

Managed Services & As-a-Service Market Insights

July 13, 2023

HOSTED BY



Apurva Prasad
Vice President & Research Analyst
(IT Sector)

HDFC Securities

***ISG** Index™

2Q 2023

imagine your future®

© 2023 Information Services Group, Inc. All Rights Reserved.
Proprietary and Confidential. No part of this document may be reproduced in any form or by any electronic or mechanical means,
including information storage and retrieval devices or systems, without prior written permission from Information Services Group, Inc.

2Q23: Three Big Thoughts



1

Managed Services ACV surpasses \$10B for the first time ever driven by record results in both IT outsourcing and in EMEA

2

Demand for captive centers is increasing as enterprises focus on building product engineering capabilities

3

Impact of Generative AI begins to show as providers propose dramatic productivity improvements across apps, IT ops and CX



Global Broader Market

Quarterly Trends

Combined Market fell 9% Y/Y; third straight quarterly Y/Y decline

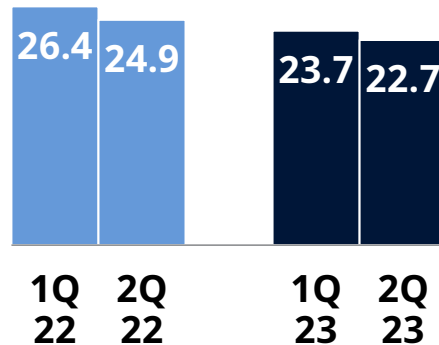
Managed Services registered all-time high, surpassed \$10B in ACV for first time

10 mega-deals awarded

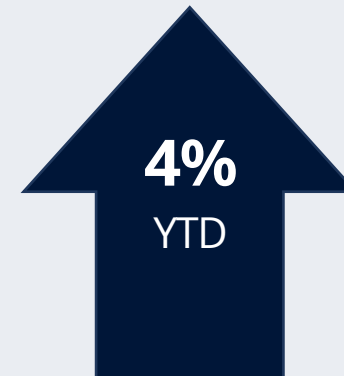
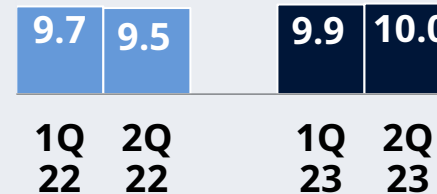
Most ever contract restructuring ACV, surpassing \$4B for second straight quarter

XaaS ACV continues to decline due to difficult macro, down 18% Y/Y

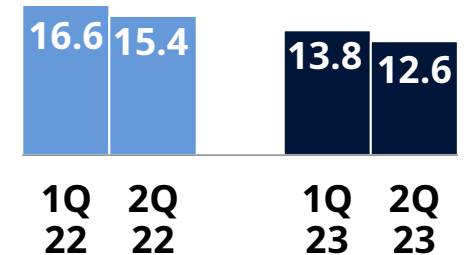
ACV \$B



Combined Market



Managed Services



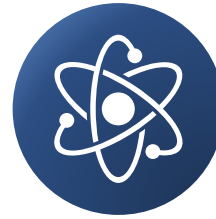
As-a-Service

Strong Demand for Captive Operations



Notable Growth in Global Captive Centers

- Past captives were used for labor arbitrage
- Now, captives are being used as strategic hubs
- India now has nearly 1,600 Global Captive Centers, up 60% over FY15*



Enterprise Focus Is on Cost Savings and Transformation

- Cost reduction goals are driving captive center demand
- 70%+ of enterprises say reducing cost is key to their strategies**
- Digital transformation remains top priority, increasing demand for talent



Providers Are Tapping Into Opportunities

- Collaboration with enterprises to set up captive centers and recruit talent
- Increased opportunities to take over underperforming captives and implement operational efficiencies

Enterprises increasingly want to retain the skills for building products and improving CX, driving an increased demand for captive centers that we expect to continue.

*Source: NASSCOM; **ISG Cost Optimization Study, 2023; N=259

Generative AI Promises Big Gains



Questions About Generative AI Abound

- **Enterprises:** How to get started with Generative AI? What are use cases in their industry?
- **Providers:** What do clients want? Are our offerings resonating?
- **Investors:** How will this impact the sector? Will it create new markets?



Enterprise Use Cases Are Emerging

- **Retail:** Shopify is using Generative AI to generate product descriptions
- **Pharma:** Nvidia released BioNeMo, which will speed drug discovery and protein engineering
- **Finance:** Bloomberg launched a 50 billion parameter model for financial NLP tasks



Providers Are Launching Offerings

- **Cognizant:** Launched Neuro to help enterprises scale Generative AI responsibly
- **TCS:** Created partnership with Google leveraging its PaLM LLM
- **HCL:** Announced partnership with Microsoft focused on Azure OpenAI services



Expected Impacts Within 2023

- Significant improvements in contractually committed productivity
- Expect early gains in # of enhancements to applications annually, faster process builds, fewer software defects and faster resolution rates
- **Metrics to watch:** App Release Rate, Average Build Time and Defects Closed per App

Demand Trends: Managed Services



Managed Services ITO/BPO Results

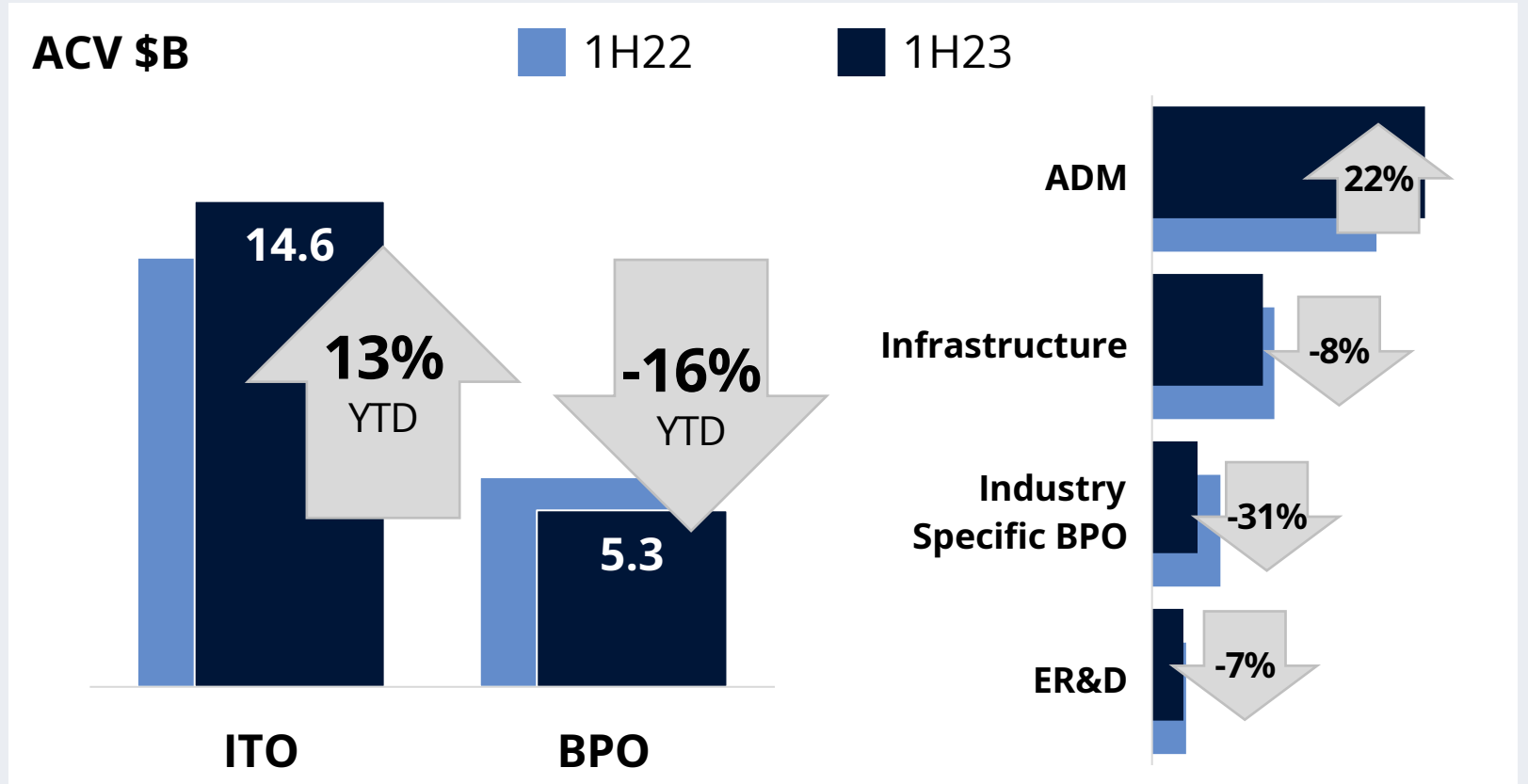
First Half Trends

Best first half ever for ITO ACV, up 13% YTD

ADM awards continues at a high sustained level, up 22% YTD

Infrastructure ACV continues to be under pressure, down 8% YTD

Industry-Specific BPO and ER&D have second-best ever 1H, but still down 31% and 7% YTD, respectively, versus record-setting 1H22 results



ACV = Annual Contract Value

Extensions and Renewals

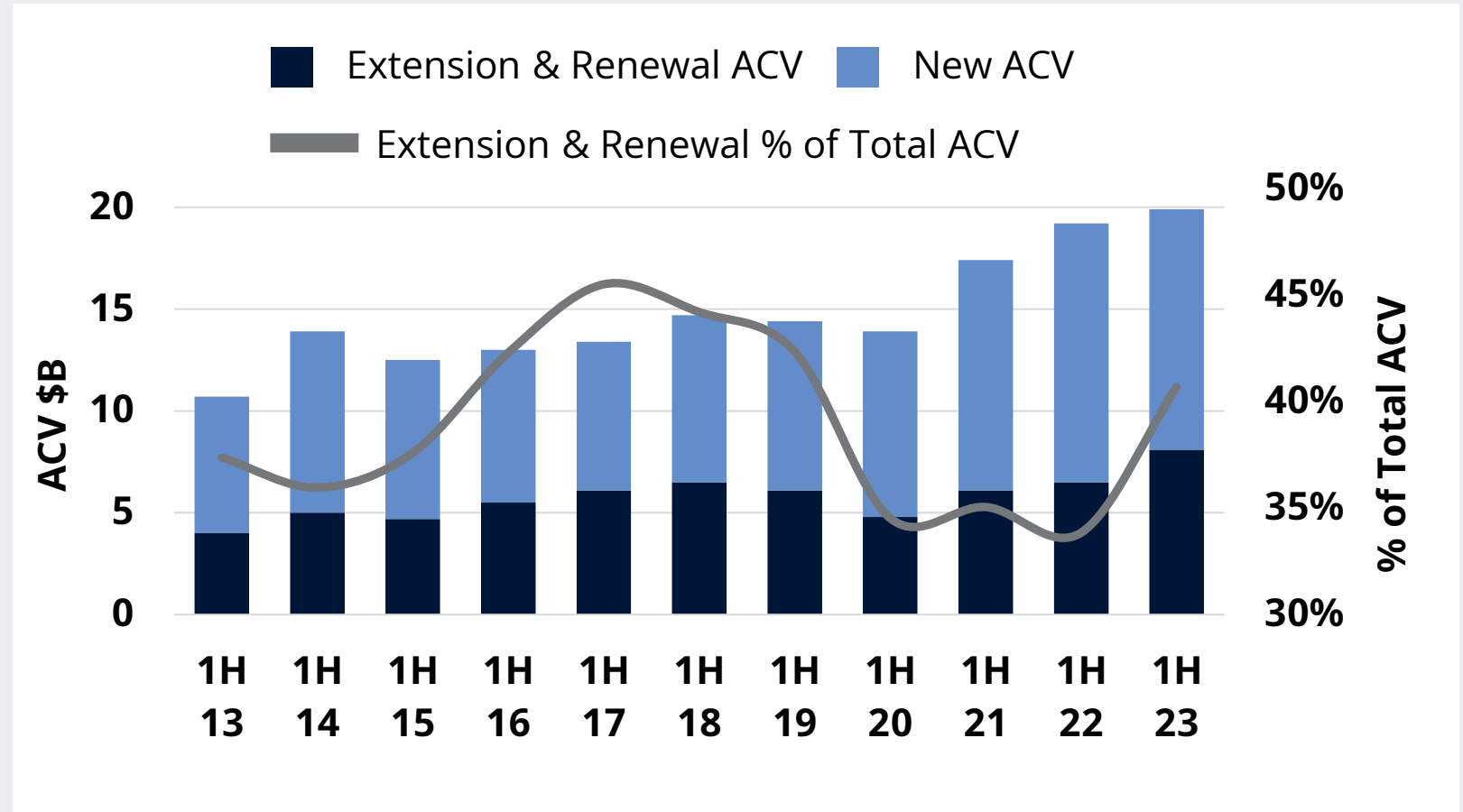
Trends

Over \$8 billion of extension & renewal ACV in 1H23

Represents over 40% of all Managed Services ACV

Extensions and renewals accelerated due to strong focus on cost optimization

Expect New Scope to rebound in 2H23





Americas Broader Market Results

Quarterly Trends

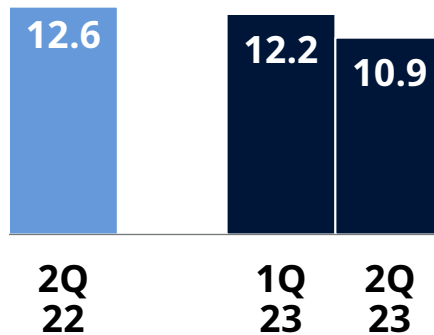
Combined Market ACV falls under \$11B for the first time since 2Q21

Managed Services down 6.5% Y/Y; three of the four past quarters have seen Y/Y declines

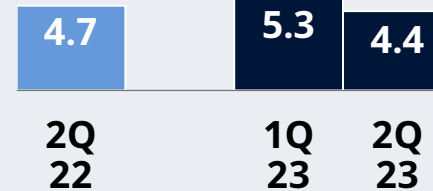
Restructuring ACV up 28% Y/Y while New Scope ACV was down 20% Y/Y

Since peaking in 1Q22, XaaS ACV has fallen sequentially each quarter since

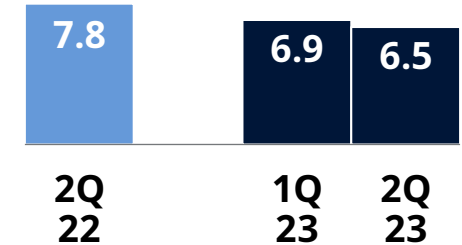
ACV \$B



Combined Market



Managed Services



As-a-Service

ACV = Annual Contract Value



EMEA Broader Market Results

Quarterly Trends

Combined Market rebounded and set an all-time high with \$7.8B in ACV

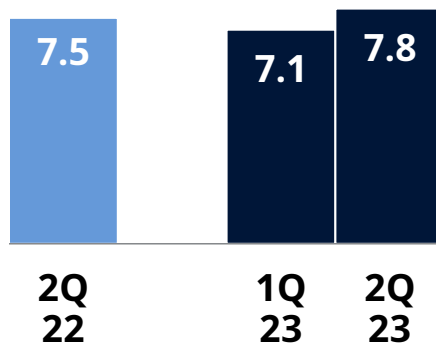
Managed Services generated its best quarter ever, up 15% Y/Y

5 Mega-deals awarded

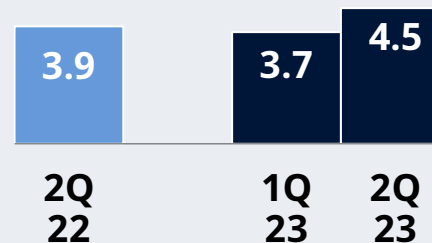
UK ACV generated back-to-back \$1B+ quarters; DACH rebounded from weak 1Q, up 16% Y/Y

XaaS pulled back 9% Y/Y; slowdown not as pronounced as in other two regions

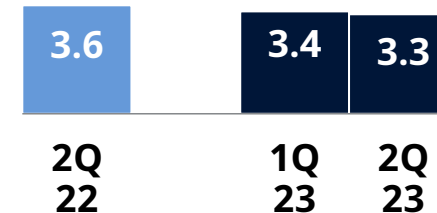
ACV \$B



Combined Market



Managed Services



As-a-Service

ACV = Annual Contract Value



Asia Pacific Broader Market Results

Quarterly Trends

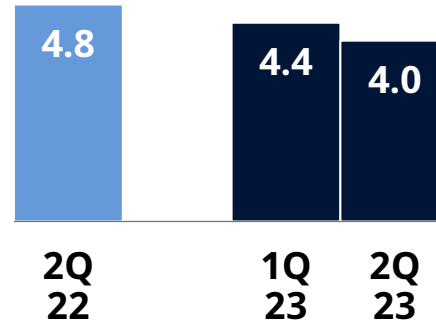
Combined Market continued to decline with a precipitous Y/Y drop for the fifth straight quarter

Managed Services generated \$1B+ in ACV, which typically occurs once every two years

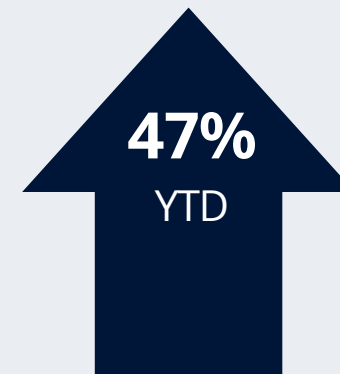
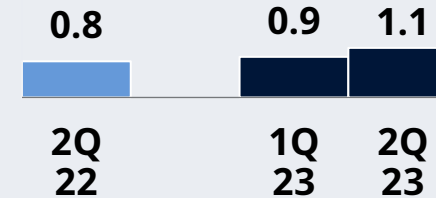
2 mega-deals awarded, the most in a quarter since 2Q19

XaaS remained underwater with a 28% Y/Y decline; market share upheaval in IaaS between established BAT vendors and Telcos; major players initiate price war

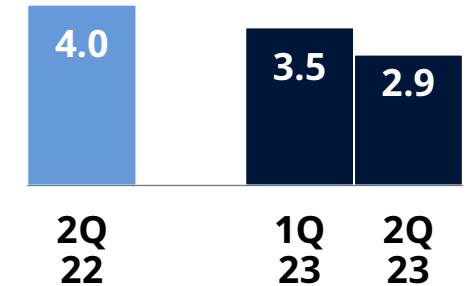
ACV \$B



Combined Market



Managed Services



As-a-Service

ACV = Annual Contract Value



Industry Award Trends

1H23 ACV Change Y/Y	Business Services	Retail & Consumer Packaged Goods	Energy	Financial Services	Healthcare & Pharma	Manufacturing	Telecom & Media	Travel, Transport Leisure
Combined Market	-28%	-6%	18%	-11%	5%	-2%	-20%	-12%
Managed Services	-16%	7%	47%	-10%	67%	12%	-1%	-19%
As-a-Service	-31%	-11%	-9%	-12%	-16%	-11%	-32%	-8%

Demand Trends: Cloud



IaaS Results

First Half Trends

Total IaaS ACV declined 21.5% YTD; only second time IaaS segment has been negative at half-year point

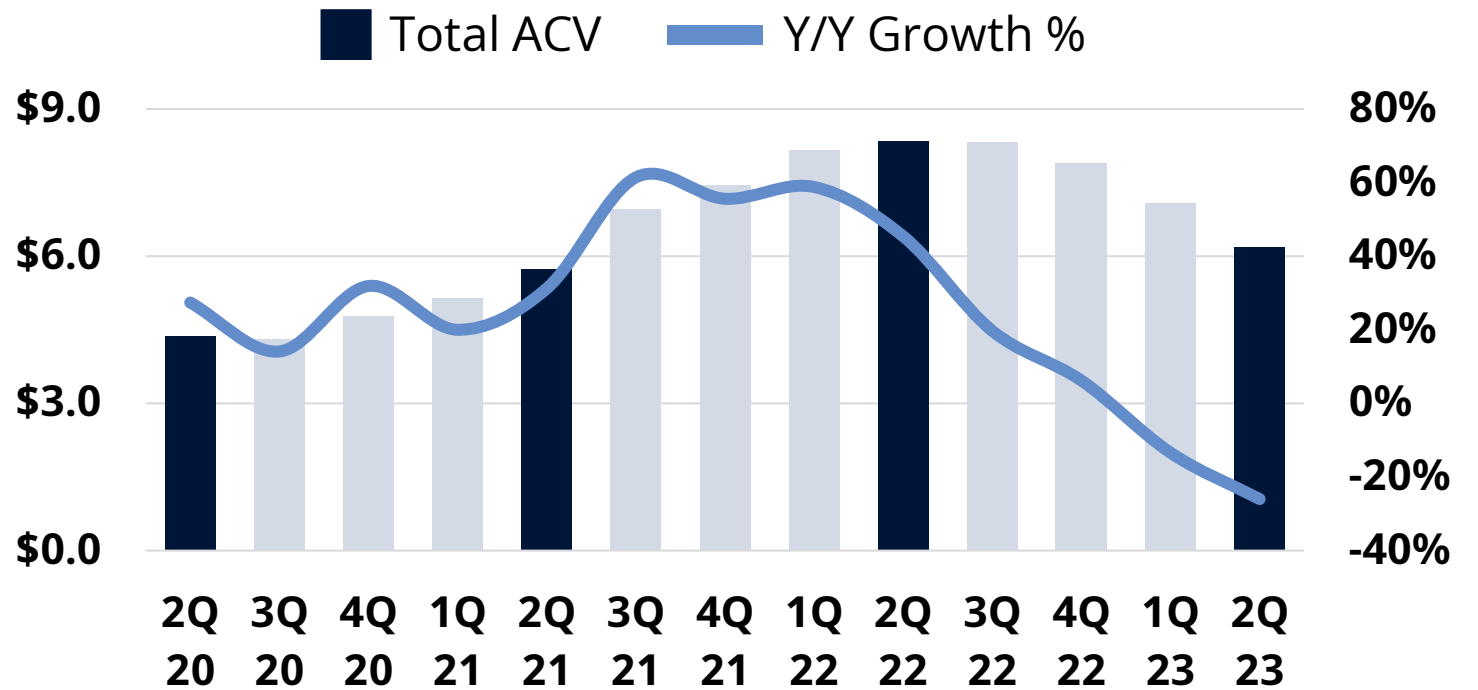
EMEA down 14%, Americas down 18% and Asia Pacific down 31% YTD

AWS, Azure and GCP ACV declined 20% YTD

Top 3 hyperscalers averaged 51% 1H growth during the previous 5 years

ACV \$B

Top 3 Hyperscaler Growth in ACV (2020 - 2023)



ACV = Annual Contract Value



SaaS Results

First Half Trends

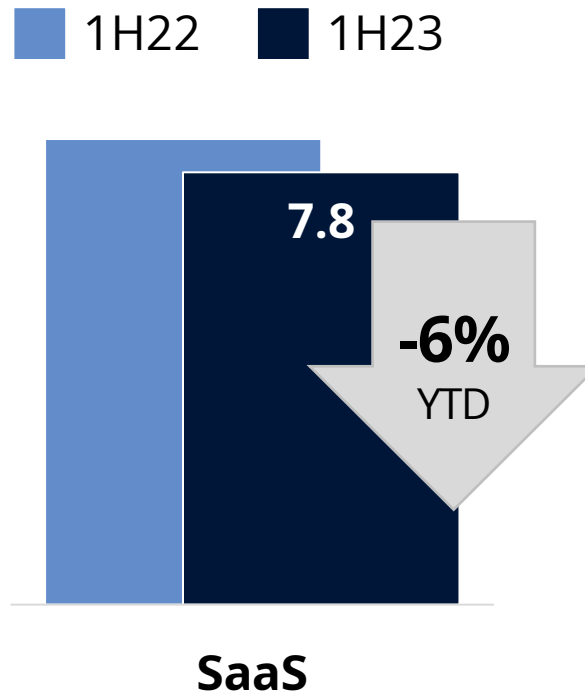
SaaS ACV down 6% YTD but remains in a very tight ACV range in the last 9 months

Macro impacts sales cycles and deal sizes while bringing more approval scrutiny at CIO/CFO level

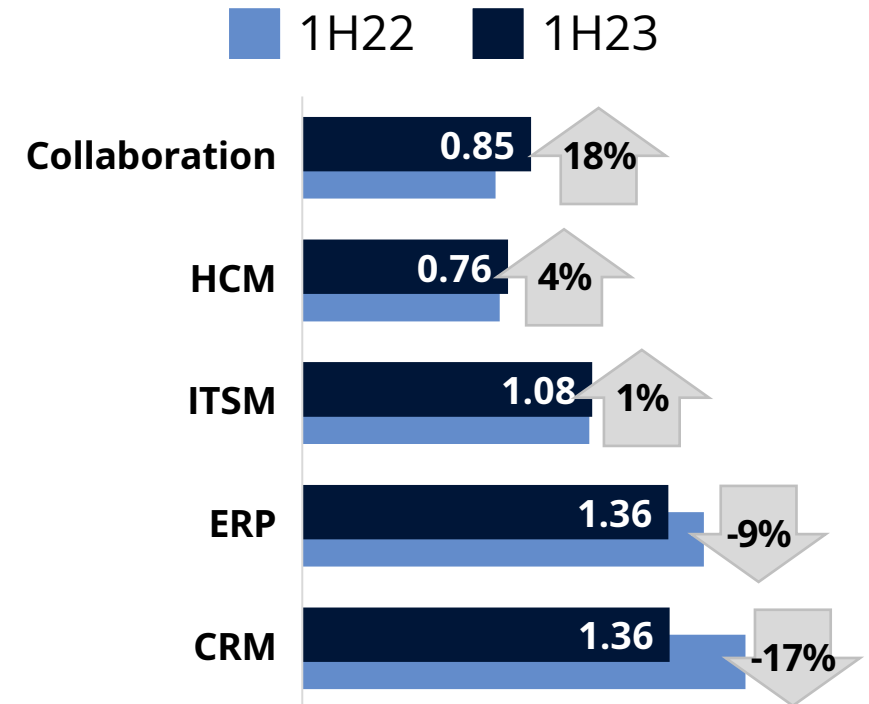
Top 10 SaaS providers continue to outpace Broader Market growth

HCM and ITSM continue growth trajectory; ERP and CRM decline versus stronger 1H22 results

ACV \$B



App Category ACV Growth



Service & Technology Provider Standouts

Our ISG Contract KnowledgeBase™ is used to determine placements based on the annual value of commercial contracts awarded in the past 12 months

THE
ISG 15

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.

Managed Services Market

As-a-Service Market

	The Big 15		The Building 15		The Breakthrough 15		The Booming 15	
	Revenues > \$10B		Revenues \$3B-\$10B		Revenues \$1B-\$3B		Revenues <\$1B	
	Accenture	HCL	ABM Industries*	Genpact	Alten Group*	Reply SpA	Adesso*	KPIT Technologies
	Capgemini	IBM	Alight Solutions*	LTIMindtree	Atento*	TELUS International	Birlasoft	LTTTS
	Cognizant	Infosys	BT Global*	Sodexo*	EXL	TTEC*	Coforge	Mastek
	Deloitte	TCS	CGI*	Tech Mahindra	Globant	Unisys	Eltel*	Posco ICT*
	DXC Technology	Wipro	Concentrix*	T-Systems	Persistent*	WNS	Endava	Softtek
			Foundever				Ensono	Sonata Software
	Amazon Web Services	Microsoft	Equinix	ServiceNow	Atlassian	HubSpot	Alteryx	DigitalOcean
	China Telecom*	Oracle	Palo Alto Networks	Workday	CrowdStrike	Snowflake	Cloudflare	
	Google Cloud				Datadog			

* New or returning to leaderboard in 2Q23

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



Service & Technology Provider Standouts – Americas



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	HCL	ABM Industries*	LTIMindtree	EXL	TELUS International	Birlasoft	KPIT Technologies
	Capgemini	Infosys	Alight	Rackspace	Globant	TTEC*	Coforge	LTTS
	Cognizant	NTT Data	Concentrix	Tech Mahindra	Mphasis	Unisis	Cyient	Softtek
	Deloitte	TCS	Foundever	T-Systems*	Persistent*	WNS	Ensono	Sonata Software
	DXC Technology	Wipro	Genpact		Sonda*		GEP	TaskUs*
							HGS*	
As-a-Service Market	Amazon Web Services	Microsoft	Digital Realty*	Palo Alto Networks	Atlassian	HubSpot	Alteryx	Cloudflare
	Google	Oracle*	Equinix	ServiceNow	CrowdStrike	Okta	Bill.com	DigitalOcean
		Salesforce*	Iron Mountain*	Workday	Datadog	Snowflake		

* New or returning to leaderboard in 2Q23

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



Service & Technology Provider Standouts – EMEA



The ISG Contract KnowledgeBase™ is used to determine placements based on the annual value of commercial contracts awarded in the past 12 months.

Managed Services Market

	The Big 15		The Building 15		The Breakthrough 15		The Booming 15	
	Revenues > \$10B		Revenues \$3B-\$10B		Revenues \$1B-\$3B		Revenues <\$1B	
	Accenture	IBM	Akkodis*	Foundever*	AFRY*	Reply SpA	Adesso*	GFT Technologies
	Atos	Infosys	BT Global	Sodexo	Alten	Sweco*	Allgeier*	KPIT Technologies
	Capgemini	Kyndryl	CGI	Sopra Steria	Asseco	Telus *	Autocont	Mastek
	DXC Technology	TCS	Computacenter*	Tech Mahindra	Atento*	Unisys	CI&T*	Ness Digital Engineering*
	HCLTech*	Wipro	Econocom	Teleperformance	Majoral*	WNS	Eltel	NNIT A/S
			EPAM Systems	T-Systems	Nexi*		Endava	
As-a-Service Market	Amazon Web Services	Microsoft	Equinix	VMware*	Atlassian	Sage	CloudFlare*	IFS*
	Google Cloud	Oracle*	United Internet*		Okta	Visma	DigitalOcean	OVH*
		SAP						

* New or returning to leaderboard in 2Q23

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



Service & Technology Provider Standouts – Asia Pacific



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	IBM	Amdocs	LTIMindtree	Konica Minolta	Telus International*	Beyondsoft*	Sonata Software
	Capgemini	Infosys	Autodesk*	Palo Alto Networks*	Neusoft*	Thoughtworks	Coforge	SsangYong I&C
As-a-Service Market	DXC Technology	TCS*	CGI*	Sodexo	Persistent*	TTEC	KPIT Technologies	TaskUs*
		Wipro	Datatec*	Tech Mahindra	SK C&C*		Posco*	Tata Elxsi*
	Amazon Web Services	Google Cloud						
	China Mobile Cloud*	Huawei*	Dassault Systèmes	ServiceNow	Atlassian	MongoDB	21Vianet	Kingdee
	China Telecom	Microsoft	Equinix	Splunk*	CrowdStrike	Nice*	Cloudflare	NEXTDC
	China Unicom	Oracle	OneConnect*		Datadog	Okta	DigitalOcean	Xero*
					DocuSign	Sage		

*New or returning to leaderboard in 2Q23
 †Provider moved tiers since previous quarter

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

Summary and Outlook

Summary and Outlook

Summary

Managed Services

- Demand for Managed Services was robust with record deal flow and ACV
- Ten mega-deals in quarter contributed over \$1.7B of ACV
- Cost optimization strategies continued to drive strong renewal market, but significant cuts in discretionary spend keep spend down
- GCCs rebounded with strong growth in captive market

XaaS

- Cost optimizations and decline in tech spend impacted growth in As-a-Service market
- Top 10 SaaS providers leveraged acquisitions to outperform broader SaaS market
- Big 3 hyperscalers (AWS, Azure, GCP) continued to weaken amidst difficult macro

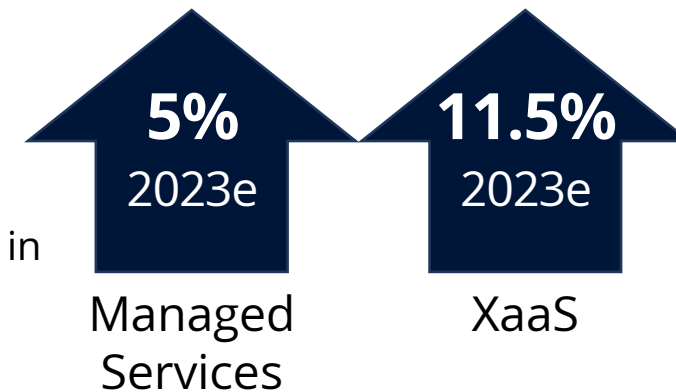
Market Outlook

Macro Recap

- Inflation remains high with continued market uncertainty, which delays corporate decision making and freezes discretionary spend
- US GDP and labor market remains strong; contagion in the banking sector avoided as US banks passed enhanced Federal Stress Test
- Generative AI creating buzz and excitement across markets

Revenue Forecast

- Managed Services: Strong demand continues; weakness in BFS should recover in 2H
- XaaS: Continued slowness in discretionary spend combined with difficult compares



Thank you!

The 83rd Quarterly
* **ISG** Index™



ISG (Information Services Group) (Nasdaq: III) is a leading global technology research and advisory firm. A trusted business partner to more than 900 clients, including more than 75 of the world's top 100 enterprises, ISG is committed to helping corporations, public sector organizations, and service and technology providers achieve operational excellence and faster growth. The firm specializes in digital transformation services, including automation, cloud and data analytics; sourcing advisory; managed governance and risk services; network carrier services; strategy and operations design; change management; market intelligence and technology research and analysis. Founded in 2006, and based in Stamford, Conn., ISG employs more than 1,600 digital-ready professionals operating in more than 20 countries—a global team known for its innovative thinking, market influence, deep industry and technology expertise, and world-class research and analytical capabilities based on the industry's most comprehensive marketplace data. For more information, visit www.isg-one.com.

isg-one.com