

Managed Services & As-a-Service Market Insights

April 6, 2022

HOSTED BY



Rishi Jhunjunwala
Vice President and Lead Analyst
Technology & Insurance Sectors

IIFL Institutional Equities

***ISG** Index™

1Q 2022

@ISG_News #ISGIndex #ISGIndexInsider

imagine your future®

© 2022 Information Services Group, Inc. All Rights Reserved.
Proprietary and Confidential. No part of this document may be reproduced in any form or by any electronic or mechanical means,
including information storage and retrieval devices or systems, without prior written permission from Information Services Group, Inc.

Welcome
to the 78th Quarterly

*
ISG Index™

The ISG Experts



Steve
Hall
Partner &
President



Kathy
Rudy
Chief Data &
Analytics Officer



Stanton
Jones
Director &
Principal
Analyst



Namratha
Dharshan
Director of
Research and
Principal Analyst

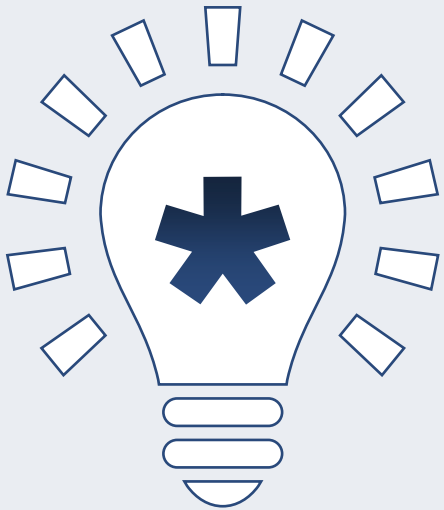


Doug
Saylor
Partner &
Co-lead, ISG
Cybersecurity

Covering the State of the
Managed Services & As-a-Service Industry
for the Global Commercial Market

@ISG_News #ISGIndex #ISGIndexInsider

ISG Index: Three Big Thoughts



1

Managed Services Contracting levels remain at very high levels but there are signs of flattening.

2

Demand for talent is outstripping supply, creating pricing and delivery challenges for both enterprises and providers.

3

Enterprise costs are rising (inflation, energy, talent, etc.); this will drive reprioritization of technology budget and major programs over next several quarters.



Global Broader Market Results

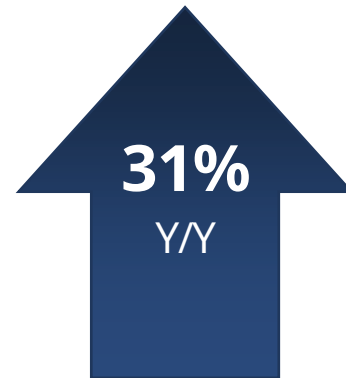
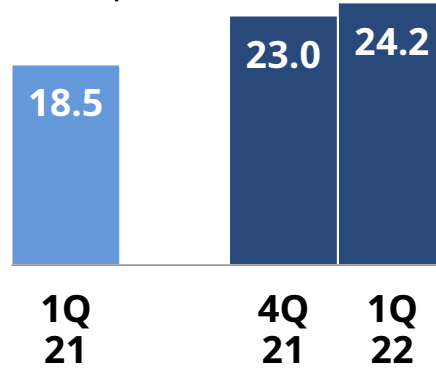
Quarterly Trends

Managed Services segment posted its fourth straight quarter over \$8B in ACV

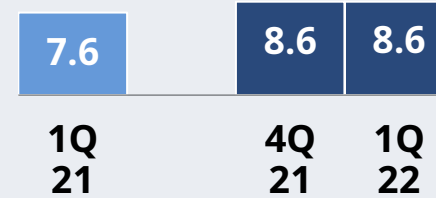
13% Y/Y growth rate for Managed Services was fourth straight quarter that has exceeded 10%

XaaS segment growth rate exceeded 40%+ for the third straight quarter

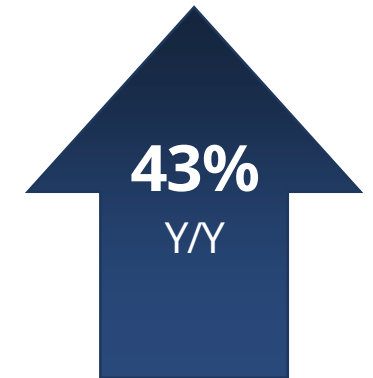
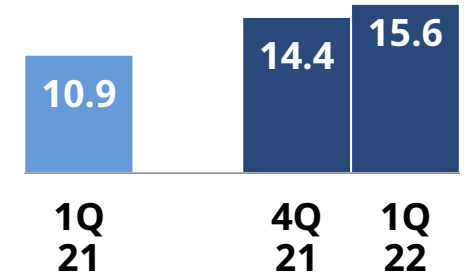
ACV \$B



Combined Market



Managed Services



As-a-Service

ACV = Annual Contract Value

Has Wage Inflation Impacted the Market?

Managed Services



Unit rates that previously dropped by 4% annually are now closer to a 2% decline Y/Y



Average declines that were 4%-7%, depending on technology area, are now averaging a 2.5%-3.5% decline



Some areas are flat while others are still benefiting from continued automation

T&M / Project Work



4%-7% increase in skills base rates across the board



For in demand skills, such as Digital Engineering and Cybersecurity, some rate increases are as high as 15%



Americas and EMEA tend toward the lower end of the 4%-7% range, with India moving toward the upper end

Attrition Will Persist in the Short Term

Key Trends

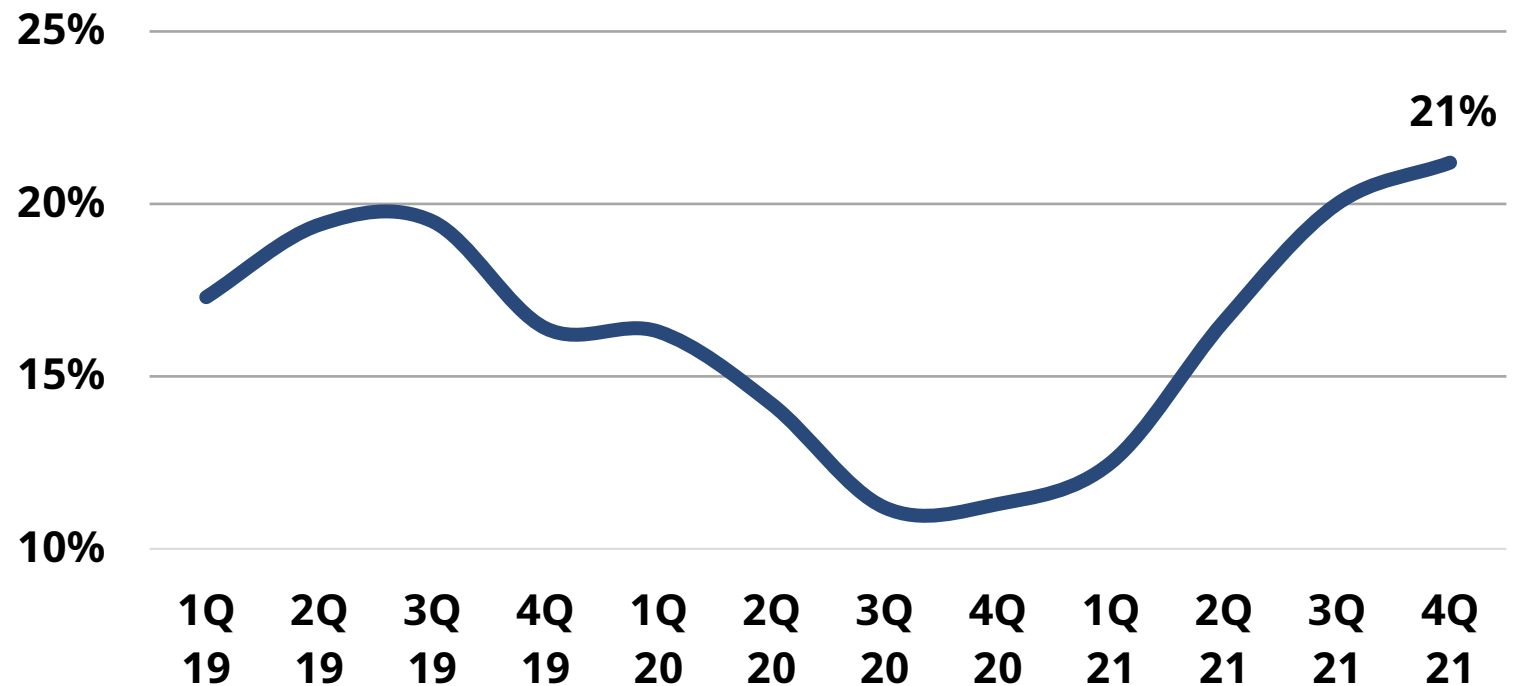
Combination of strong demand and high attrition cause challenges on buy and sell sides

Providers struggle to staff transition and run services

Enterprises agree to increases for in-demand skills and evaluating other providers

Retention and upskilling strategies become critical differentiator for providers

Weighted Average Attrition Levels in IT Services, 2019 - 2021



Source: ISG, 2022; Includes providers from ISG Index™ Leaderboard.



Managed Services Quarterly Results

Quarter Trends

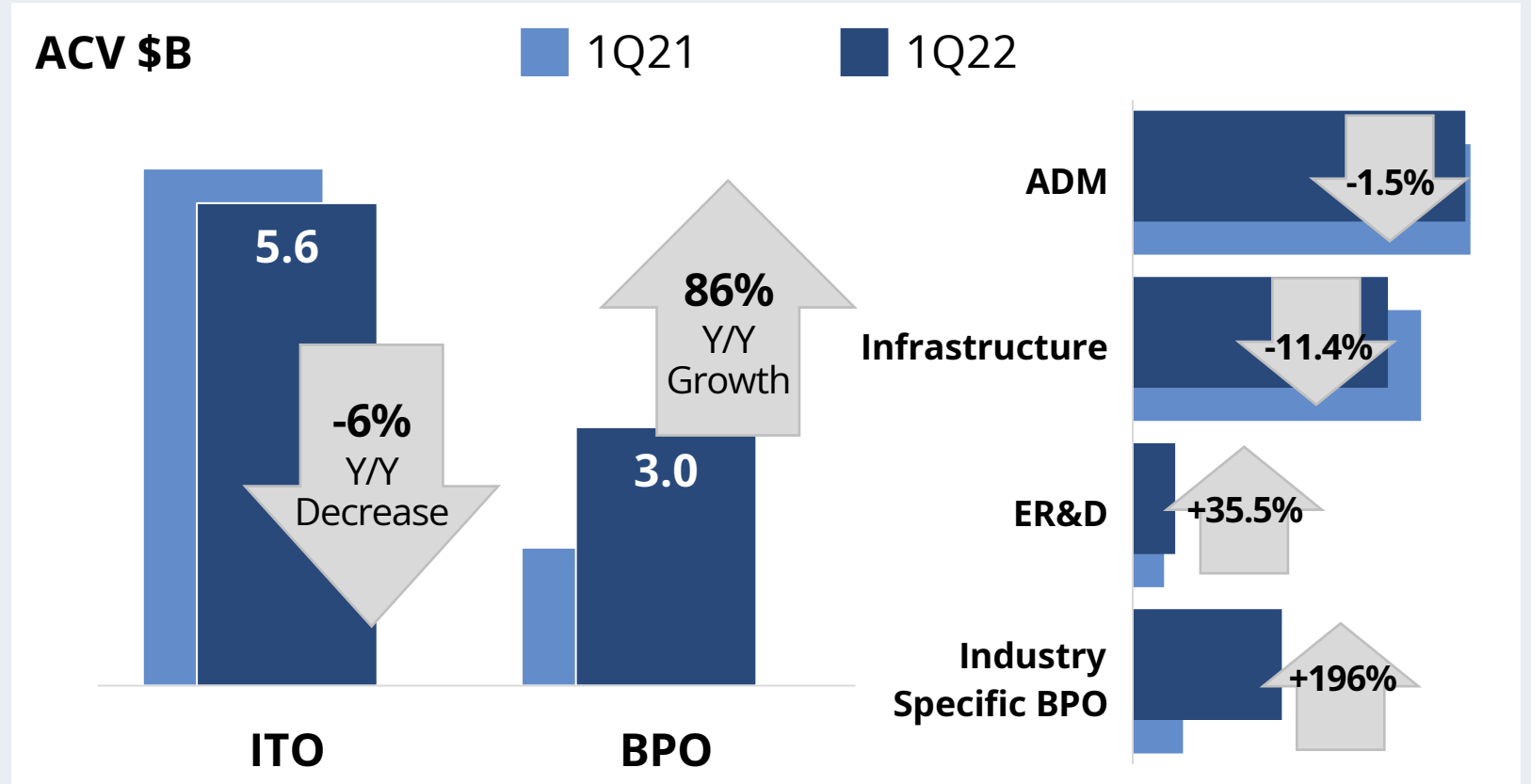
ITO pulled back 6% Y/Y against difficult comps; market pulled lower by 4% drop in the Americas and 11% decline in EMEA

Infrastructure ACV continued to weigh on the market and fell 11%

ADM award ACV remained above \$3B for fifth straight quarter, but slipped 1.5% Y/Y

BPO market had its second-best quarter ever with nearly \$3B of ACV

After two years of flattening performance, Industry-Specific BPO generated over \$1B in ACV, its best quarter yet



ACV = Annual Contract Value



XaaS Quarterly Results

Quarter Trends

IaaS generated ACV of \$11.8B, led higher by the Americas and EMEA; Asia Pacific performance flattening

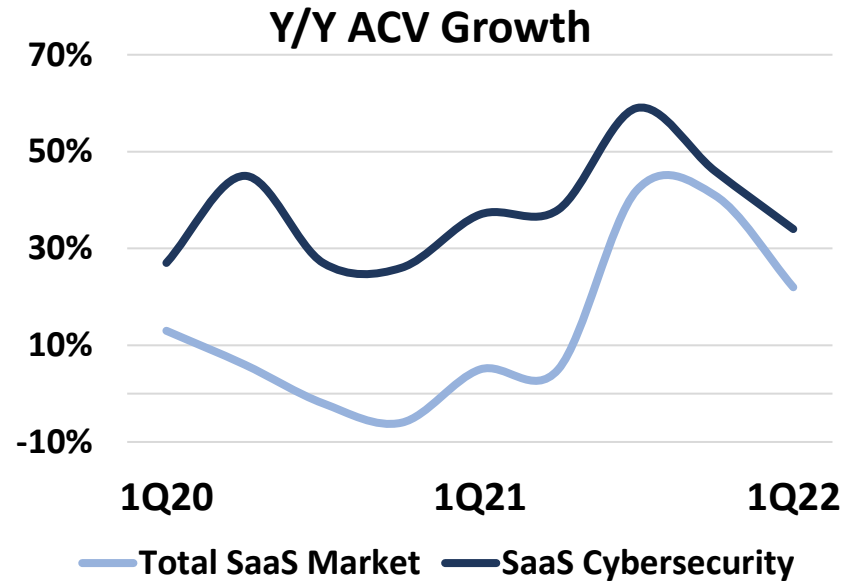
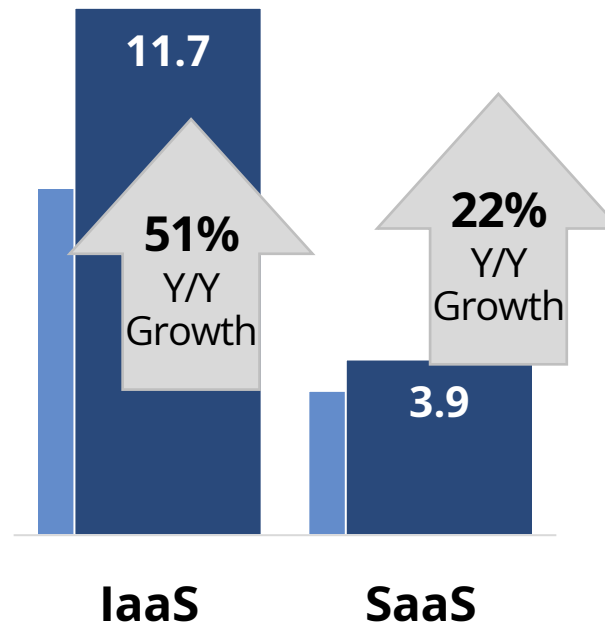
The Big 3 hyperscalers further penetrated enterprise with long term contracts and have sizable increases in their backlogs (AWS: \$53B, GCP: \$51B, Microsoft \$141B)

SaaS rose 22% Y/Y but remained flat during the past nine months; Top 10 SaaS providers underperformed the market with ACV growth of 6% Y/Y

ACV \$B

1Q21

1Q22



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



Service & Technology Provider Standouts – Global



Our 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	IBM Consulting	Capita*	Sitel Group	Alten SA*	Mphasis	Birlasoft	L&T Technology Services
	Capgemini	Infosys	Computacenter	Tech Mahindra	EXL*	Rackspace	Endava*	Persistent Systems
As-a-Service Market	Cognizant	Kyndryl*	EPAM Systems*	Teleperformance	Globant*	Unisys	Ensono*	Softtek
	DXC Technology	NTT Data*	Genpact	TietoEVRY*	LTI	WNS Global Services*		
	HCL	TCS	Global Payments	T-Systems	Mindtree			
				Wipro				
							Bill.com*	OVHcloud
	Adobe	Google Cloud			Atlassian*	Shopify	Cloudflare*	Splunk*
	Amazon Web Services	Microsoft	Equinix	Palo Alto Networks*	CrowdStrike*	Snowflake Computing*	DigitalOcean*	21Vianet Group*
		Salesforce	Intuit	ServiceNow	Okta*	Twilio	Global Switch*	Zscaler*
							MongoDB*	

* New to leaderboard in 1Q22

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



Americas Broader Market Results

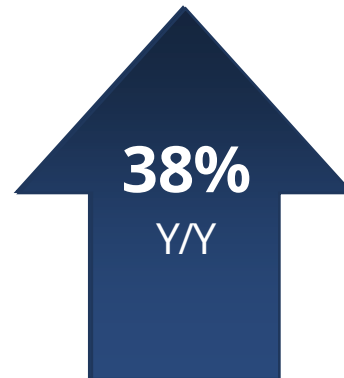
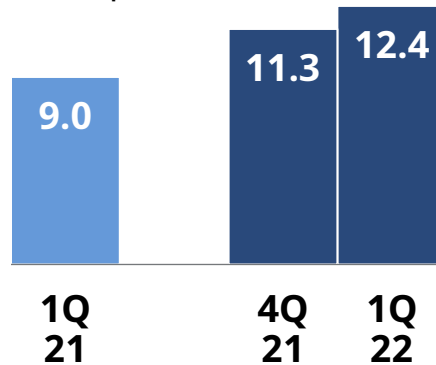
Quarterly Trends

Managed Services posted its second-best quarter of ACV and fourth straight quarter with 20%+ Y/Y growth

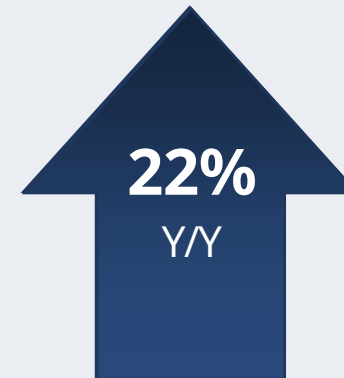
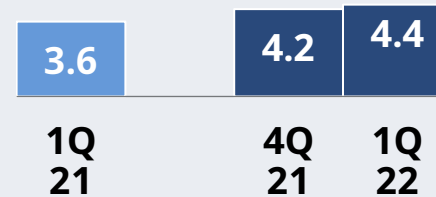
Managed Services generated 301 contract awards, the second-best quarter yet

XaaS accounted for 64% of Global Combined Market ACV and grew at its fastest Y/Y growth rate since 3Q18

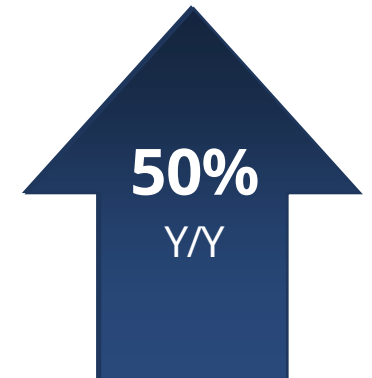
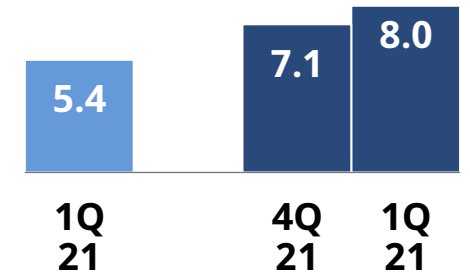
ACV \$B



Combined Market



Managed Services



As-a-Service

ACV = Annual Contract Value



EMEA Broader Market Results

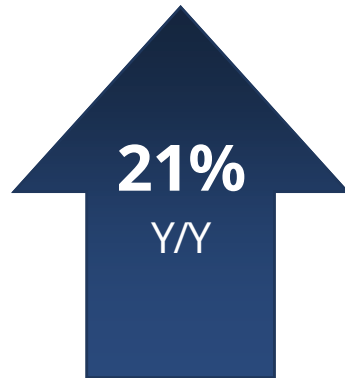
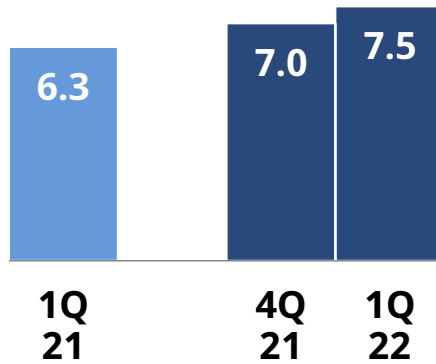
Quarterly Trends

Managed Services, up 3% Y/Y, continued at high sustained levels with its sixth straight quarter over \$3.4B in ACV

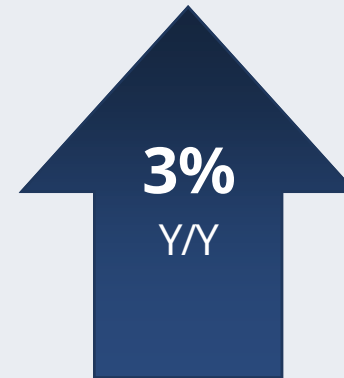
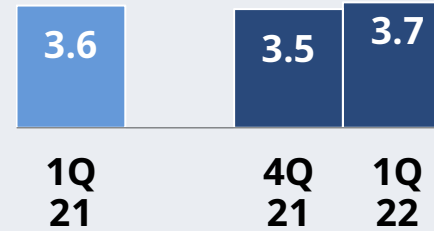
The U.K. exceeded \$1B in ACV for second quarter in a row; the Nordics and Southern Europe also contributed to Y/Y growth

XaaS accounted for 51% of Global Combined Market ACV, after first hitting 50% in 4Q21

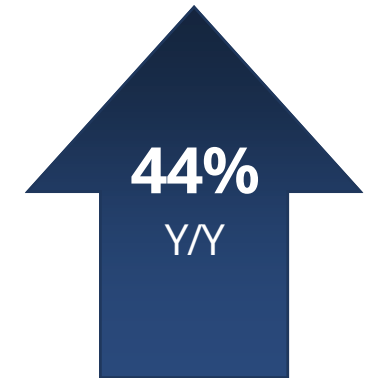
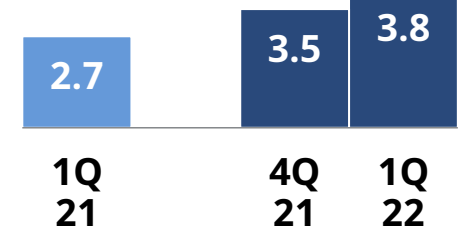
ACV \$B



Combined Market



Managed Services



As-a-Service

ACV = Annual Contract Value



Asia Pacific Broader Market Results

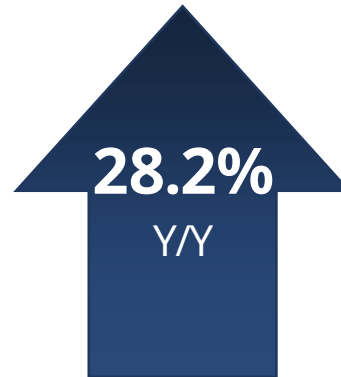
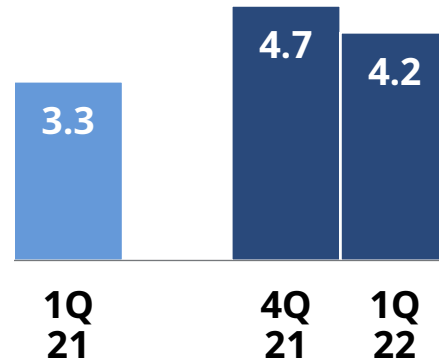
Quarterly Trends

Across the Combined Market, all segments rose Y/Y but fell Q/Q

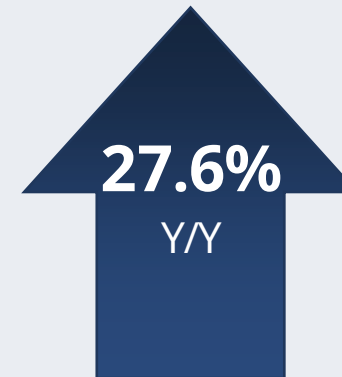
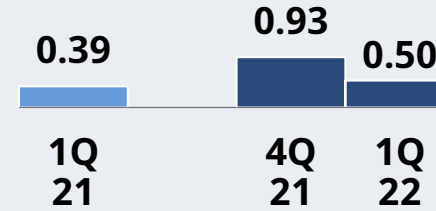
In Managed Services, ANZ was down slightly by ACV while the Southeast Asia region rose Y/Y, posting a third straight strong quarter

Over the last four quarters, XaaS ACV has been uneven with new market highs followed by a Q/Q decline

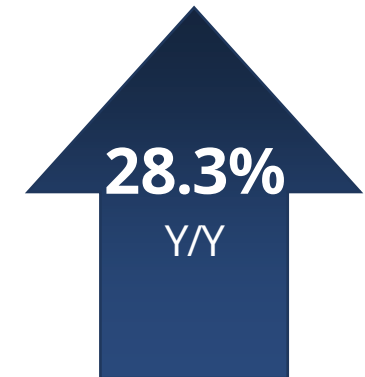
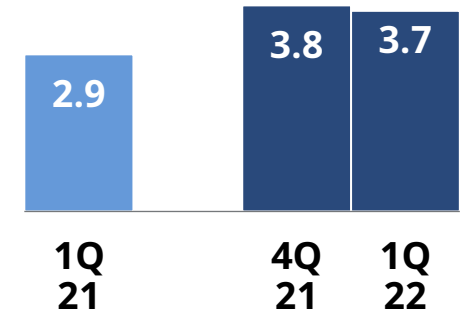
ACV \$B



Combined Market



Managed Services

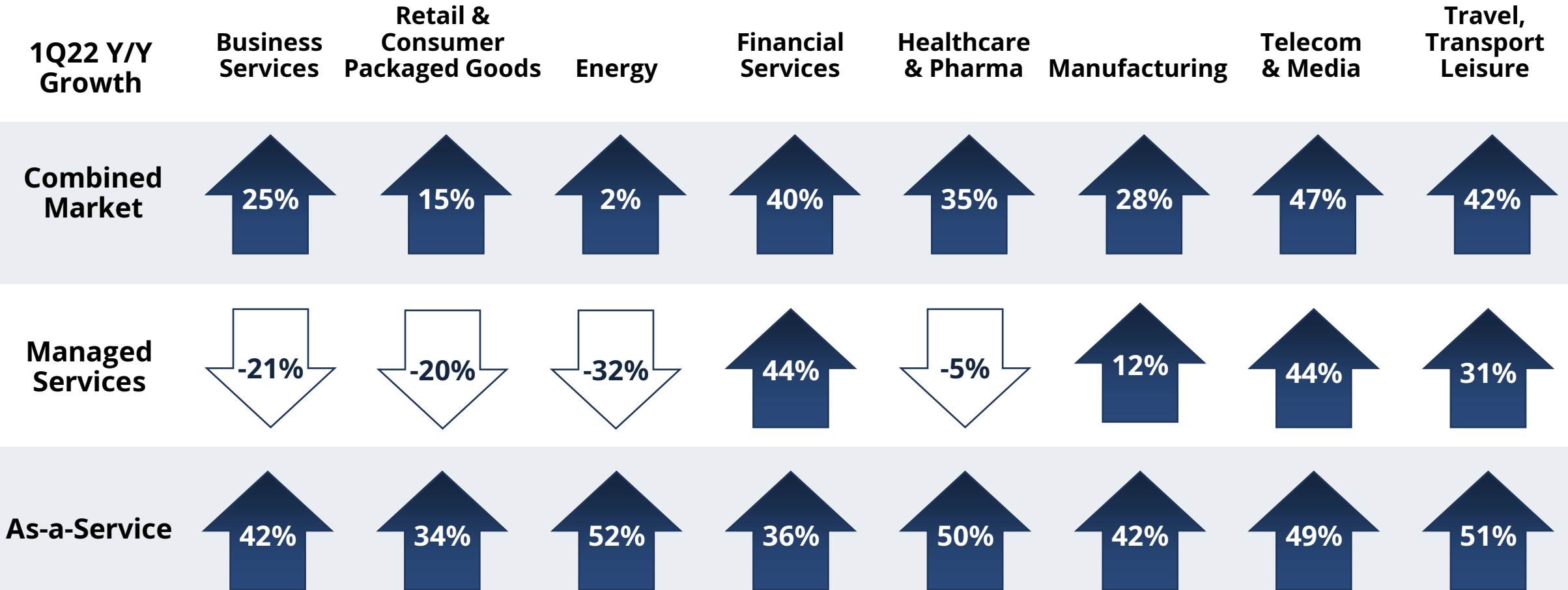


As-a-Service

ACV = Annual Contract Value



Global Technology Services Industry Award Trends



ACV = Annual Contract Value

Special Topic – Cybersecurity



Doug Saylor
Partner & Co-Lead, ISG Cybersecurity

“Accelerating toward
a connected and
intelligent future.”

Market Overview

Today

critical Infrastructure & financial firms are the top targets

#1 issue

enterprises are facing is ransomware

1/2

of all attacks are caused by human error

Nearly 45% Growth

in ACV in the past year for cybersecurity firms in the SaaS segment, outpacing market growth.

65+

total cybersecurity M&A transactions in 2021, worth >\$21B

2x

as many M&A transactions in 2021 vs 2020, with 5x the acquisition value

+45 Unicorns

who have a of value over \$1B

\$3.3B

in Managed Services Contract ACV awarded in 2021 had some cybersecurity in scope

23% increase

in the number of awards with cybersecurity services in scope

Trends in Cybersecurity



Ever increasing amount of cyberattacks



Expanding use of Multi-Cloud opens new avenues of attack



Labor shortages are driving enterprises towards MDR/XDR solutions



Staggering volume of attacks on critical infrastructure, but few breaches



OT & IoT exposure in every industry

Deal Profiles

ISG is seeing a significant shift in how organizations source Cybersecurity

Previous Approach

*“Cybersecurity buried within other towers;
commoditized Services”*

150 Broader Market Managed Service deals with
Cyber in Scope are up for renewal in 2022-23

Contract award values are increasing

40% of the cybersecurity award volume is tied to
stand-alone ADM deals; the remainder is
infrastructure-related

Current Market Trend

*“Cybersecurity functions viewed as Specialty Skill
Enabling Business”*

Differentiation is key to winning; frequently
positioned as a revenue enabler vs commodity.

Strong shift to Cybersecurity as oversight function
of other towers.

Higher value functions (, e.g., Threat Hunting,
Forensics, IGA, DLP) starting to be bundled into
larger standalone Cybersecurity contracts.

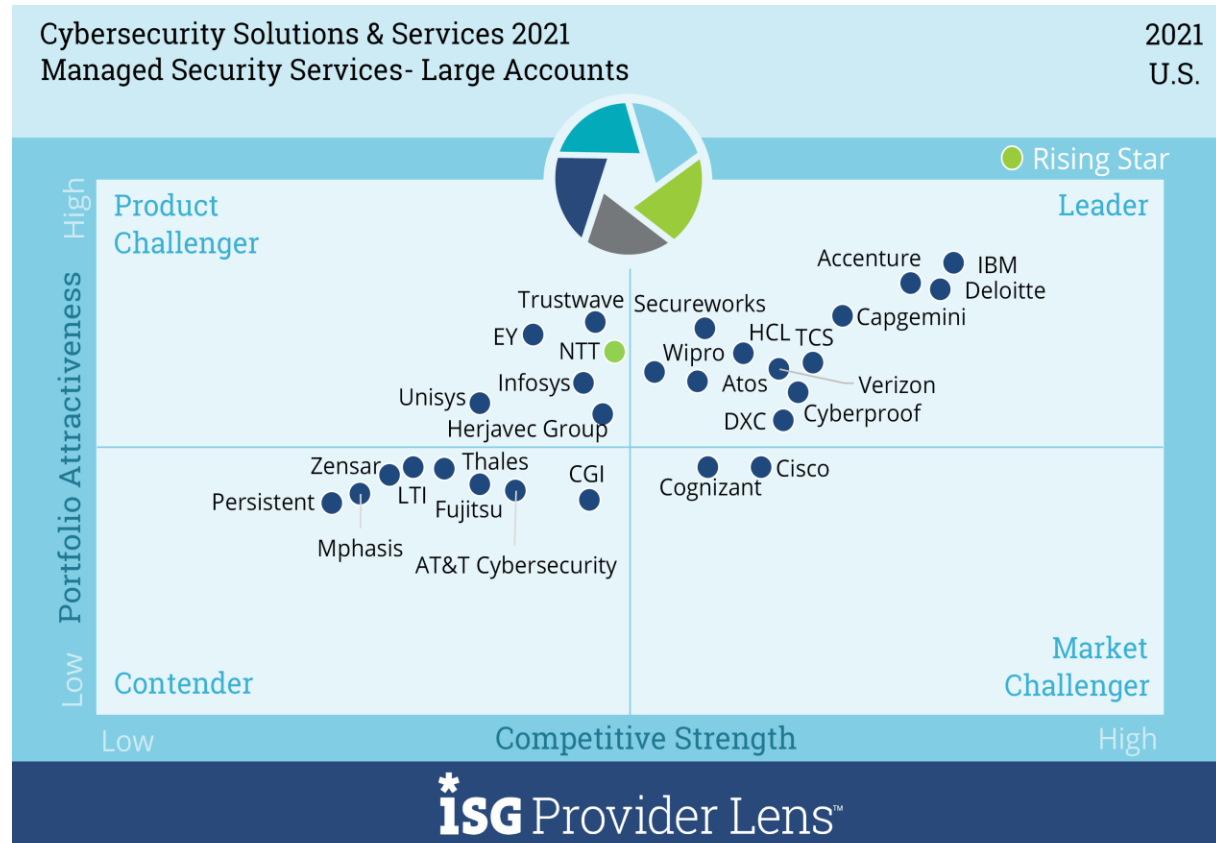
What MSSP Providers Are Doing Well

Provider Tiers

Leaders in the field provide full-stack support, covering many security disciplines and can support the largest enterprises

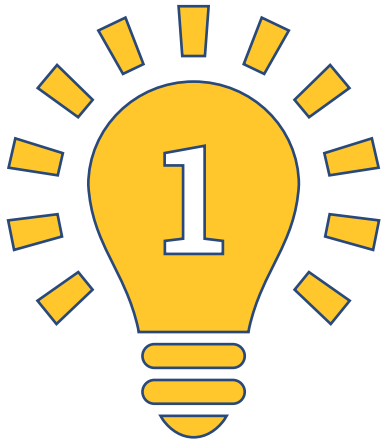
Mid-tier offer strong commoditized services and flexibility but tend to operate in stack augmentation mode

Niche-oriented providers provide deep knowledge in specific topics



Source: ISG Research 2021

Summary: What Does This Mean for You?



Increasing threats require enterprises to prove their cyber resilience to their customers, board and third-party partners



Migration to the cloud necessitates new operating models to deliver cybersecurity, both internal and external

1Q22 ISG Index – Summary and Outlook

Summary

Market Outlook

Managed Services

Market Tailwinds



5.1%
2022e

- ACV, while remaining at elevated levels, is leveling off sequentially
- Large number of smaller deals; record BPO activity is centered on AI and analytics
- IT pulls back as ADM falls slightly on weakness in EMEA; infrastructure continues to slide

- Industry is at the beginning of a multiyear secular demand cycle of heightened investment
- Budgets have been rising as companies continue to increase investments in driving their digital transformation agendas.

As-a-Service

Market Headwinds



22%
2022e

- Big 3 hyperscalers continue enterprise growth while expanding their backlogs
- Top 10 SaaS providers continue to see growth rates that underperform overall market
- Smaller SaaS sectors such as cybersecurity continue to innovate and grow rapidly

- Industry has finished cycling through its easier comps from the COVID-impacted quarters
- Attrition issues will likely persist longer than originally thought
- Overall risk setup related to the macro is worse than where it stood 90 days ago (Omicron; higher rates and Fed tightening; geopolitical concerns in Ukraine)

Thank you!

The 78th Quarterly
* **ISG** Index™



ISG (Information Services Group) (Nasdaq: III) is a leading global technology research and advisory firm. A trusted business partner to more than 800 clients, including more than 75 of the top 100 enterprises in the world, ISG is committed to helping corporations, public sector organizations, and service and technology providers achieve operational excellence and faster growth. The firm specializes in digital transformation services, including automation, cloud and data analytics; sourcing advisory; managed governance and risk services; network carrier services; strategy and operations design; change management; market intelligence and technology research and analysis. Founded in 2006, and based in Stamford, Conn., ISG employs more than 1,300 digital-ready professionals operating in more than 20 countries—a global team known for its innovative thinking, market influence, deep industry and technology expertise, and world-class research and analytical capabilities based on the industry's most comprehensive marketplace data.

isg-one.com