2020.

- Danish IT Services company **NNIT announced in June the disposal of its IT Outsourcing business (NNIT IO) to Agilitas Private Equity**, for DKK1,500m or an est. 1.1x EV/sales multiple. The deal is expected to close in Q1 2023.

- In July, **Bain Capital and Neuberger Berman acquired Inetum** from the Qatari holding company Mannai for est. EUR1,850m or est. 0.8x EV/sales and est. 11x EV/EBIT multiples. Mannai acquired Inetum in 2016 for EUR561m or EV/sales and EV/EBIT multiples of respectively 0.7x and 10x for 2015.

- In November, **Atos signed an agreement for the disposal of Atos Italy to the Italian IT Services firm Lutech, which is owned by funds advised by Apax Partners** (closing expected in H1 2023), for est. EUR250m or est. EV/sales and EV/EBIT multiples of 1.0x and 15x. This business excludes the EuroHPC business – which is intended to be kept by Atos - and Italian Unified Communications operations – which are subject to a separate disposal process.

- The **acquisition of SQLI by Dbay Advisors** in February for an equity value of EUR143m or EV/sales and EV/EBIT multiples of 0.6x and 11x, respectively, did not lead to the company's delisting, as Dbay has only managed to acquire a 72% stake so far.

- In May **T&S Group** (which is backed by Ardian) acquired **Intys Partners** (480 staff) in Belgium.

- In September **Qualium Investissement took a 49% stake in Amexio through a leverage buyout**, for EUR35m. Founded in 2006, Amexio is a content management solution distributor and integrator which expects to generate EUR40m revenues in 2022. Through this deal the company is valued at EUR71m or an EV/sales multiple of 1.8x.

- **Sagard is in process of taking a minority stake in Audensiel** (as announced in June) for a valuation estimated above 13x EBITDA. Founded in 2013, Audensiel has since 2019 implemented a build-up strategy under the aegis of its other minority shareholder Capza with several acquisitions (Cognodata, ACI, Khiplus, Lansrod), and planned

to generate EUR100m revenues in 2022.

- However, in July, **the acquisition of Cheops Technology by Aquiline Capital Partners and ERES (Edmond de Rothschild) for EUR180m failed** - it was planned to close in April - due to litigation between the selling shareholders. It was supposed to go ahead at 1.3x EV/sales and 20x EV/EBIT multiples.

Finally, **two IT Services firms were delisted in 2022: Umanis** (in August) and **Groupe Open** (in April, following its acquisition in 2021 by New Go – led by Montefiore Investments – for EUR130m). This compares to three in 2021: Devoteam (in December, following its acquisition in 2020 by Castillon – led by KKR & Co- for EUR730m), Emakina (in November, following its acquisition by EPAM Systems for EUR120m) and Perspecta (in May, following its acquisition by Veritas Capital for USD7,100m).



FIG. 12: M&A TRANSACTIONS IN IT SERVICES (Q3 2022 AND BEYOND)

Consolidation										
Date	Acquirer	Target	Country	Currency	Price (m)	Revenues (m)	EBIT margin (m)	EV/sales	EV/EBIT	Headcount
Q1 2023	Sopra Steria Group	CS Group	France	EUR	283	237	4,1%	1.2x	21x	2300
PE backed transactions										
Date	Acquirer	Target	Country	Currency	Price (m)	Revenues (m)	EBIT margin (m)	EV/sales	EV/EBIT	Headcount
Q1 2023	Agilitas Private Equity	NNIT IO	Denmark	DKK	1500	1400	-	1.1x	-	1500
juil-22	Bain Capital / Neuberger Berman	Inetum	France	EUR	1850	2219	7,4%	0.8x	11x	27000
Consulting										
Date	Acquirer	Target	Country	Currency	Price (m)	Revenues (m)	EBIT margin (m)	EV/sales	EV/EBIT	Headcount
oct-22	Knowit	Ascend	Sweden	SEK	250	-	-	-	-	60
sept-22	Accenture	The Beacon Group	USA	USD	n/d	-	-	-	-	60
août-22	Accenture	YSC Consulting	United Kingdom	USD	n/d	-	-	-	-	n/d
août-22	Wavestone	PEN Partnership	United Kingdom	EUR	26,8	23,4	14%	1.1x	8x	60
Digital Transformation										
Date	Acquirer	Target	Country	Currency	Price (m)	Revenues (m)	EBIT margin (m)	EV/sales	EV/EBIT	Headcount
Q1 2023	Sopra Steria Group	Tobania	Belgium	EUR	n/d	110	-	-	-	650
déc-22	Cognizant Technology Solutions	AustinCSI	USA	USD	n/d	-	-	-	-	175
oct-22	Reply	Wemanity	France	EUR	n/d	60	-	-	-	450
oct-22	Sill Solutions	Haallas Finland	Finland	EUR	n/d	-	-	-	-	50
sept-22	Capgemini	Knowledge Expert	Switzerland	EUR	n/d	12	-	-	-	100
sept-22	Coexya	Siris Advisory	France	EUR	n/d	7,5	-	-	-	60
juil-22	Digital Workforce Solutions	Éclair Group	Ireland	EUR	1,2	-	-	-	-	n/d
juil-22	Accenture	Solvera Solutions	Canada	USD	n/d	-	-	-	-	450
juil-22	C&I Group	Umanis	France	CAD	420	332	8,3%	1.3x	15x	3000
juil-22	Knowit	Miracle (90%)	Denmark	DKK	145 (90%)	245	-	0.7x	-	130
Verticals										
Date	Acquirer	Target	Country	Currency	Price (m)	Revenues (m)	EBIT margin (m)	EV/sales	EV/EBIT	Headcount
déc-22	Accenture	Allgemeines Rechenzentrum	Austria	USD	n/d	-	-	-	-	600
oct-22	Capgemini	Quorsus	United Kingdom	EUR	n/d	12	-	-	-	55
oct-22	Accenture	Blackcomb Consultants	USA	USD	n/d	-	-	-	-	158
sept-22	Capgemini	Chappuis Halder & Cie	Luxembourg	EUR	n/d	20	-	-	-	150
sept-22	Allgeier	Höhn Consulting	Germany	EUR	5,2	-	-	-	-	n/d
sept-22	Infosys	BASE Life Science	Denmark	USD	110	-	-	-	-	200
juil-22	Reply	Fincon Unternehmensberatung	Germany	EUR	-	-	-	-	-	n/d
Security										
Date	Acquirer	Target	Country	Currency	Price (m)	Revenues (m)	EBIT margin (m)	EV/sales	EV/EBIT	Headcount
nov-22	Orange	SCRT	Switzerland	EUR	n/d	-	-	-	-	100
oct-22	Thales	S21sec + Excellium	Spain / Luxembourg	EUR	120	59	-	2.0x	-	565
sept-22	TVH Consulting	Fidens	France	EUR	n/d	10	-	-	-	-
Data Science										
Date	Acquirer	Target	Country	Currency	Price (m)	Revenues (m)	EBIT margin (m)	EV/sales	EV/EBIT	Headcount
déc-22	Capgemini	Braincourt	Germany	EUR	n/d	-	-	-	-	100
nov-22	Accenture	Albert	Japan	USD	105,3	30,4	13,1%	3.5x	26x	250
août-22	Accenture	Tenbu	Brazil	USD	n/d	-	-	-	-	170
juil-22	Adesso	Quadox	Germany	EUR	n/d	7	20%	-	-	n/d

Hybrid Cloud										
Date	Acquirer	Target	Country	Currency	Price (m)	Revenues (m)	EBIT margin (m)	EV/sales	EV/EBIT	Headcount
oct-22	Artemys	BeWan	Belgium	EUR	n/d	4	-	-	-	-
sept-22	Accenture	Sentia	The Netherlands	USD	n/d	-	-	-	-	310
Finance and HR										
Date	Acquirer	Target	Country	Currency	Price (m)	Revenues (m)	EBIT margin (m)	EV/sales	EV/EBIT	Headcount
déc-22	Cognizant Technology Solutions	OneSource Virtual	USA	USD	120	n/d	-	-	-	-
Marketing and Content										
Date	Acquirer	Target	Country	Currency	Price (m)	Revenues (m)	EBIT margin (m)	EV/sales	EV/EBIT	Headcount
déc-22	Accenture	Fiftyfive5	Australia	USD	n/d	-	-	-	-	200
nov-22	Capgemini	23red	United Kingdom	EUR	n/d	-	-	-	-	n/d
sept-22	Accenture	Romp	Indonesia	USD	n/d	-	-	-	-	150
Digital Customer Experience										
Date	Acquirer	Target	Country	Currency	Price (m)	Revenues (m)	EBIT margin (m)	EV/sales	EV/EBIT	Headcount
sept-22	Capgemini	Aodigy Asia Pacific	Singapore	EUR	n/d	-	-	-	-	n/d
août-22	Accenture	The Stable	USA	USD	n/d	-	-	-	-	400
Digital Manufacturing										
Date	Acquirer	Target	Country	Currency	Price (m)	Revenues (m)	EBIT margin (m)	EV/sales	EV/EBIT	Headcount
oct-22	Accenture	Stellantis' WCM T&C	Italy	USD	n/d	-	-	-	-	-
août-22	Accenture	Eclipse Automation	Canada	USD	n/d	-	-	-	-	800
Digital Supply Chain										
Date	Acquirer	Target	Country	Currency	Price (m)	Revenues (m)	EBIT margin (m)	EV/sales	EV/EBIT	Headcount
janv-23	Accenture	Inspirage	USA	USD	n/d	-	-	-	-	710
sept-22	Accenture	MacGregor Partners	USA	USD	n/d	-	-	-	-	100
juil-22	Accenture	Trancom ITS' digital engineering	Japan	USD	n/d	-	-	-	-	190
ESG										
Date	Acquirer	Target	Country	Currency	Price (m)	Revenues (m)	EBIT margin (m)	EV/sales	EV/EBIT	Headcount
sept-22	Accenture	Carbon Intelligence	USA	USD	n/d	-	-	-	-	160
juil-22	Sopra Steria Group	Footprint	Norway	EUR	4,2	2	-	2.1x	-	20
Outsourcing										
Date	Acquirer	Target	Country	Currency	Price (m)	Revenues (m)	EBIT margin (m)	EV/sales	EV/EBIT	Headcount
août-22	ECIT	Prosys	Denmark	NOK	n/d	10	-	-	-	5
août-22	Allgeier	Quality First Software	Germany	EUR	1,7	-	-	-	-	n/d
BPO										
Date	Acquirer	Target	Country	Currency	Price (m)	Revenues (m)	EBIT margin (m)	EV/sales	EV/EBIT	Headcount
nov-22	ECIT	Intunor Services (50%)	Norway	NOK	n/d	129	-	-	-	135
oct-22	Indra Sistemas	Operadora de Tarjetas de Crédito Nexus	Chile	EUR	n/d	-	-	-	-	n/d
juil-22	ECIT	Auto-Flow (50%)	Denmark	NOK	n/d	3,8	-	-	-	14
juil-22	ECIT	Tandem	Norway	NOK	n/d	49	-	-	-	33
Value-added reselling										
Date	Acquirer	Target	Country	Currency	Price (m)	Revenues (m)	EBIT margin (m)	EV/sales	EV/EBIT	Headcount
juil-22	Cancom	S&L Systemhaus	Germany	EUR	n/d	15	12%	-	-	100

Source: Company Data; Bryan, Garnier & Co ests

Accenture has been clearly less active in terms of acquisitions in 2022 (26 deals) compared with 2021 for the full-year (48 deals, vs. 32 in 2020 and 27 in 2019). This is the same for Atos (1 in 2022 vs. 9 in 2021 and 9 in 2020) given several strategy and management changes and its plan to split into two companies, and Cognizant (3 acquisitions in 2022 vs. 7 in 2021 and 9 in 2020). Meanwhile, Capgemini has been more active (8 deals, vs. 6 in 2021, 4 in 2020 and 2 in 2019), as well as Wipro (4 deals in 2022 vs. 4 in 2021 and 8 in 2020).

- Capgemini, on top of Rufus Leonard, acquired Aodigy Asia Pacific (consumer experience consulting), Knowledge Expert (digital transformation consul-

ting) and Chappuis Halder & Cie (strategy/management consulting specialising in financial services) in September, Quorsus (consulting for financial institutions) in October, Quantmetry (data modelling and AI consulting), Braincourt (economic intelligence/data science services), and 21red (purpose-driven behavioural change digital agency).

- Accenture has acquired 26 companies since early 2022. Since June, it bought Solvera (digital transformation services) and Trancom ITS' digital engineering business in July, The Stable (commerce agency), YSC Consulting (CEO advisory) and Tenbu (solutions for intelligent planning) in August, Romp (brand & experience agency), MacGregor Partners

(supply chain consulting), Inspi-rage (supply chain IT consulting), Carbon Intelligence (ESG consulting), Beacon (strategy consulting) and Sentia (cloud consulting) in September, Blackcomb (technology services to insurance carriers) in October, Albert in November, and Allgemeines Rechenzentrum (technology services for banking) and Fiftyfive5 (customer insights and advisory) in December.

- Wipro, on top of Rizing, has acquired Edgile (cybersecurity) and LeanSwift Solutions in January, and Convergence Acceleration Solutions (business and technology transformation for large CSPs) in April.

The spinoff wave continues: Tietoenvy

Following the spinoff of IBM's IT infrastructure services business (renamed Kyndryl), the announcement from Atos of a spinoff of its digital, big data and IT security business under the name of Evidian and that of NNIT under the name of NNIT IO (see supra), and recent rumours conveyed by the Spanish press of a spinoff of Indra's IT Services business Minsait, another spinoff project was announced on 30th November. Tietoenvy plans to spin off its managed services and transformation businesses

in Nordic countries.

- The rationale for this project for Tietoenvy is to refocus itself on its most growing and profitable businesses, namely digital engineering and software and platforms (in banking, healthcare and industry).
- Tietoenvy expects businesses to be spun off will generate 1-3% revenue growth and 9-11% adj. EBITA margin by 2025 (vs. c. 0% revenue growth at c. EUR1.2bn and c. 8% adj. EBITA margin in 2022). The remaining ones are expected

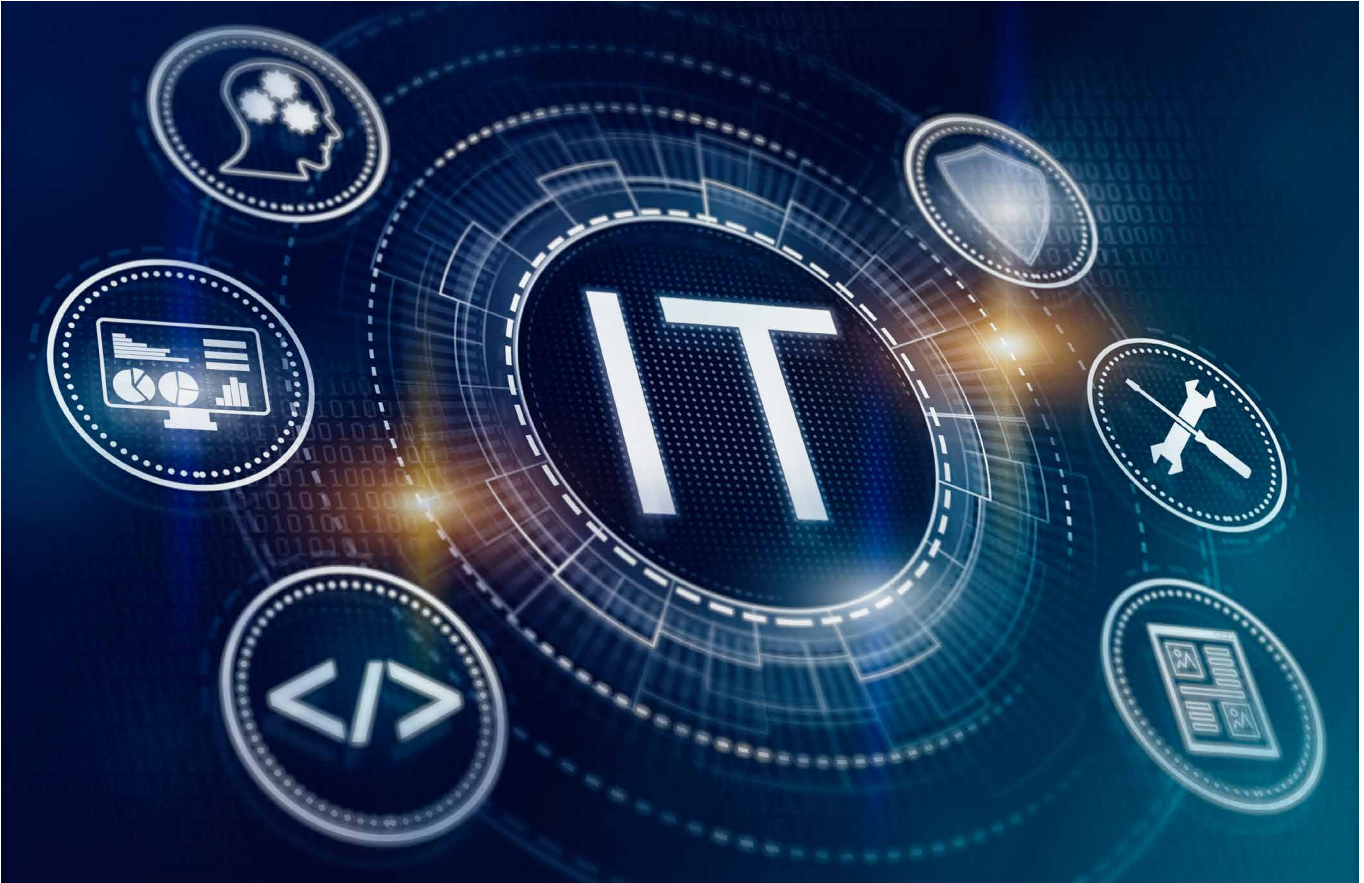
to post 12-14% revenue growth and 17-19% adj. EBITA margin by 2025 (vs. c. 10% revenue growth to c. EUR1.7bn and c. 15% adj. EBITA margin in 2022).

- Current peer group multiples indicate businesses to be spun off could be valued at est. 8-13x EV/EBITDA multiples for 2022. On their side, comps for the remaining businesses could be valued at est. 10-19x EV/EBITDA multiples for the same year.

FIG. 13: OVERVIEW OF THE TIETOENVY SPIN-OFF PROJECT

Specialization	Business	Growth Opportunity	Expansion Opportunity			Sample Peers (not exhaustive)	Peer Group Multiples (indicative EV/EBITDA, 22E)
			Nordic	Europe	Global		
Digital Engineering	Tietoenvy Create	10-20%	●	●	●	epam, bouvet, Globant, endava, thoughtworks, netcompany, knowit	14-19x
	Tietoenvy Banking	10-20%	●	●	●	Sopra Banking Software, fiserv, SimCorp, TEMENOS, nexi	10-16x
	Tietoenvy Care	10-15%	●	●	●	CAMBIO, nexu/ag, Dedalus, COWI	10-15x
Software and platforms	Tietoenvy Industry	5-10%	●	●	●	VISMA, EG, VITEC, COWI	13-17x
	Tietoenvy Transform	0-5%	●	●	●	CGI, sopra, steria, bcs, Capgemini, accenture, Atos	8-13x
Managed services and transformation	Tietoenvy Connect		●	●	●	kyndryl, rackspace, DXC, HCL	

Source: Tietoenvy



CONCLUSION

After almost two years of overheat, the IT Services market is returning to “normative” growth levels in a context of economic slowdown. However, digital transformation remains at the top of corporate agendas as information technology helps organisations solving their most pressing economic challenges. In parallel, due to the rise in interest rates and the deterioration of the economic backdrop, the valuation multiples of IT Services firms have fallen significantly over the last twelve months and have become attractive for many listed ones. Consequently, while the number of M&A deals in IT Services has slowed, the current environment allows private equity funds to stay very active in acquisitions and equity investment in IT Services companies through better valuation multiples. In addition, we are convinced the significant slowdown in M&A activity will urge companies looking to a sale to a strategic acquirer to accept lower multiples.

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