

IT & Business Services Industry Update

January 18, 2024

HOSTED BY



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***ISG** Index™

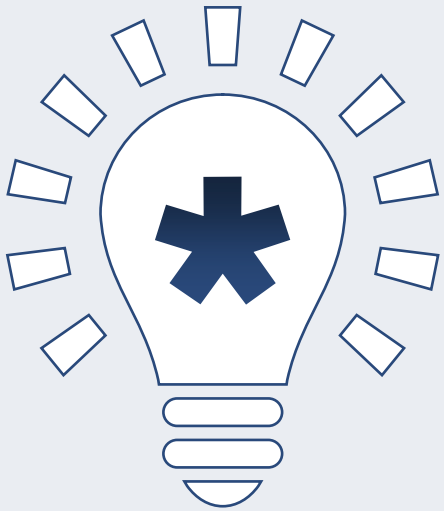
4Q 2023

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Three Big Thoughts



1

Strong demand for cost optimization led to the best year ever for Managed Services.

2

Managed Services demand will remain strong in 2024 as enterprises continue to look for ways to reduce costs while deploying AI.

3

AI will generate new demand; however, talent shortages and discretionary spending pressure will continue to weigh on the market.



Global Broader Market

Quarterly Trends

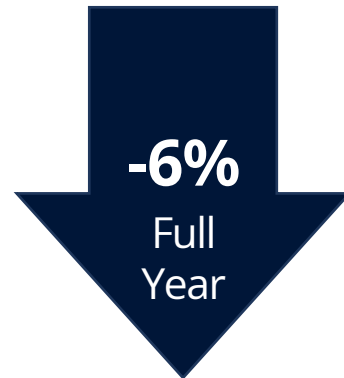
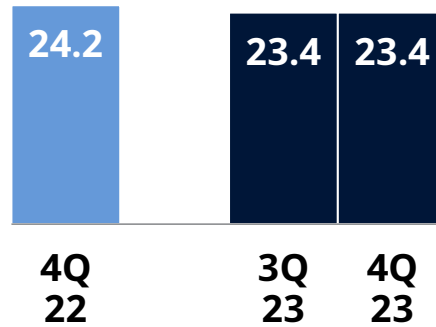
On a sequential basis, Combined Market turned positive during both 3Q23 and 4Q23, indicating a bottoming from recent low

Managed Services posted its fifth straight quarter with Y/Y advances

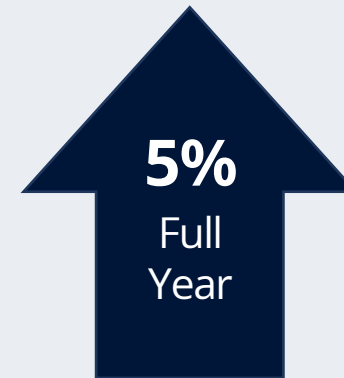
Mega-deal (ACV > \$100M) was up 33% Y/Y, yet smaller, discretionary awards (\$5M-\$30M), declined 6% Y/Y

XaaS market declined for the fifth consecutive quarter, but rate of decline was not nearly as steep

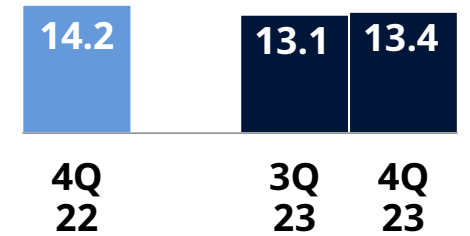
ACV \$B



Combined Market



Managed Services



As-a-Service



Managed Services ITO/BPO Results

Annual Trends

ITO market posted its best year ever

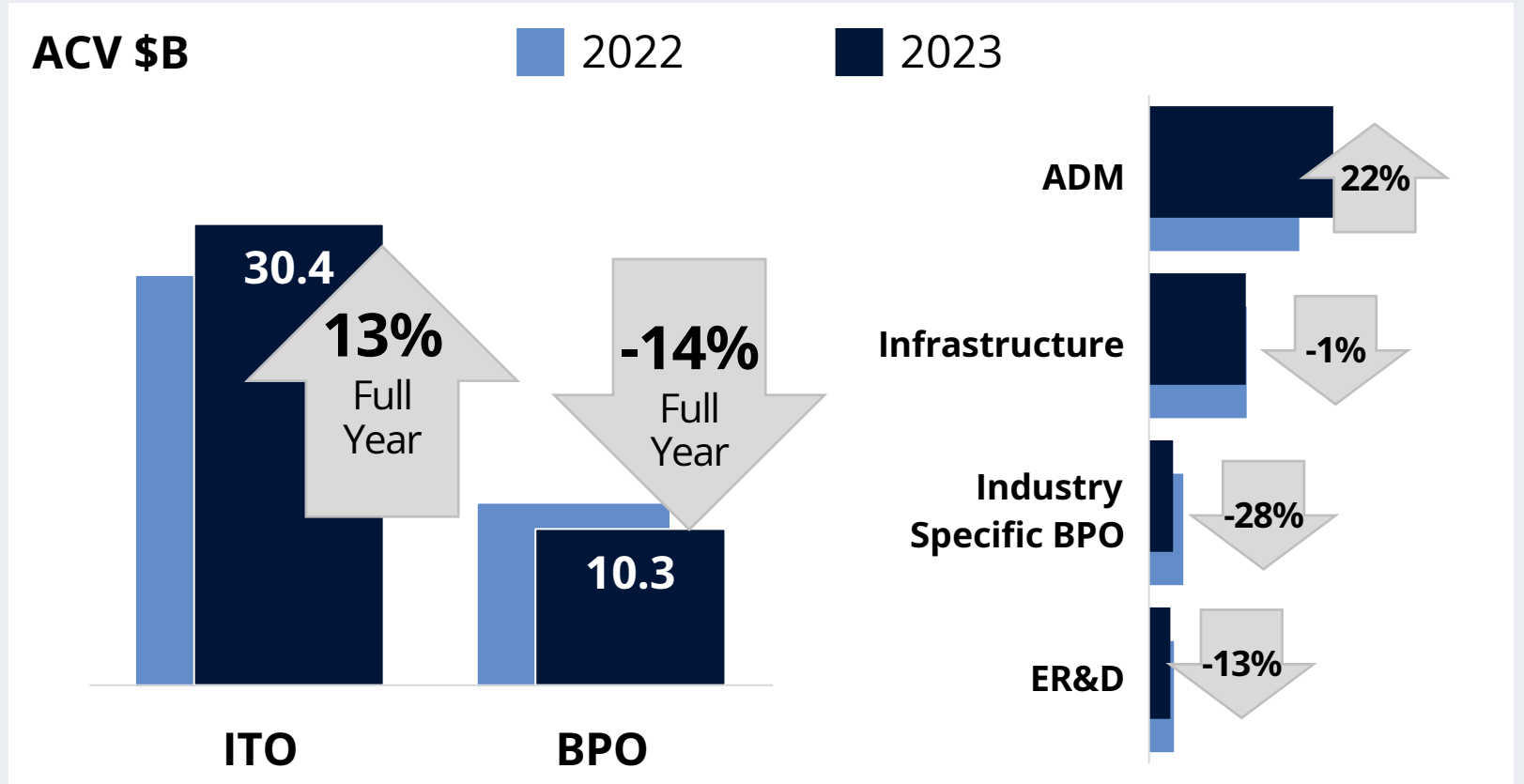
ADM ACV up 22.5% in 2023 with each quarterly result setting a record for best quarter ever

Third consecutive year that Infrastructure ACV declined annually

Industry Specific BPO down 28% as the Americas weighed heavily on results

Second best year ever for ER&D yet still down 13% versus record-breaking 2022 results

ISG Index™ 4Q23



ACV = Annual Contract Value



Managed Services Regional Results

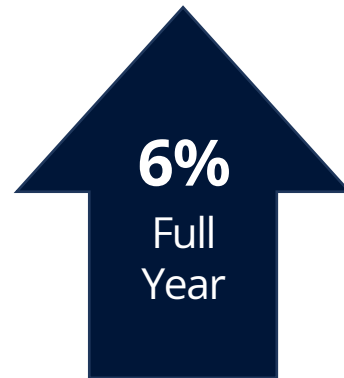
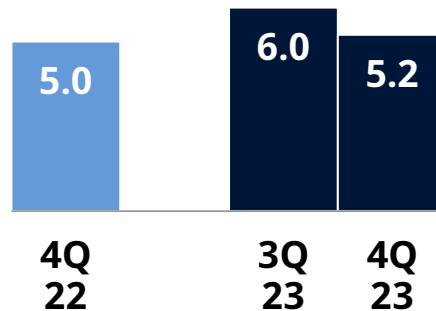
Quarterly Managed Services Trends

Americas: Managed Services up 5% Y/Y led by record-setting Restructuring activity

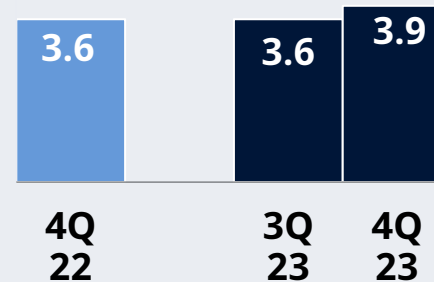
EMEA: Regional ACV gains driven by New Scope awards, up 13% Y/Y; continued high performance from the UK with 4th straight \$1B+ quarter

Asia Pacific: ACV rebounded sequentially above \$800M level but was still down Y/Y against a \$1B+ 4Q22

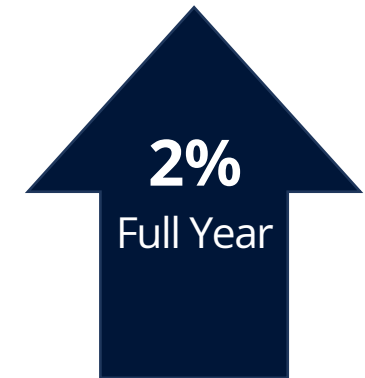
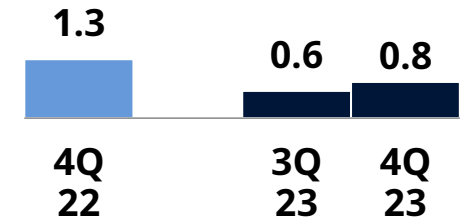
ACV \$B



Americas



EMEA



Asia Pacific

ACV = Annual Contract Value



Managed Services Full Year Industry Results

2023 Full
Year
ACV Change

Business
Services

Retail &
Consumer
Packaged Goods

Energy

Financial
Services

Healthcare
& Pharma

Manufacturing

Telecom
& Media

Travel,
Transport
Leisure

Combined
Market

-19%

-5%

10%

-4%

8%

-7%

-4%

-12%

Managed
Services

-2%

4%

25%

Flat

50%+

Flat

10%

-30%

As-a-Service

-24%

-9%

-4%

-9%

-15%

-11%

-15%

-2%

Best Year for Mega-Deals Since 2014

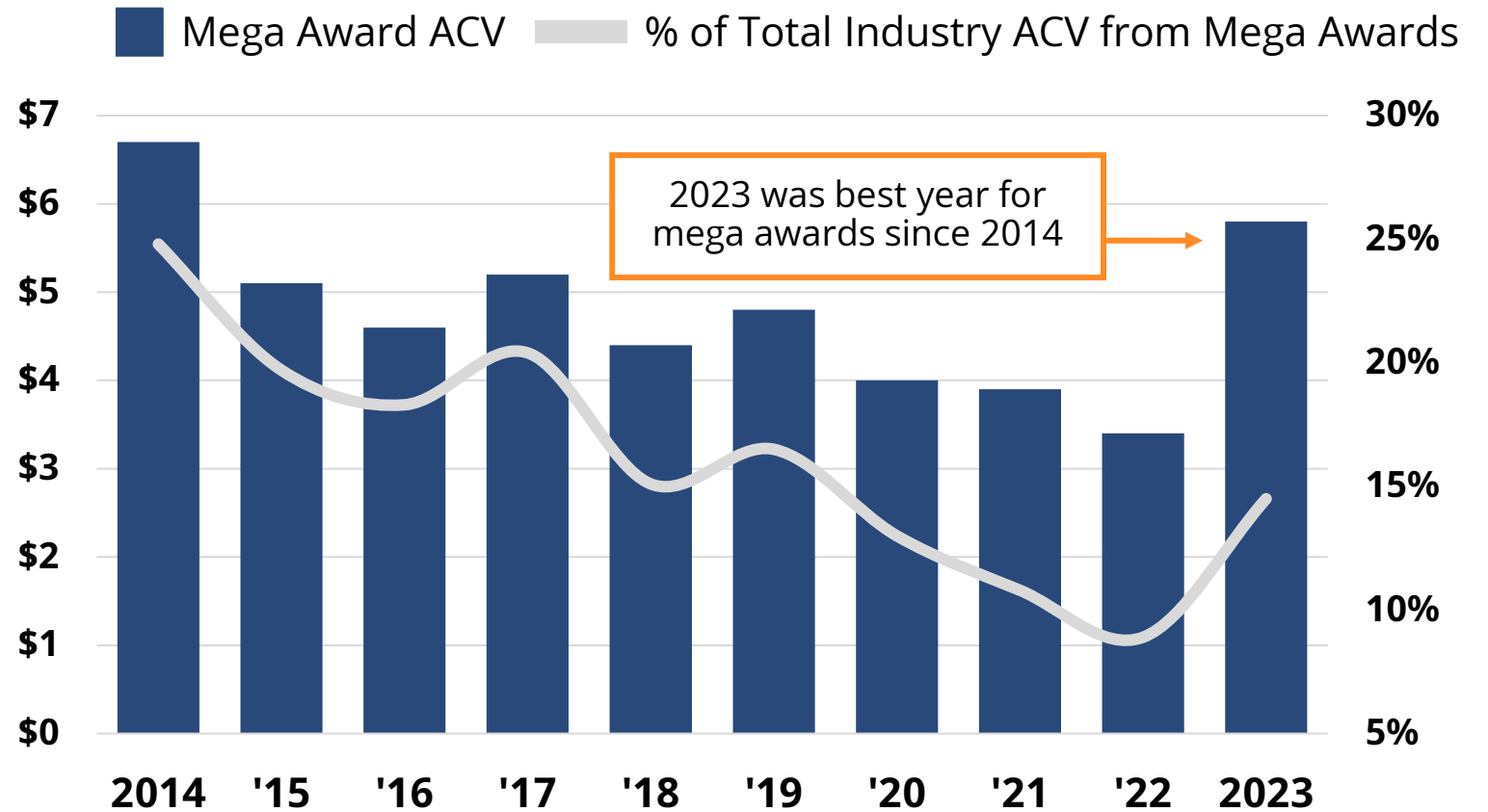
Mega-Deal Trends

Mega-deal ACV and award count had best result since 2014

Mega-deals generated 15% of industry ACV, up from 9% in 2022, but down from 25% in 2014, a healthy sign for the market

Enterprises remain focused on cost optimization through large deals

Providers focused on growing big deal teams and maturing deal-shaping capabilities



Source: ISG, 2024; Mega Award = ACV > \$100M



IaaS Results

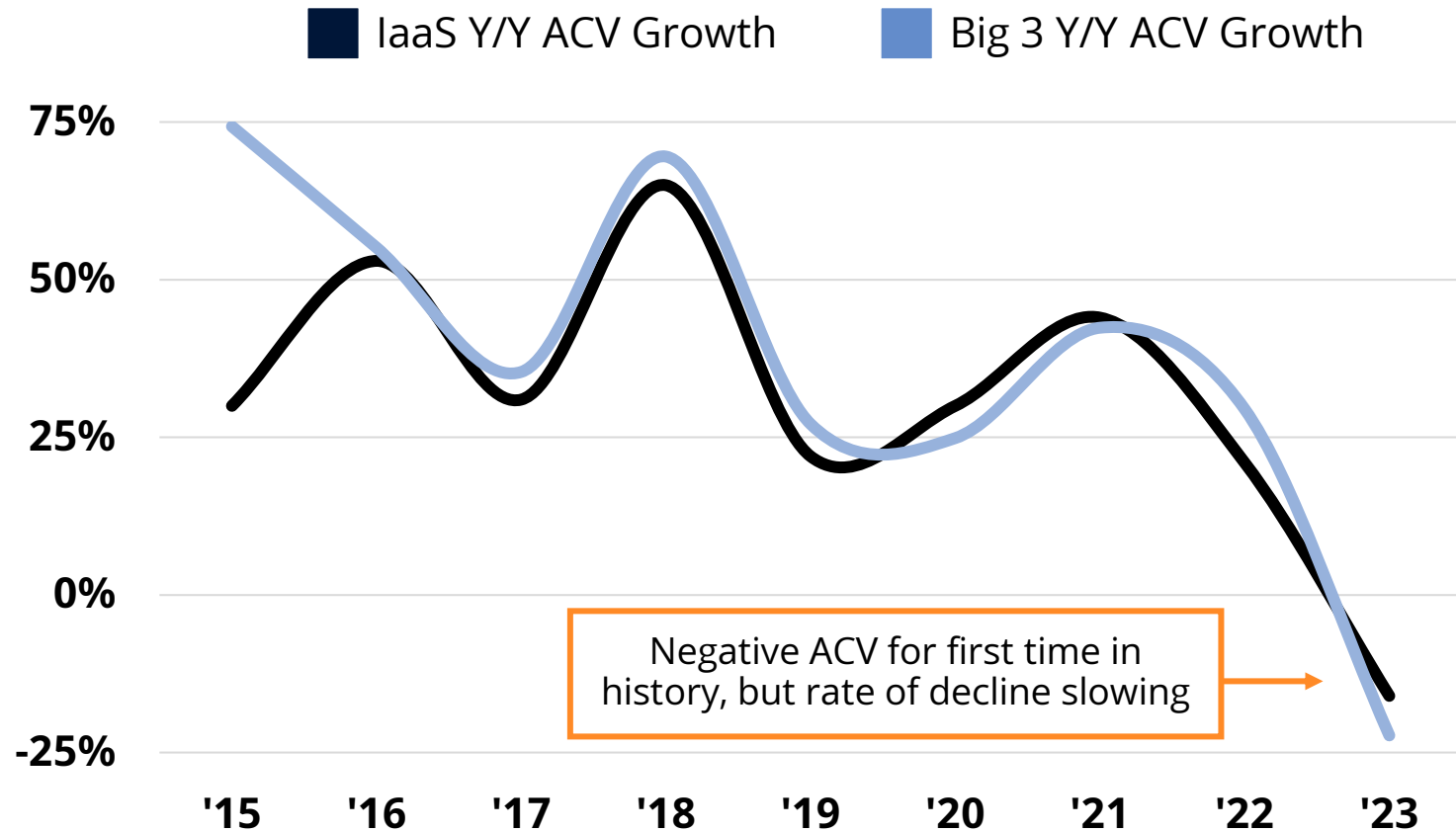
Annual Trends

IaaS ACV down 16% for the full year; negative for the first time since we moved to this IaaS view in 2015

Big 3 hyperscalers (AWS, Azure and GCP) ACV declined 22%, 600 bps more than the Broader Index

IaaS rate of decline has slowed; likely 1 or 2 more quarters until enterprises are past cloud optimization cycle

AI will likely drive new incremental demand for hyperscalers



ACV = Annual Contract Value



SaaS Results

Annual Trends

Since bottoming in 2Q23, segment generated both Y/Y and Q/Q gains for each quarter during 2H23

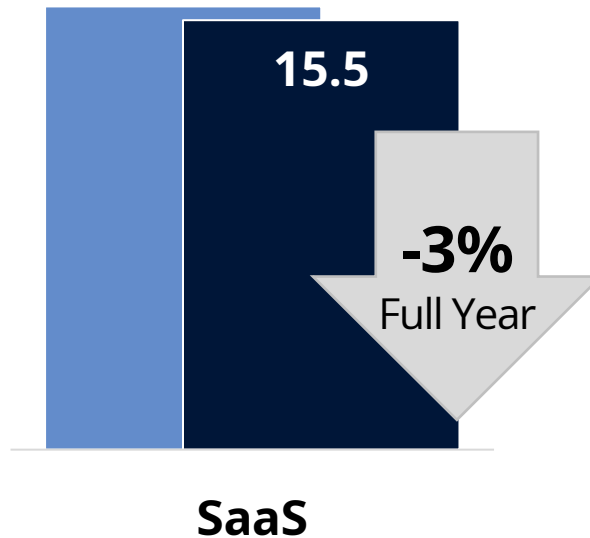
SaaS market declined slightly by 3% for the full year, the first time ever

Difficult macro drove consolidation and increased market share to largest providers

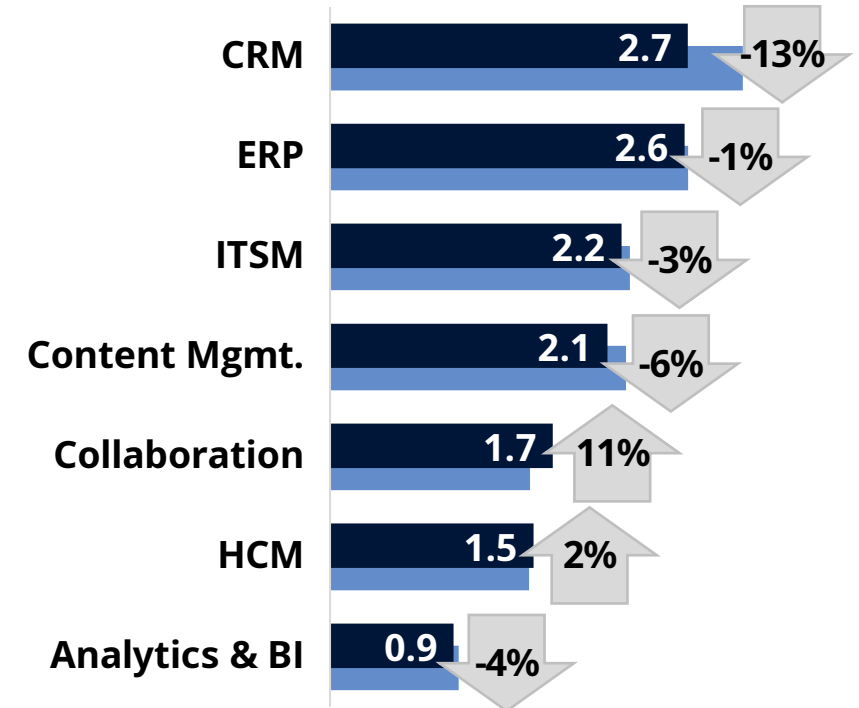
Enterprises willing to pay between 6% - 9% more per seat for AI features in software, depending on category

ACV \$B

2022 2023



App Category ACV Growth



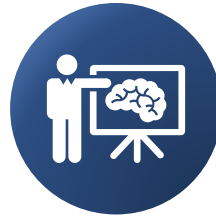
ACV = Annual Contract Value

The State of AI



AI & Cloud

- AI workloads take place primarily **in the cloud**; cloud platforms keep expensive **GPUs more utilized**
- May drive **additional demand for hyperscalers**
- Also expect to see **more diversity in AI workloads** in future



AI & Talent

- Enterprises need **more skilled resources** to use AI
- Only 23% of enterprises report they **have the skills they need***
- ChatGPT making things look easy; **hard work just beginning**
- **Opportunity for providers** to fill the gap

*Source: Ventana Research, now part of ISG, 2023; Analytics and Data Benchmark Research



Generative vs. Predictive AI

- Generative will have bigger impact in areas like **information extraction, summarization, customer support** and **software development**
- Predictive AI will have bigger impact in areas like **risk, fraud** and **customer acquisition***

*Source: ISG, 2023; Banking Industry Study

AI Impact on IT Services



Market Opportunity

- AI represents **massive opportunity** for IT services industry
- ISG estimates at least **\$175 billion** of additional annual revenue by 2030
- Opportunity in 2024 is primarily **project-based work** and **optimization**; however, will expand over next several years



Industry Adoption

- **BFSI** is leading adoption, with over 90% of banking leaders indicating AI is top spending priority over next 24 months
- Over 80% of **insurance** leaders expect positive impact from AI on productivity of claims & policy management
- 75% of **manufacturing** leaders maintained or increased investments in AI in 2023



Price Performance

- 2024 will see significant improvements in contractually **committed productivity**, which will lead to **lower prices**
- In ADM, will see improvements in **code development**, **functional requirements** and **app modernization**
- Implications: enterprises will have **more options than ever** to drive cost optimization

Global Service & Technology Provider Standouts

THE ISG 15

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



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.

	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	HCLTech	Alight Solutions*	Genpact	Atteno	Mphasis	adesso	KPIT Technologies
	Capgemini	IBM		LTIMindtree			Atento	Persistent
As-a-Service Market	Cognizant	Infosys	BT*	Sodexo*	Coforge	TELUS International	CSG Systems	Softtek
	Deloitte	Kyndryl	Capita	Sopra Steria*	EXL	WNS	Eltel	Sonata Software
As-a-Service Market	DXC Technology	TCS	Foundever	Tech Mahindra	LTTSt		Ensono	Tata Technologies*
		Wipro		T-Systems			HGS	Zensar
As-a-Service Market	Amazon Web Services	Microsoft	Digital Realty	ServiceNow	Atlassian	Okta*	Cloudflare	OVH
	Google Cloud	Oracle	Equinix	Workday	CrowdStrike	Sage*	DigitalOcean	
			Palo Alto Networks		Datadog	Snowflake		

* New or returning to leaderboard in 4Q23 †Provider changed group

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

Summary and Outlook

Summary

Managed Services

- Global Broader Market up 5%, most ever ACV awarded
- Each of the three regions was up in 2023, with Americas and EMEA seeing most ACV awarded
- ADM segment saw record results each quarter throughout 2022, up 22.5% for the year
- Contract Restructuring prevalent due to cost optimizations
- 34 mega-deals awarded; most since 2014

XaaS

- Difficult macro impacted diverse SaaS market causing pullbacks and recoveries at different stages throughout 2023
- IaaS market continued rolling over and is likely one quarter away from emerging from the downturn and returning on next leg of growth
- Market technical reacceleration should coincide with the trend of moving past peak cost optimizations

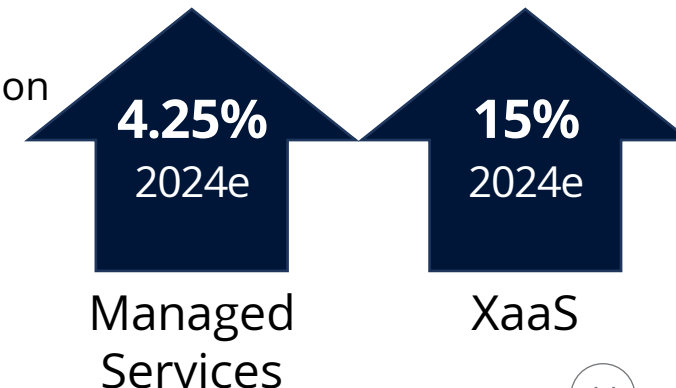
Market Outlook

Macro Recap

- Inflation cooling throughout US and Europe
- Central Banks stabilizing monetary policy and planning rate cuts
- Strong technology demand driven by GenAI
- Combination of growth, declining inflation and easing monetary policy should create a friendlier environment for enterprise spending and capital deployment

Revenue Forecast

- Increased spending in application modernization and business transformation projects led by GenAI
- Public cloud spending reaccelerates as the industry moves past peak optimizations



Thank you!

The 85th Quarterly
* **ISG** Index™



Index Insider™



Stanton Jones



Alex Bakker



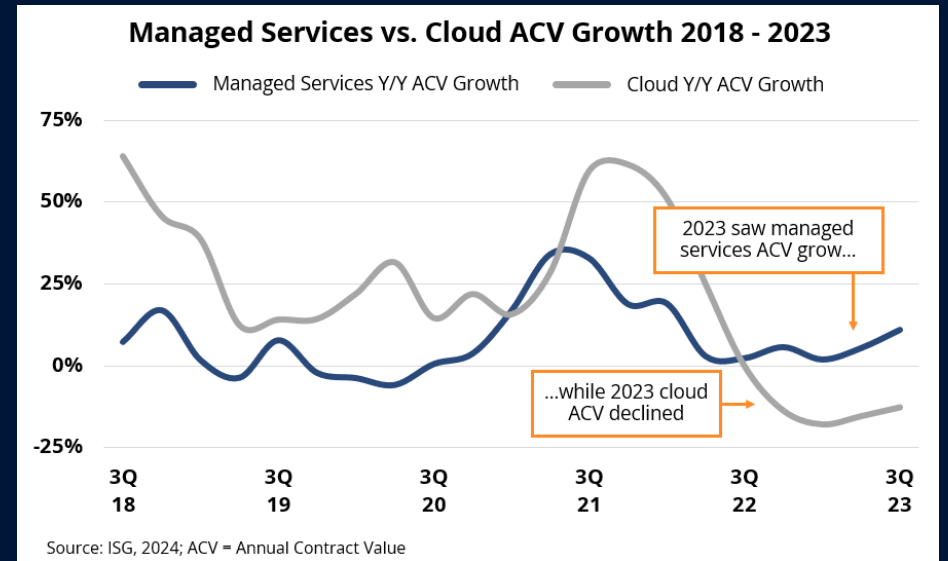
Amanda Lytle



Sunder Sarangan

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Appendix



Americas Broader Market Results

Quarterly Trends

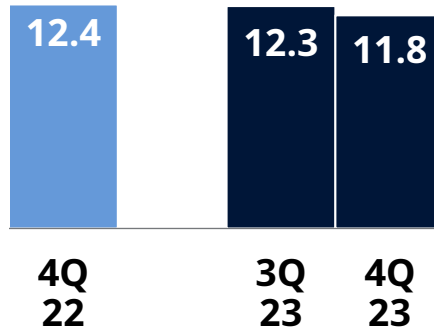
Combined Market ACV dipped below \$12B; 4th time in the past 6 quarters where Y/Y growth declined

Managed Services up 5% Y/Y led by record-setting Restructuring activity

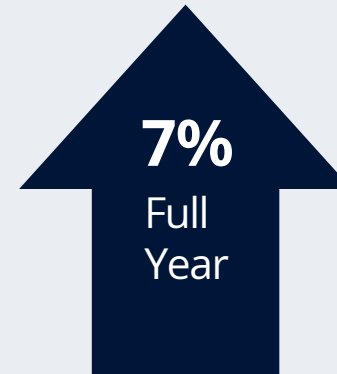
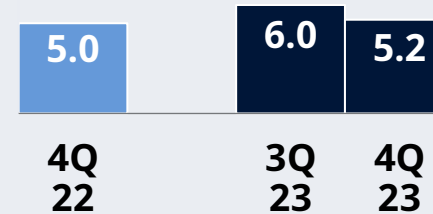
New Scope ACV fell back from record-setting 3Q23 pace, down 22% Y/Y

XaaS ACV down 12% Y/Y; 4th straight quarterly with at least a 10% Y/Y decline

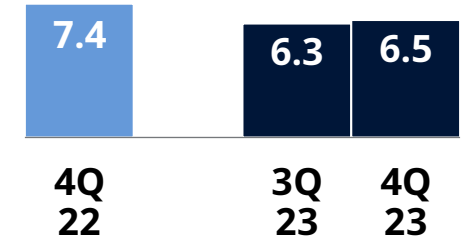
ACV \$B



Combined Market



Managed Services



As-a-Service



Service & Technology Provider Standouts – Americas



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Managed Services Market	Accenture	Infosys	Alight	LTIMindtree	Coforge	Sonda	Birlasoft	KPIT Technologies
	Capgemini	Kyndryl	Amadeus	Rackspace	EXL	TELUS International	CSG Systems	Softtek
	Cognizant	NTT Data	Concentrix	Tech Mahindra	Globant	Thoughtworks*	Endava	Sonata Software
	Deloitte	TCS	Foundever	T-Systems	LTTSt		Ensono	Zensar*
	DXC Technology	Wipro	Genpact		Mphasis		HGS	
	HCLTech				Persistent			
As-a-Service Market	Amazon Web Services	Microsoft	Digital Realty	Palo Alto Networks	Atlassian	HubSpot	Bill.com	nCino*
	Google	Oracle	Equinix	ServiceNow	CrowdStrike	Snowflake	Cloudflare	Paylocity*
			Iron Mountain	Workday	Datadog		DigitalOcean	TOTVS*

* New or returning to leaderboard in 4Q23 †Provider changed group

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EMEA Broader Market Results

Quarterly Trends

Combined Market rebounded above \$7B level, increasing 4% sequentially

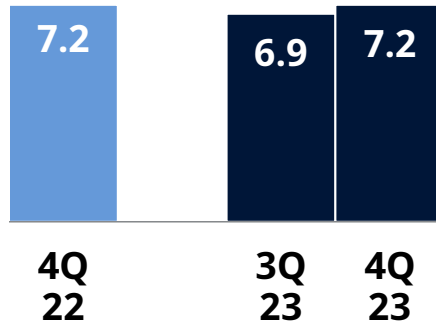
Managed Services ACV up 7% both Y/Y and Q/Q; only region to post gains Y/Y and Q/Q

Managed Services ACV gains driven by New Scope awards, up 13% Y/Y

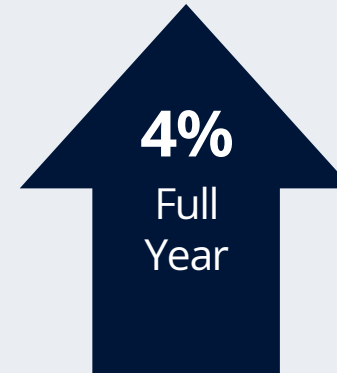
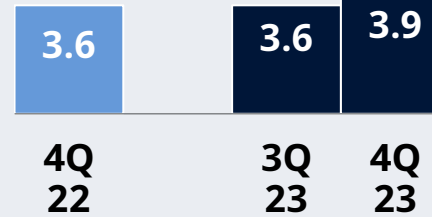
Continued high performance from the UK with its 4th straight \$1B+ quarter

XaaS declined for the 4th straight quarter, falling 8% Y/Y

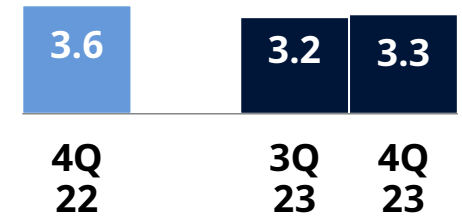
ACV \$B



Combined Market



Managed Services



As-a-Service



Service & Technology Provider Standouts – EMEA



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Managed Services Market	Accenture	HCLTech	Akkodis*	Genpact*	AFRY	JLL*	Adesso	Ensono*
	Atos	IBM	Amadeus*	Indra Sistemas	Alten	Mphasis	Aricoma*	GFT Technologies*
	Capgemini	Infosys	BT†	LTIMindtree	Arqiva*	Nexi*	Assystem*	KPIT Technologies
	Cognizant	Kyndryl	Capita	ServiceNow*	Atento	Sweco	CI&T	Mastek
	DXC Technology	TCS	Computacenter	Sodexo	Cancom*	WNS	Eltel	Zensar*
	Fujitsu*	Wipro	Econocom	Sopra Steria	Fastweb*		Endava	
			Foundever	T-Systems				
As-a-Service Market	Amazon Web Services	Google Cloud	Equinix		Atlassian	Okta	CloudFlare	Nemetschek*
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Asia Pacific Broader Market Results

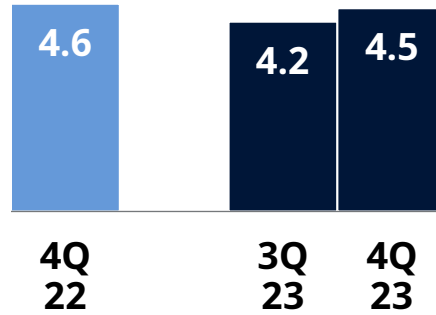
Quarterly Trends

Combined Market ACV advanced 7% Q/Q; best sequential growth rate since 4Q21

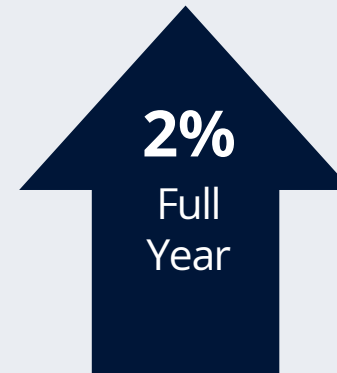
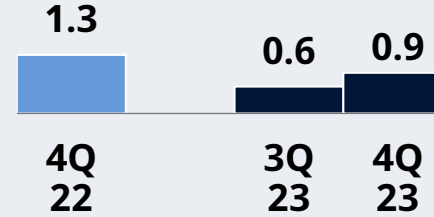
Managed Services ACV rebounded sequentially above \$800M level but was still down Y/Y against a \$1B+ 4Q22

XaaS advanced 10% Y/Y and was the only regional market that turned positive; past five quarters had averaged a 17% Y/Y decline

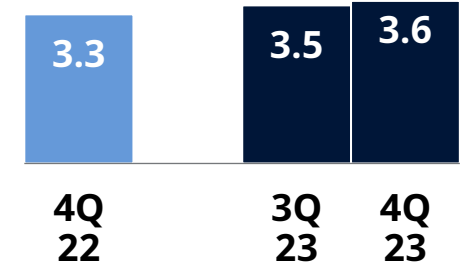
ACV \$B



Combined Market



Managed Services



As-a-Service

ACV = Annual Contract Value



Service & Technology Provider Standouts – Asia Pacific



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	Capgemini*	Kyndryl	BT*		SCSK*		Digital China*		NS Systems
	DXC Technology	TCS	Foundever	Sodexo	Konica Minolta	Persistent	Cyient	Tata Elxsi	
	Fujitsu	Wipro	Genpact	Tech Mahindra	LTTSt	SK C&C	KPIT Technologies	Tata Technologies*	
	IBM		ITOCHU*	T-Systems	NCS*		Posco		
			LG CNS				Shinsegae		
			LTIMindtree						
As-a-Service Market	Amazon Web Services	China Unicom	Dassault Systèmes	ServiceNow	Atlassian	MongoDB	Cloudflare	NEXTDC	
	China Mobile Cloud	Google Cloud	Equinix		CrowdStrike	PTC	DigitalOcean*		Xero
	China Telecom	Microsoft			Datadog	Sage*	Kingdee		

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