

INFORMATION TECHNOLOGY SERVICES

Market Update

YEAR-END
2023

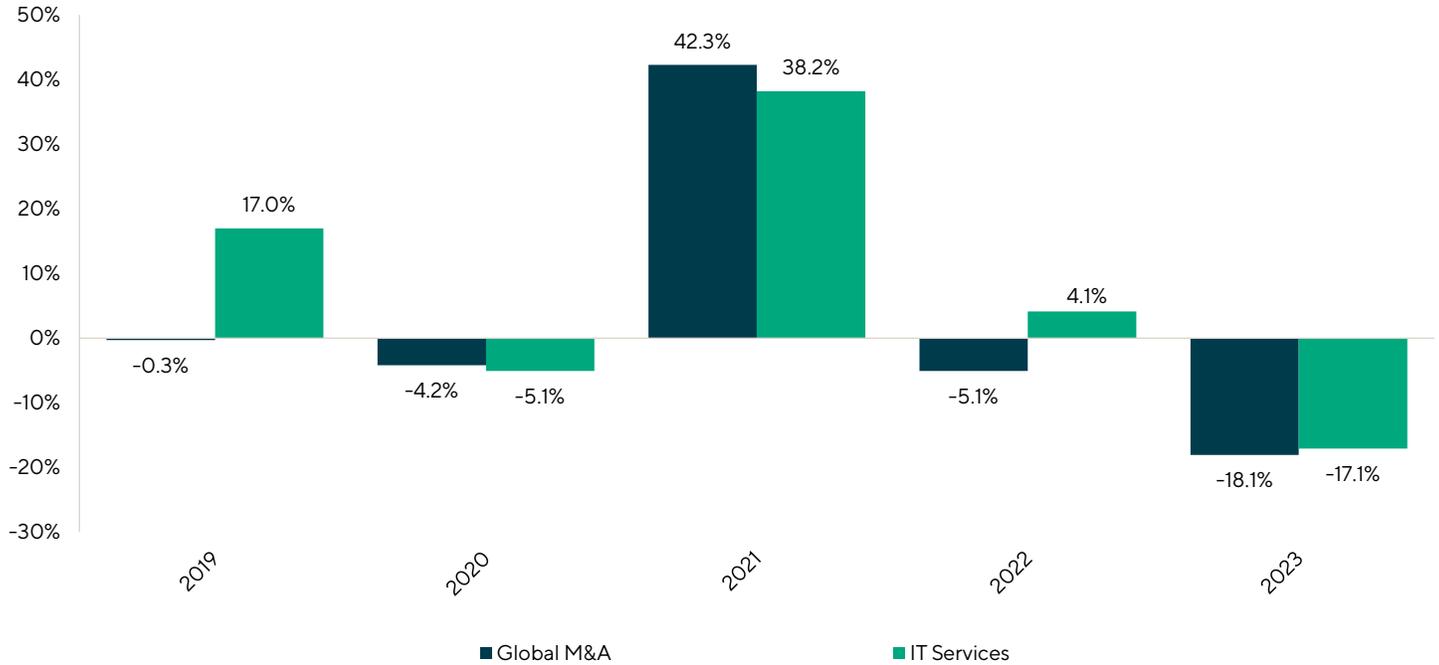


SUMMARY

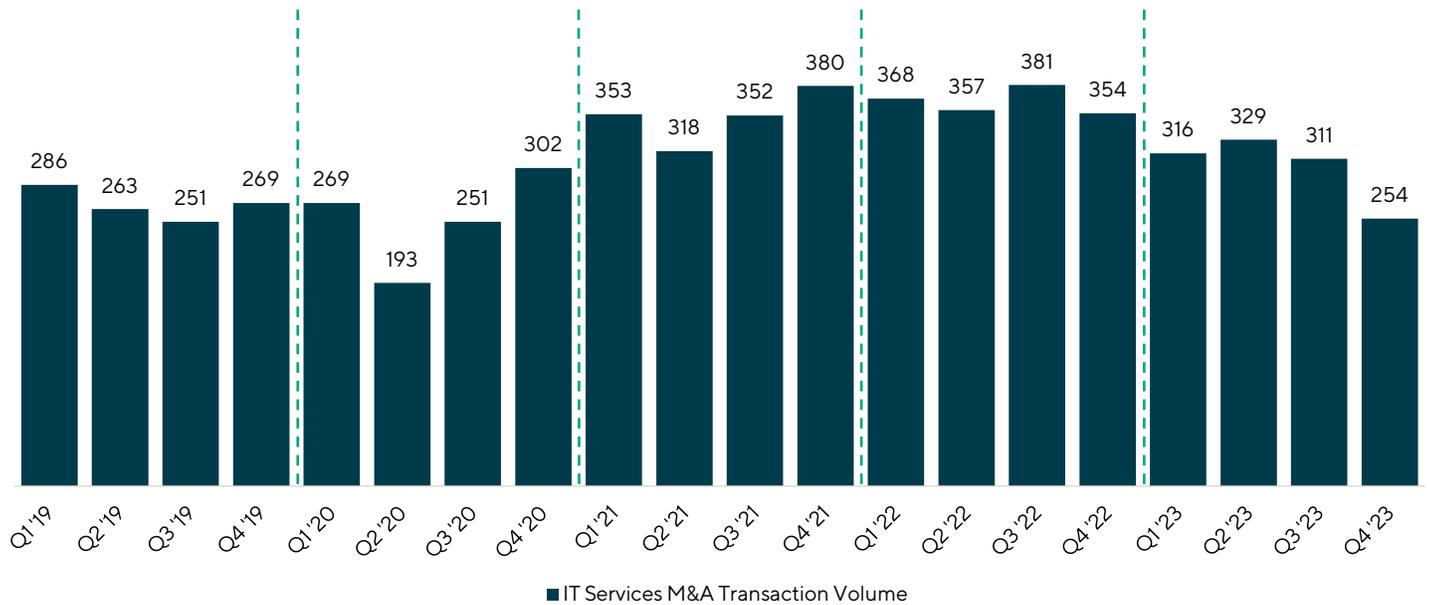
- **During the second half of 2023, the number of M&A transactions in the global IT Services sector totaled 565, compared to 735 in H2 2022, representing a notable decline of 23.1% YoY.** For the full year, M&A transactions in the IT Services sector totaled 1,210, a 17.1% decline compared to 2022. The decline in M&A activity within the sector was slightly less than the decline in global M&A volume across the broader market, which decreased 18.1% from 2022.
- **IT Services valuations recovered in the second half of 2023 from the slight declines experienced during the first half of this year to finish at multiples not seen since Q1 2022.** At the end of Q4 2023, the average EV / EBITDA trading multiple in the IT Services sector was 18.4x, representing a 13.3% increase from the 16.2x average at the end of 2022. Despite significant increases in valuation multiples, and with absolute valuations remaining higher than the overall market, valuation growth in the IT Services sector underperformed the S&P 500, which saw average multiples increase by 23.3%.
- **Many companies within the IT Services sector have continued to experience inflationary pressures on labor costs; however, throughout 2023 companies took initiatives to offset labor cost increases** through reductions in force, productivity improvements and price increases. While costs have risen, the IT Services industry sustained underlying demand and growth, with industry spend reaching \$1.4 trillion in 2023, compared to \$1.3 trillion in 2022¹. In fact, the Lincoln IT Services Composite Index outperformed the global market in terms of growth with a year-over-year average increase of 6.0% in revenue and 6.5% in EBITDA, while the S&P 500 saw modest 2.2% growth in revenue and relatively flat EBITDA.
- **Spend in the IT Services industry is forecasted to reach \$1.5 trillion in 2024, followed by a forecasted CAGR of 12.1% resulting in \$2.1 trillion of annual spend by 2027.** Infrastructure-as-a-service and consulting services are expected to be the fastest-growing areas of spend, along with AI, cyber and data security⁽¹⁾.
- **M&A deal activity is expected to increase throughout 2024 with a growing backlog of IT Services assets waiting to come to market, increasing pressure to deploy capital for investment firms less active in 2022 and 2023.** In addition, from our relationship meetings with corporates, we are detecting an increase in appetite for M&A in 2024, consistent with improving public equity market valuations, at a time when valuation levels are more attractive to buyers.
- **Lincoln continues to be highly active in IT Services, having announced 13 transactions in 2023.**

2023 Information Technology (IT) Services M&A Activity

YEAR-OVER-YEAR CHANGE IN M&A VOLUME FROM 2019 – 2023



IT SERVICES M&A TRANSACTION VOLUME FROM Q1 2019 – Q4 2023

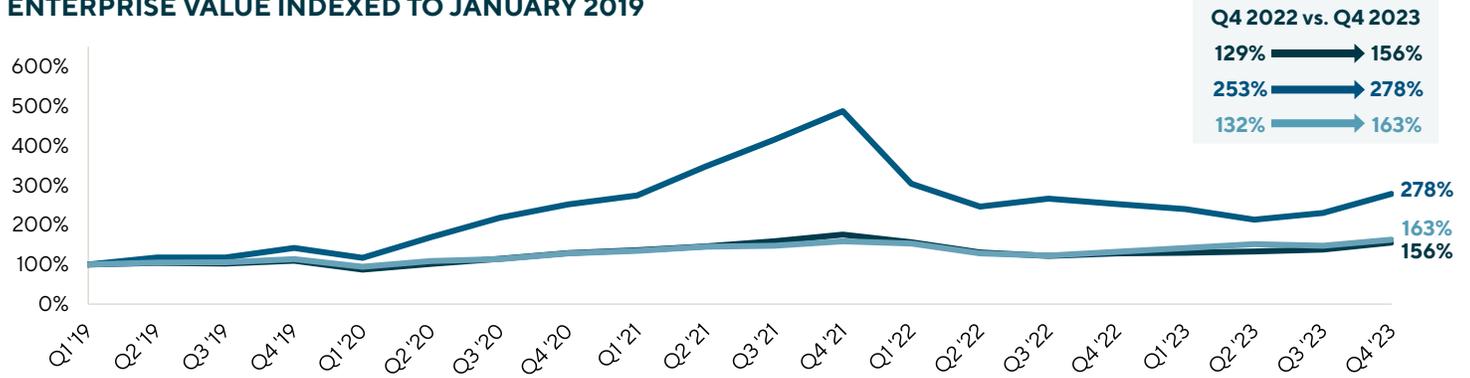


Throughout 2023, the IT Services sector proved more resilient than the broader market, with M&A volume declining by 17.1% compared to a 18.1% decline in global M&A; **secular trends toward digital transformation and consolidation are expected to provide tailwinds for increased M&A activity in 2024.**

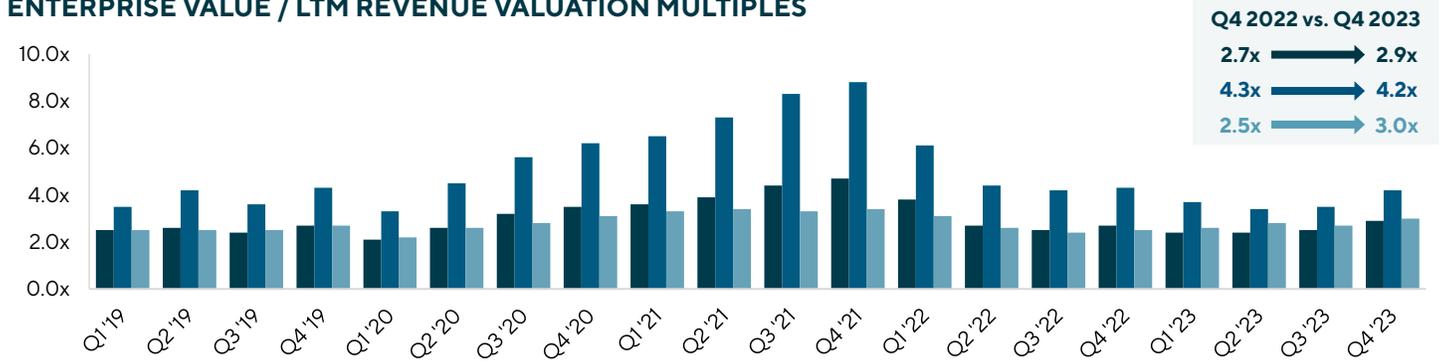
Sources: S&P Capital IQ, Mergermarket, Pitchbook and Proprietary Information; Note: All values based on publicly available data as of 12/31/2023
 Note: Considers closed and reported transactions on S&P Capital IQ. Transaction totals are subject to change from prior report versions as additional transaction data is made available

2023 IT Services Public Company Trading Performance Versus the Broader Market

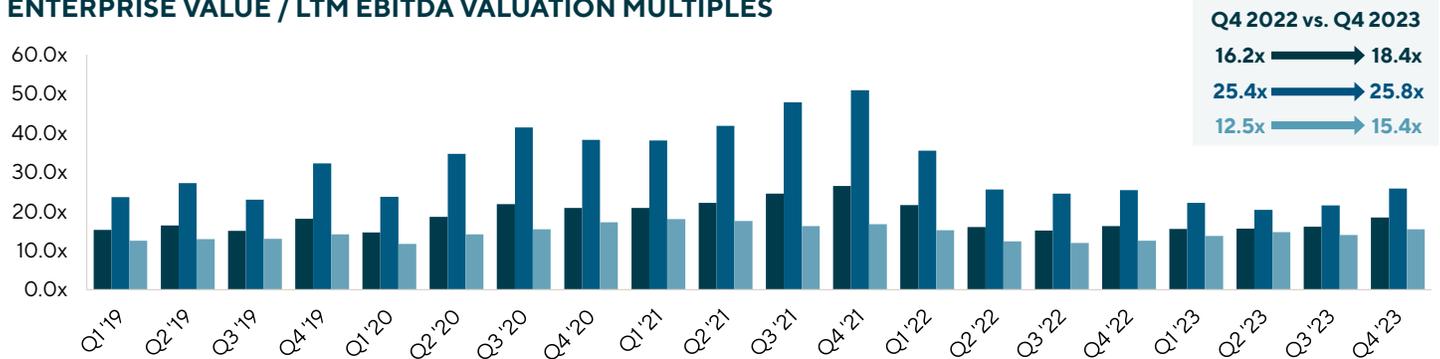
ENTERPRISE VALUE INDEXED TO JANUARY 2019



ENTERPRISE VALUE / LTM REVENUE VALUATION MULTIPLES



ENTERPRISE VALUE / LTM EBITDA VALUATION MULTIPLES



Legend — LI IT Services Composite Index — LI Composite Outsourced Software Development Index — S&P 500

Valuation metrics in the IT Services sector underperformed the broader market in 2023 as aggregate EV and average EV / EBITDA multiples grew 21% and 13%, respectively, relative to a 24% and 23% increase in both metrics for the S&P 500. Interestingly, over this period the IT Services Composite Index had stronger earnings growth – 6.5% growth in EBITDA compared to relatively flat EBITDA performance in the S&P 500 – which led to the relatively smaller improvement in EV / EBITDA amongst IT Services companies. **Although these factors led to moderate convergence of valuation metrics in 2023, absolute valuations for the IT Services sector remain at material premiums to the market overall.**

Source: S&P Capital IQ, Proprietary Information; Note: All values based on publicly available data as of 12/31/2023

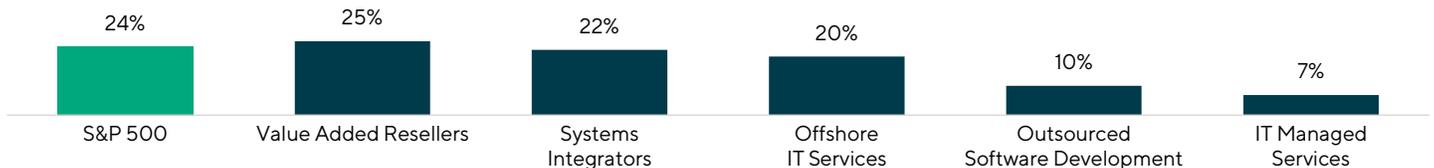
Note: The "LI IT Services Composite Index" is comprised of public companies operating within one of Lincoln's tracked subsectors: North American & European System Integrators, North American & European Value-Added Resellers, Offshore IT Services, North American & European IT Managed Services and Outsourced Software Development

2023 IT Services Sub-Sector Performance and Market Trends

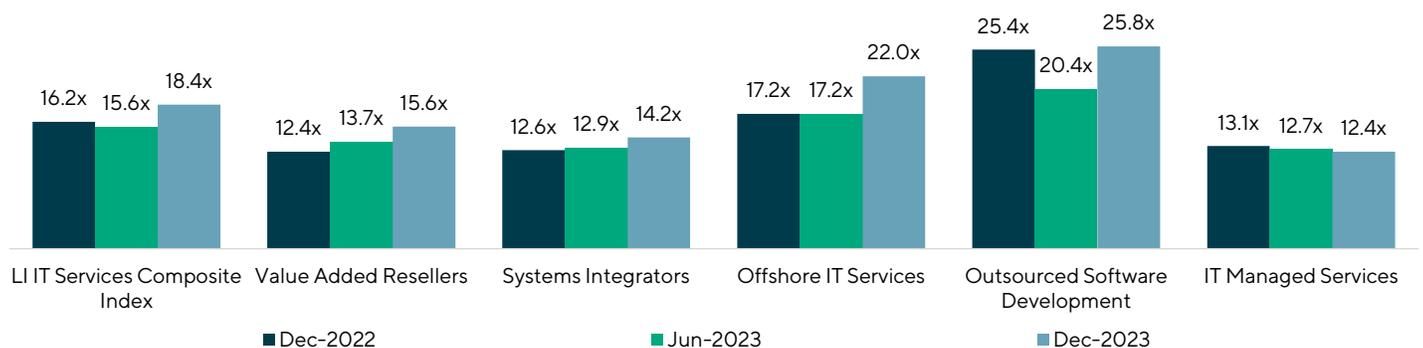
SUB-SECTOR MARKET UPDATE - CONTRASTING PERFORMANCE

- The rise in the IT Services EV / LTM EBITDA multiple in 2023 can be attributed to increased valuations across all sub-sectors; EVs saw a significant uptick of 21%, and on average, EV / LTM EBITDA multiples increased by 2.2x, indicating growing confidence and a positive outlook for the IT Services industry
- The Offshore IT Services sub-sector experienced a significant increase in valuation multiples, from 17.2x to 22.0x year over-year, with Coforge playing a significant role by raising its valuation from 20.1x to 32.7x over the same period
 - After facing economic uncertainty in the first half of 2023, Offshore IT Services companies, such as HCL Technologies and L&T Technologies, attributed strong performance in the latter part of the year to substantial deal momentum and operational improvements
- Value Added Resellers experienced the most significant increase in EVs among IT Services sub-sectors in 2023, with the composite Value Added Resellers sub-sector index witnessing a notable 25% rise in EVs and an increase in average EV / LTM EBITDA multiples from 12.4x to 15.6x
 - Many VARs, such as Computacenter and Cancom, credited high growth to stabilized industry supply chains, while others, such as Dustin Group, were impacted by decreased discretionary spending and experienced lower growth
- Valuation multiples for Outsourced Software Developers decreased mid-year from 25.4x to 20.4x and increased to 25.8x by year-end
 - In the first half of 2023, Outsourced Software Developers encountered challenges with slower client decision making, but later rebounded due to increased pipeline conversions; there has also been a significant amount of investment in AI-based tools in the sub-sector, which contributes to expectations of future revenue growth and margin expansion
- The valuation trends among Systems Integrators and IT MSPs were more muted in 2023, with Systems Integrators increasing modestly (average multiple expansion from 12.6x to 14.2x) and IT MSPs decreasing slightly (average multiple contraction from 13.1x to 12.4x)

ENTERPRISE VALUE PERFORMANCE BY SUB-SECTOR (DEC-2022 VS. DEC-2023)



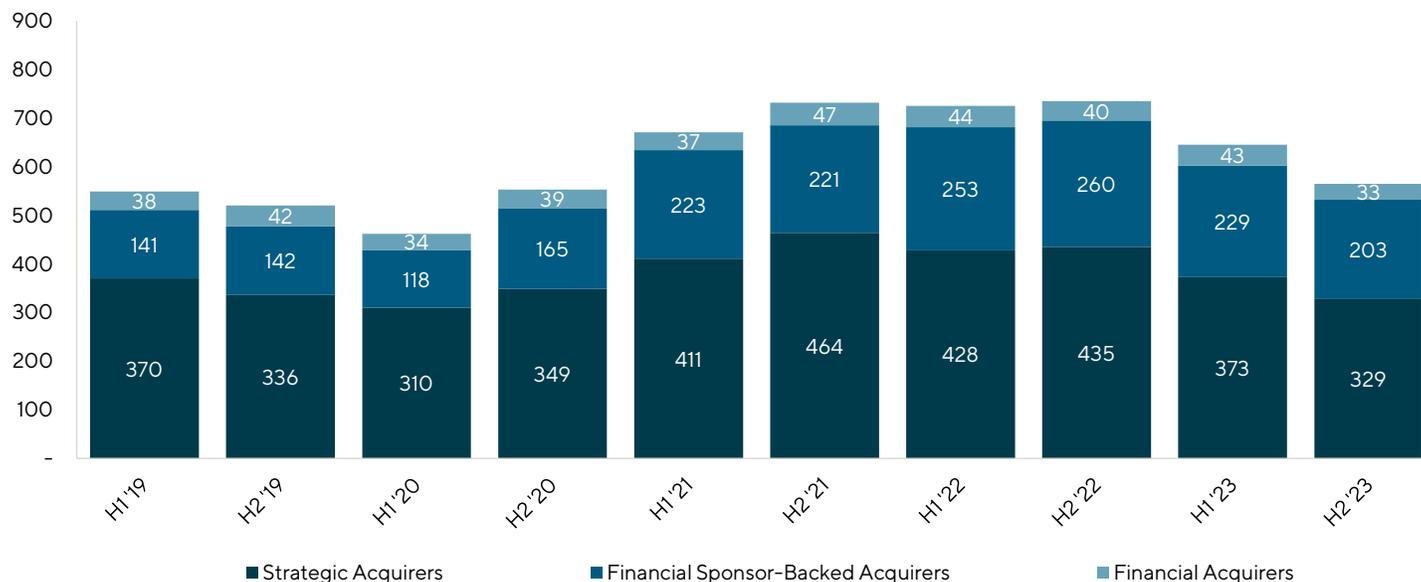
ENTERPRISE VALUE / LTM EBITDA VALUATION MULTIPLES BY SUB-SECTOR (DEC-2022 VS. JUN-2023 VS. DEC-2023)



Source: S&P Capital IQ, Gartner, Company Press Releases and Public Filings; Note: All values based on publicly available data as of 12/31/2023
 Note: The "LI IT Services Composite Index" is comprised of public companies operating within one of Lincoln's tracked subsectors: North American & European System Integrators, North American & European Value-Added Resellers, Offshore IT Services, North American & European IT Managed Services and Outsourced Software Development

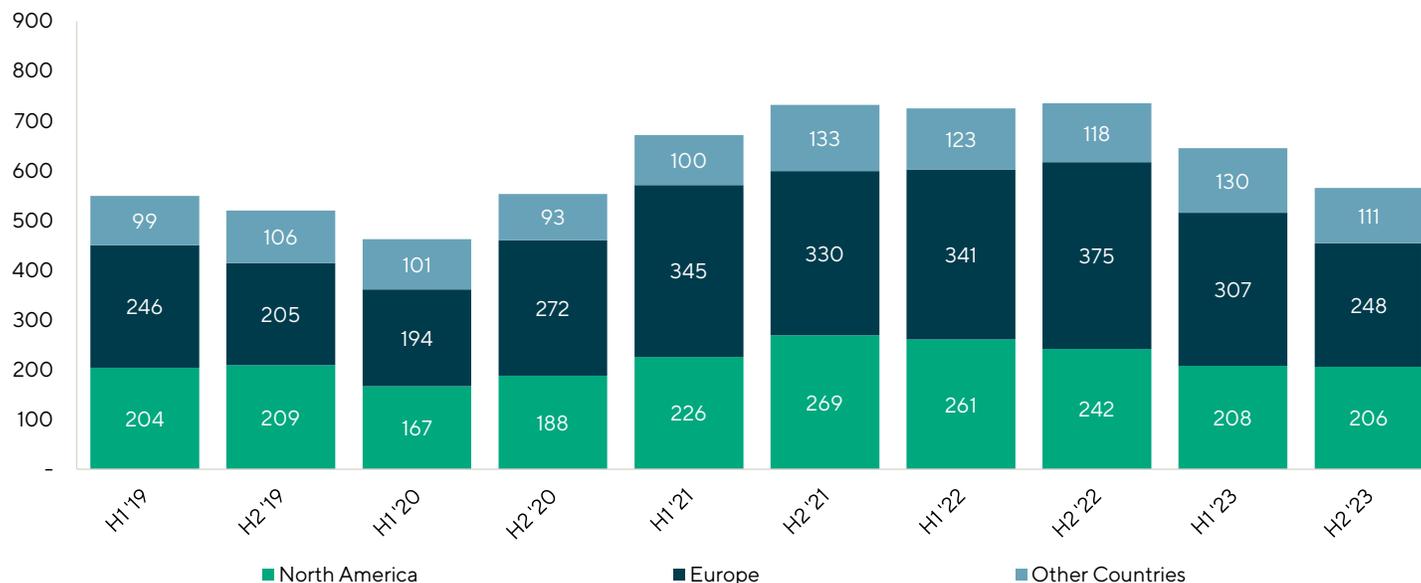
IT Services M&A Snapshot

GLOBAL IT SERVICES TRANSACTION VOLUME BY ACQUIRER TYPE



Activity amongst all acquirer types decreased throughout the year. Strategic acquirer activity had the largest YoY decline of 19% in 2023 (702) from 2022 (863), while financial acquirers and sponsor-backed acquirers declined by 10% and 16%, respectively.

IT SERVICES TRANSACTION VOLUME BY GEOGRAPHIC LOCATION



Deal volume outside of North America and Europe in 2023 remained unchanged from 2022 (241), while overall deal volume in the sector hit a three-year low. Deal volume in North America and Europe declined by 18% and 23% YoY, respectively; however, North America saw effectively flat sequential deal volume in the second half of 2023 while other geographies declined, perhaps indicating some firming of the North American market heading into 2024.

Source: S&P Capital IQ, Mergermarket, Pitchbook, Company Press Releases and Proprietary Information; Note: All values based on publicly available data as of 12/31/2023

Heard on the Street

12/18/2023: VC3 (Nautic Partners), a market-leading managed service provider serving municipalities, financial services organizations and commercial businesses across the country, acquired Aberdeen Consulting, a technology service provider supporting small to medium-sized companies in 20 states and Mexico. The acquisition extends VC3's data protection and recovery and cloud services to the 5,000 employees and 140 companies in Aberdeen's client base.

This marks VC3's fourth acquisition of 2023, following FPA Technology Services, Go Concepts and Welltek IT, expanding their capabilities within the managed IT service and cybersecurity spaces.

11/15/2023: Blue Mantis (Abyr Partners), Portsmouth, New Hampshire-based provider of next-generation managed services, cybersecurity and cloud solutions to more than 1,200 mid-market and enterprise organizations, has announced the appointment of Josh Dinneen as its new Chief Executive Officer. Dinneen, who joined the firm in 2018, has a 25-year background in the MSP and IT services industry and has been instrumental in the company's transformation and rebranding from GreenPages as it has solidified its position in the IT sector.

Ron Dupler, the current Chief Executive Officer who has served for nearly two decades, will assume the role of Chairman and remain active as a board member.

11/07/2023: Amplix (Gemspring Capital), a Norwood, Massachusetts-based provider of strategic technology advisory, consulting, implementation and managed services to more than 3,500 customers, completed its sixth reported add-on of 2023 with the acquisition of New Hampshire-based TNS Communications. With the addition of TNS, Amplix increases its Northeastern presence while expanding its full-service advisory, consulting and implementation suite. The acquisition continues Amplix's aggressive M&A strategy centered around geographic and capability expansion. Throughout the year, Amplix deepened its advisory and implementation capabilities in the areas of UCaaS, managed services for contact centers, customer experience solutions and IT infrastructure lifecycle management and support.

01/29/2023: HKW, an Indianapolis, Indiana-based private equity firm, acquired CMIT Solutions, a leading IT MSP franchisor, and HTW, CMIT's largest franchisee. HKW sought a scaled MSP platform as it sees continued growth in the MSP and cybersecurity market as businesses seek solutions to address increasing cyber threats and IT complexity. CMIT systemwide surpassed \$100 million in revenue in 2022. The simultaneous acquisition of HTW is meant to serve as the foundation for a CMIT corporate affiliate that leverages one of CMIT's top-performing franchisees to serve multi-location accounts and large enterprise customers.

Lincoln's Recent IT Services Transactions

<p>Bridgepoint</p> <p>has made a strategic investment in</p> <p>kerv</p> <p>a portfolio company of</p> <p>LDC</p> <p>Buy-Side Acquisition Financing</p> <p></p>	<p>ENKO CAPITAL</p> <p>has sold</p> <p>NETIS</p> <p>to</p> <p>AMETHIS AFRICINVEST</p> <p>PROPARCO IFC</p> <p>Sell-Side</p> <p></p>	<p>iLink Digital</p> <p>has sold a minority stake to</p> <p>truenorth</p> <p>Capital Raise</p> <p></p>	<p>MILL POINT CAPITAL</p> <p>has sold</p> <p>AVENU</p> <p>to</p> <p>ACP</p> <p>Sell-Side</p> <p></p>
<p>MILL POINT CAPITAL</p> <p>has refinanced</p> <p>verinext</p> <p>Refinancing</p> <p></p>	<p>CHEQUERS CAPITAL</p> <p>has entered into a strategic partnership with</p> <p>cheops</p> <p>Buy-Side Acquisition Financing</p> <p></p>	<p>apera</p> <p>asset management</p> <p>has refinanced</p> <p>Objectware</p> <p>with new unitranche and acquisition facilities</p> <p>Refinancing</p> <p></p>	<p>Phoenix Equity Partners</p> <p>has made an investment in</p> <p>LOGIQ CONSULTING</p> <p>Buy-Side</p> <p></p>
<p>hallo,</p> <p>a portfolio company of</p> <p>VORTEX CAPITAL PARTNERS</p> <p>has received a majority investment by</p> <p>KLAR PARTNERS</p> <p>Sell-Side Staple Financing</p> <p></p>	<p>ARDIAN</p> <p>has acquired a stake in</p> <p>mfg mimacom flowable group</p> <p>from private shareholders and management</p> <p>Buy-Side Acquisition Financing</p> <p></p>	<p>VOKKUS</p> <p>has been sold to</p> <p>SCC</p> <p>Sell-Side</p> <p></p>	<p>SMP STRATEGY CONSULTING</p> <p>has been sold to</p> <p>eraneos</p> <p>a portfolio company of</p> <p>DEUTSCHE PRIVATE EQUITY</p> <p>Sell-Side</p> <p></p>

Source: S&P Capital IQ, Mergermarket, Pitchbook, Company Press Releases and Proprietary Information

M&A Transaction Highlights

Closed	Target	Business Description	Acquirer
Dec-23	Aberdean	Provides information technology consulting services to the small-to-medium business market in the United States	VC3 (Nautic Partners)
Dec-23	Redkite Data Intelligence	Data consultancy firm that specialize in full-stack data expertise for organization performance with data-driven intelligence and AI	Accenture
Dec-23	FPA Technology Services	Provides outsourced IT services in California, U.S.	VC3 (Nautic Partners)
Dec-23	Unifi	Integration and automation ServiceNow specialist	Inetum (Bain Capital)
Nov-23	Solnet Solutions	IT services provider with deep technology consulting experience for New Zealand government and private organizations across multiple industries	Accenture
Nov-23	Compunet	Provides IT managed services and solutions to both SME and enterprise clients	Nostra Technologies (Phoenix Equity Partners)
Nov-23	WINNING Consulting	Provides consulting services through scientific management models and partnerships with digital transformation platforms across Iberia	Alan Allman Associates
Nov-23	Go Concepts	Provides managed information technology services, business continuity, cybersecurity solutions and cloud services	VC3 (Nautic Partners)
Nov-23	Technology Advisory Team	Provides managed network services, cybersecurity, SASE and SD-WAN, cloud, data center and colocation and UCaaS services	UpStack (Berkshire Partners)
Nov-23	TNS Communications	Provides connectivity and IaaS solutions	Amplix (Gemspring Capital)
Nov-23	Performance Enhancements	Provides managed IT services and cybersecurity solutions in Colorado, U.S.	Dataprise (Trinity Hunt Partners)
Oct-23	nQuery Communications	Provides digital communications consulting business services	Amplix (Gemspring Capital)
Oct-23	Inflow Communications	Provides unified communications services	Amplix (Gemspring Capital)
Oct-23	Network One Solutions	Telecommunications consulting firm that provides cloud solutions, data networking, voice and unified communications and security services	UpStack (Berkshire Partners)
Oct-23	APIXIT	Provides digital infrastructure services and solutions in cloud mode and on-premise mode to companies in France	Bechtle
Sep-23	Keyteo Group (Asian Branch)	Asian branch of KEYTEO, a specialized IT strategy and digital transformation consultancy	Alan Allman Associates
Sep-23	MSFT Dynamics business of Groupe Viseo	Microsoft Dynamics consulting business of Groupe Viseo	Inetum (Bain Capital)
Sep-23	Tomorrow	Digital transformation partner bringing enterprise experience to the Shopify Plus ecosystem	Half Helix (BV Investment Partners)
Sep-23	47 Quai	Provides consulting and integration of Salesforce solutions in France	Inetum (Bain Capital)
Sep-23	Proceed	Provides consulting and integration solutions for the ServiceNow platform	Inetum (Bain Capital)
Sep-23	Cohere Cyber Secure	Provides cloud-based IaaS and DRaaS services primarily to financial and media firms	Dataprise (Trinity Hunt Partners)
Sep-23	Advanced Network Products	Provides outsourced information technology management, support, consulting and solutions	Coretelligent (Norwest Equity Partners)
Sep-23	The Final Step	Provides IT managed services in London	Evergreen Services Group (Alpine Investors)
Aug-23	ATI Solutions Group	Provides digital transformation (DX) services for asset-intensive industries	Accenture
Aug-23	Wellteck IT	Provides managed information technology (IT), cybersecurity and cloud services	VC3 (Nautic Partners)
Aug-23	Voice & Data Solutions	Provides telecom consultancy services in Ireland	Nostra Technologies (Phoenix Equity Partners)
Aug-23	Sastema	Specialist in Identity & Access Management (IAM); governance, risk and compliance management and information security services in Germany	Bechtle
Aug-23	Prosol Ingenieria / Prosol Iscat	Provides IT consulting services in Spain	Bechtle
Jul-23	Consulting and Managed Services divisions of Max Kelsen	Consulting and managed services divisions of Max Kelsen focused on AI and ML solutions for businesses	Bain & Company
Jul-23	Sidpath Global	Full-service provider of telecom services based in Nevada, U.S.	UpStack (Berkshire Partners)
Jul-23	Western Computer	Microsoft Gold Cloud partner and reseller of Microsoft Dynamics 365, CRM and ERP systems	Evergreen Services Group (Alpine Investors)

Lincoln's IT Services Practice

Committed to Serving our Clients

We are immersed in the constantly evolving, rapidly growing service-based economy. Our breadth of transactional, operational and technical experience enables us to intuitively communicate the underlying dynamics in key subsectors and generate excellent outcomes based on our clients' individual needs.



About Lincoln International

We are trusted investment banking advisors to business owners and senior executives of leading private equity firms and their portfolio companies and to public and privately held companies around the world. Our services include mergers and acquisitions advisory, private funds and capital markets advisory, and valuations and fairness opinions. As one tightly integrated team of more than 950 employees in more than 20 offices in 15 countries, we offer an unobstructed perspective on the global private capital markets, backed by superb execution and a deep commitment to client success. With extensive industry knowledge and relationships, timely market intelligence and strategic insights, we forge deep, productive client relationships that endure for decades. Connect with us to learn more at www.lincolninternational.com.

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