IT & Business Services Industry Update

April 11, 2024

ISG Index™

1Q 2024

HOSTED BY

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IIFL - Securities

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Three Big Thoughts

1. Managed services declines on weakness in Americas.
2. Cloud growth returns on strength from big 3 hyperscalers.
3. AI monetization accelerates but flat IT budgets require re-prioritization of spend.

Global Broader Market

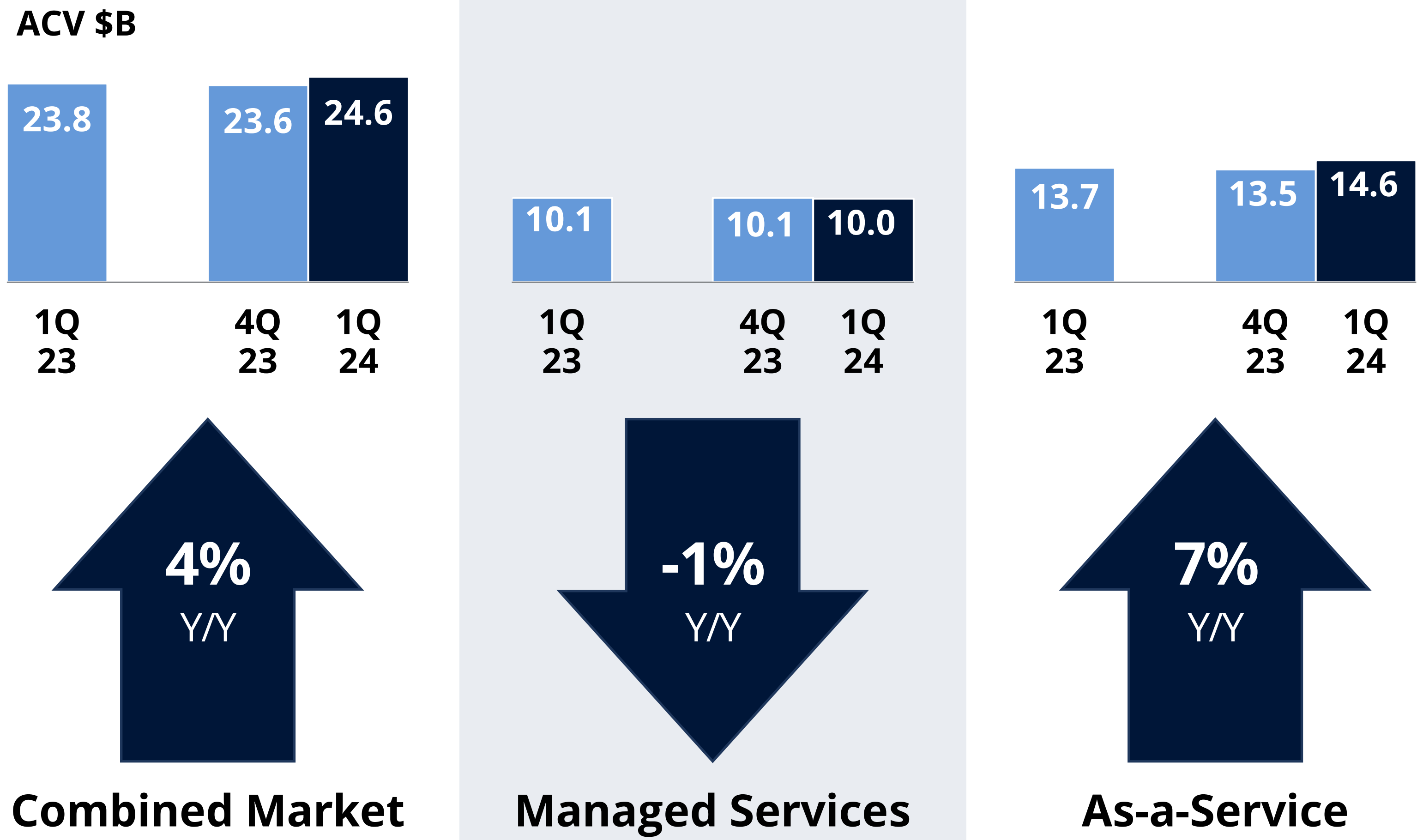
Quarterly Trends

First Y/Y increase for Combined Market since 4Q22; industry remains resilient compared to other tech sectors

Managed Services declines on weakness in the Americas

Fifth straight quarterly Y/Y decline for smaller Managed Services awards (ACV < $30M)

XaaS up 7% Y/Y after five straight quarterly declines



ACV = Annual Contract Value

Managed Services ITO Results

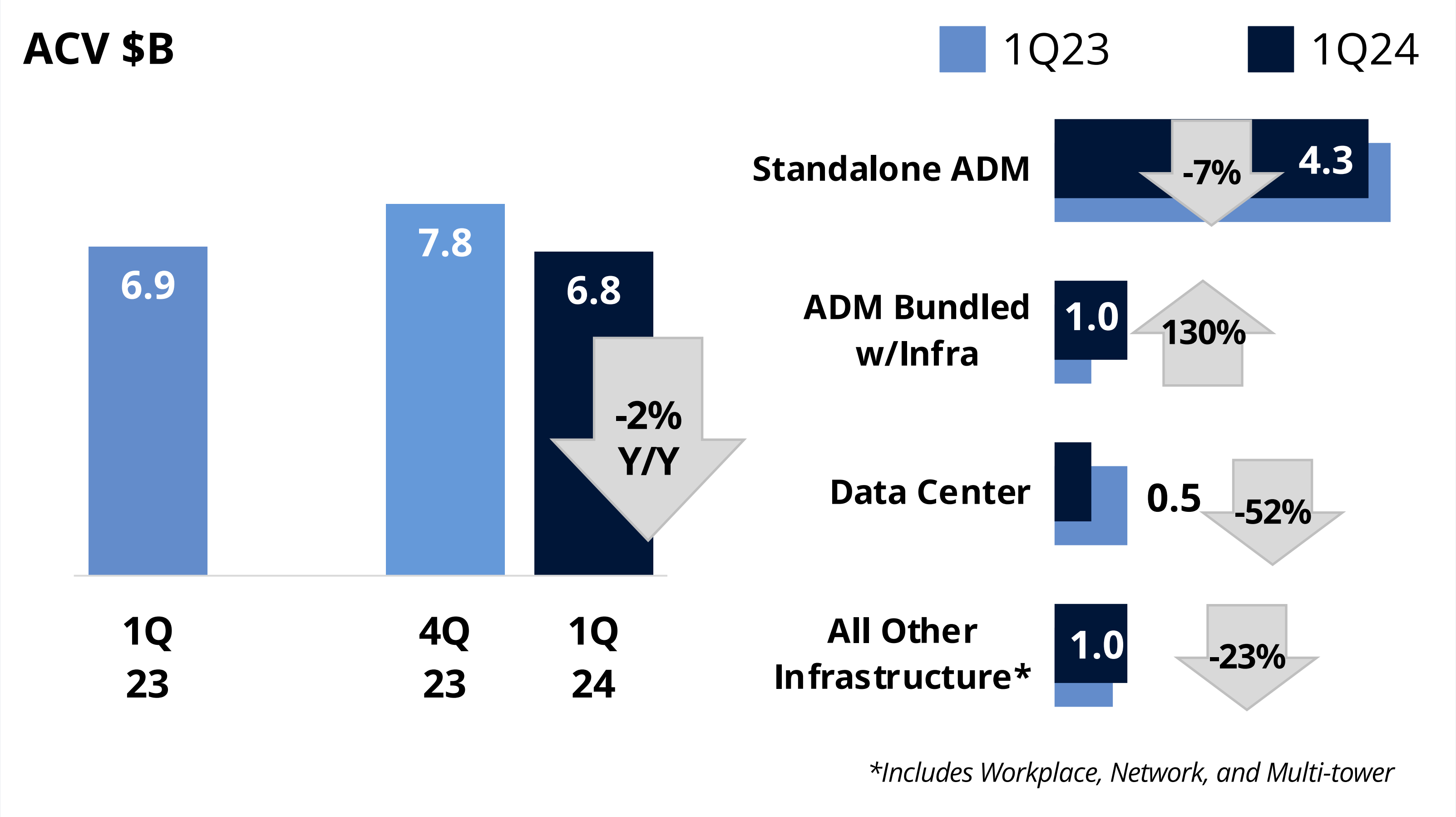
Quarterly Trends

ACV of $6.8B was the lowest quarterly output for the ITO market in two years

Standalone ADM pulled back from record setting pace in 2023, down 7% Y/Y

Awards where Applications were bundled with Infrastructure were up triple digits Y/Y

AI will drive ADM demand in 2024 as firms unlock data from legacy apps



ACV = Annual Contract Value

Managed Services BPO Results

Quarterly Trends

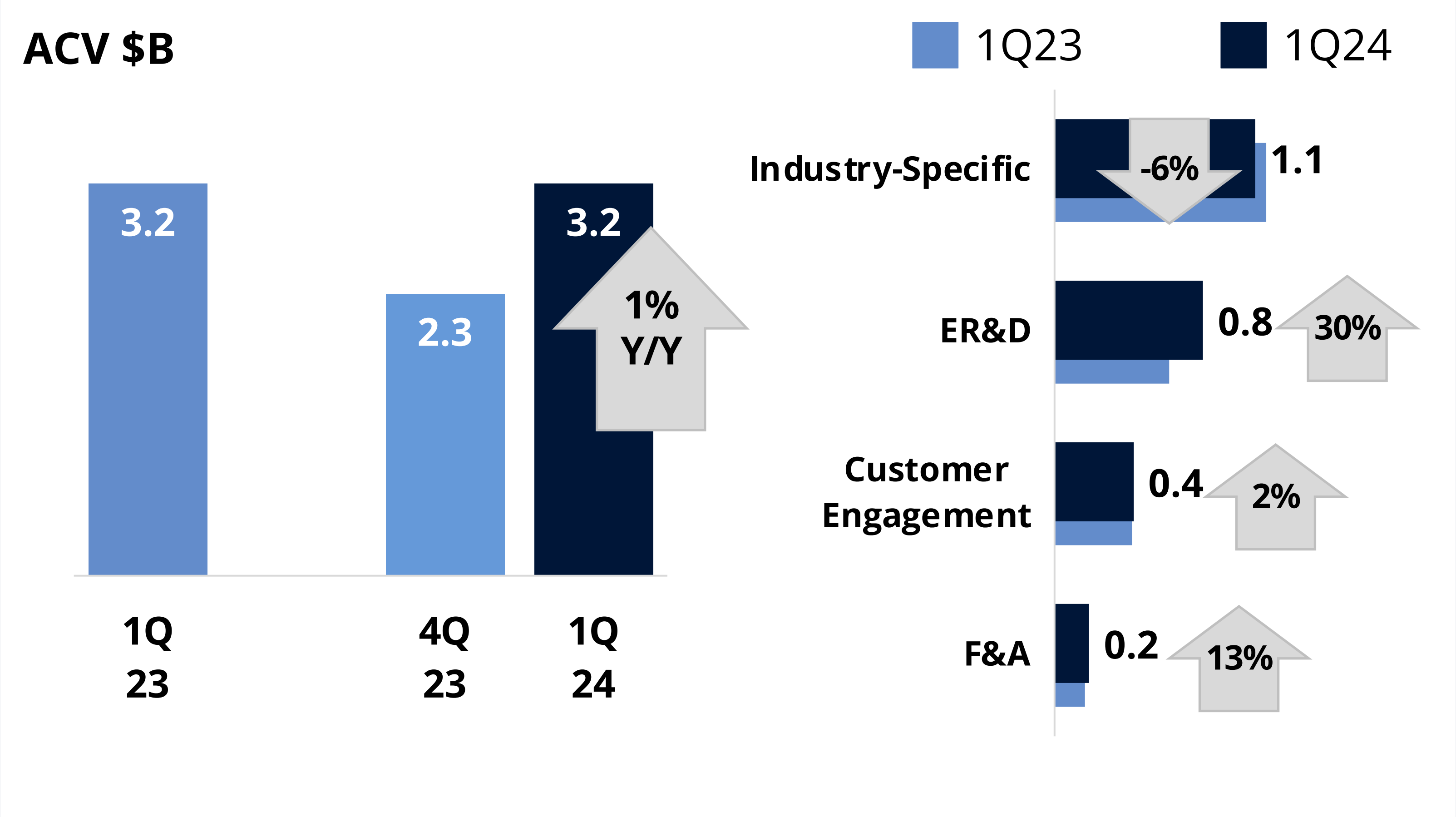
ACV exceeded $3B; only the fourth quarter ever to surpass that level

Industry-specific BPO surpassed $1B in ACV but declined 6%

ER&D had best quarter since 2022 driven by upside in all three regions

F&A up 13%; award counts up significantly against 5-year average

Cost savings remains the top priority for enterprise BPO buyers



ACV = Annual Contract Value

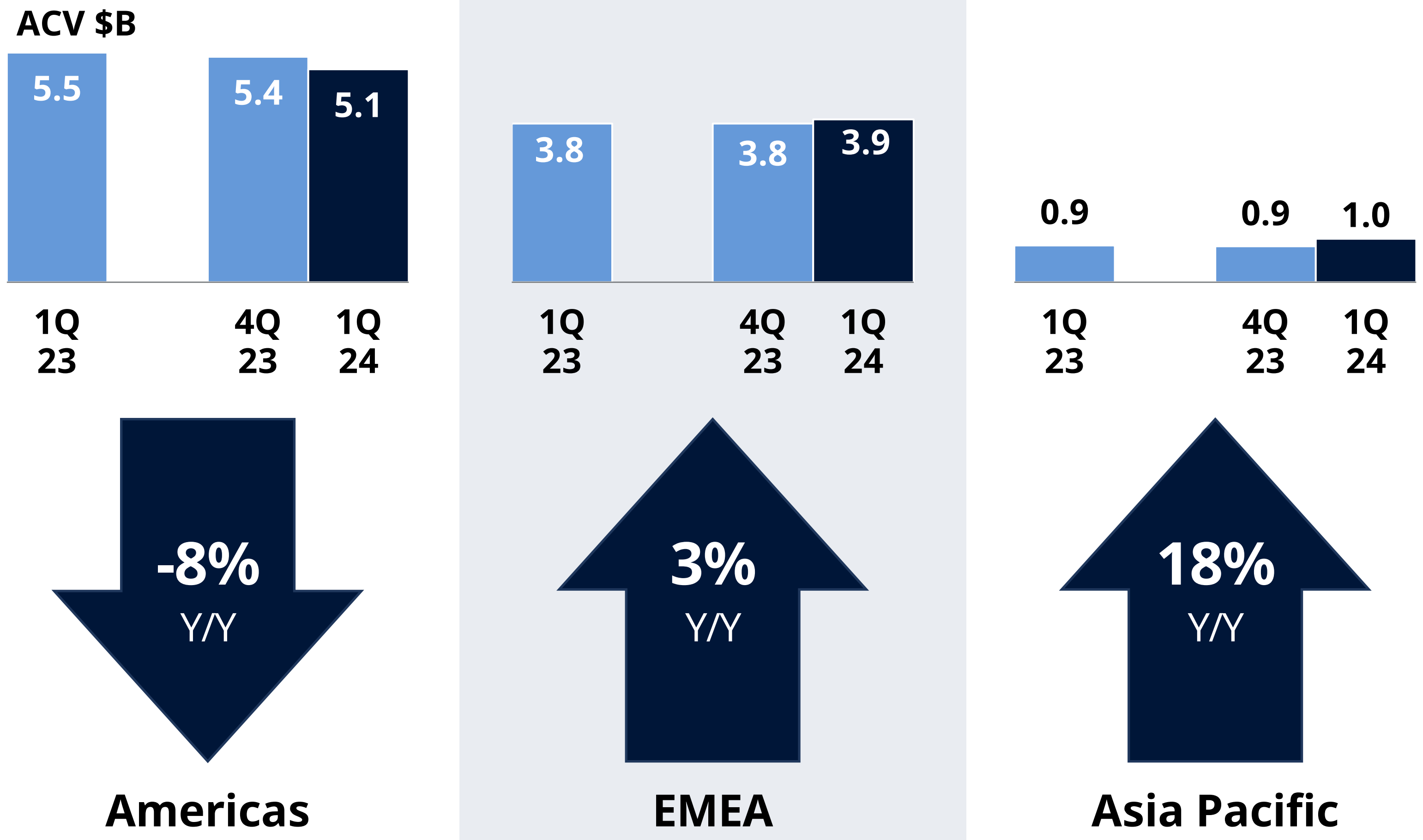
Managed Services Regional Results

Quarterly Trends

Americas: Down 8% Y/Y driven lower by weakness in BFSI (down 18% Y/Y); slow start will put pressure on industry

EMEA: Up 3% Y/Y due to strength in BFSI (up 5% Y/Y) and in BPO (up 40% Y/Y); best quarter in 10 years in the Nordics

Asia Pacific: Up 18% from strength in BFSI and BPO; most geographic markets outperformed with exception of ANZ



ACV = Annual Contract Value

Industry Verticals

Quarterly Trends	Business Services	Consumer Packaged Goods & Retail	Energy	Financial Services	Healthcare & Pharma	Manufacturing	Telecom & Media	Travel, Transport Leisure
Combined Market	6%	5%	-5%	3%	8%	-6%	-2%	33%
Managed Services	-1%	-1%	-14%	-1%	17%	-12%	-33%	50%+
As-a-Service	8%	7%	7%	8%	1%	-2%	27%	12%

IaaS Results

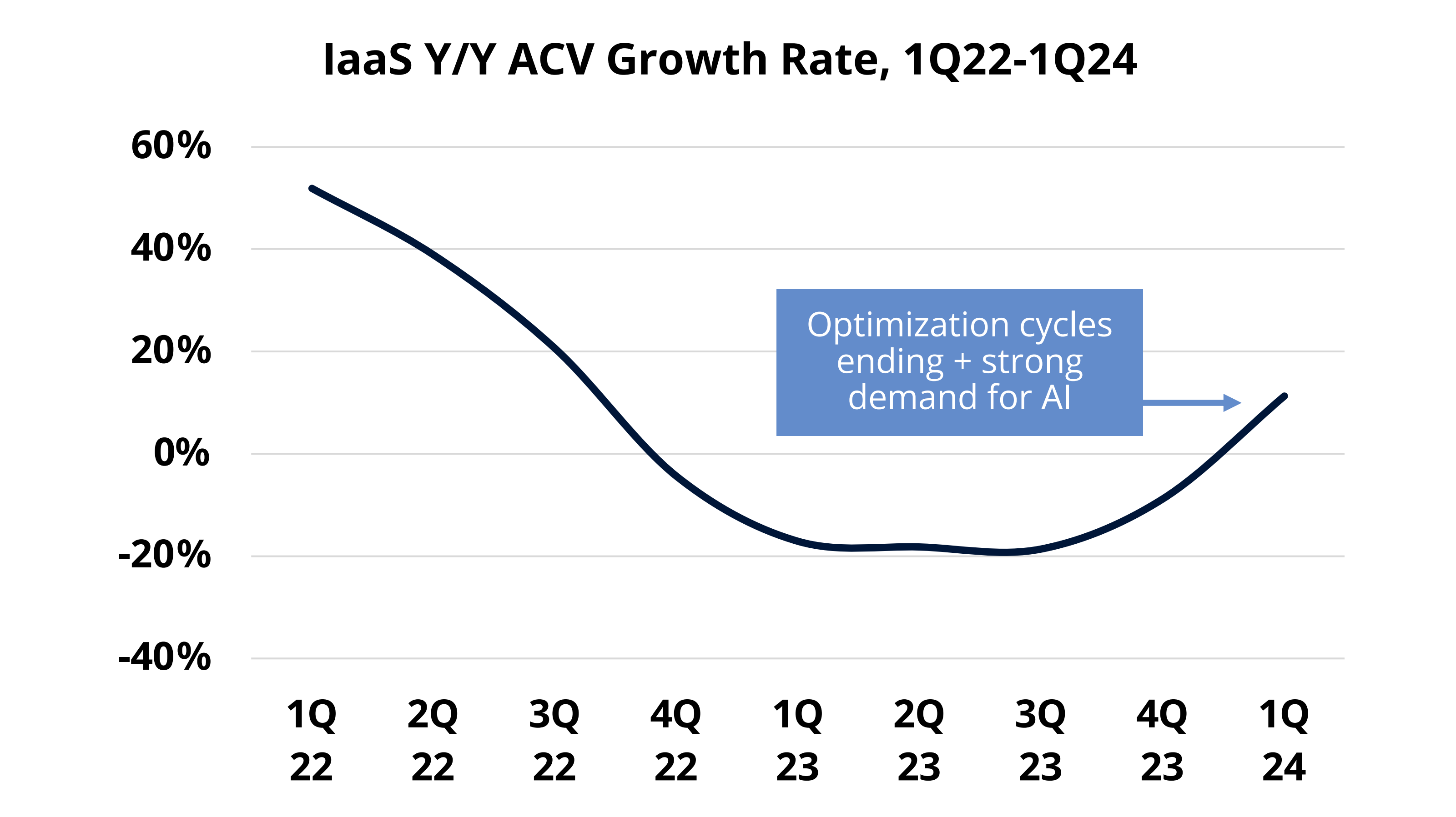
Quarterly Trends

Best result for IaaS ACV since 3Q22

11% Y/Y reversed trend of five straight quarterly declines, which had averaged -13%

Big 3 hyperscalers will start to experience much easier comparisons going forward

Optimization cycles ending, and strong demand for AI-enabled apps will lead to continued ACV growth



SaaS Results

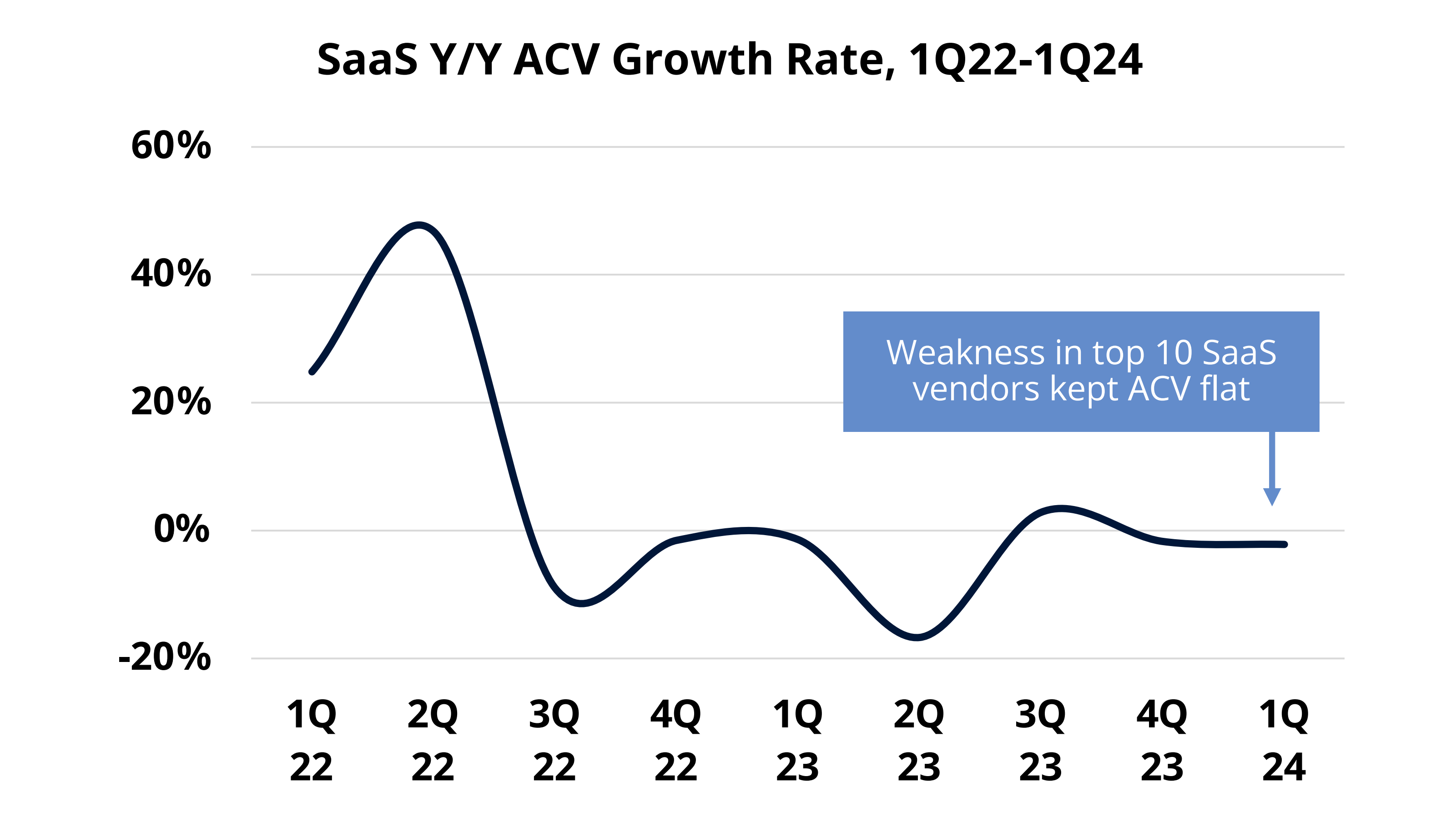
Quarterly Trends

SaaS ACV down 2% on weakness in Top 10 providers

HCM continues to outperform the broader index

CRM continues to struggle; six straight negative quarterly Y/Y result

SaaS providers will likely be first to benefit from GenAI as enterprises look to double the number of AI-enabled applications by end of year



Price and Rate Trends

Managed Services

Annual price performance of 2-4% is now closer to flat.

Areas where unit rates are increasing are labor intensive or rely on third-party software.

Areas where prices are dropping are benefiting from increased automation.

T&M / Project Work

Seeing a 2%-5% increase in base rates across the board.

Americas and Europe are on the lower end of the range; India higher.

For in demand skills, such as analytics and AI, some rate increases as high as 12%.

Source: ISG ProBenchmark®

AI Market Acceleration

Key Trends

Providers rapidly scaling up Generative AI work

Primarily project-based work in the $1M range

Training hundreds of thousands of IT services employees in AI skills

Opportunity for service providers in data preparation and systems integration

Service Provider	AI Projects
Accenture	1,000
IBM	500
DXC	350
Capgemini	300
Cognizant	250
Teleperformance	250
CGI	200

Source: ISG analysis of public company earnings & commentary

$6.1B
TTM Revenue

1.9%
Avg. % of Revenue

AI in the Enterprise

Enterprise IT Departments

- **Focus:** Near-term AI enablement and cost savings
- **Investment:** Primarily funded through discretionary project work
- Ultimately AI for both cost reduction and revenue generation is governed and managed by IT

Enterprise Lines of Business

- **Focus:** Long-term revenue generation
- **Investment:** Funded through line of business budgets
- CEO and lines of business drive the AI strategy, along with creation and evaluation of use cases

Service Providers Must Balance

- **Departmental constituencies:** CIO and IT vs. CEO and lines of business
- **Time horizons:** Short-term vs. Long-term
- **Motivations:** Cost savings vs. Productivity vs. Expertise

Global Service & Technology Provider Standouts

Our ISG Contract KnowledgeBase™ is used to determine placements based on the annual value of commercial contracts awarded in the past 12 months

THE ISG **15**

The **Big** 15
The **Building** 15
The **Breakthrough** 15
The **Booming** 15

ISG Index™ 1Q24

Service & Technology Provider Standouts – Global

THE ISG 15

The ISG Contract KnowledgeBase™ is used to determine placements based on the annual value of commercial contracts awarded in the past 12 months.

	The Big 15		The Building 15		The Breakthrough 15		The Booming 15	
	Revenues > $10B		**Revenues $3B-$10B**		**Revenues $1B-$3B**		**Revenues <$1B**	
Managed Services Market	Accenture Capgemini Cognizant Deloitte DXC Technology HCLTech	IBM Infosys NTT Data* TCS Wipro	BT Computacenter* Concentrix* Foundever Genpact	Indra Sistemas* LTIMindtree Sopra Steria Tech Mahindra T-Systems	AFRY* Alten Atento Coforge EXL	LTTS Mphasis Persistent Sweco* WNS	adesso Birlasoft CSG Systems Eltel Endava* Ensono	KPIT Technologies Mastek Netcompany* Softtek Tata Technologies Zensar*
As-a-Service Market	Amazon Web Services Google	Microsoft Oracle	Digital Realty Equinix Palo Alto Networks	ServiceNow Workday	Atlassian Datadog Hubspot*	Okta Snowflake	Cloudflare DigitalOcean	OVH

* New or returning to leaderboard in quarter

Providers in alphabetical order; no rankings implied. Revenues sourced from D&B and individual company financial fillings.

Summary and Outlook

Summary

Managed Services

- Managed Services experienced a slight decline of 1.4% Y/Y on weaker results in the Americas
- Americas' decline was due to BFSI; EMEA up slightly driven by strength in BPO, another solid quarter in the UK and Nordics
- ITO market dipped 2% Y/Y as ADM paused from recent acceleration trend; 1Q24 saw more contract awards bundling ADM with Infrastructure

XaaS

- Green shoots ahead in IaaS as Big 3 hyperscalers have now cycled past the difficult comps; optimization cycle is coming to an end, and AI cycle is just beginning
- SaaS market pulled back slightly as some of the larger app categories that led during the downturn begin to rollover (ITSM, ERP); SaaS vendors will benefit from enterprise push to AI-enable application portfolio

Market Outlook

Macro Recap

- Interest rate environment may remain elevated longer than anticipated
- Inflation persists, proving more resilient than initially predicted
- Margin pressure from rising labor and software costs
- Uncertainty amid geopolitical unrest

Revenue Forecast

- Return to growth in Managed Services is predicated on "return to normal" for certain parts of the market (BFSI/Americas; Mfg/EMEA, small discretionary awards, etc.)

3% 2024e
Managed Services

15% 2024e
XaaS

Thank you!

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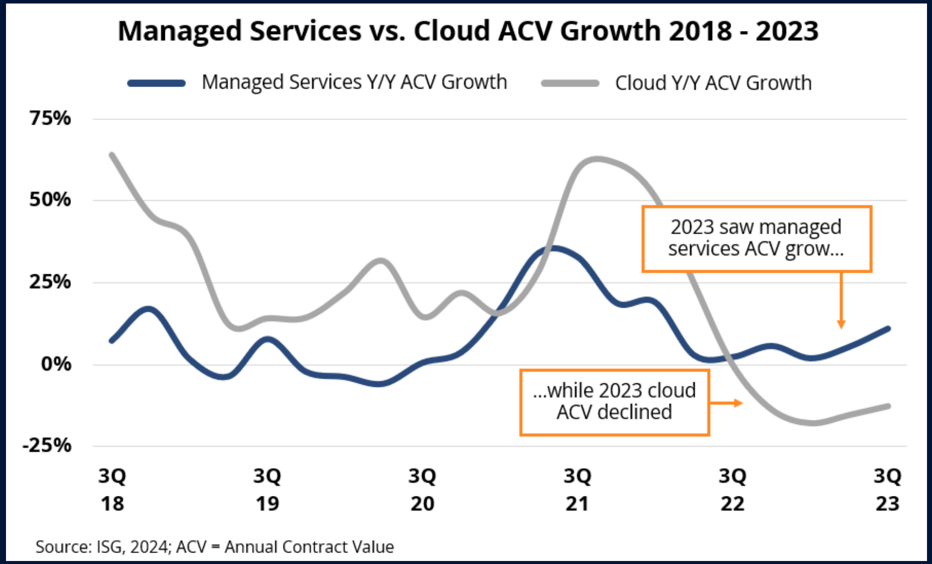

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Appendix

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Americas Broader Market Results

Quarterly Trends

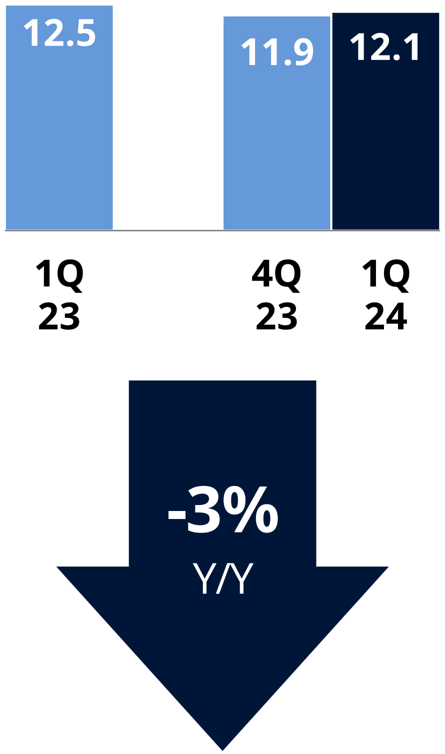
Combined Market down 3% Y/Y, declining for fifth straight quarter.

Managed Services down 8% Y/Y led lower by BFSI (down 18%)

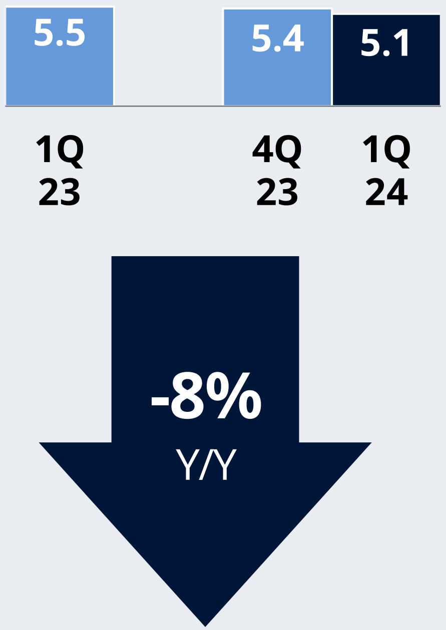
Small Deal Malaise not present in the market as discretionary awards up 2.5% Y/Y

XaaS continued its acceleration off market bottom from summer of 2023

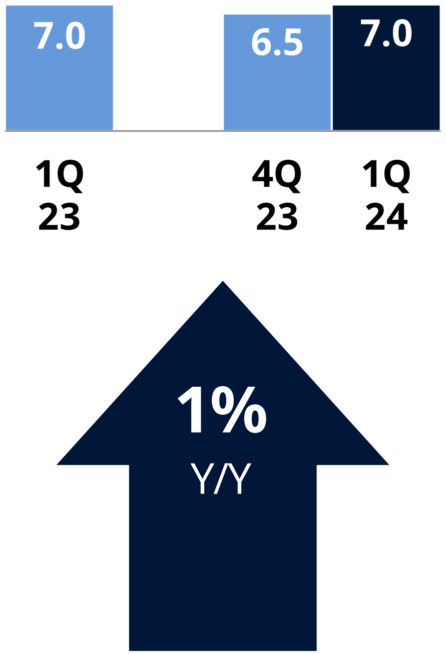
ACV $B



Combined Market



Managed Services



As-a-Service

ACV = Annual Contract Value

Service & Technology Provider Standouts – Americas

THE ISG 15

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EMEA
Broader Market Results

Quarterly Trends

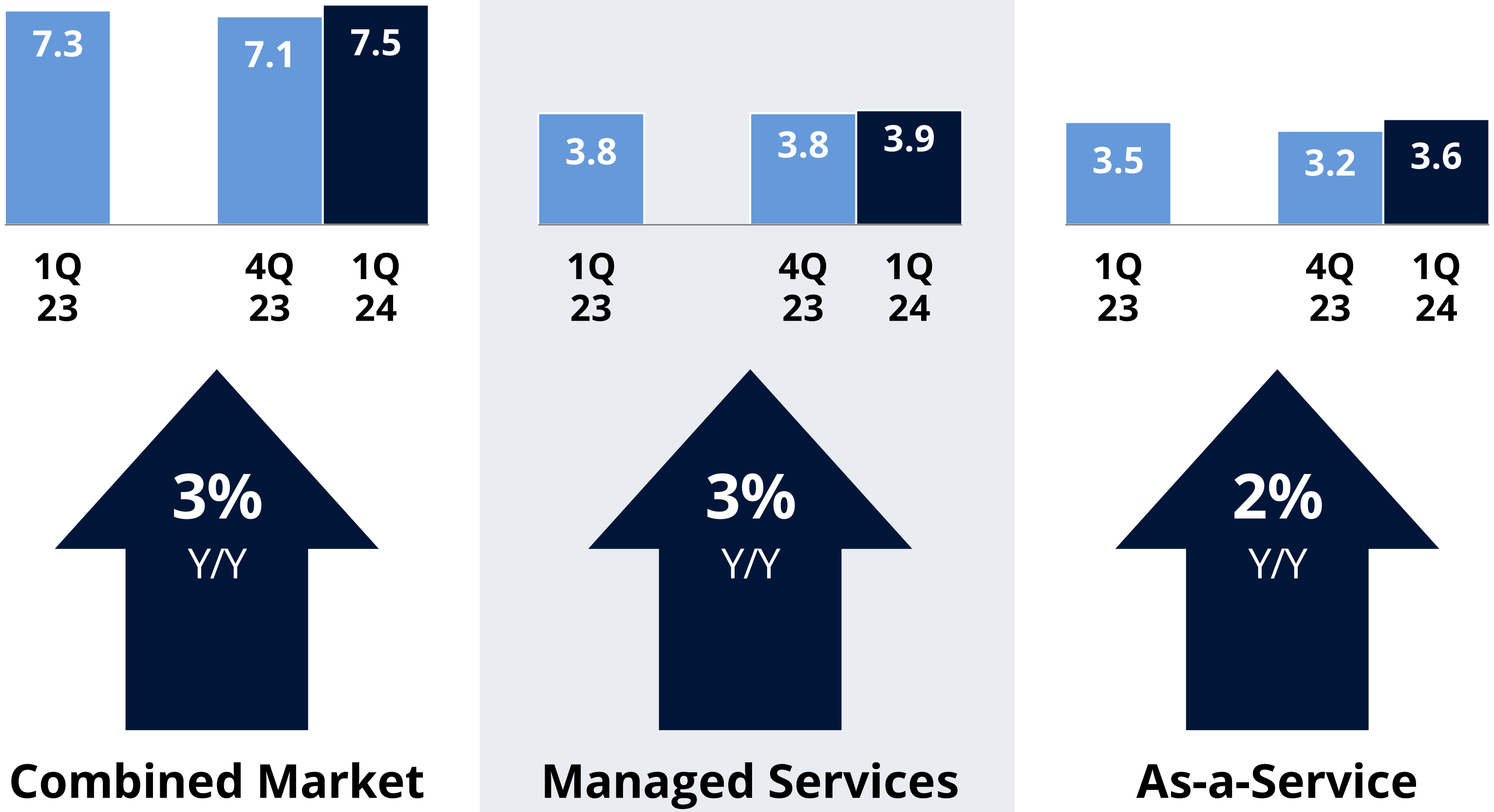
Combined Market up 2.5% Y/Y, breaking a four quarter decline which averaged -4%

Managed Services up 3% Y/Y

- Strength in BFSI (up 5% Y/Y)
- Yet another $1B+ quarter in the UK
- Best quarterly result in ten years for the Nordics

XaaS ACV continues to accelerate after bottoming in the second quarter of 2023

ACV $B



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Service & Technology Provider Standouts – EMEA

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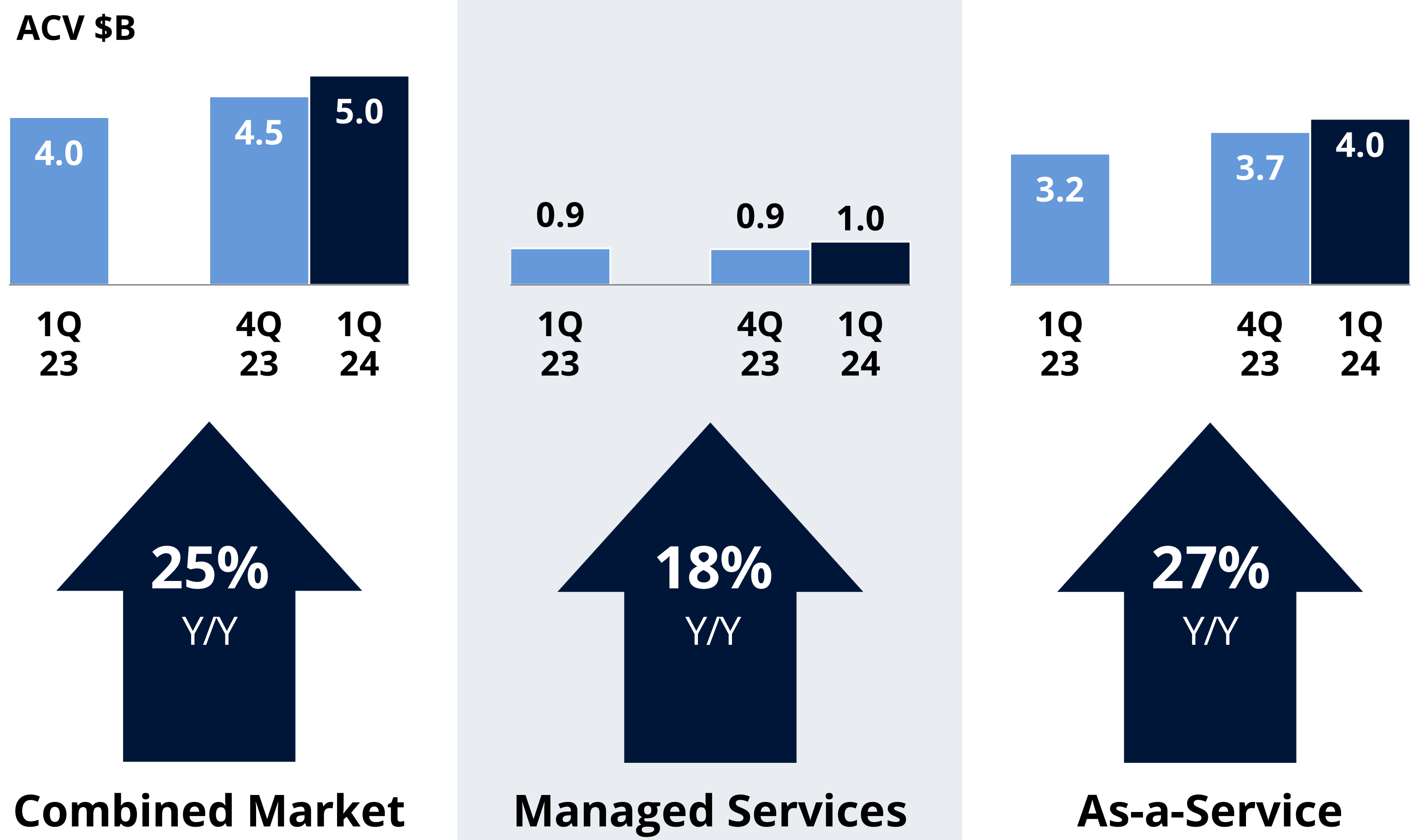
Asia Pacific Broader Market Results

Quarterly Trends

Combined Market ACV broke above the $5B level for the first time since 2Q22

Managed Services up 18% Y/Y as most major geographic markets outperformed with the exception of the largest, ANZ

XaaS ACV had second straight quarter of double digit Y/Y gains as comps turns positive against the lows of 2023



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Service & Technology Provider Standouts – Asia Pacific

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As-a-Service Market	Amazon Web Services China Mobile China Telecom China Unicom Google Microsoft	Dassault Systèmes Equinix ServiceNow	Atlassian Datadog MongoDB Okta* PTC Sage	21Vianet* Cloudflare Kingdee NEXTDC Xero Yonyou*

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