

Managed Services & As-a-Service Market Insights

April 13, 2023

HOSTED BY



Rishi Jhunjunwala
VP - IT Services & Insurance
IIFL - Institutional Equities

***ISG** Index™

1Q 2023

imagine your future®

© 2023 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.

1Q23: Three Big Thoughts



1

Demand for enterprise digitization continues to be robust with applications, industry BPO and engineering delivering strong Managed Services results.

2

SaaS and IaaS bookings both declined year-over-year as enterprises slow migrations and optimize workloads.

3

Recent cost management actions in Managed Services is an indication that providers are focused on margin protection.



Global Broader Market Results

Quarterly Trends

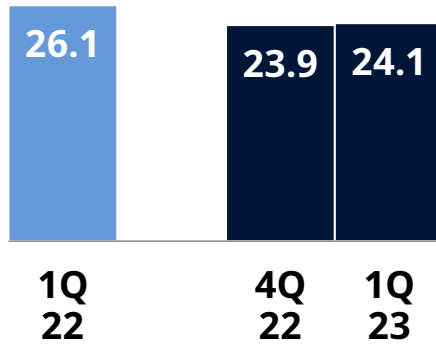
After four straight quarters of decline, Combined Market improved sequentially by 1%

Managed Services remained well above \$9B in ACV while registering its best quarter ever

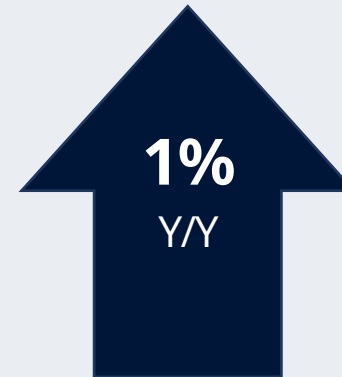
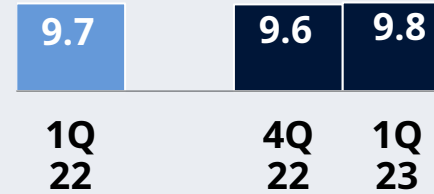
Most ever contract restructuring awards (renewals, extensions) as providers focus on pursuits with existing clients

Difficult macro negatively impacts XaaS ACV, down 13% Y/Y

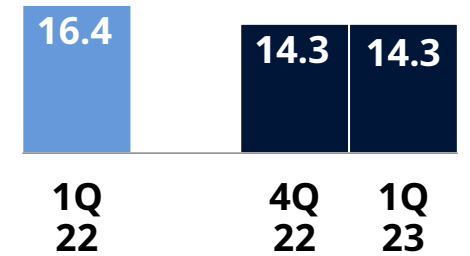
ACV \$B



Combined Market



Managed Services



As-a-Service

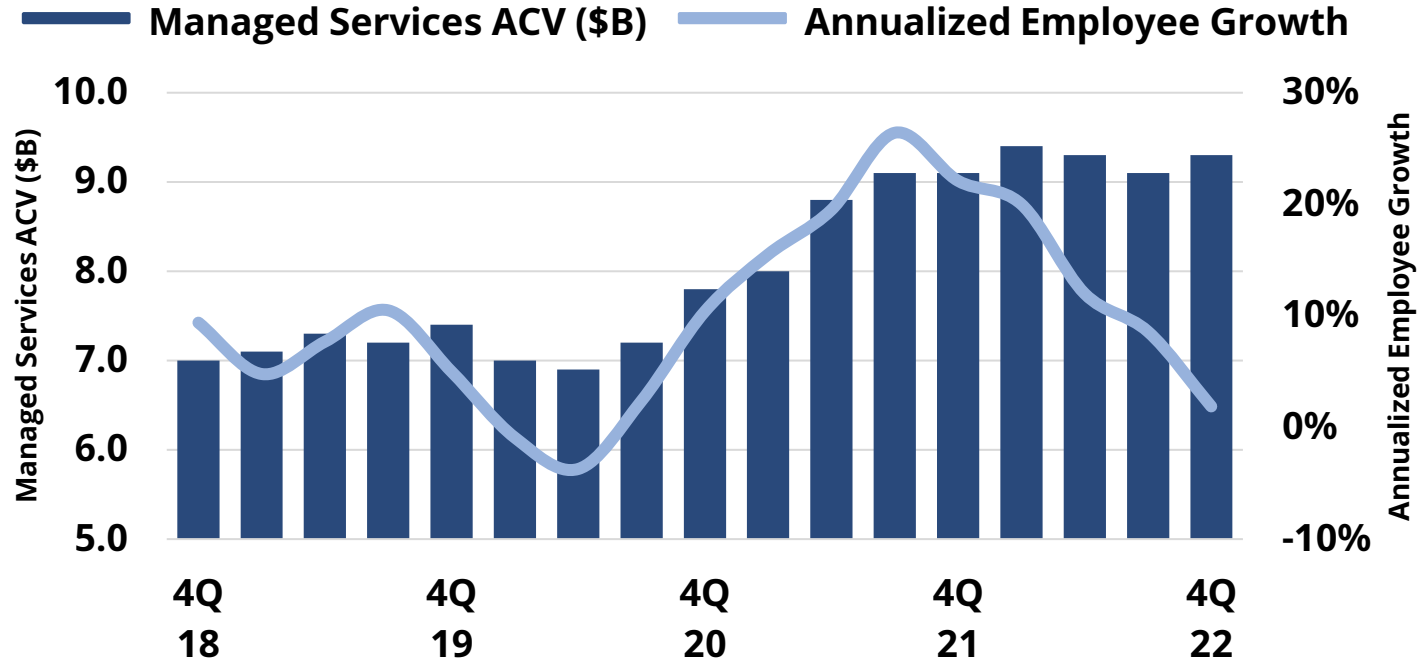
ACV = Annual Contract Value

Hiring Slows

Hiring slowdown is temporary; likely to resume in 2H23 to meet demand.

Providers are rebalancing to protect margins.

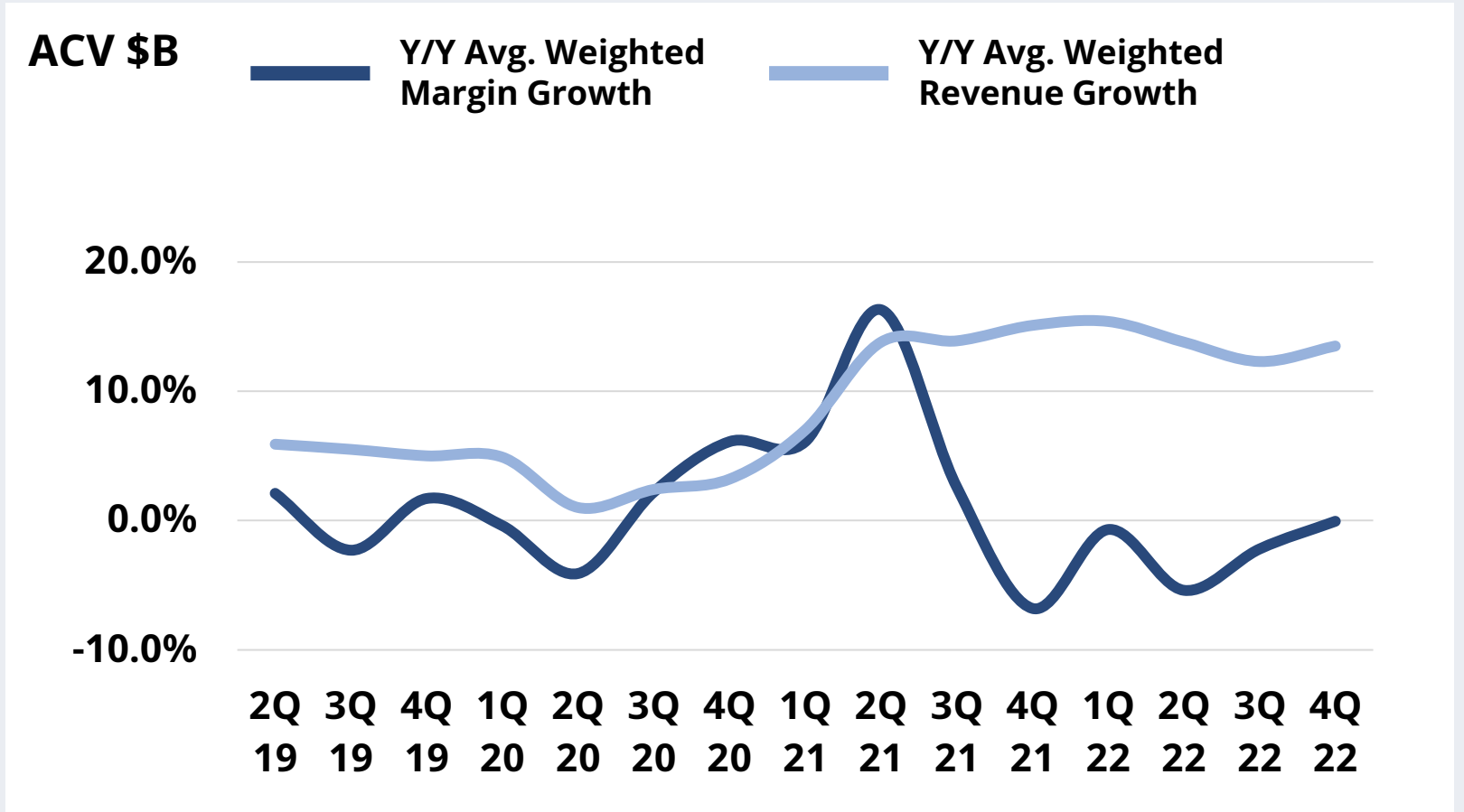
Layoffs are mainly focused on non-billable roles.



Source: ISG, 2022; Managed services awards with > \$5M Annual Contract Value (ACV); Annualized employee growth based on publicly reported data from 15 leading IT services providers

Provider Margin & Revenue Growth

- Provider revenues continue to show steady growth
- Provider margins remain under pressure
- Right-sizing activities in the market are occurring to improve margins
- Pricing increases for Apps are appearing in the market, mainly on new deals



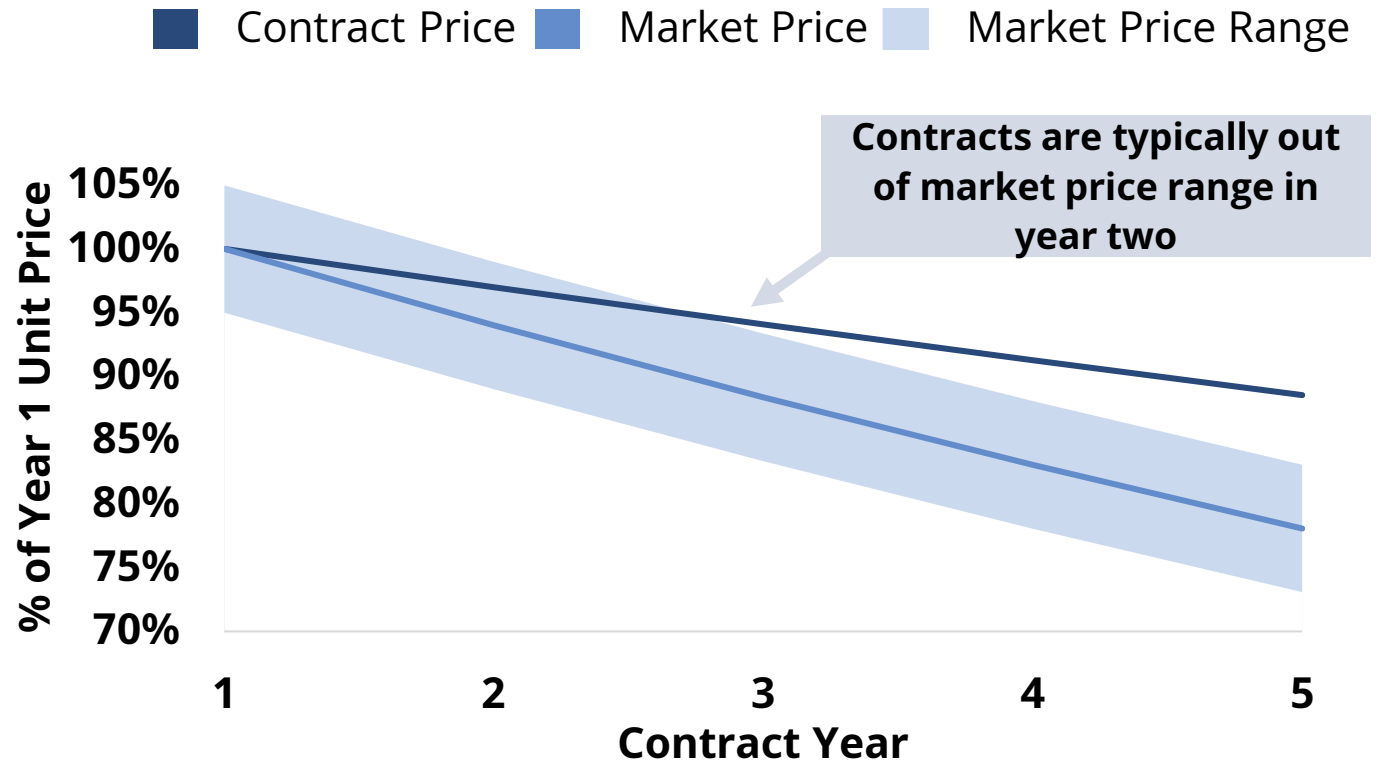
ACV = Annual Contract Value

Outsourcing Market Prices Fall Faster Than Contract Prices

ITO Managed Services pricing continues to fall annually

Most deals included Y/Y reductions but typically not in step with market declines

Data shows contracted prices are often 10% off market by year two of a deal



Source: ISG, 2023; Contracted unit price for infrastructure outsourcing awards; does not include COLA



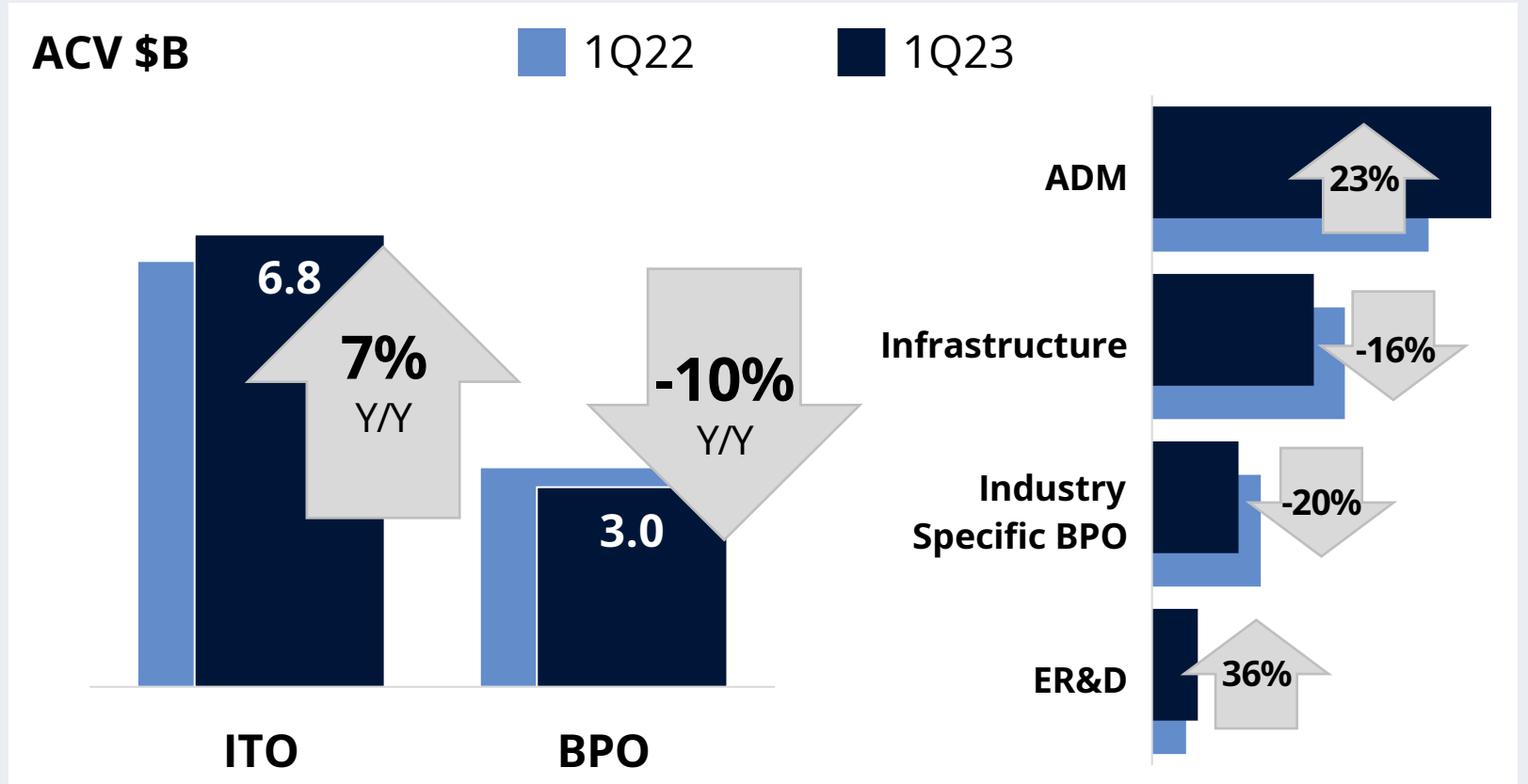
Managed Services ITO/BPO Results

Quarterly Trends

Third best quarter ever for ITO
ACV with nearly 500 transactions
awarded (most ever)

BPO saw second best quarter ever
with over \$3B in ACV; transactions
proving to be less exposed to
budgetary pressures

Industry-Specific BPO surpassed
\$1B for second time ever; ER&D up
36% on strength in Americas and
EMEA



ACV = Annual Contract Value



IaaS Results

Quarterly Trends

Second straight quarterly Y/Y decline; cloud consumption is slowing

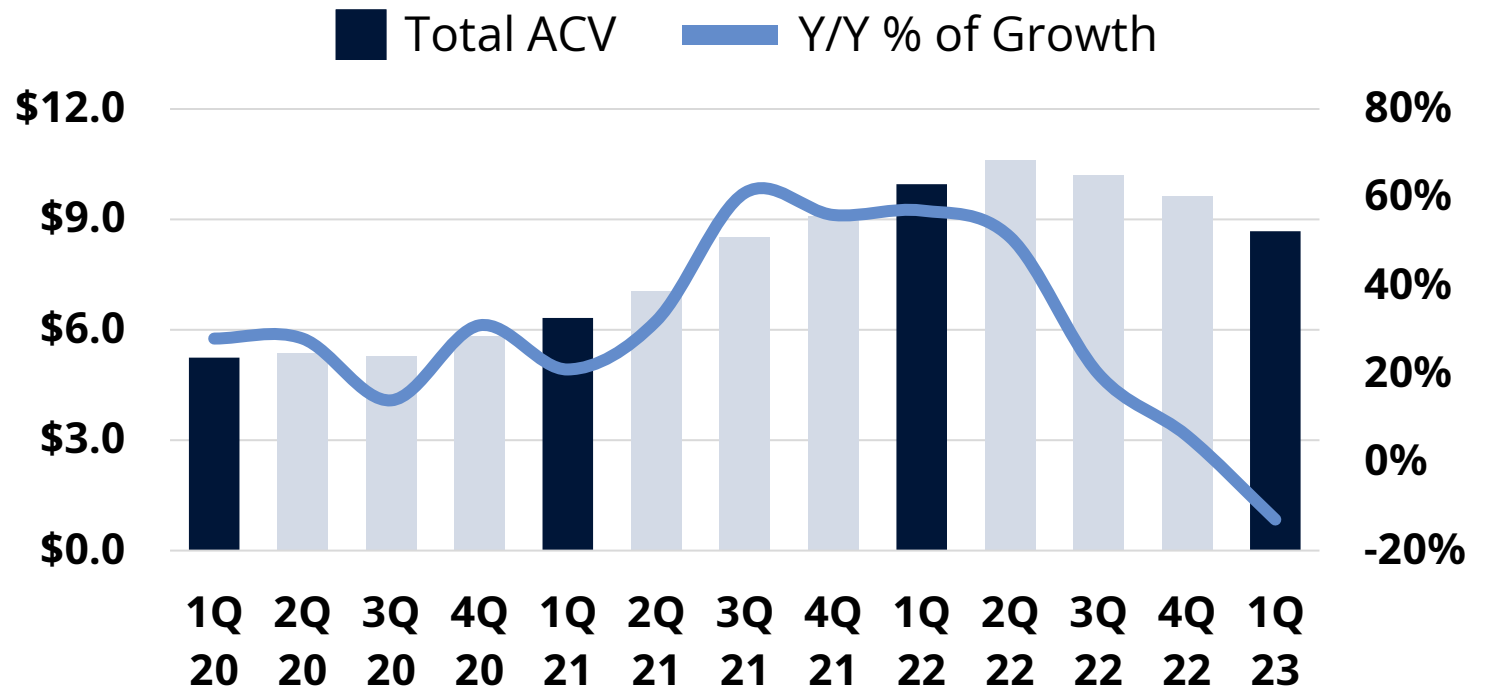
Each of the three regions posted Y/Y declines

Big 3 hyperscalers (AWS, Azure and GCP) experienced their first Y/Y decline in history, down 12%

After significant hiring during pandemic, each is undertaking right-sizing efforts (even extending to cloud units)

ACV \$B

Top 3 Hyperscaler Growth in ACV (2020 - 2023)



ACV = Annual Contract Value



SaaS Results

Quarterly Trends

SaaS ACV remained under \$4B for third straight quarter, down 4% Y/Y

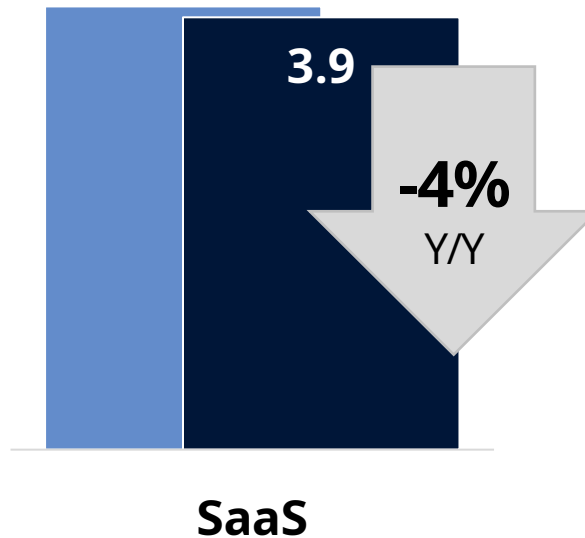
Sales cycles lengthened with enterprises looking to optimize cloud workloads

Top 10 SaaS providers reversed course and outgrew Broader Market, up 10% Y/Y; spotlights argument for platform versus best-of-breed

Stronger app categories from 2022 have turned negative

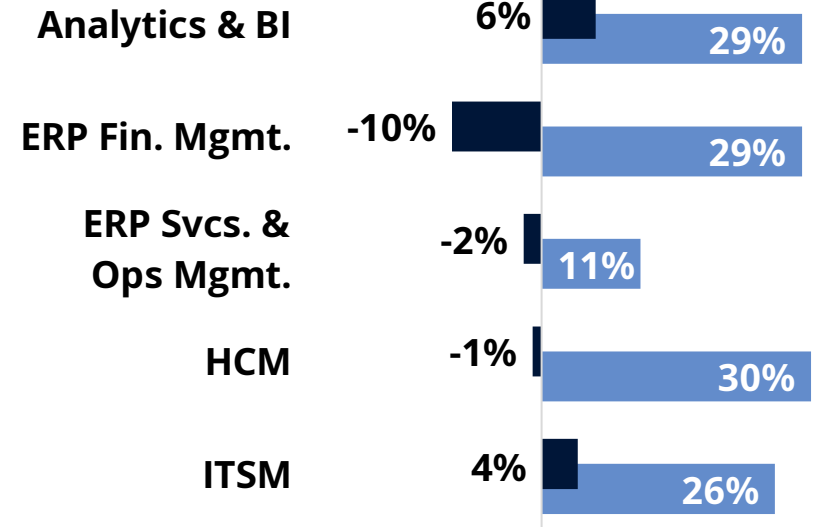
ACV \$B

■ 1Q22 ■ 1Q23



App Category ACV Growth

■ 1Q23 Y/Y ■ 5-Quarter Avg.



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



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

Managed Services Market

As-a-Service Market

	The Big 15		The Building 15		The Breakthrough 15		The Booming 15	
	Revenues > \$10B		Revenues \$3B-\$10B		Revenues \$1B-\$3B		Revenues <\$1B	
	Accenture	IBM	Amadeus	Orange Business*	EXL	TELUS International	Birlasoft*	KPIT Technologies
	Capgemini	Infosys	EPAM Systems	Sopra Steria*	Globant	Unisys	Coforge	LTTS
	Cognizant	Kyndryl	Foundever	Tech Mahindra	Mphasis	WNS*	Endava*	Mastek*
	Deloitte	TCS	Genpact	Teleperformance*	Reply SpA*		Ensono	Persistent Systems
	DXC Technology	Wipro	LTIMindtree	T-Systems			GFT Technologies*	Softtek
	HCL		Nomura Research Institute*					Sonata Software*
	Amazon Web Services	Microsoft	Equinix	ServiceNow	Atlassian	HubSpot*	21Vianet	
	Google Cloud	Oracle	Palo Alto Networks	Workday	CrowdStrike	Okta	Alteryx*	DigitalOcean
					Datadog	RingCentral*	Cloudflare	
					DocuSign	Snowflake		

* New or returning to leaderboard in 1Q23

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



Americas Broader Market Results

Quarterly Trends

Combined Market ACV flattens out sequentially after decelerating throughout 2022

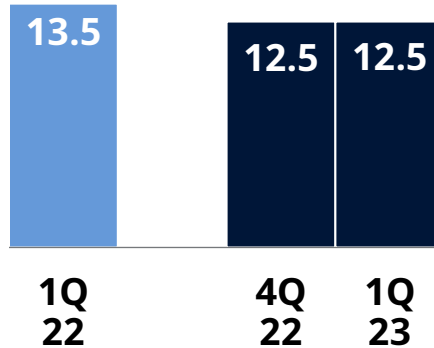
Managed Services exceeds \$5B in ACV

Six Managed Services mega-deals awarded

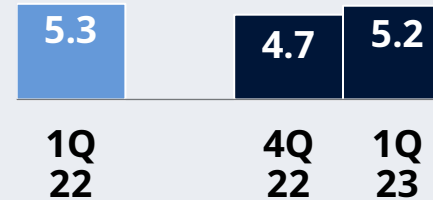
Strength across the board in New Scope and Restructurings

XaaS has fallen sequentially over the past four quarters; the rate of decline is accelerating

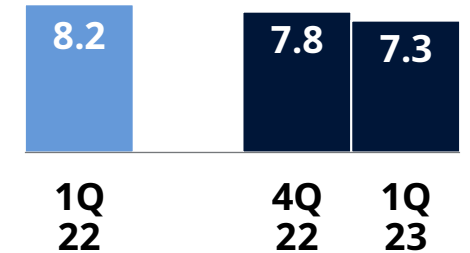
ACV \$B



Combined Market



Managed Services



As-a-Service

ACV = Annual Contract Value



EMEA Broader Market Results

Quarterly Trends

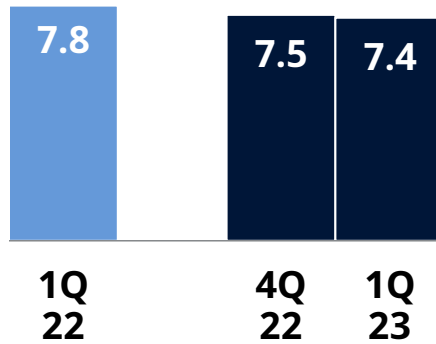
Combined Market remained in a very tight range around \$7.5B

Managed Services down slightly Y/Y yet has not dipped below \$3.5B in ACV since end of 2020

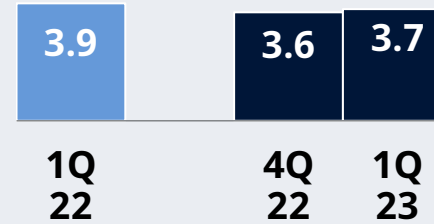
U.K. ACV generates \$1B+; France, Benelux and Nordics up significantly Y/Y; DACH down 22%

XaaS pulls back 6% Y/Y; only second time ever with a Y/Y decline

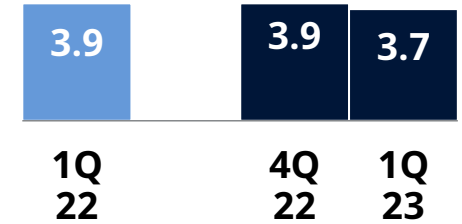
ACV \$B



Combined Market



Managed Services



As-a-Service

ACV = Annual Contract Value



Asia Pacific Broader Market Results

Quarterly Trends

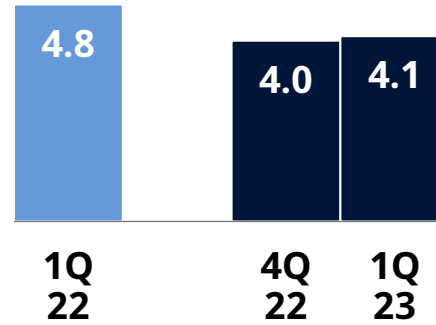
Asia Pacific Combined Market remains above \$4B, breaking four straight quarters of sequential decline

Managed Services ACV surpasses \$800M level, up significantly Y/Y

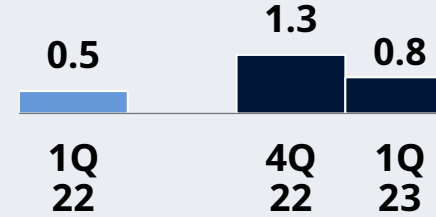
ANZ and India off to a fast start, both up over 30% Y/Y

XaaS remains underwater with a 23% Y/Y decline, but metrics are improving as China reopens and government regulation eases

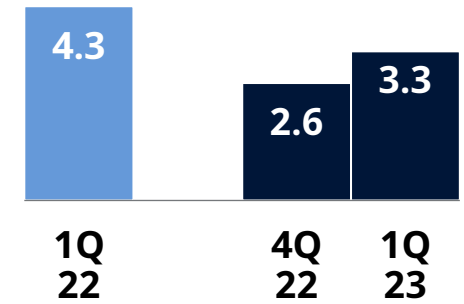
ACV \$B



Combined Market



Managed Services



As-a-Service

ACV = Annual Contract Value



Global Technology Services Industry Award Trends

TTM ACV Change Y/Y	Business Services	Retail & Consumer Packaged Goods	Energy	Financial Services	Healthcare & Pharma	Manufacturing	Telecom & Media	Travel, Transport Leisure
Combined Market	-9%	-1%	21%	3%	8%	12%	-13%	3%
Managed Services	3%	-16%	24%	-2%	7%	13%	-2%	-12%
As-a-Service	-13%	5%	18%	10%	8%	11%	-20%	13%

Summary and Outlook

Summary

Managed Services

- Bookings remained strong, establishing a record high for a quarterly performance; focus on growing existing business
- Foundational shift ongoing with ADM at elevated levels while Legacy Infrastructure continued uneven performance
- BPO continued to outperform with stellar results in ER&D and Industry-Specific BPO

XaaS

- SaaS weakened Y/Y; stronger areas from 2022 beginning to deteriorate in 1Q23 (ERP, HCM, ITSM); Top 10 SaaS providers outperformed Broader Market, giving rise to argument of platform versus best-of-breed solutions
- Big 3 hyperscalers weaken amidst worsening macro; as a group, ACV turned negative Y/Y for the first time

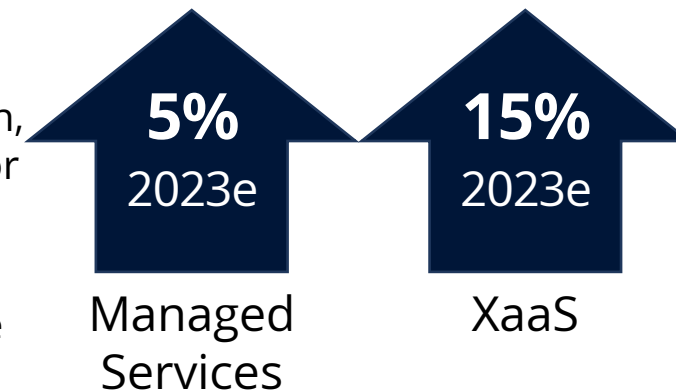
Market Outlook

Macro Recap

- Central Banks continue to tighten with a more dovish tone
- Inflation falling but not as fast as Central Banks would like
- Europe fared better than expected with a warm winter
- China reopened, regulations easing; supply chains improving
- Hiring is stabilizing; likely to resume in 2H23
- Banking crisis in mid-March weighs on outlook

Forecast

- Enterprises receptive to Managed Services deals featuring cost optimization, efficiency gains and vendor consolidation
- XaaS firms downgrading growth expectations while looking to manage cost structures



Thank you!

The 82nd 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 900 clients, including more than 75 of the world's top 100 enterprises, 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 1,600 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. For more information, visit www.isg-one.com.

isg-one.com