IT & Business Services Industry Update

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HOSTED BY

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ISG Index™

2Q 2024

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Market Level Set

1. Industry is in a low single-digit growth environment.
2. Provider margins continue to be under pressure.
3. Attrition is stable, but hiring has slowed considerably.
4. Muted Managed Services bookings growth; cloud growth returning.
5. Growth in AI project work may be masking underlying market weakness.

Global Broader Market

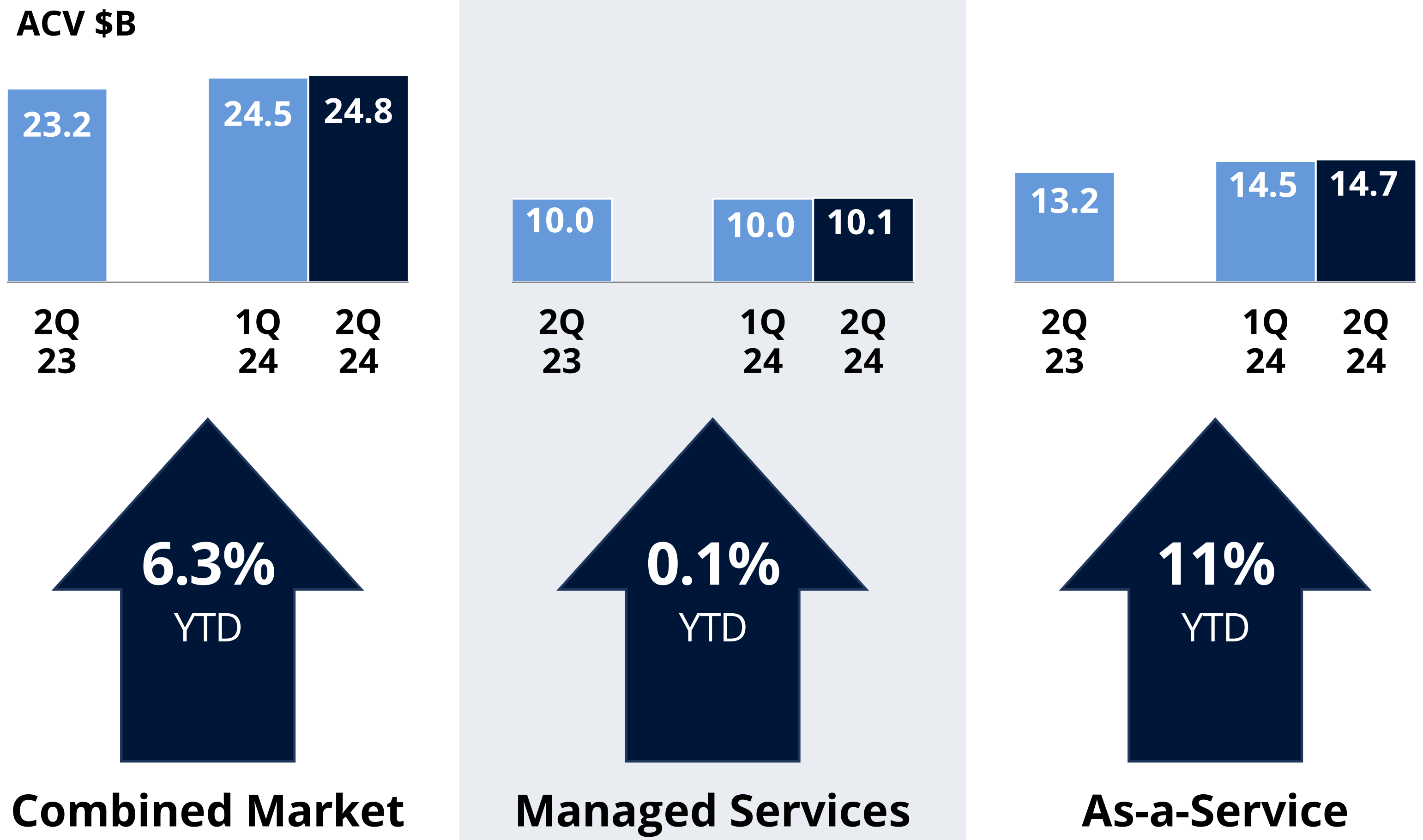
Quarterly Trends

Best quarterly ACV for the Combined Market since 2Q22

Managed Services ACV > $10B for seventh straight quarter

Managed Services ACV up Y/Y 14 of past 16 quarters

XaaS up by double digits Y/Y for the second consecutive quarter



ACV = Annual Contract Value

Managed Services ITO Results

YTD Trends

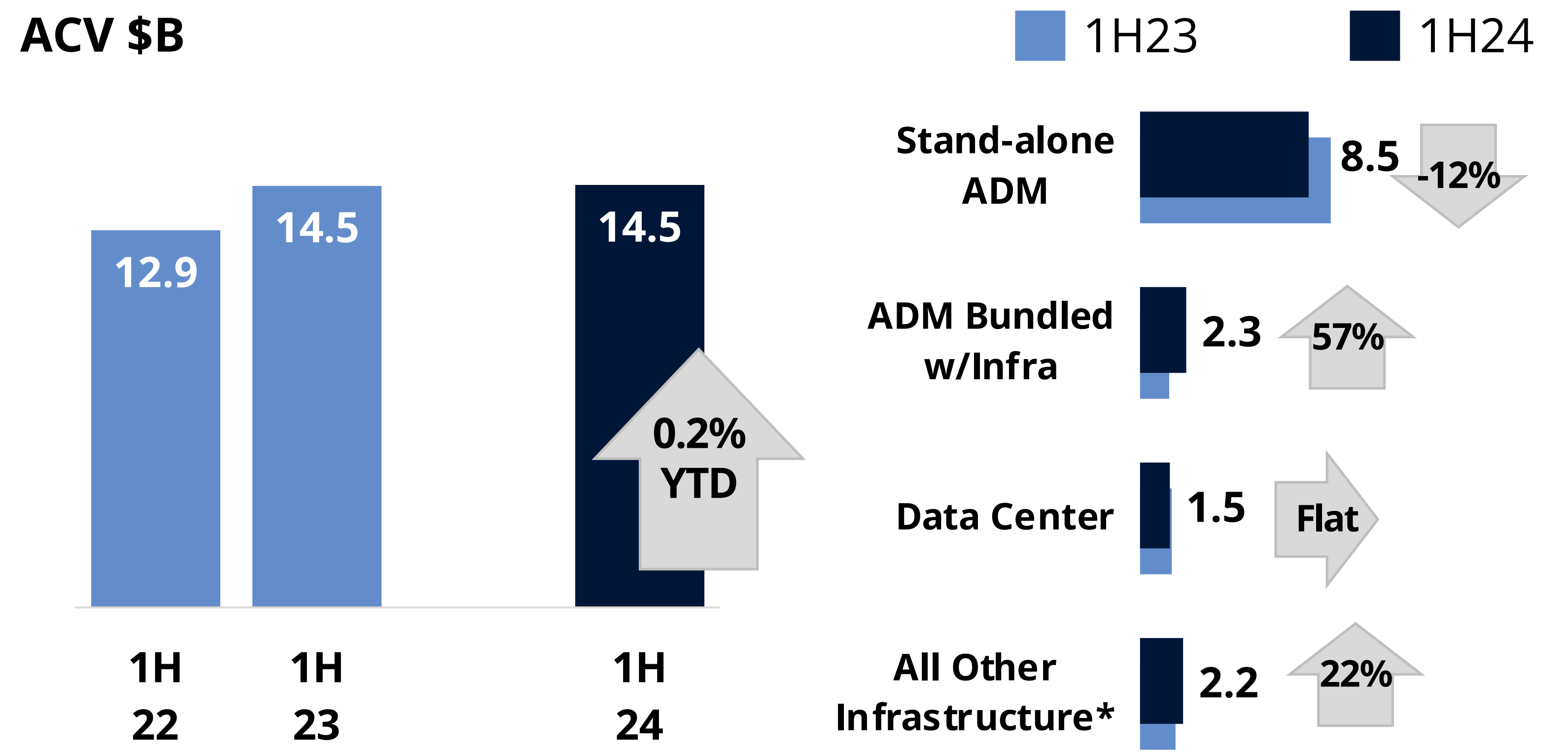
ITO market up slightly at 0.2% YTD

Asia, up 5% YTD, registers second best ever performance; EMEA flat, while Americas down slightly

ADM ACV falls 12% versus difficult comps, slowing across all three regions

Applications bundled with Infrastructure up significantly, 57%

Data center delivered a $1B quarter for the first time in ten years.



*Includes Workplace, Network, and Multi-tower

ACV = Annual Contract Value

Managed Services BPO Results

YTD Trends

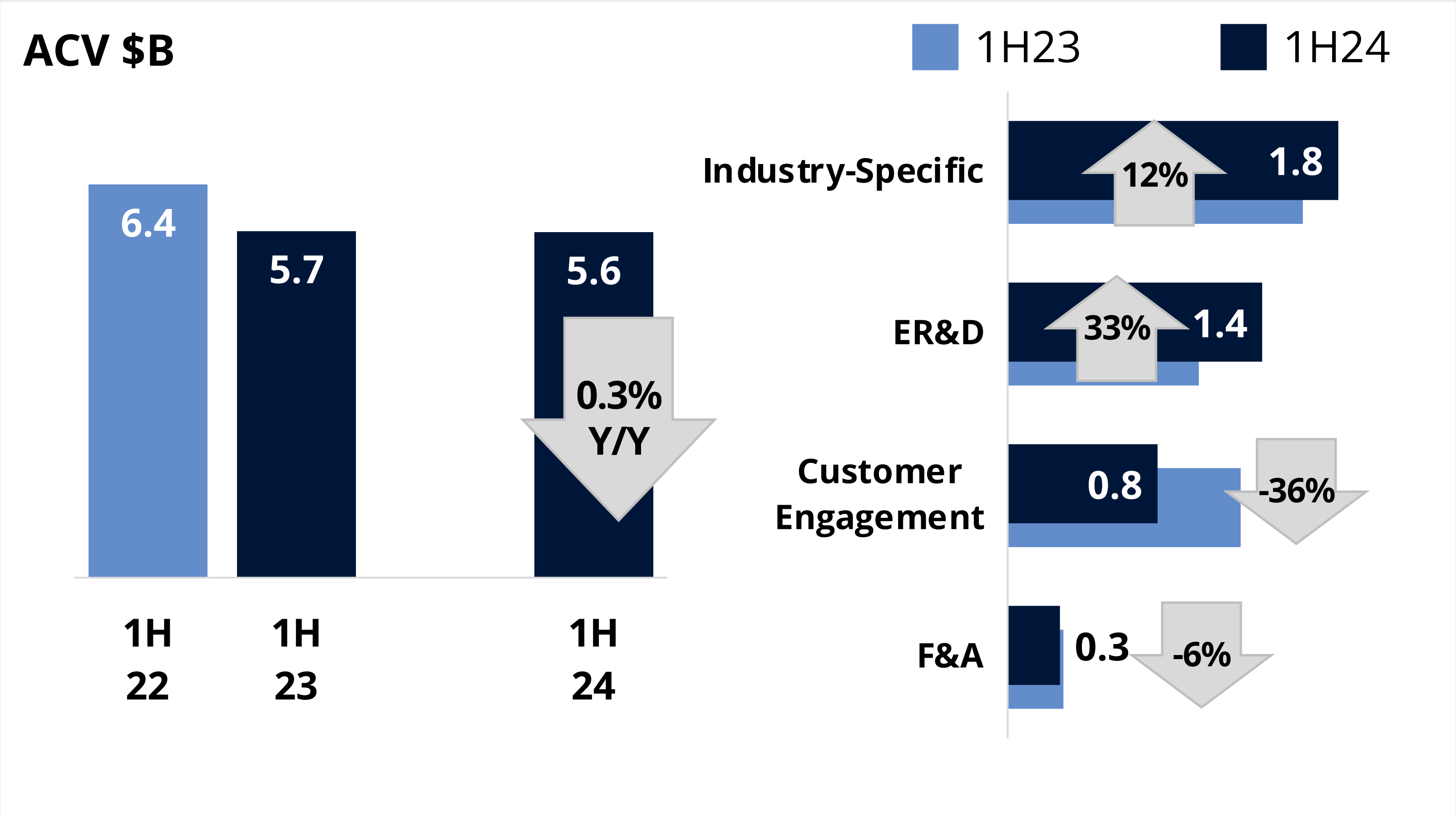
BPO ACV down slightly versus 1H23 and moderately against 1H22

Americas (54% BPO share) down 6% while EMEA (32% share) down 12% YTD

Industry-Specific BPO up 12% YTD but still well behind 1H22 highs

ER&D has best first half ever with gains across Americas and Asia

Most other functional areas lag YTD



ACV = Annual Contract Value

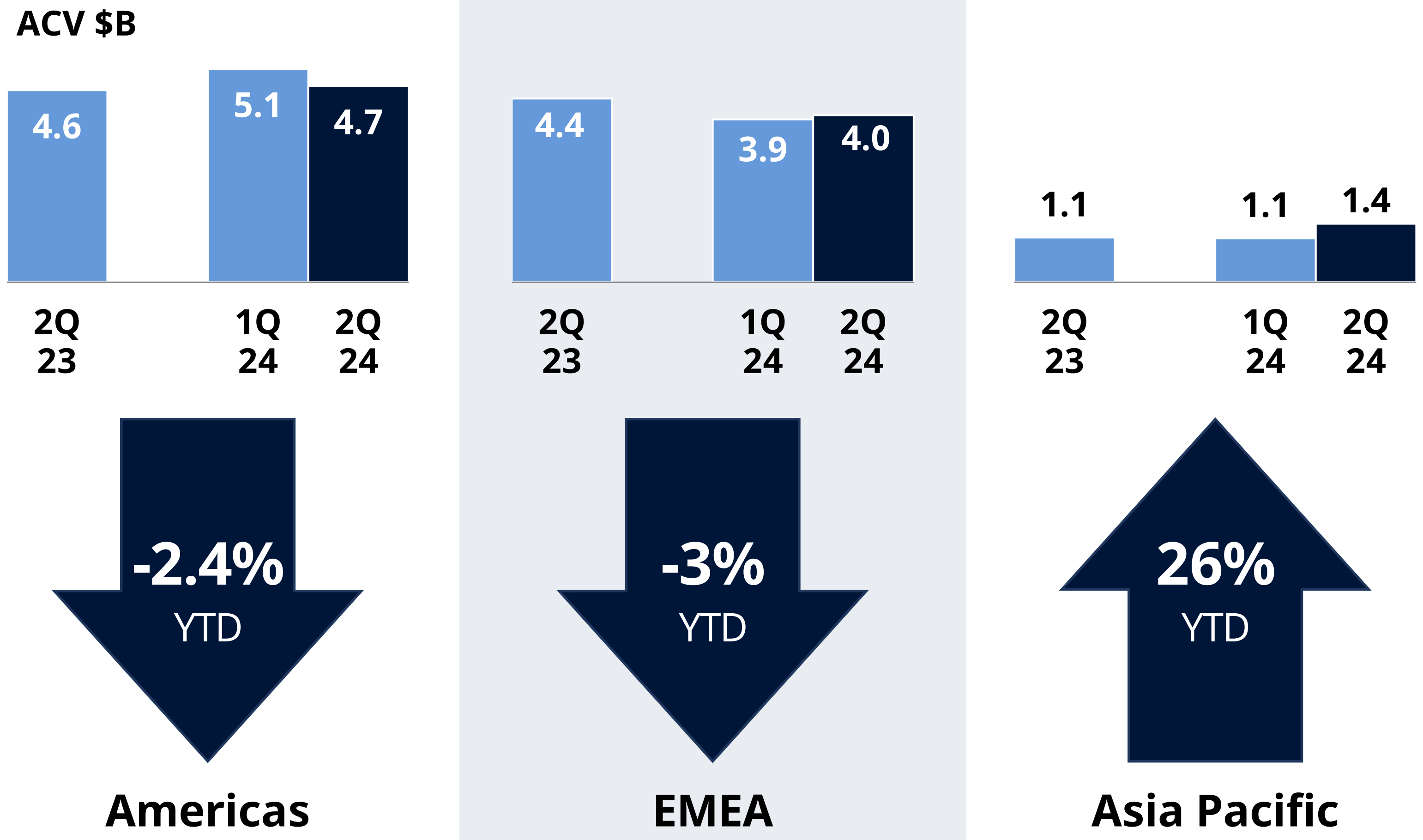
Managed Services Regional Results

Quarterly Trends

Americas: Up 3% Y/Y on softer comps; continued weakness in BFSI (down 18% Y/Y)

EMEA: Down 8% Y/Y despite strength in DACH (up 20% Y/Y); sixth consecutive $1B+ quarter in U.K. (although down 13% Y/Y)

Asia Pacific: Up 30+% against strong comps; second-best quarter ever for Asia ACV as emerging markets (China, Japan, South Korea) outperform



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	10%	12%	-7%	-1%	4%	6%	24%	11%
Managed Services	-4%	13%	-19%	-11%	-2%	6%	31%	11%
As-a-Service	15%	12%	11%	11%	8%	6%	18%	11%

As-a-Service Results

YTD Trends

IaaS

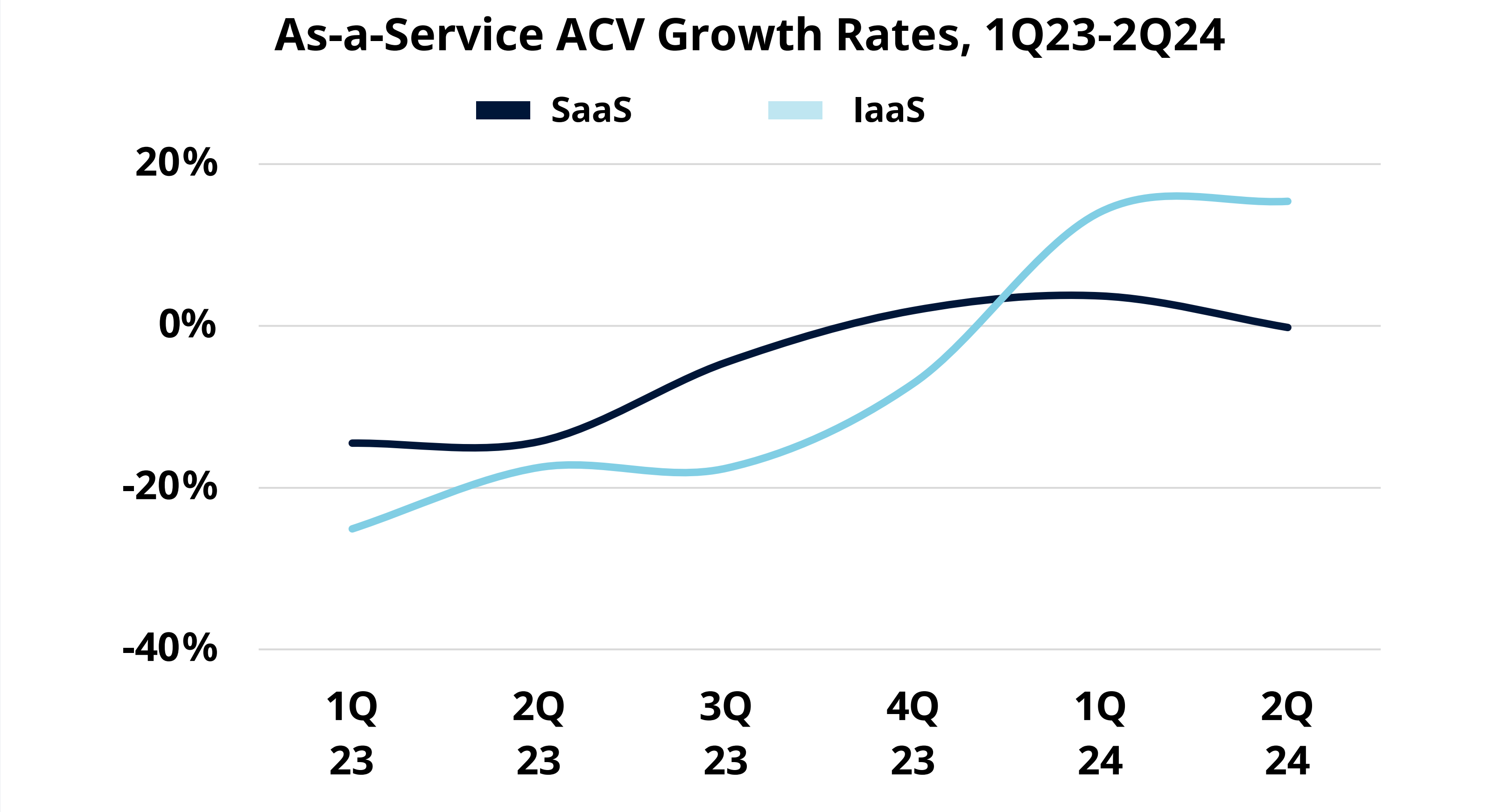
IaaS ACV up 15% yet still down 10% versus 1H22 highs

AI acting as a catalyst for growth

SaaS

SaaS ACV up slightly YTD at 1.7%

Efficiencies from AI impacting providers differently



Barriers to Adopting AI-Enabled Software

Workplace Productivity

Budget required for Google Workspace & Microsoft 365 pricing

Resources needed for governance and enrichment of information

Substantive use-cases and demonstrations to provide workforce guidance for adoption

Business Applications

Using GenAI assistants like Salesforce Einstein 1 & SAP Joule require a clean foundation

Budget has not been established for GenAI, which has significant TCO

Skilled resources needed to transform app platform to be AI-ready

AI Platforms

Additional data investments needed to support developer AI platforms

Specialized skills across teams required to build AI into processes and systems

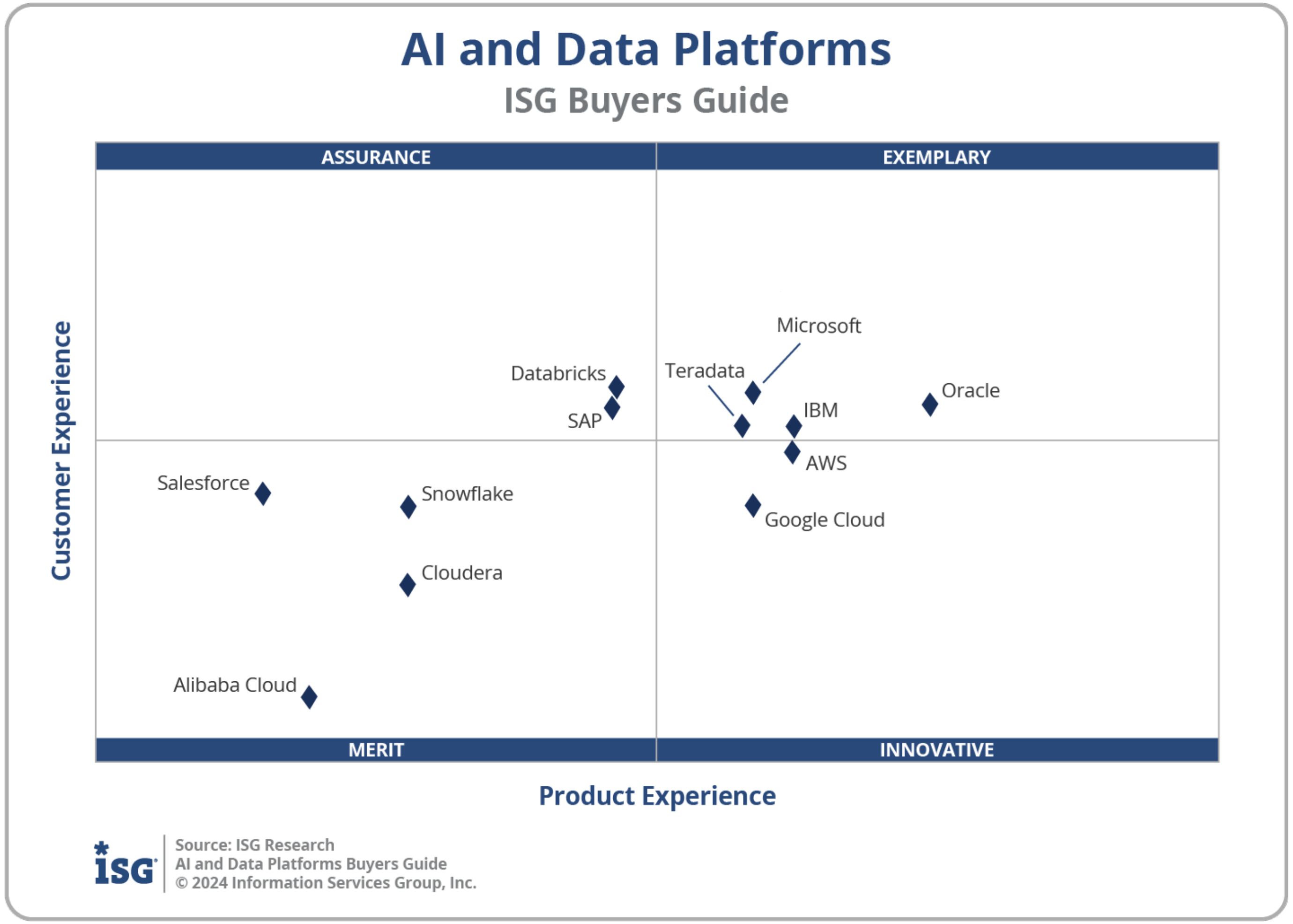
Integrated operations needed for AI and data platforms with cloud platforms

Source: ISG Software Research

Transformation of AI Platforms

Cloud-Based AI & Data Platforms

- AI and Data platforms in cloud are transforming to be more interoperable
- Buyers Guide research finds unified AI and Data platforms have advanced significantly
- Simplification of AI and Data services are blending across cloud providers



Source: ISG Software Research

Generative AI - Advanced Analytics

Key Trends

Most AI deployments remain in proof-of-concept stage

AI should remain in nascent stage until GenAI accounts for 10% share of overall revenues

AI boom is masking underlying weakness in the IT Services market

AI-related projects are adding ~250 basis points to annual revenue growth rates

Service Provider	# of AI-Related Projects TTM Booking	TTM Growth Based on # of Projects
Accenture	2,250	67%
IBM	1,000	100%
CGI	575	53%
Cognizant	450	80%
Capgemini	400	33%
TCS	300	20%
Teleperformance	250	0%
NTT Data	200	100%
Infosys	200	NA
Samsung SDS	200	NA

Source: ISG analysis of public company earnings & commentary

61%
TTM Growth vs. Prior Quarter

2.5%
Average AI % of Total Revenue

3.2%
Top 10 TTM Total Revenue Growth

0.7%
Top 10 TTM Total Revenue Growth EX-AI

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™ 2Q24

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	Bechtle* BT Concentrix Foundever Genpact JLL* LTIMindtree Palo Alto Networks Sopra Steria Tech Mahindra Teleperformance* T-Systems	Cancom* Coforge Crowdstrike* EXL Globant* LTTS Mphasis Persistent WNS	adesso Birlasoft Endava Ensono KPIT Technologies Mastek Netcompany Softtek Sonata Software* Tata Technologies Zensar
As-a-Service Market	Amazon Web Services Google Microsoft Oracle	Equinix Iron Mountain* ServiceNow	Atlassian Datadog Hubspot Okta Shopify* Snowflake	DigitalOcean IFS AB* OVH Xero*

* 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 sector has underperformed expectations, flat YTD
- Asia has generated two $1B+ quarters offsetting weakness in Americas and EMEA
- Transactions featuring ADM bundled with Infrastructure have partially displaced smaller stand-alone ADM awards
- Lag effect of Central Bank rate hikes in 2023 continues to negatively impact BFSI

XaaS

- XaaS and SaaS markets moving in different directions, with AI being a contributing factor
- While AI is in early stages, hyperscalers experiencing a growing contribution from AI-related revenues
- SaaS remains challenged, with AI crowding investments in certain segments of software budgets, specifically horizontal applications that are seat-based

Market Outlook

Macro Recap

- Interest rates continue to lend uncertainty to corporate spending
- Fed wants to see a series of softer inflation reports before having the confidence to lower rates
- Focus on macro themes

Revenue Forecast

- Managed Service forecast was lowered 100 basis points for the year given the ongoing uncertainty in the broader market.
- XaaS lowered 100 BPS despite strong AI growth

2%
2024e
Managed Services

14%
2024e
XaaS

Thank you!

The 87th Quarterly
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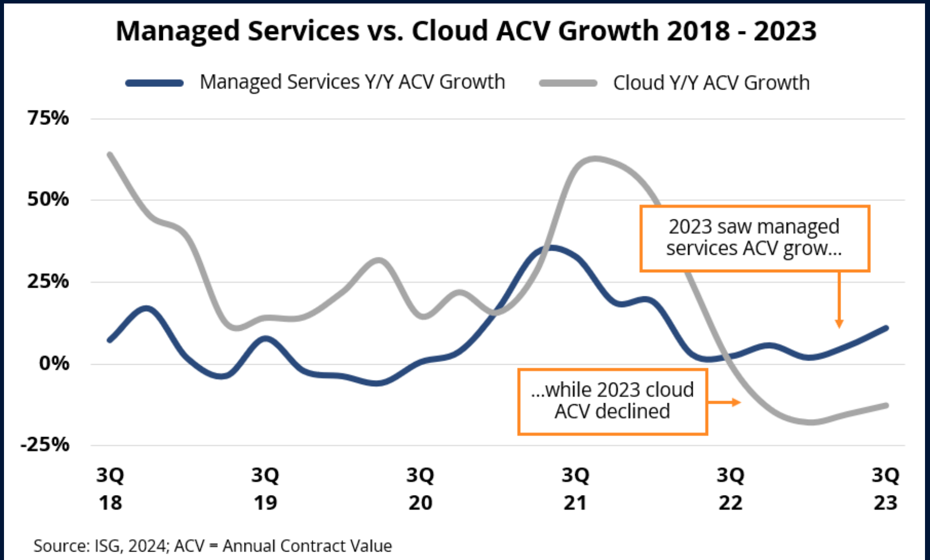

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Appendix

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Americas Broader Market Results

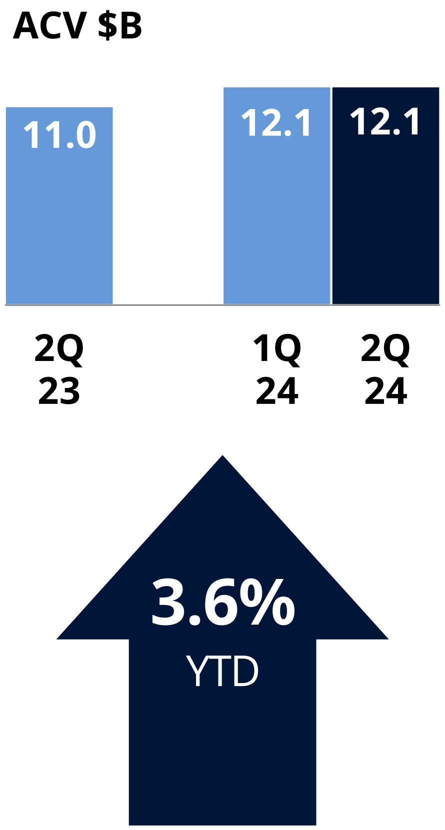
Quarterly Trends

Combined Market surges 10% Y/Y, reversing a five straight quarter decline

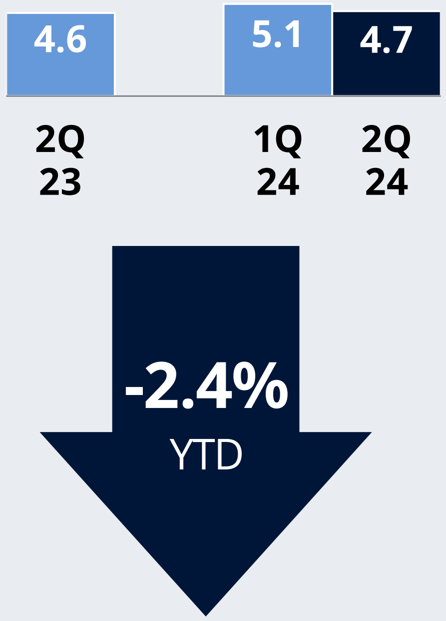
Managed Services up 3% Y/Y on softer comps; continued weakness in BFSI (down 18% Y/Y)

Smaller deals under $20M in ACV continue to pull back, down 10.5% Y/Y

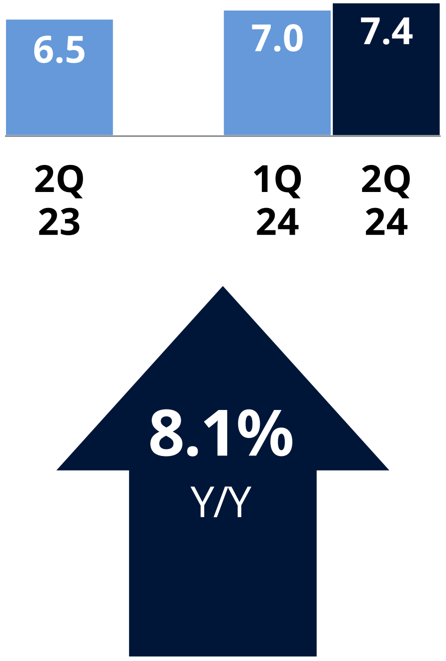
XaaS posts ACV of $7.4B, exceeding $7B for first time since 4Q22



Combined Market



Managed Services



As-a-Service

ACV = Annual Contract Value

Service & Technology Provider Standouts – Americas

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As-a-Service Market	Amazon Web Services Google	Microsoft Oracle	Digital Realty Equinix Iron Mountain	Palo Alto Networks ServiceNow	Atlassian Datadog HubSpot	Okta Shopify* Snowflake	Appfolio* Cornerstone OnDemand*	DigitalOcean TOTVS*

* New or returning to leaderboard in quarter †Provider changed group

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EMEA
Broader Market Results

Quarterly Trends

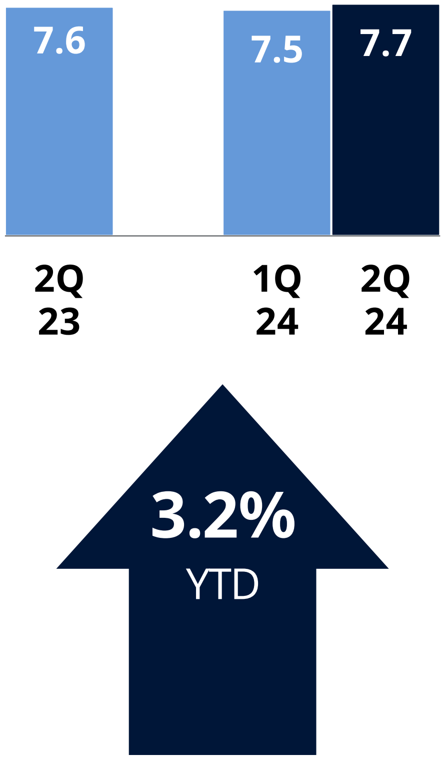
$7.7B in Combined Market ACV is the second-best ever

Although Managed Services is down 8% Y/Y against a difficult comp, ACV surpasses $4B for only fifth time ever

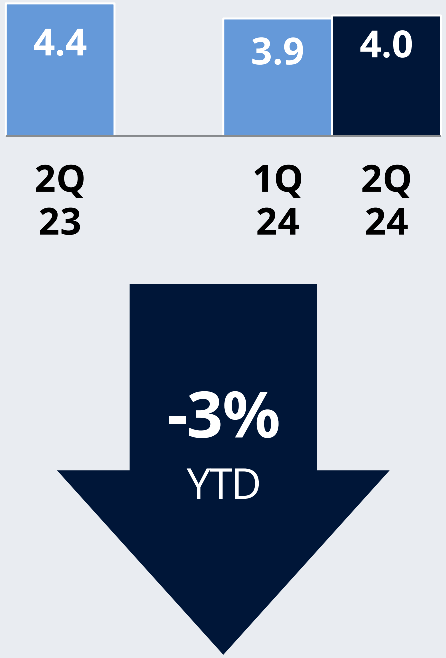
U.K. posts its sixth consecutive $1B+ quarter for Managed Services, yet it is down 13% Y/Y

XaaS ACV up 14% Y/Y, accelerating for second straight quarter

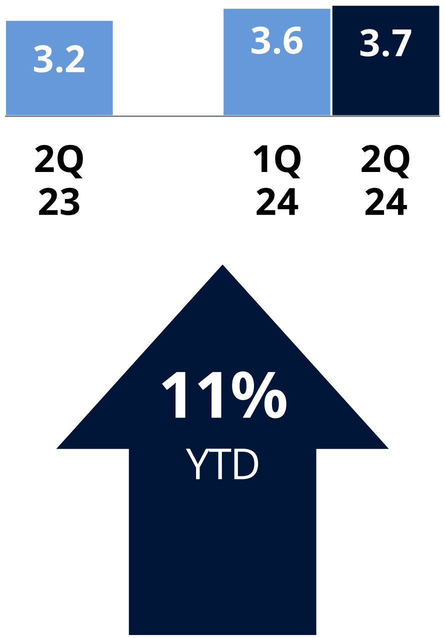
ACV $B



Combined Market



Managed Services



As-a-Service

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Service & Technology Provider Standouts – EMEA

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Asia Pacific Broader Market Results

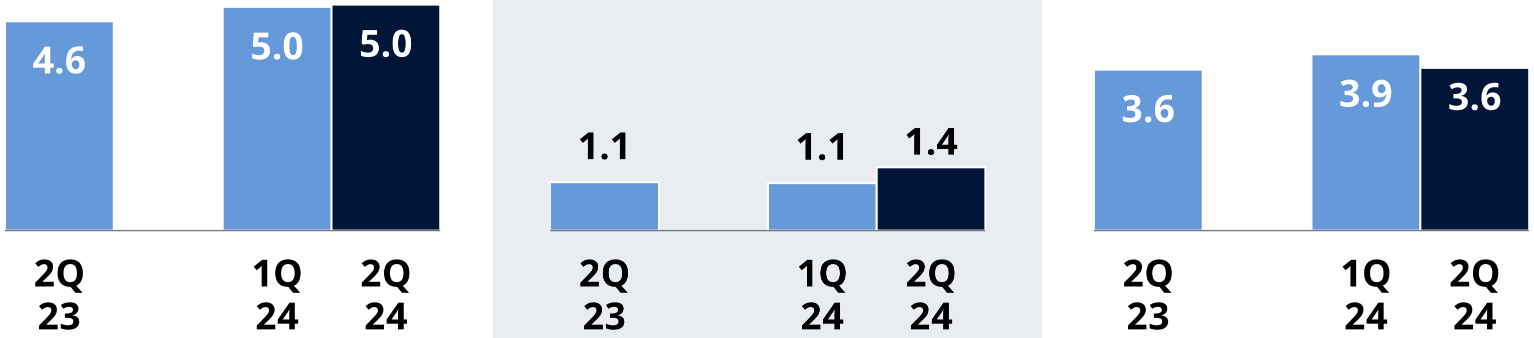
Quarterly Trends

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

Managed Services up 30+% against difficult comps; second-best quarter ever for Asia ACV as emerging markets (China, Japan, South Korea) outperform

XaaS ACV quarters have remained range-bound above $3.5B during past five quarters

ACV $B



19% YTD

Combined Market

26% YTD

Managed Services

17% YTD

As-a-Service

ACV = Annual Contract Value

Service & Technology Provider Standouts – Asia Pacific

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As-a-Service Market	Amazon Web Services China Mobile China Telecom	China Unicom Google Huawei Cloud* Microsoft	Dassault Systèmes Equinix	ServiceNow	Atlassian Cloudflare* Crowdstrike*	Datadog MongoDB PTC	21Vianet Bentley Systems* DigitalOcean* IFS AB*	Kingdee NEXTDC Xero

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