
Technology sector report



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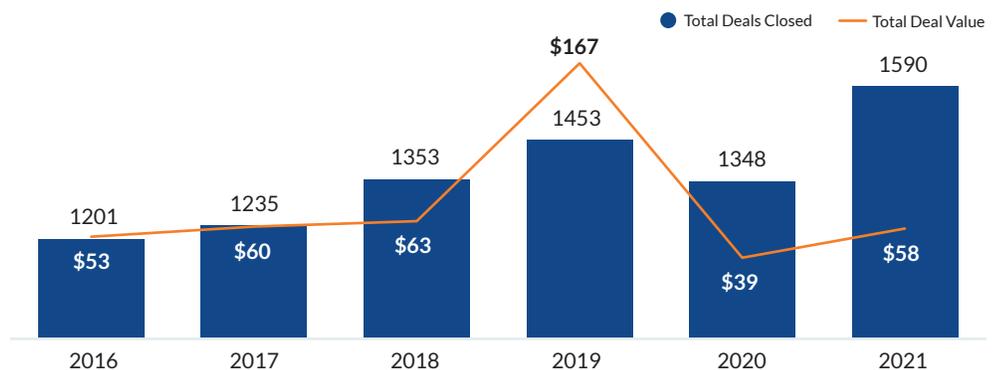
IT Services sector update

Fueled in part by the COVID-19 pandemic, companies have deployed substantial capital into technology solutions to drive operational efficiencies, automate and protect data and optimize user and customer experience. The IT services sector will continue to play a critical role across all industries and organizations due to rapidly changing business environments as well as continued development and adoption of new technology solutions.

Overview of M&A activity

In 2021, the IT services sector was valued at approximately \$1,125 billion, with an estimated 13.5% (\$152 billion) generated from managed services. Industry analysts expect the IT services sector to grow at a Compound Annual Growth Rate (“CAGR”) of 8% over the projected period of 2021 – 2026. M&A activity in 2021 was primarily driven by large multinational companies with established practices across major technology ecosystems (Microsoft, Oracle, Salesforce, Amazon, SAP, etc.), as well as transactions involving smaller industry participants that offer technology solutions designed specially to support end users within a specific ecosystem. Continued adoption of tech-enabled solutions, a strong macroeconomic environment and premium valuations within a very active M&A market are expected to continue to drive substantial M&A activity within the IT services sector for the foreseeable future.

CHART 1: IT SERVICES TRANSACTION VOLUME¹



Source: Capital IQ. As of 12.8.2021. | 1. Aggregate transaction value is in \$ billions.



Key factors driving market growth

Enterprises are seeking unified IT services and software suites that can help manage the entire technology infrastructure workflow to cut costs and improve operational efficiencies. The growing popularity of cloud-based software and the use of innovative artificial intelligence (“AI”) technologies to automate reporting, cloud, data and system visibility and information security processes are continuously increasing the demand for IT services worldwide. Growth in the IT services sector has also been advanced by new development of best-in-class applications, greater access to development and operations (“DevOps”) tools and integrated functionality, which have enabled seamless user experience of complex systems that are increasingly intuitive to use. Across the board, companies are seeking to manage increasingly complex integration of legacy infrastructure with cloud-native applications designed either as horizontal solutions or for specific vertical end markets.

The demand from small and mid-sized businesses (“SMBs”) for IT infrastructure has also consistently increased at a higher rate of 15% to 30% over the past four years, which has greatly contributed to the growth of the IT support services and managed services provider market. For smaller clients and within specific industry verticals, Software as a Service (“SaaS”) solutions combined with outsourced Managed Service Providers (“MSPs”) have improved integration, increased efficiency and heightened functionality as SMBs are able to access and leverage similar levels of complex technology solutions that have previously only been available to large enterprises.

COVID-19 Considerations

The COVID-19 pandemic has caused significant economic challenges and uncertainty since March 2020, which placed great pressures on organizations and their IT infrastructure to manage costs and efficiencies by conducting their businesses digitally. COVID has accelerated companies’ digitization of customer interactions and their transition to cloud computing globally, with the average digital adoption acceleration rate being three years ahead of the average rate of adoption from 2017 to 2019. Cloud computing services – the backbone of remote work setups – have enabled companies to quickly adapt to the technical challenges that accompanied the COVID-19 pandemic.

The pandemic also exposed the fragility of supply chains as providers of semiconductors and vital IT services were adversely affected. There was already increasing dependency on cloud services, with continuous digitization trends prompting SMBs and other large enterprises to increase overall IT infrastructure and managed IT services spend, which significantly increased overall market demand. Almost overnight, supply chain uncertainty, work-from-home rules and other factors overwhelmed most businesses’ IT infrastructure. This prompted major IT service providers to guarantee that mission-critical enterprise customers would have the tools, technology and security they needed to ensure the speed, quality and overall efficacy of services could be delivered virtually.

TABLE 1: SELECT IT SERVICES TRANSACTIONS

Acquirer	Target	Est. enterprise value (\$M)	Commentary
		\$2,500	<ul style="list-style-type: none"> In December 2021, CDW Corporation (Nasdaq: CDW), a provider of IT solutions, acquired Sirius Computer Solutions, Inc. for \$2.5 billion Sirius Computer Solutions provides secure and mission-critical technology-based solutions and operates as a national integrator of technology-based business solutions EV / LTM Revenue of 1.23x and EV / LTM EBITDA of 10.4x
		\$477	<ul style="list-style-type: none"> In October 2021, InsightSoftware, Inc. acquired Magnitude Software, Inc. Magnitude Software offers reporting and analytics software for communications, consumer packaged goods, insurance, healthcare, manufacturing, semiconductor and software industries Terms not disclosed
		\$25	<ul style="list-style-type: none"> In January 2021, Converge Technology Solutions Corp. (TSX:CTS), a national platform of regionally focused Hybrid IT solution providers, acquired Vicom Computer Services Vicom Computer Services operates as a full-service multi-cloud infrastructure provider offering multi-cloud solutions, networking, operations/service management, security, staff augmentation and professional & managed services EV / LTM Revenue of 0.22x and EV / LTM EBITDA of 5.5x
		\$200	<ul style="list-style-type: none"> In August 2020, Ocean Sound Partners acquired Netrix LLC Netrix LLC provides cloud infrastructure, collaboration, data & development services and solutions to small and mid-sized enterprise customers EV / LTM EBITDA of 10.5x
BC Partners		\$2,315	<ul style="list-style-type: none"> BC Partners acquired Presidio, Inc. (Nasdaq:PSDO) for \$2.3 billion in December 2019 Presidio provides IT solutions including digital infrastructure, cloud solutions, analytics, consulting services and more EV / LTM Revenue of 0.76x and EV / LTM EBITDA of 10.5x
		\$615	<ul style="list-style-type: none"> Insight Enterprises, Inc. acquired PCM, Inc. in August 2019 PCM offers technology products and solutions including cloud services, security solutions, consulting, staffing services, hardware, software and more EV / LTM Revenue of 0.29x and EV / LTM EBITDA of 10.9x
		\$6,340	<ul style="list-style-type: none"> Thales S.A. (ENXTPA:HO) acquired Gemalto N.V. (ENXTAM:GTO) for \$6.3 billion in April 2019 Gemalto provides digital security products and services through two segments: Identity, IoT & Cybersecurity and Smartcards & Issuance EV / LTM Revenue of 1.79x and EV / LTM EBITDA of 13.0x
		\$1,640	<ul style="list-style-type: none"> CVC Capital Partners Limited acquired ConvergeOne Holdings, Inc. for \$1.6 billion in January 2019 ConvergeOne operates as a leading IT services provider of collaboration and technology solutions EV / LTM Revenue of 1.17x and EV / LTM EBITDA of 14.7x
		\$775	<ul style="list-style-type: none"> On Assignment, Inc. (NYSE:ASGN), a provider of IT solutions in North America, acquired ECS Federal, LLC, a Virginia-based provider of IT solutions and managed services, in April 2018 ECS Federal's solutions include cybersecurity, cloud, software and system, IT modernization and more EV / LTM Revenue of 1.32x and EV / LTM EBITDA of 11.5x
		\$40	<ul style="list-style-type: none"> Presidio, Inc. (NasdaqGS:PSDO), a provider of IT solutions to the middle market in North America, acquired Red Sky Solutions LLC in April 2018 Red Sky Solutions, based in Draper, UT, provides managed services, cybersecurity consulting and cloud services EV / LTM EBITDA of 6.8x
		\$20	<ul style="list-style-type: none"> Perficient, Inc. (NasdaqGS:PRFT), an IT managed services and consulting firm, acquired Southport Services Group, LLC in April 2018 Southport, based in Ashburn, VA, provides business intelligence and IT consulting services EV / LTM Revenue of 1.30x
		\$830	<ul style="list-style-type: none"> SYNNEX Corporation (NYSE:SNX), a global provider of business services, acquired Westcon Group, Inc. in September 2017 Westcon operates as a technology distributor and provides security, collaboration, network and data center products EV / LTM EBITDA of 15.4x
		\$285	<ul style="list-style-type: none"> H.I.G. Capital, LLC acquired NCI, Inc. in August 2017 NCI, Inc. provides IT and professional services and solutions to defense, intelligence, healthcare and civilian government agencies EV / LTM Revenue of 0.88x, and EV / LTM EBITDA of 9.6x
		\$55	<ul style="list-style-type: none"> Mastech Digital, Inc. (AMEX:MHH), a provider of IT services in the United States, acquired InfoTrellis Inc. in July 2017 InfoTrellis offers information management consulting and technology services and is headquartered in Toronto, Canada EV / LTM Revenue of 2.50x

Source: Public Information, Capital IQ, Equity Research. | Mesirow did not represent any of the acquirers or targets in connection with the transactions noted on this page and is not currently representing any of the listed acquirers or targets.

Notable sector trends and patterns



Continued increase of overall IT services solutions spend

- Technology support services and software account for nearly half of spending in the US technology market, significantly higher than the rate in many other global regions.
- North America is the largest growing IT services market due to the presence of robust IT infrastructure.
- Growth of IT services is expected to be fueled by digitization trends prompting both SMBs and large enterprises to opt for cloud versus on-premises IT infrastructure, driving further adoption of cloud conversion and related solutions.
- Additional spend drivers of cloud-based adoption include increased functionality, operational flexibility and potential cost savings compared to legacy on-premises software.
- 88% of the organizations across North America increased their IT budgets by the end of 2020 which likely will lead to an increased demand for follow-on MSP services.



AI and machine learning technologies are enabling automated intelligent decision-making based on vast amounts of data and predictive analytics

- Increased adoption of cloud-native infrastructure has enabled companies to invest heavily in specific applications that help them analyze their enormous amounts of data and leverage customer data for IT system planning, management, information security and operational improvements.
- Machine learning and AI technologies have enabled predictive analytics, changing how data is analyzed and reported.

- Expect analytics and AI technologies to merge, providing companies with a clearer, more granular view of business intelligence and operational issues.
- Service providers are exploring ways to deploy AI and machine learning to improve service delivery excellence and efficiency.
- Intelligent capabilities hold the potential to transform many services, aiding decision-making and improving IT Service Management (ITSM) processes with functionalities that enable human workers to focus on more important activities.



Adoption and integration of best-in-class applications and systems

- Enterprises are opting for proven, best-in-class IT solutions to optimize business operations, minimize waste and increase organizational revenues regardless of what industry they participate in.
- For example, with the continued growth of Industrial Internet of Things (“IIoT”) and launch of 4.0 platforms, IT services are gaining traction within the hybrid IT-managed environment in numerous manufacturing verticals.
- AI technology is also forecast to extend its application within IT solutions across major sectors of the economy including agriculture, aviation and defense, education, healthcare, manufacturing and transportation, further fueling overall market demand.
- Companies in various industry verticals and consumer end-markets are adopting and leveraging best-in-class systems and cloud solutions, “infrastructure in a box” and a variety of SaaS applications, regardless of industry-specific design.



Emerging big data technology

- The volume of data consumption has increased significantly in the wake of high-speed internet connections, rising industrial automation and prolific penetration of mobile devices.
- The need for managing multiple sources of data across the enterprise for better business insights has fueled the usage of data management, analytics and security.
- Continued adoption of IIoT processes across industries are generating and leveraging massive amounts of data to improve operational efficiencies, requiring increased need for IT services.
- The IIoT market is expected to reach \$100 billion by 2025, growing at a CAGR of 18.56% during 2020-2025. As a result of the growing importance of big data across all organizations and industries, the IT services market is expected to grow well beyond the forecast period.



SMBs are using more cloud services than ever but still struggling with tech expertise

- Large public clouds are designed specifically to suit the needs of enterprise clients, but traditional SMBs require a different approach – one that’s centered around simplicity, support and cost-effectiveness. In a recent survey of firms regarding their cloud service usage:
 - Enterprise companies have an edge in cloud computing because those organizations have dedicated IT specialists to manage infrastructure. With smaller companies, the CEO and presidents are more often the ones in charge of those deployments.
 - Traditional SMB IT decision makers are also the most likely to struggle with managing IT infrastructure. Furthermore, only 43% of traditional SMBs have no full-time technical staff.
- Lack of technical expertise is reflected in the type of cloud deployments used by each type of company. Enterprises and technology-focused SMBs are equally likely to use multi-cloud and hybrid cloud infrastructure, while traditional companies are much more likely to use single cloud deployments.
- Traditional SMBs use fewer types of IT infrastructure and cloud services, such as hosting, platform-as-a-service solutions and databases. Only 44% of traditional SMBs use hosting and infrastructure services, compared to 74% of enterprises and 66% of tech-focused small companies.
- Both traditional SMBs and technology-focused SMBs have specific pain points and unique considerations when choosing a cloud provider.
 - For traditional SMBs, the biggest business pain points are recovering from the pandemic and keeping up with the technology curve.
 - For tech-focused companies, the biggest challenges are ensuring technology meets the needs of customers and the needs of the business, in addition to recovering from the impact of COVID-19.
 - When it comes to technology challenges, traditional SMBs are most worried about the cost of services, even more so than cybersecurity threats, which is the top worry for the other two groups.
- Increasing dependency on cloud services and infrastructure-upgrading investments are significantly driving the demand for managed IT services globally.
- Due to advancements in IT operations across cloud-based platforms, IT services are more data-driven as well as real-time, improving operational efficiency, business opportunity discovery and remote access optimization.
- As the demand for cloud services from the corporate sector increases, the scope and need for IT infrastructure services is poised for substantial future growth.

TABLE 2: COMPARING CLOUD SERVICE USAGE AMONG ENTERPRISES, TECH-FOCUSED SMBs AND TRADITIONAL SMBs

Cloud services used	Enterprises	Tech-focused SMBs	Traditional SMBs
Cloud Hosting Capabilities (Examples: AWS EC2, Azure VMs)			
Platform as a Service (Example: Google App Engine)			
Storage Products (Example: AWS S3)			
Open-Source Container Platform (Example: Kubernetes)			

Source: DigitalOcean Currents Report – November 2021.



Recently enacted federal infrastructure legislation will provide significant opportunity around smart infrastructure platforms and applications with a focus on 5G and edge computing, cloud native, security and future of work

- The bill includes approximately \$75 billion of the roughly \$1 trillion funding in total for several technology infrastructure items, including broadband access programs, electric vehicle charging stations and cybersecurity.
- While the bill provides funding to support upgrades to critical infrastructure like water and energy, an area of particular focus is operational technology and industrial control security, including the incentivization of information technology and sharing across transportation ecosystems.
- Approximately \$65 billion has been allocated toward expanding broadband access and 5G connectivity nationwide which will also likely see significant private investor interest across the 5G ecosystem.



Sector spotlight: Private equity-backed IT services platforms

Private equity (“PE”) investments within the IT sector spiked throughout 2021 as investors sought to take advantage of a rise in corporate IT spending due to rapid digital adoption required in response to the major challenges caused by the COVID-19 pandemic. For PE firms, much of the value in the IT sector is derived from the opportunity and need for all businesses to rapidly modernize their aging IT systems. The pandemic exposed weaknesses among IT systems, supply chain, fulfillment and customer service capabilities. Throughout 2021, financial buyers continued to invest and acquire platform IT services companies and deploy additional capital for strategic add-ons, accounting for approximately 30% of all transactions within the IT services sector.

TABLE 3: VALUE DRIVERS OF IT SERVICES COMPANIES

- ✓ Recurring revenues (e.g., SaaS Model)
- ✓ Stickiness of customers
- ✓ Effective solutions to combat disruptions from on-going global digitization
- ✓ Sustained demand due to increased focus on Big Data
- ✓ High switching costs once integrated



TABLE 4: REPRESENTATIVE FINANCIAL SPONSOR PLATFORM M&A ACTIVITY

Private Equity Firm	Portfolio Company	Private Equity Firm	Portfolio Company	Private Equity Firm	Portfolio Company
					
					
					
					
					
					
					
					
					
					

Source: Public Information, Capital IQ, Equity Research. | Mesirow did not represent any of the companies in connection with the transactions noted on this page and is not currently representing any of the listed companies.

Outlook of the IT services sector

While near-term concerns over COVID-19 variants may subdue overall M&A activity going into 2022, the technology and IT services sector in particular will continue to remain an attractive area of investment. We believe the adoption curve and investment appetite will support a sustained trend of M&A activity across the IT services landscape. Mesirow remains optimistic that M&A will continue to be an important driver of value and play a significant role in tech companies' strategies in the years ahead. As market conditions continue to be robust and active, Mesirow is well-positioned to help advise IT services companies considering a transaction or securing capital funding from variety of strategic and financial investors.

Dedicated advisor to the technology sector

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