Information Technology Outsourcing (ITO) Report: March 2011 – Preview Deck

Topic: Mergers and Acquisitions (M&A) in IT Outsourcing – "Deals are Back"

Background and scope of the research

Background of the research

- Merger & acquisition (M&A) activity reduced during the downturn. However, reasonable valuations and more confidence in the business environment led to its revival
- The key reason behind an acquisition is characterized as an acquisition theme. Everest identified six major acquisition themes
- Service providers acquire target companies operating in specific segments of ITO, BPO, consulting, or technology. These are termed as acquisition topics
- Service providers exhibit different acquisition strategies depending on their region, focus on specific skills, and strategic objectives

The scope of analysis includes

- Overview of M&A deals in ITO and BPO segments over the last five years
- Analysis of M&A deals including:
  - Share of different acquisition topics in all M&A transactions
  - Acquisition pattern of MNCs and offshore providers
  - Trends in acquisitions in terms of acquirer and target company geography
  - Distribution of various acquisition themes in all M&A transactions
- Financial analysis of M&A deals

Table of contents (page 1 of 2)

Table of contents (page 2 of 2)

Mergers and acquisitions have always been an integral part of growth strategy for service providers. Everest analyzed the M&A deals undertaken by major ITO and BPO providers across the globe to understand the emerging trends in the acquirer's interest in terms of acquisition focus, geography, valuations, and strategic purpose. The analysis presented in the report discusses the various trends and develops an insight into the M&A market. It also analyzes how buyers and providers of IT services should look into these acquisitions and be prepared to safeguard and propagate their interests.

Overview – Merger and acquisition	- M&A activity saw a renewal in 2010. Large deals continue to skew the average deal size. 2009 and 2010 saw various large M&A deals - ITO providers became aggressive acquirers. They continue to focus on buying core technology companies and augment their software and outsourcing business - Core technology companies are getting acquired. Service providers are buying them and providing them larger market and talent access

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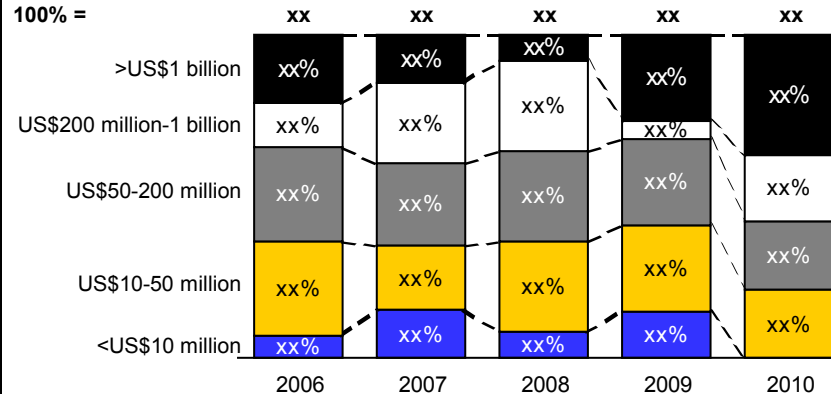|	
Acquisition trends	■ MNC providers lead the number of acquisitions. They have acquired significant number of core technology companies, whereas the offshore providers are more inclined to buy BPO and consulting companies
	■ North America is the preferred geography for acquirers. A large number of acquirers, too, are based out of North America. EMEA and North American acquirers are majorly buying companies that are in their own geography
	■ Many acquisitions are done to fill the gaps in service delivery. Captive acquisitions and acquisitions that lead to enhanced delivery capabilities usually result in larger transactions
	■ Acquirers looking to augment their delivery capabilities through the inorganic route often tend to acquire Indian companies
	■ Many companies also choose the inorganic route as a means to getting access to fresh clients, particularly while trying to penetrate European markets
Financial and valuation	■ MNCs pay considerably more to acquire a company than offshore providers. This is driven by the fact that MNCs acquire large service or core technology companies
	■ The acquisition theme of filling the gaps in the service portfolio gets maximum valuation from the acquirers. In terms of acquisition topics, technology companies get the maximum valuation
	■ APAC acquirers normally pay the highest valuation for target companies, whereas APAC targets get the lowest valuation

This study analyses major M&A deals in ITO and BPO space to understand the trends and strategic motives behind acquisitions

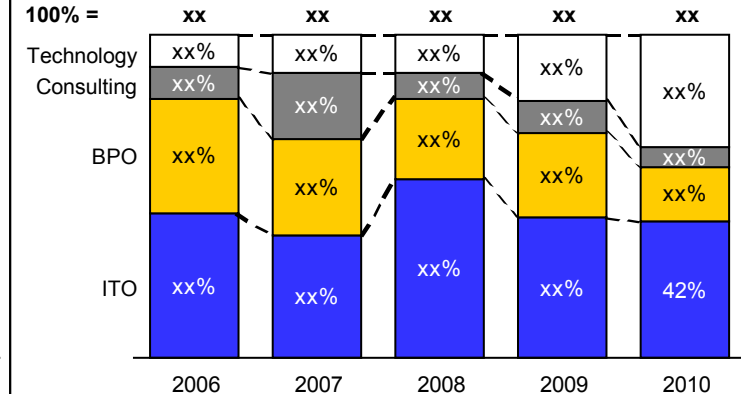## M&A deal value range distribution

Yearly distribution of range of average value of M&A deals[1]
2006-2010; US$ million

100% =   xx   xx   xx   xx   xx

Categories (top to bottom):
- >US$1 billion
- US$200 million-1 billion
- US$50-200 million
- US$10-50 million
- <US$10 million

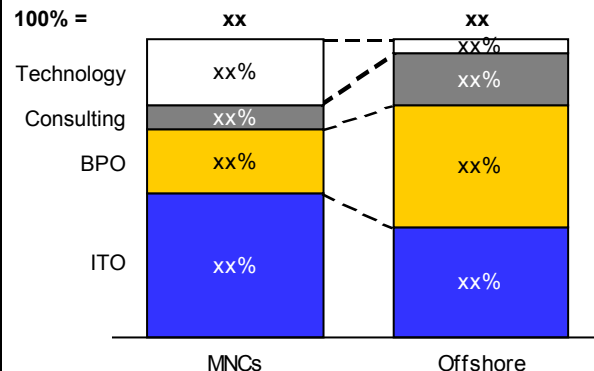Years: 2006, 2007, 2008, 2009, 2010

(All data values shown as xx%)

Key acquisition topic analysis

Yearly distribution of M&A deals based on target company's main business
2006-2010; Number of deals

100% =   xx   xx   xx   xx   xx

Categories (top to bottom):
- Technology
- Consulting
- BPO
- ITO

Years: 2006, 2007, 2008, 2009, 2010

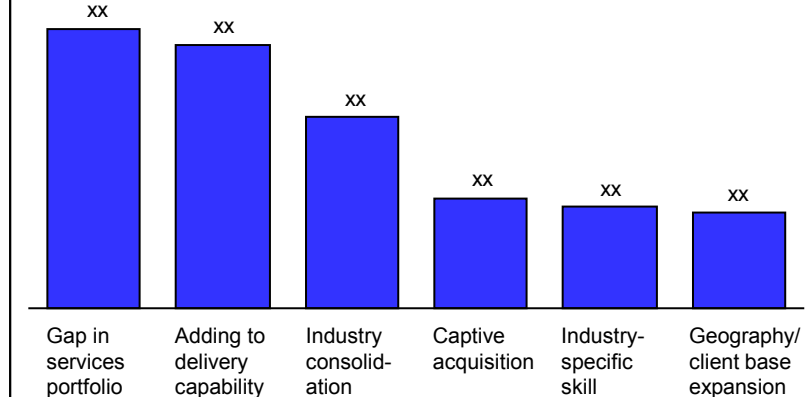(Data values shown as xx%, except ITO 2010 = 42%)

MNC and offshore acquirer's acquisition topic

Last five years' aggregate M&A deals distribution for MNCs and offshore service providers based on the main business of the target company
2006-2010; Number of deals

100% =   xx   xx

Categories (top to bottom):
- Technology
- Consulting
- BPO
- ITO

Columns: MNCs, Offshore

(All data values shown as xx%)

Valuation of different acquisition themes

Last five years' average revenue multiple by acquisition theme
2006-2010; Revenue multiple

(Bar values shown as xx)

Themes:
- Gap in services portfolio
- Adding to delivery capability
- Industry consolidation
- Captive acquisition
- Industry-specific skill
- Geography/client base expansion

Source: Everest Research Institute (2010)

The following documents are recommended for additional insight on the topic covered in this Research Report. The recommended documents either provide additional details on the topic or complementary content which may be of interest

1. **ITO Request for Information 2010 – A Market Insights Report** (ERI-2010-4-R-0427); 2010: This report analyzes various key trends across the global ITO market using data from major service providers about their top ITO deals across infrastructure outsourcing, ADM outsourcing and ITO bundling. The 19 participating service providers represent MNCs having headquarters in North America and Europe as well as Indian service providers. The analysis is segregated into various segments across buyer revenue, signing geography, industry segments, offshore/MNC service providers, and pricing models. Buyers and service providers will get key insights into the trends of ITO markets

2. **Plugging the Gaps – Mergers and Acquisitions in IT Outsourcing** (ERI-2008-4-R-0286); 2008: This report analyzes the trends in mergers and acquisitions in the technology service providers ecosystem. The M&As are segregated into key themes, which are the drivers for these. The report analyzes the financial, business, and industry aspect and provides a comprehensive analysis of deal size, valuation, drivers, geographic distribution, challenges, and the implication for buyers and providers

For more information on this and other research published by the Everest Research Institute, please contact us:

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