

PEAKSTONE

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IT Services
Industry Insight

June 2020

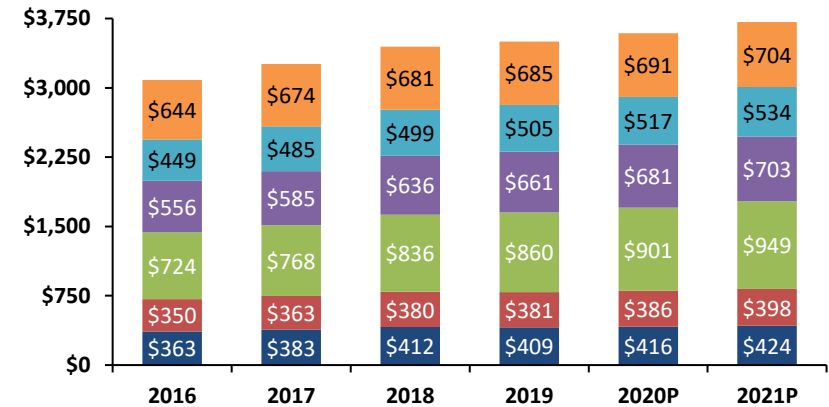
IT Services – Covid-19 Impact

Overview

- IT Service companies are better suited for remote work than other industries and will suffer less of a workplace disruption as a result
- The shift to working from home with the help of digital collaboration tools is likely to drive demand for IT equipment and services across many categories
- A growing need for infrastructure to support this shift, such as cloud computing for business or increased broadband consumption for consumers, will drive industry growth
- The IT sector expects continued demand for cloud infrastructure services, and potential increases in spending on specialized software
- Increased demand for communications equipment and telecom services as organizations encourage employees to work from home, and schools move courses online
- Due to increased remote working environments, IT service providers will play a larger future roll in procuring devices, setting up secure remote networks, and ensuring IT security across a greater range of devices
- Over the long-term the ever-increasing need for faster access to data and automation will enhance the focus on network equipment and communications, speeding up 5G network deployments and adoption of 5G equipment

Global Business & Government Purchases of Technology

(\$ in billions)



YoY % Change	2016	2017	2018	2019	2020P	2021P
Computer Equipment	(0.5%)	5.5%	7.6%	(0.5%)	1.6%	2.0%
Communications Equipment	(1.2%)	3.8%	4.5%	0.4%	1.2%	3.3%
Software	3.7%	6.2%	8.9%	2.8%	4.8%	5.4%
Tech Consulting and Systems Integration	2.0%	5.5%	8.5%	3.9%	3.1%	3.2%
Tech Outsourcing and Maintenance	3.4%	7.8%	3.0%	1.2%	2.3%	3.4%
Telecommunications	1.0%	4.7%	1.1%	0.5%	0.8%	1.9%
Total	1.7%	5.6%	5.7%	1.7%	2.6%	3.4%

IT Services M&A Update

IT Services categories continue to see strong M&A activity

In 2019, strategic buyers accounted for approximately 90% of IT Services M&A activity; during 2018, strategic buyers accounted for approximately 90% of the transactions.

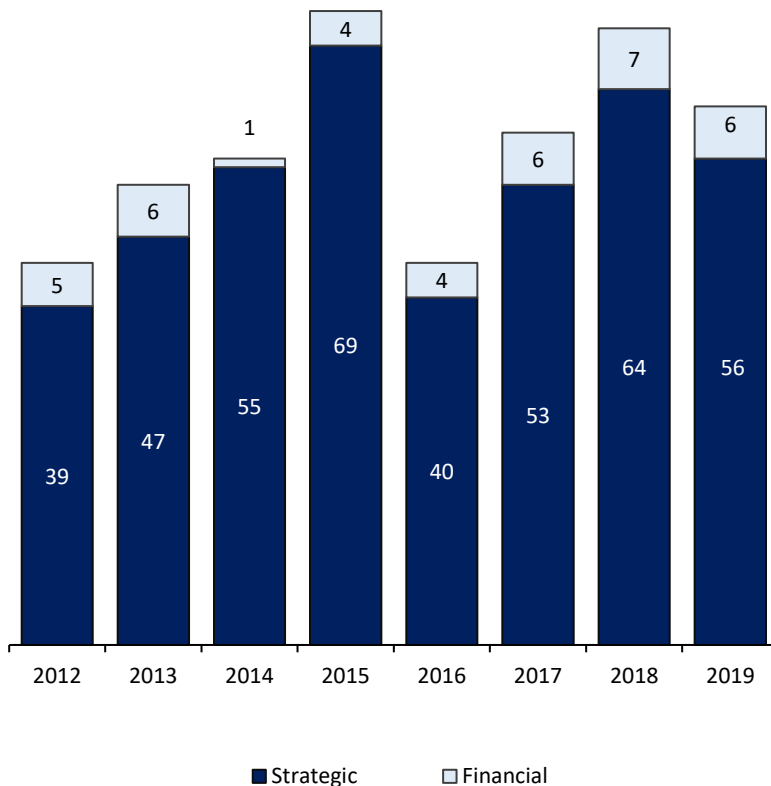
Selected Recent Notable Publicly Announced M&A Transactions

Date	Target / Issuer	Transaction Size (\$mm)	Buyers / Investors	EV / EBITDA	Transaction Comments
02/18/2020	CardWorks, Inc.	\$2,648	Ally Financial Inc. (NYSE:ALLY)	-	Ally Financial Inc. (NYSE:ALLY) entered into a definitive agreement to acquire CardWorks, Inc. from Don M. Berman, B2 Fie VIII LLC, Reverence Card Co-Invest, L.P. managed by Reverence Capital Partners LLC and others for \$2.
01/27/2020	Blackstone Federal	\$85	ECS Federal, LLC	-	ECS Federal, LLC acquired Blackstone Federal from Blackstone Technology Group, Inc. for \$85 million on January 24, 2020. The consideration will be paid in cash.
01/13/2020	Incentive Technology Group, LLC	\$255	ICF Incorporated, L.L.C.	-	ICF Incorporated, L.L.C. entered into a definitive agreement to acquire Incentive Technology Group LLC from Shadi Michelle Branch and Adam Branch for approximately \$260 million on January 12, 2020.
12/11/2019	DataBank Holdings, Ltd.	\$185	Colony Capital, Inc. (NYSE:CLNY)	17.6x	Colony Capital, Inc. (NYSE:CLNY) signed a definitive agreement to acquire 20.4% stake in DataBank Holdings, Ltd. from Edgewater Services, LLC and Allstate Investments, LLC for approximately \$190 million on December 11, 2019.
11/22/2019	SEI, Inc.	\$585	Harvest Partners, LP	-	Harvest Partners, LP acquired an unknown stake in SEI, Inc. from Pamlico Capital Management, LP and Constitution Capital Partners, LLC on November 22, 2019.
11/11/2019	Carbonite, Inc.	\$1,494	Open Text Corporation (NasdaqGS:OTEX)	26.3x	Open Text Corporation (NasdaqGS:OTEX) entered into a definitive agreement to acquire Carbonite, Inc. (NasdaqGM:CARB) for approximately \$840 million on November 10, 2019.
11/05/2019	Born Commerce Pvt Ltd/Born Group Pte Ltd	\$120	Tech Mahindra Limited (NSEI:TECHM); Tech Mahindra (Singapore) Pte Ltd.	-	Tech Mahindra Limited (NSEI:TECHM) and Tech Mahindra (Singapore) Pte Ltd. agreed to acquire Born Commerce Pvt Ltd and Born Group Pte Ltd for \$120 million on November 5, 2019.
10/18/2019	AbleVets LLC	\$75	Cerner Corporation (NasdaqGS:CERN)	-	Cerner Corporation (NasdaqGS:CERN) entered into a definitive agreement to acquire AbleVets LLC for \$75 million on October 17, 2019.
10/17/2019	Intersys Consulting, Inc.	\$67	Apex Systems, LLC	-	Apex Systems, LLC acquired Intersys Consulting, Inc. for \$67 million on October 17, 2019. The consideration is payable in cash.

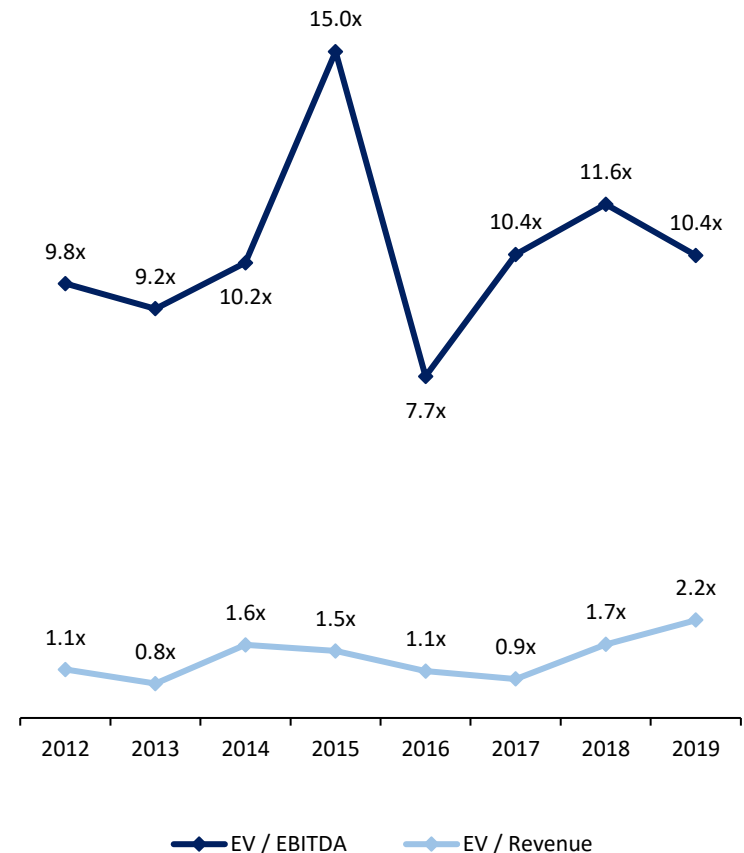
Source: Capital IQ

U.S. IT Services Industry – M&A Market Overview

U.S. Number of Transactions by Buyer Type



U.S. Transaction Multiples



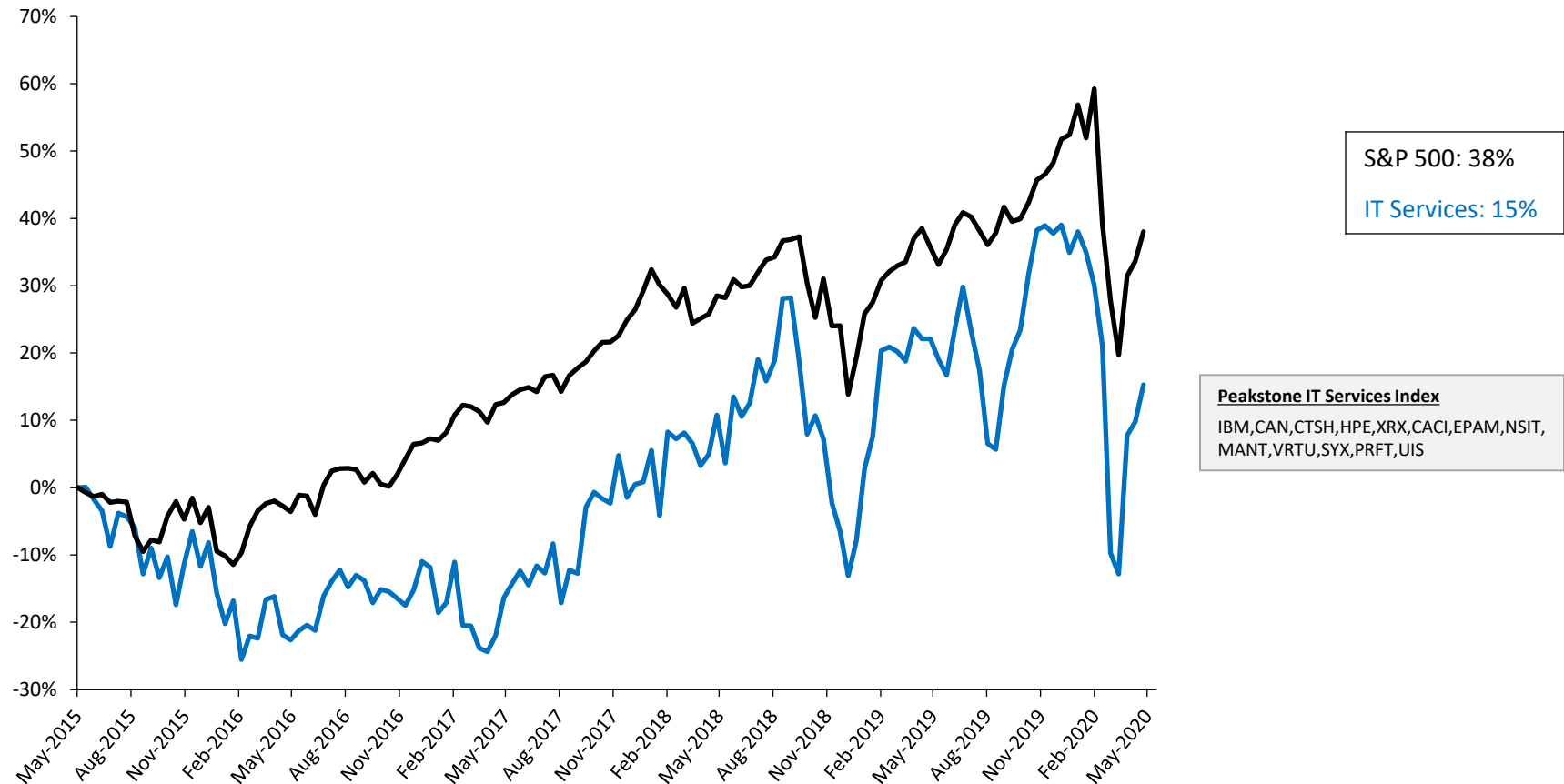
Source: Capital IQ

Note: Includes only transactions with total transaction value greater than \$1.0 M

Peakstone IT Services Index – Trading Statistics

IT Services categories performed favorably compared to the S&P 500

Relative Stock Performance



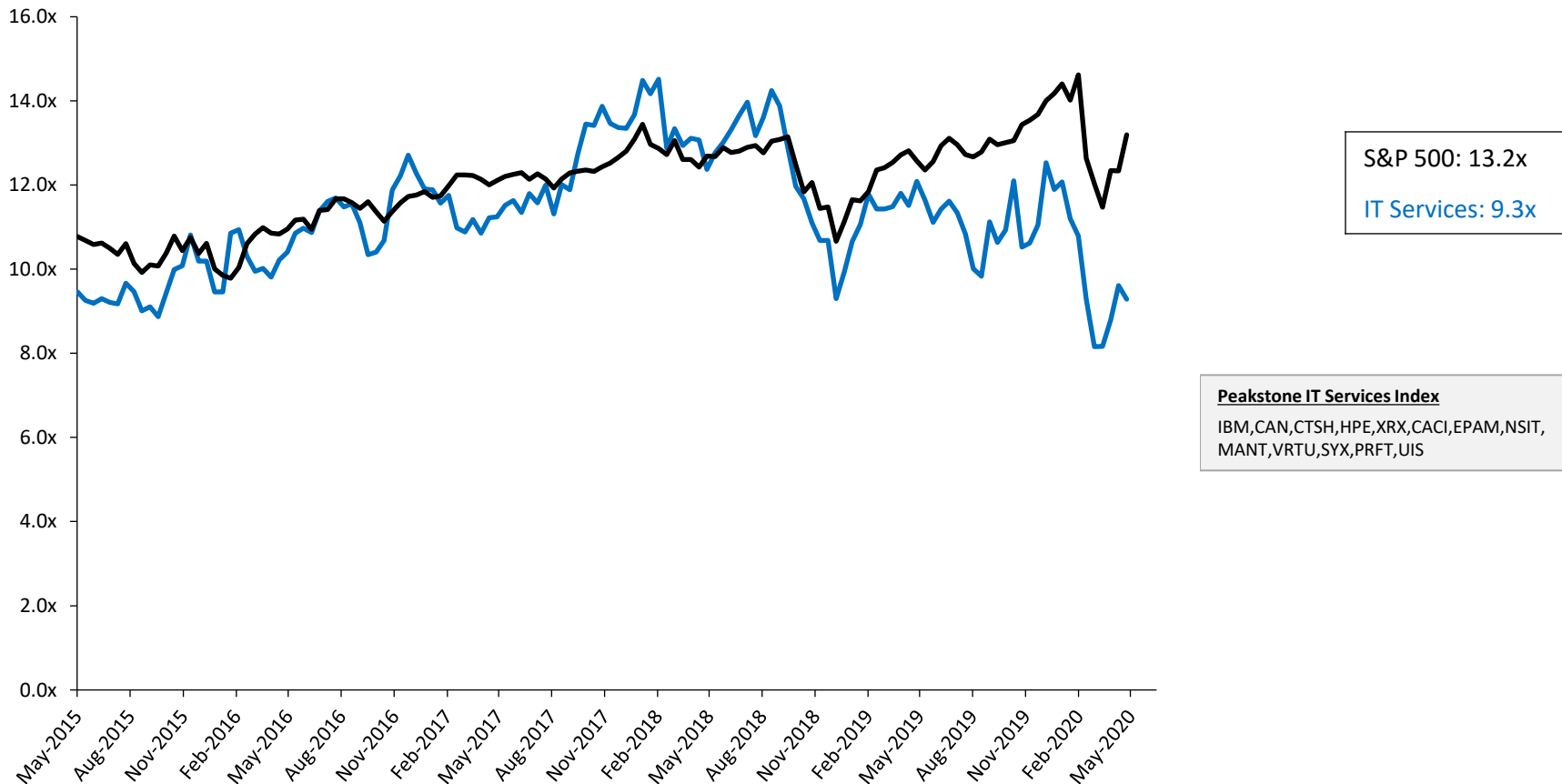
Source: Capital IQ, data as of June 2020

Peakstone Index Company details on page 6

Peakstone IT Services Index – Trading Statistics

IT Services categories performed favorably compared to the S&P 500

Comparable Valuation Trends – Enterprise Value / EBITDA



Source: Capital IQ, data as of June 2020

Peakstone Index Company details on page 6

Public Trading Comparables by Sector

Selected IT Services Public Trading Comparables

(\$ in millions)										
Company Name	Stock Price	% 52-week High	Market Cap	Enterprise Value	Enterprise Value /			Forward P/E Ratio	Gross Margin %	EBITDA Margin %
					Revenue	EBITDA	EBIT			
IT Services										
International Business Machines Corporation	\$132	83%	\$117,255	\$174,972	2.3x	9.6x	17.9x	11.6x	48%	21%
Accenture plc	208	96%	132,814	131,230	2.9x	16.2x	20.0x	27.3x	31%	16%
Cognizant Technology Solutions Corporation	58	81%	31,256	30,373	1.8x	8.4x	10.7x	17.4x	36%	20%
Hewlett Packard Enterprise Company	11	63%	14,274	27,019	1.0x	5.4x	11.9x	9.1x	33%	18%
EPAM Systems, Inc.	238	96%	13,245	12,603	5.2x	27.6x	38.7x	42.2x	35%	16%
CACI International Inc	254	88%	6,372	8,232	1.5x	13.6x	19.6x	18.6x	35%	9%
Xerox Holdings Corporation	18	47%	3,931	6,166	0.7x	4.0x	6.2x	10.4x	40%	15%
ManTech International Corporation	77	82%	3,113	3,267	1.4x	12.9x	21.8x	25.6x	15%	9%
Insight Enterprises, Inc.	54	74%	1,921	2,958	0.4x	8.5x	11.5x	11.1x	15%	4%
Virtusa Corporation	35	67%	1,058	1,425	1.1x	11.3x	17.9x	20.7x	27%	8%
Perficient, Inc.	37	69%	1,222	1,350	2.3x	14.7x	22.4x	18.2x	37%	14%
Systemax Inc.	22	81%	811	812	0.9x	9.9x	12.5x	22.0x	34%	7%
Unisys Corporation	13	70%	793	729	0.3x	2.5x	4.2x	12.0x	23%	7%
IT Services Median	\$54	81%	\$3,931	\$6,166	1.4x	9.9x	17.9x	18.2x	34%	14%

Source: Capital IQ, data as of June 2020

Peakstone Momentum

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 Strategic Investor & Financial Investor M&A Advisor PEAKSTONE	 M&A Advisor PEAKSTONE	 M&A Advisor PEAKSTONE	 M&A Advisor PEAKSTONE	 M&A Advisor PEAKSTONE	 M&A Advisor PEAKSTONE	 M&A Advisor PEAKSTONE	 M&A Advisor PEAKSTONE
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About Peakstone

Peakstone is an investment bank that specializes in mergers and acquisitions advisory and capital raising for middle market clients. Our team is comprised of senior investment banking professionals who have decades of experience and have executed hundreds of transactions totaling billions of dollars. For additional information, visit www.peakstone.com.

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