Managed Services & As-a-Service Market Insights

July 13, 2022

HOSTED BY

Apurva Prasad
Vice President & Research Analyst
(IT Sector)

HDFC Securities

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Welcome to the 79th Quarterly

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

Steve Hall
Partner & President

Kathy Rudy
Chief Data & Analytics Officer

Stanton Jones
Distinguished Analyst

Namratha Dharshan
Director of Research & Principal Analyst

Bernie Hoecker
Partner, Enterprise Cloud Transformation Leader

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2Q22: Three Big Thoughts

1. Contracting activity remains strong, with ADM, engineering and industry-specific BPO leading the way.

2. Labor markets remain tight; however, attrition is beginning to stabilize as record numbers of hires come online.

3. FX will continue to be a headwind as global economic conditions impact reported revenue numbers.
Quarterly Trends

Combined Market Y/Y growth up nearly 9% but with evidence of slowing contracting activity on a sequential basis.

For fifth straight quarter, Managed Services ACV awards exceeded $8B.

After breaking through $15B for the first time in 1Q22, XaaS ACV fell back in $14B range and was down 11% sequentially.

Global Broader Market Results

ACV $B

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ACV = Annual Contract Value

19% 1H22 YTD

8% 1H22 YTD

27% 1H22 YTD

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Attrition Trends

Key Trends
Demand for services is high, and a supply imbalance persists

Macroeconomic factors, hiring innovation, retention strategies and a slowdown in startup hiring are stabilizing attrition

The "Great Reshuffle" will put pressure on providers to scale their unique value proposition

Percentage of IT Services Workforce Hired Within the Last 12 Months

Over 40% of IT services workforce was hired within the last 12 months

Source: ISG, 2022; Analysis of 18 leading IT service providers
# Q2 Pricing Trends

<table>
<thead>
<tr>
<th>Managed Services</th>
<th>T&amp;M / Project Work</th>
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</thead>
<tbody>
<tr>
<td>Automation, pyramid staffing and reshuffling of off-shore locations are holding pricing steady</td>
<td>Retention is having an impact on pricing overall, particularly in India. Premium skills are commanding higher rates</td>
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<tr>
<td>Competition for commodity-based services supports steady or continued Y/Y reductions</td>
<td>COLA clauses are key in deals based on hourly or team-based rate cards</td>
</tr>
<tr>
<td>Renewals focused on right-sizing scope and services model help drive margin retention</td>
<td>Outcome-based pricing focused on mutual success in revenue, margin and customer satisfaction is gaining market support</td>
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</table>
Half-Year Trends

Second-best 1H ever for ITO ACV, down 6.5% YTD

Slight gains in ADM ACV could not make up for sizable decline in legacy infrastructure

BPO Market had its best 1H ever as Americas and EMEA both surpassed 55% YTD growth

Functional areas such as Industry-Specific BPO and ER&D achieved 1H record highs

ACV – Annual Contract Value

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**Half-Year Trends**

Even with a slowing 2Q, IaaS was up 30% YTD in 1H22

The Americas and EMEA posted excellent YTD IaaS growth, but Asia fell back on sluggish results in China

Big 3 hyperscalers (AWS, Azure and GCP) supported market growth, up 50%+ YTD

SaaS segment up 20% YTD but top 10 providers seeing share losses from 50% in 2019 to 44% in 1H22

**ACV $B**

- **1H21**
  - IaaS: 22.1
  - SaaS: 7.8

- **1H22**
  - IaaS: 30% 1H YTD Growth
  - SaaS: 20% 1H YTD Growth

**1H IaaS ACV Growth**

- Big Three Hyperscaler ACV
- Rest of IaaS Market ACV

**ACV** = Annual Contract Value
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.
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.

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<thead>
<tr>
<th>The Big 15</th>
<th>The Building 15</th>
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<th>The Booming 15</th>
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<tr>
<td>Revenues &gt; $10B</td>
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<td>Tech Mahindra</td>
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<td>T-Systems</td>
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* New or returning to leaderboard in 2Q22
†Provider moved tiers since previous quarter

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

Providers leveraged M&A to offset high sustained demand along with elevated attrition.

Even with record high activity in 2021, M&A activity for IT Services down less than 7% in 1H22.

Capital is readily available, and corporate balance sheets are flush with cash.

Providers aggressively thinking through business structures and what they want to be 3-5 years out.

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**Source:** ISG, 2022; Analysis of top 50 IT Services in ISG coverage
Americas Combined Market ACV remained above $12B with Y/Y ACV up 20%

Managed Services had fifth straight quarter over $4B, flat Y/Y but down sequentially

XaaS ACV surpassed $8B for the first time ever; 36% Y/Y growth but slowing sequentially, up 2% Q/Q

Americas Broader Market Results

Quarterly Trends

ACV $B

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Combined Market: 29% 1H22 YTD
Managed Services: 11% 1H22 YTD
As-a-Service: 42% 1H22 YTD

ACV = Annual Contract Value

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Quarterly Trends

EMEA Combined Market surpass $7B for third straight quarter, up 18% Y/Y

EMEA Managed Services segment was one of the few pockets that saw ACV growth both Y/Y and Q/Q

U.K. generated its third straight $1B quarter and fourth in the past five quarters

EMEA Combined Market

Combined Market

ACV $B

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<td>6.5</td>
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20% 1H22 YTD

EMEA Managed Services

Managed Services

ACV $B

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<td>2021</td>
<td>3.5</td>
<td>3.8</td>
<td>3.9</td>
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8% 1H22 YTD

EMEA As-a-Service

As-a-Service

ACV $B

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35% 1H22 YTD

ACV – Annual Contract Value

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Quarterly Trends

Combined Market declined 33% Y/Y and fell back to 2020 levels.

Managed Services ACV exceeded $800M for the third time in five quarters; India and the SE Asia markets were up markedly Y/Y.

XaaS ACV lowest level since 3Q20 as Chinese hyperscalers were pulled lower by regulation and COVID shutdowns.

Asia Pacific Broader Market Results

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### Global Technology Services Industry Award Trends

#### 1H22 YTD Growth

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Special Topic – Cloud

Bernie Hoecker
Partner, Enterprise Cloud Transformation Leader

“Accelerating toward a Secure, Intelligent, Connected Enterprise (SICE).”
Massive Cloud ACV Growth

Cloud Trends

Migrations to the cloud have accelerated over the last 6 years

Enterprises are betting on the cloud to unleash innovation, agility, efficiency and lower costs

Data center ACV will continue to decline

Outsourcing models will evolve to multi/hybrid cloud estates and As-a-Service business models

ACV – Annual Contract Value
Big Three Challenges

Enterprise Challenges

Appropriate enterprise insights tailored to the vertical industry they serve. Applications must be optimized by industry.

Cloud Acceleration

Accelerate workloads moving to cloud – too many framework agreements with organizational blockers impacting cloud adoption.

Multi/Hybrid Clouds

Multi or hybrid cloud environments that require cloud management platforms and SIs to support migration and on-going operations.
ISG’s POV on the Microsoft Azure Ecosystem

Provider Tiers

Leaders represent innovative strength and competitive stability to set the pace in the market

Product Challengers offer a portfolio of capabilities that reflect strong service and technology stacks

Market Challengers have a strong presence in the market and often major in a specific region or vertical market
What Does This Mean for the IT Services Ecosystem?

Cloud continues to be a critical enabler of innovation, agility, speed and advanced technologies to drive a competitive and healthy enterprise.

Cloud models are in their infancy, and a thorough and comprehensive multi-year cloud strategy is an imperative for every enterprise.
Summary and Outlook

### Summary

**Managed Services**
- In the first half of 2022, Managed Services is up 8% in the 1H
- Rotation into new tech areas are supporting market growth
- ITO declined 6.5% in the 1H and is weighed down by a 15.5% 1H decline in legacy infrastructure ACV
- BPO growth is coming off of pandemic lows supported by Industry-Specific BPO, ER&D and Digital CX

**XaaS**
- SaaS ACV is up 20% in 1H, but the past four quarters have remained in a very tight range with no clear upside
- China hyperscalers weighed on IaaS ACV results as the segment posted the lowest ACV in four quarters

### Market Outlook

**Macro Risks**
- Liquidity slowdown in a rising interest rate environment
- Supply chains remain under duress
- Fragile situation in Europe due to Russia-Ukraine conflict
- COVID lockdowns, regulatory environment in China
- FX exposure/inflationary concerns

**Managed Services/XaaS Forecast**
- Sustained enterprise demand
- Value placed on profitable growth
- Market technicals will be challenging

- **Managed Services**
  - 3.5% 2022e

- **XaaS**
  - 18% 2022e
Thank you!
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