

Aventis Advisors

Valuation Multiples in IT Services

February 2023

About Aventis Advisors

What do we do?

We are an M&A advisor focusing on technology and growth companies. We advise on company exits, acquisitions, and larger capital-raising deals.

Over the years, we have developed a distinctive operating philosophy driven by a set of values.

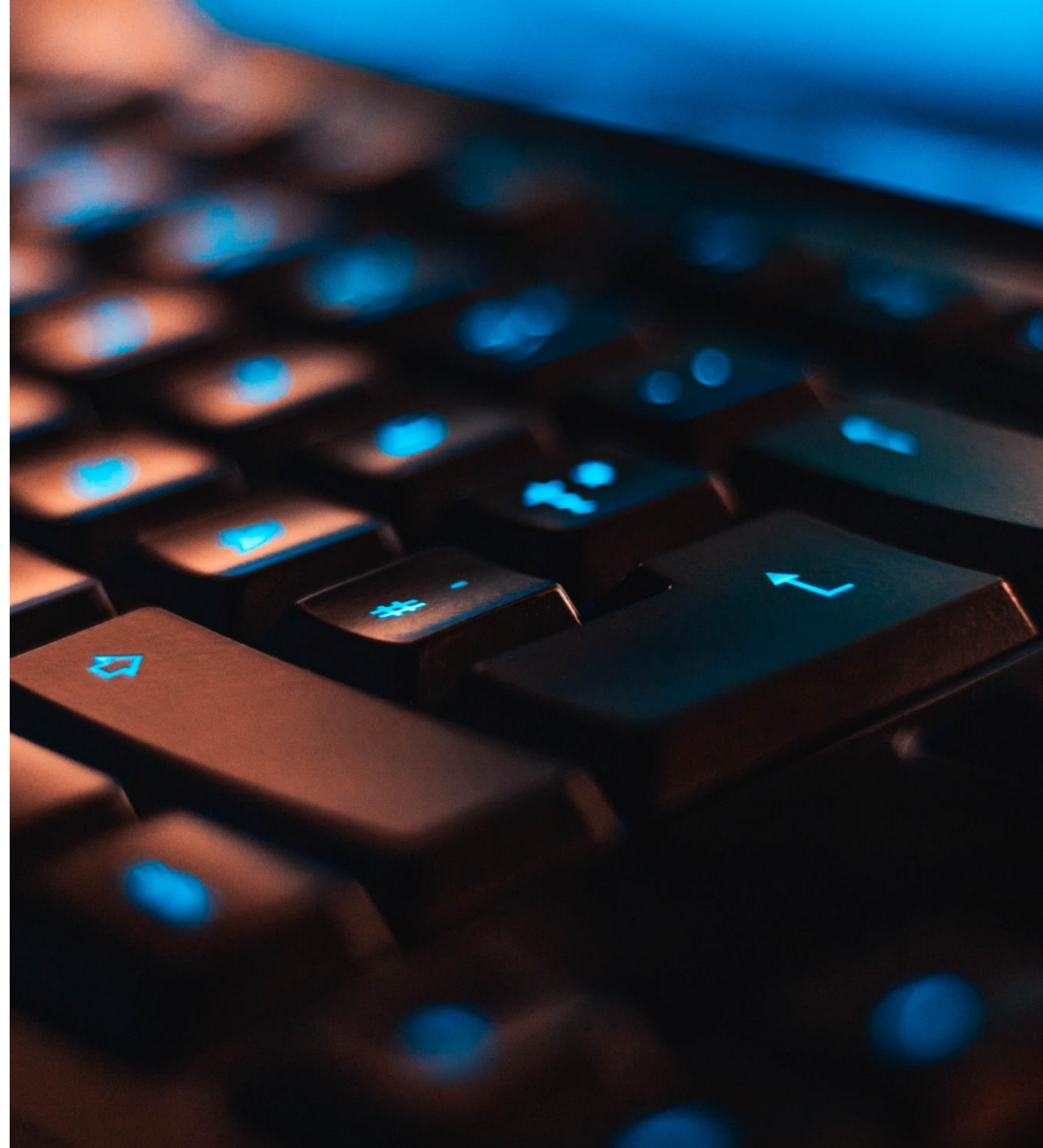
- We believe the world would be better off with fewer (but better quality) M&A deals done at the right moment for the company and its owners.
- We start with a simple rule: we take the time to carefully listen and understand each client's unique set of needs and goals.
- We then provide honest, insight-driven advice clearly laying out all the options before you – including the one to keep the status quo.

Our closed deals

<p>Aventis Advisors</p> <p>CKSOURCE™</p> <p>Sold to</p> <p>PSG PROVIDENCE STRATEGIC GROWTH</p> <p></p>	<p>Aventis Advisors</p> <p>Solutions30 Solutions For New Technologies</p> <p>Acquired</p> <p>The Telecom support services of ELMO</p> <p></p>	<p>Aventis Advisors</p> <p>Solutions30 Solutions For New Technologies</p> <p>Acquired</p> <p>Telekom Uslugi S.A.</p> <p></p>	<p>Aventis Advisors</p> <p>active24</p> <p>Sold to</p> <p>ogicom</p> <p></p>
<p>Aventis Advisors</p> <p>Avenga</p> <p>Acquired</p> <p>sevenval </p> <p></p>	<p>Aventis Advisors</p> <p>avalon</p> <p>Was acquired by</p> <p>R22</p> <p></p>	<p>Aventis Advisors</p> <p>VISMA</p> <p>Acquired</p> <p>saldeo SMART</p> <p></p>	<p>Aventis Advisors</p> <p>xServers</p> <p>Sold to</p> <p>R22</p> <p></p>

IT Services Valuation Multiples

1. Valuation Multiples in M&A Transactions
2. Valuation Multiples in Public Markets



M&A Transactions: IT Services multiples

Over the past 8 years, IT service companies have been valued at around 11.0x EBITDA or 1.4x Revenue

Multiple	Sample (n)	1st quartile	Median	3rd quartile
EV/Revenue	509	0.7x	1.4x	2.9x
EV/EBITDA	307	7.2x	11.0x	18.1x
EV/EBIT	229	10.1x	15.7x	30.7x

Search criteria:

Industry is Computer services

Deal value is disclosed

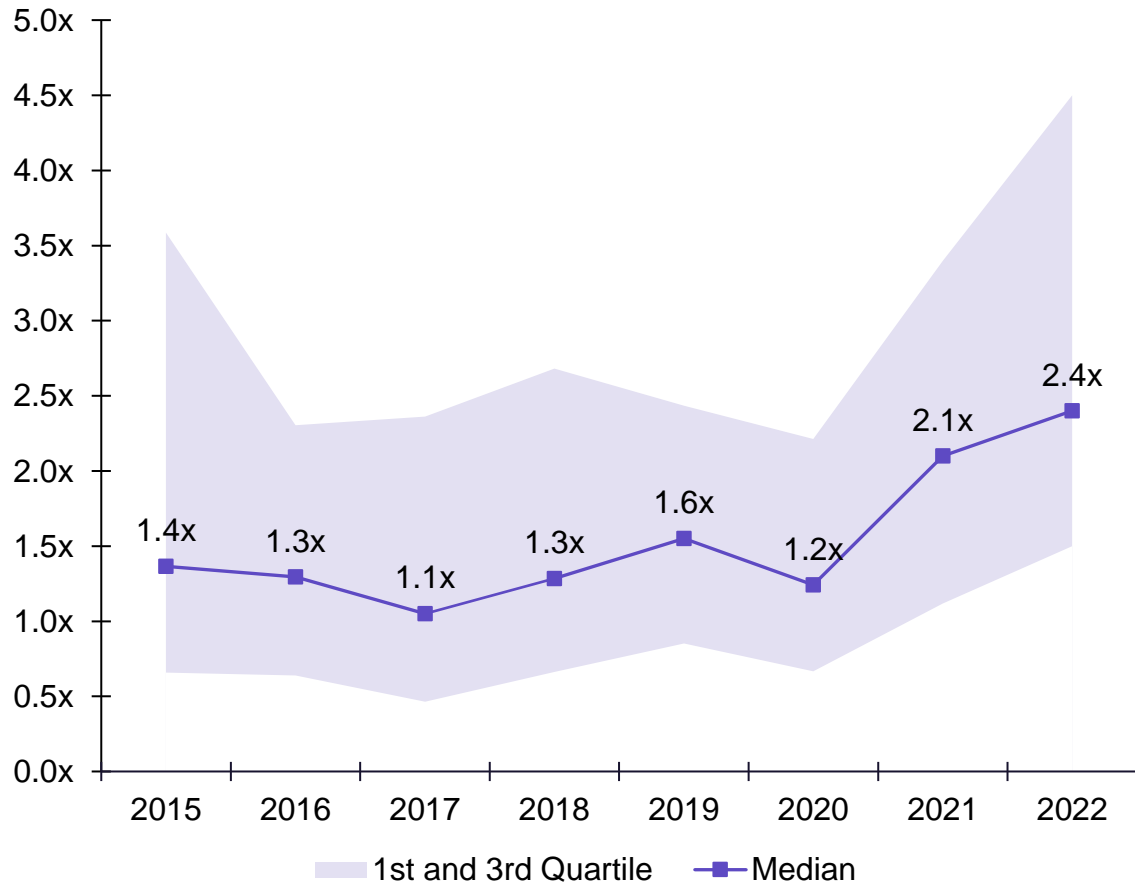
Period: 01.01.2015 – 31.08.2022

N=467 transactions

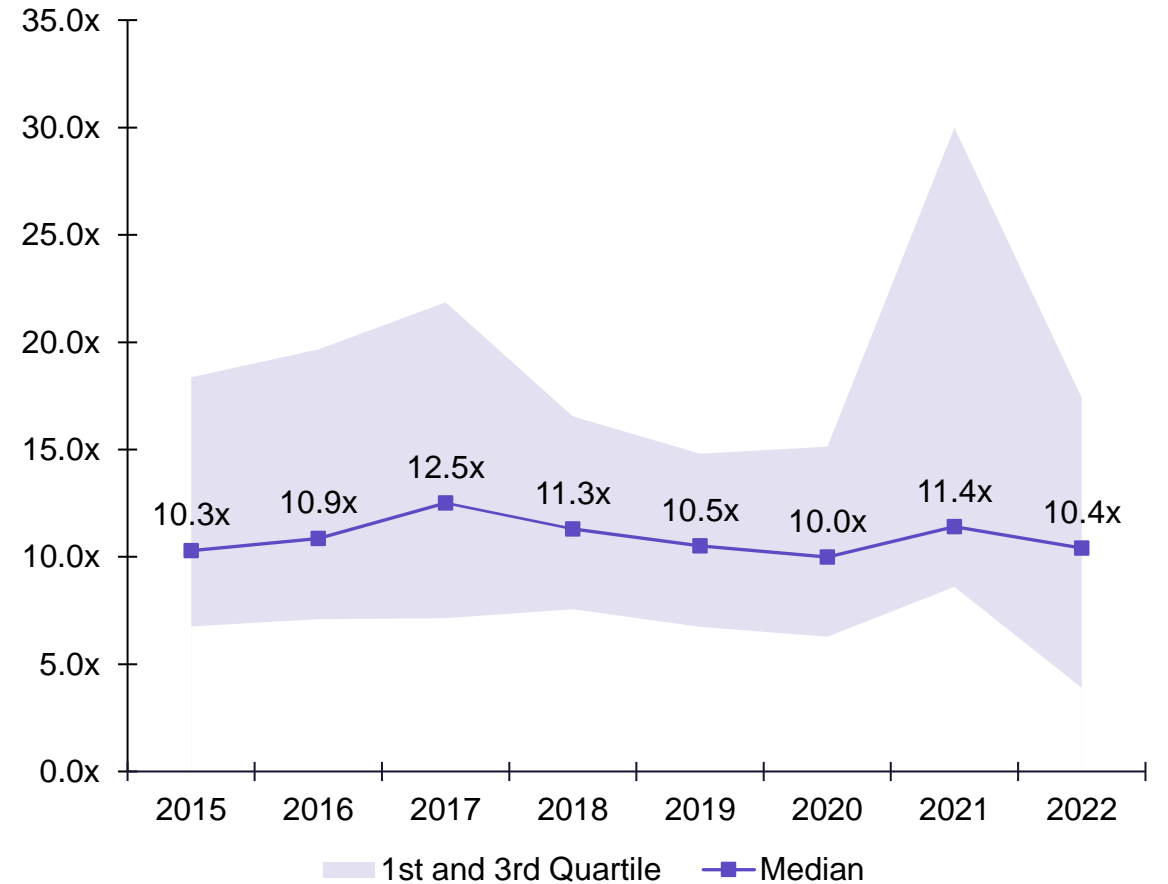
M&A Transactions: IT Services Valuations

The median EBITDA multiples had been stable for the last 8 years, while EV/Revenue grew sharply throughout 2021 and 2022

Median EV/Revenue multiple, 2015-2022 (n=509)



Median EV/EBITDA multiple, 2015-2022 (n=307)



M&A Transactions: Size effect on multiples

Due to the lower business risk, larger companies are typically valued higher

Deal size, m USD	Number of deals	Median EV/Revenue	Median EV/EBITDA
<5	43	0.8x	6.1x
5-20	165	1.2x	8.0x
20-50	69	1.3x	10.8x
50-100	68	1.4x	12.0x
100-500	100	2.0x	12.6x
500+	64	2.3x	12.6x
Total	509	1.4x	11.0x

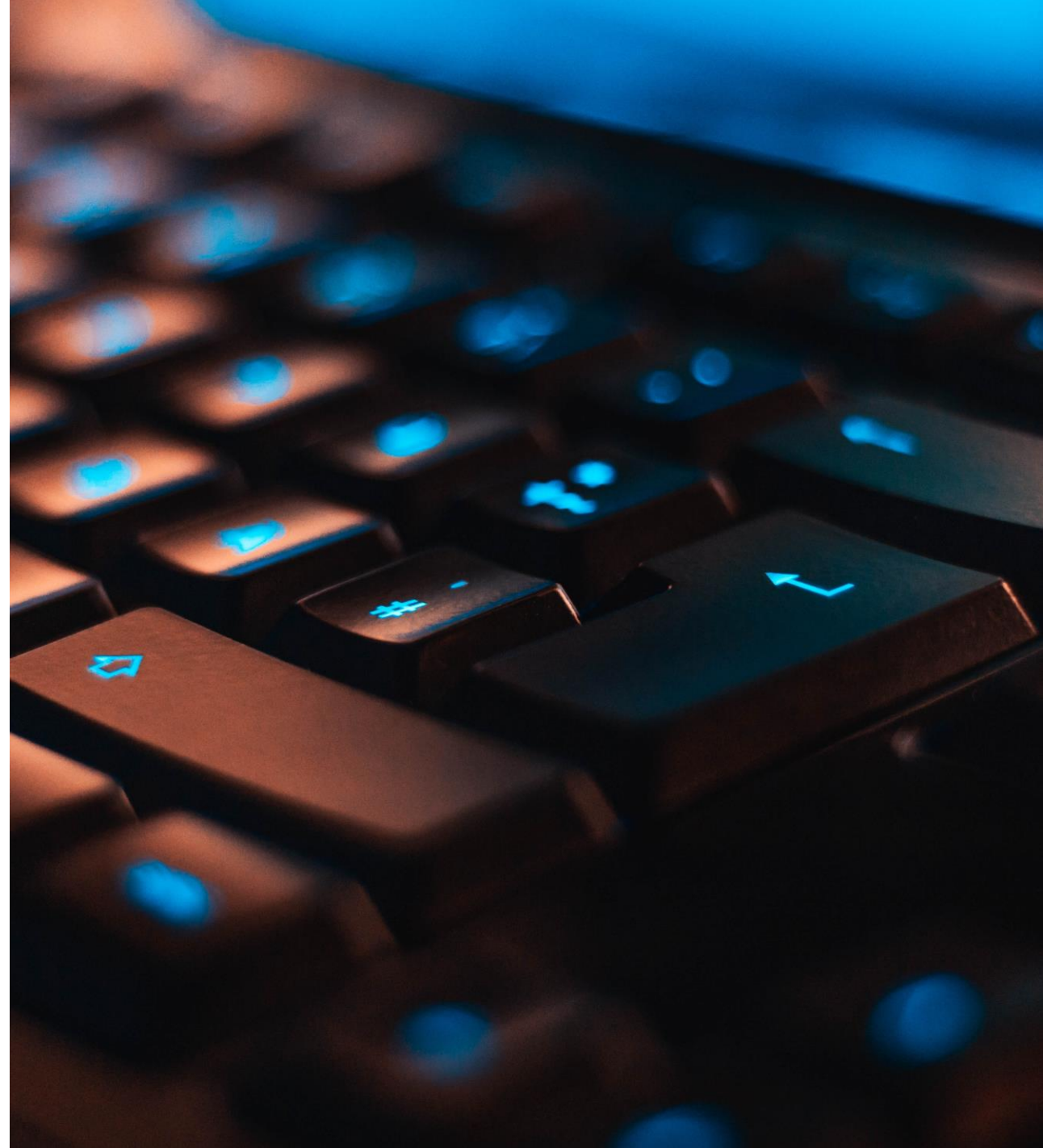
M&A Transactions: Geography effect on multiples

The region makes little difference in IT services valuations, with companies valued similarly across countries

Region	Number of deals	Median size, m USD	Median EV/Revenue	Median EV/EBITDA
Europe	243	30	1.3x	10.0x
Asia	121	45	2.2x	12.9x
North America	111	75	1.3x	11.9x
Other	34	17	0.9x	7.2x
Total	509	39	1.4x	11.0x

IT Services Valuation Multiples

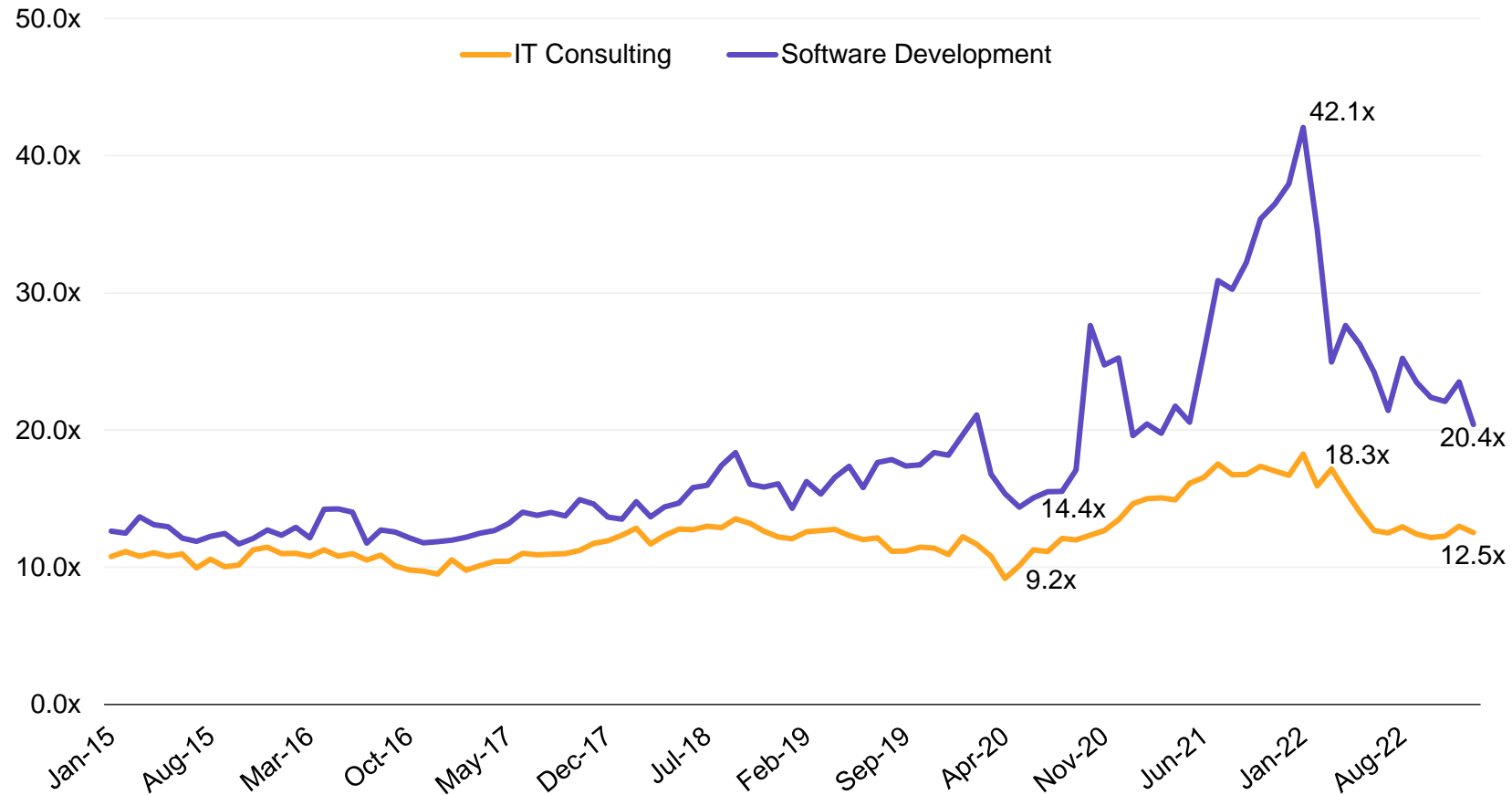
1. Valuation Multiples in M&A Transactions
2. Valuation Multiples in Public Markets



Public market IT Services: EV/EBITDA multiple

The EBITDA multiple skyrocketed in 2021, particularly for Software Development, but has halved by the end of 2022

Median EV/EBITDA Multiple, 2015 – 2022, (IT Consulting n=27 and Software Development n=10)



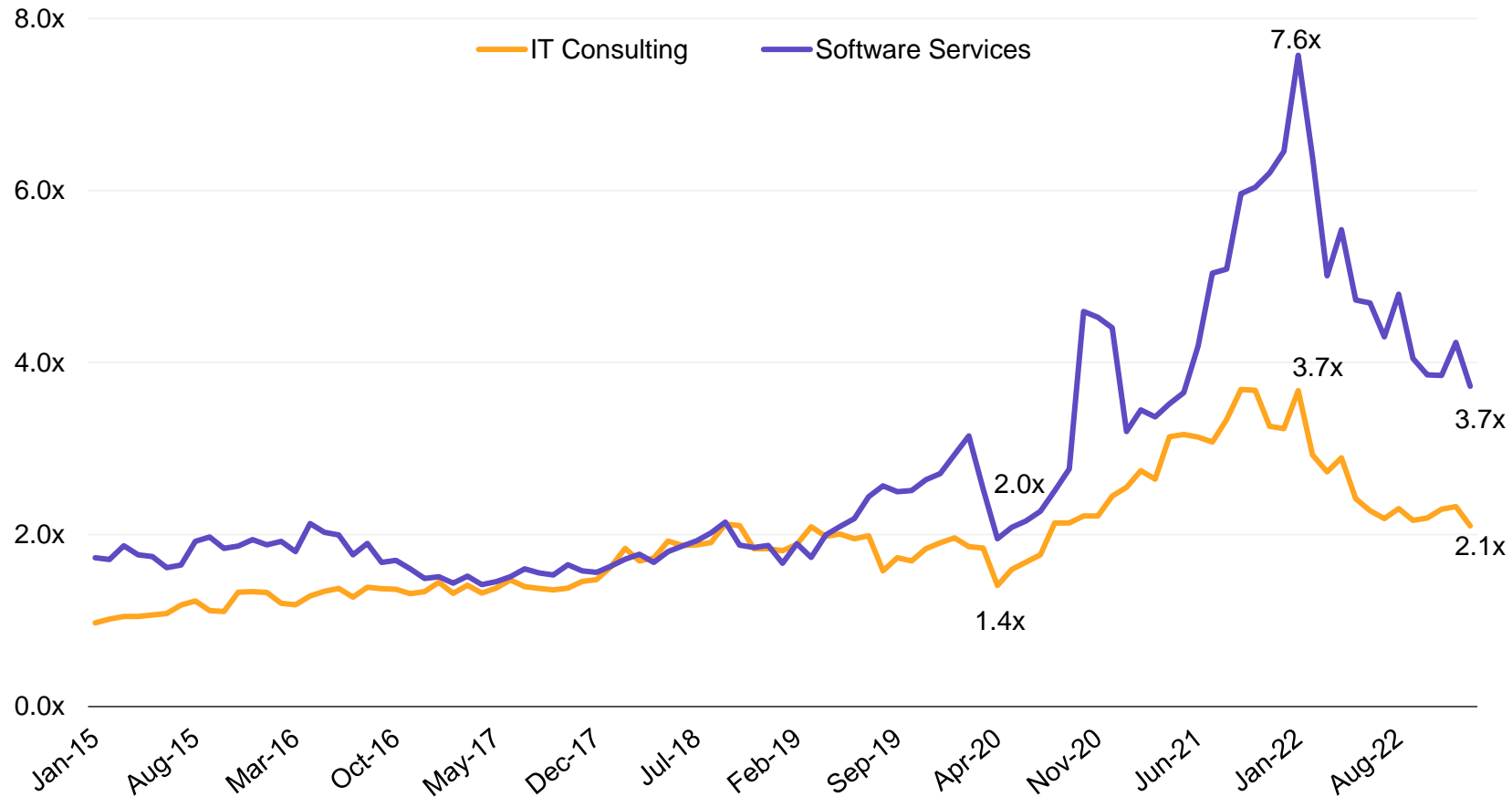
Comment

- IT Consulting had a relatively stable median multiple with very little volatility before the pandemic outbreak.
- The median multiple of IT Consulting peaked in late 18.3x and has been declining since.
- The median multiple of Software Development was constantly higher than that of IT Consulting.
- Following the pandemic outbreak, the median multiple of Software Development quadrupled from 14.4x to 42.1x.
- The median multiple of Software Development halved in the first three months of 2022 – continued to decline throughout the remainder of the year.

Public market IT Services: EV/Revenue multiple

After years of stability, the revenue multiple peaked in 2021 but has consistently declined throughout 2022

Median EV/Revenue Multiple, 2015 – 2022, (IT Consulting n=27 and Software Development n=10)



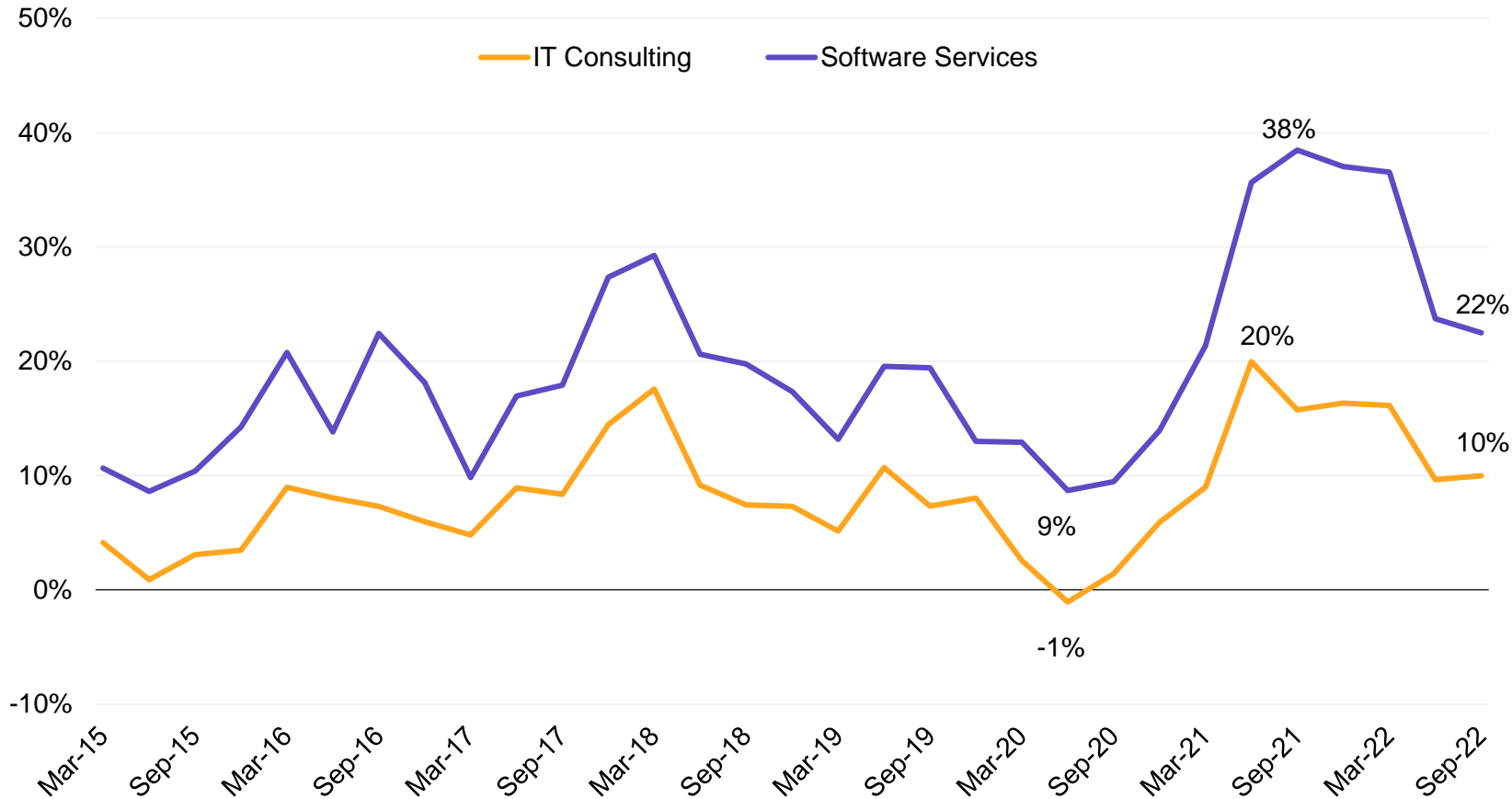
Comment

- The median revenue of IT Services has been steadily increasing until the pandemic outbreak, averaging 1.5x.
- At its peak of 3.7x, the median revenue multiple of IT Services was over two times above its historical average.
- Despite the recent pullback, the median revenue multiple of IT Services continues to trend above pre-pandemic levels.
- After its fallback in late 2020, the median revenue multiple grew steadily throughout 2021, from 3.2x to 7.6x.
- Since 2022, the median revenue of Software Development has been on a downward spiral, although still above pre-pandemic levels.

Public market IT Services: Revenue growth

After a rapid surge caused by the pandemic outbreak, revenue growth is back now at pre-covid levels

Median Revenue Growth, 2015 – 2022, (IT Consulting n=27 and Software Development n=10)



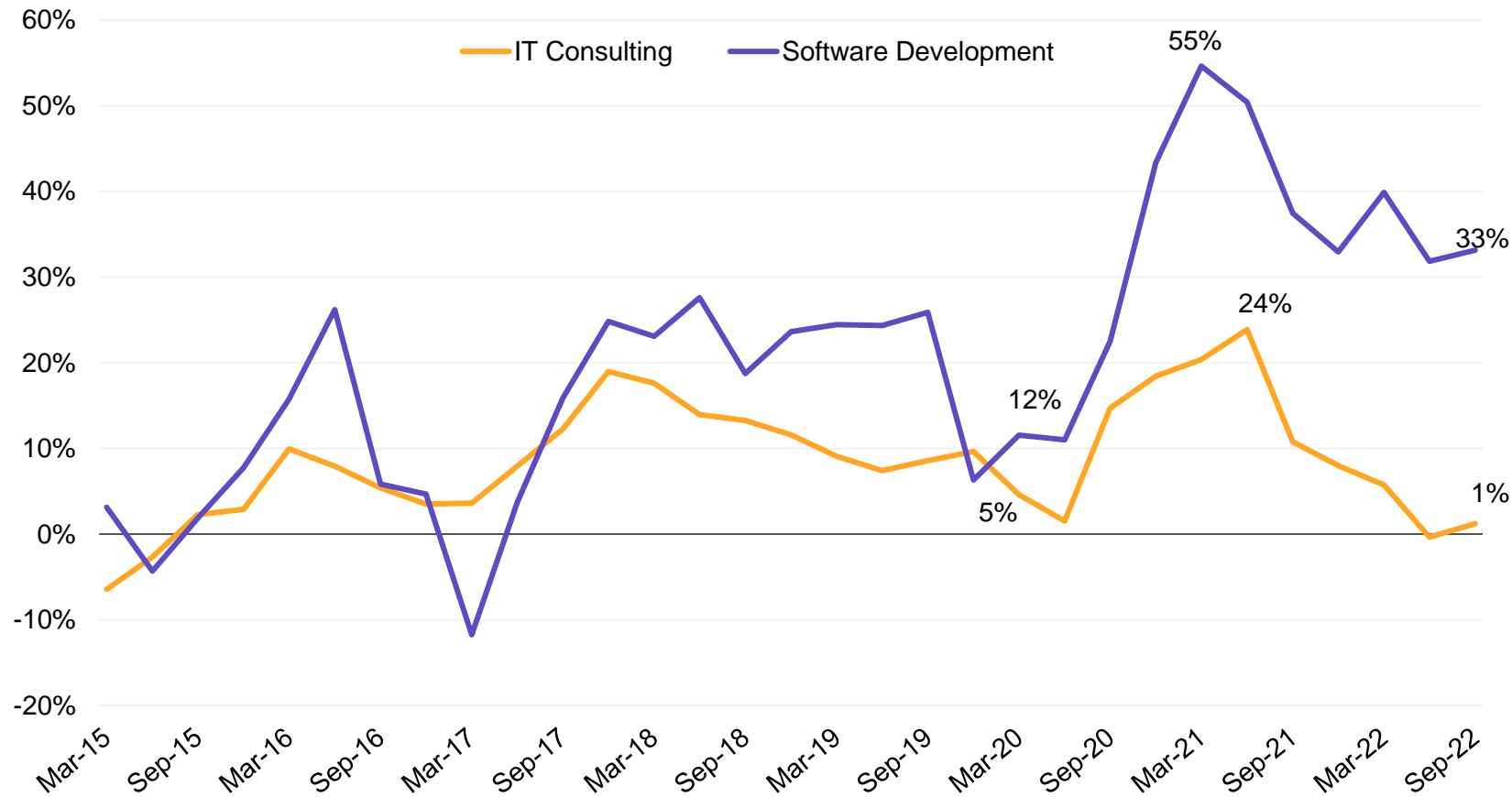
Comment

- The pandemic rapidly accelerated the demand for both types of IT Consulting and Software Demand – a pull-forward effect as companies had to prioritize their expenditure on digitalization.
- After the turning point in 2H21, revenue growth of both IT Consulting and Software Development has been declining.
- The median revenue growth of IT Consulting was less volatile but also notably lower than that of Software Development.
- The median revenue growth of Software Development hit its lowest point in 2Q 2020 at 9% and peaked five quarters later in 3Q 2021 at 38.5%.

Public market IT Services: EBITDA growth

Strong growth in 2020, but only Software Development was able to maintain EBITDA growth at pre-covid levels

Median EBITDA Growth, 2015 – 2022, (IT Consulting n=27 and Software Development n=10)



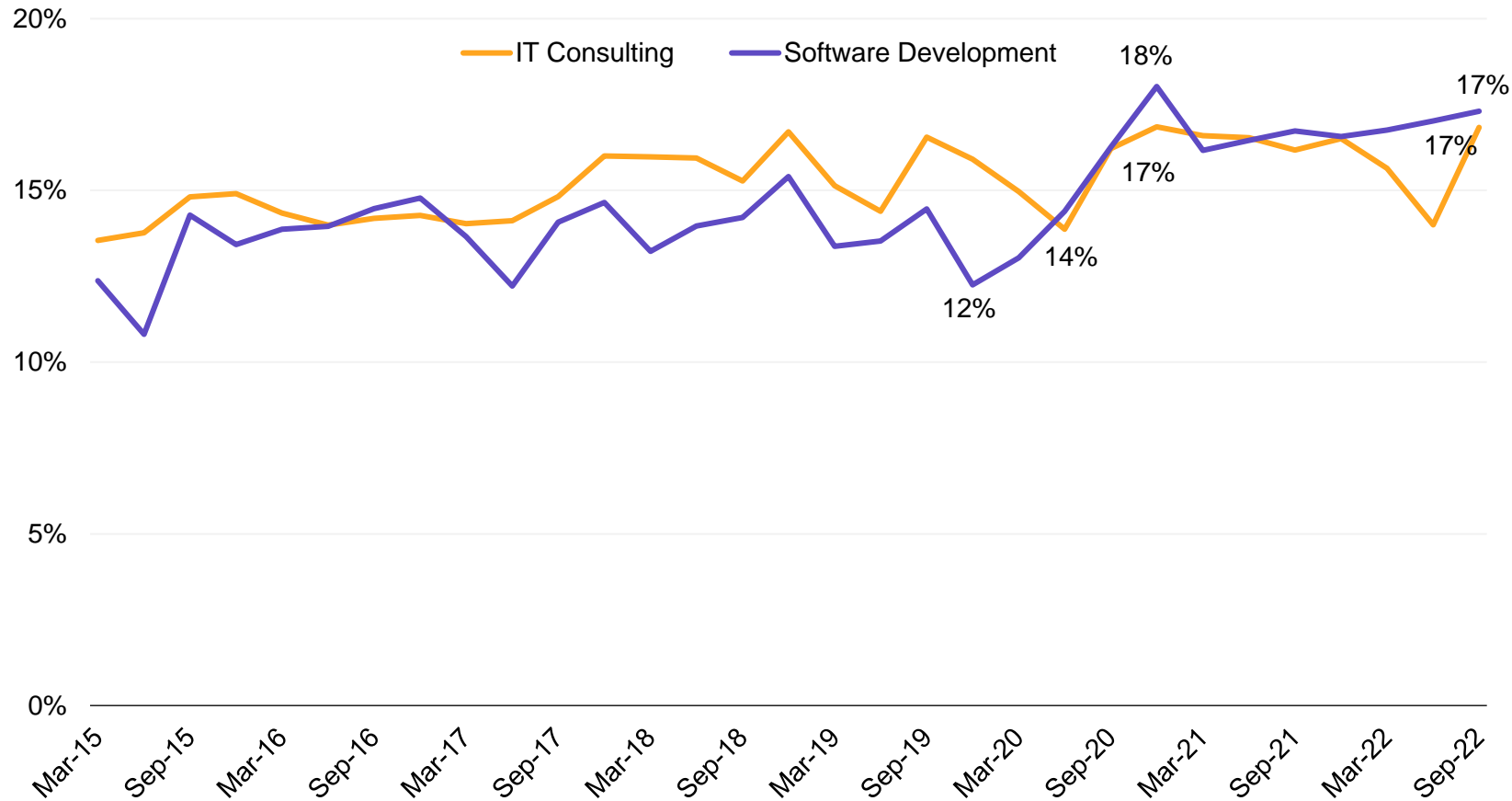
Comment

- Since late 2015, IT Consulting maintained a positive median EBITDA growth rate, only dipping into negative territory in 2Q 2022 as the macro environment worsened.
- The median EBITDA growth of IT Consulting hovered between -6.4% and 23.4% and averaged at 8.6% throughout the analyzed period.
- The median EBITDA growth rate of Software Development skyrocketed with the pandemic outbreak, increasing by 49pp between 4Q 2019 to 1Q 2021.
- Despite stabilizing demand for tech and the global macro pullback in 2022, Software Development maintained a robust median EBITDA growth.

Public market IT Services: EBITDA margin

Resilient EBITDA margin by both IT Consulting and Software Development

Median EBITDA Margin 2015 – 2022, (IT Consulting n=27 and Software Development n=10)



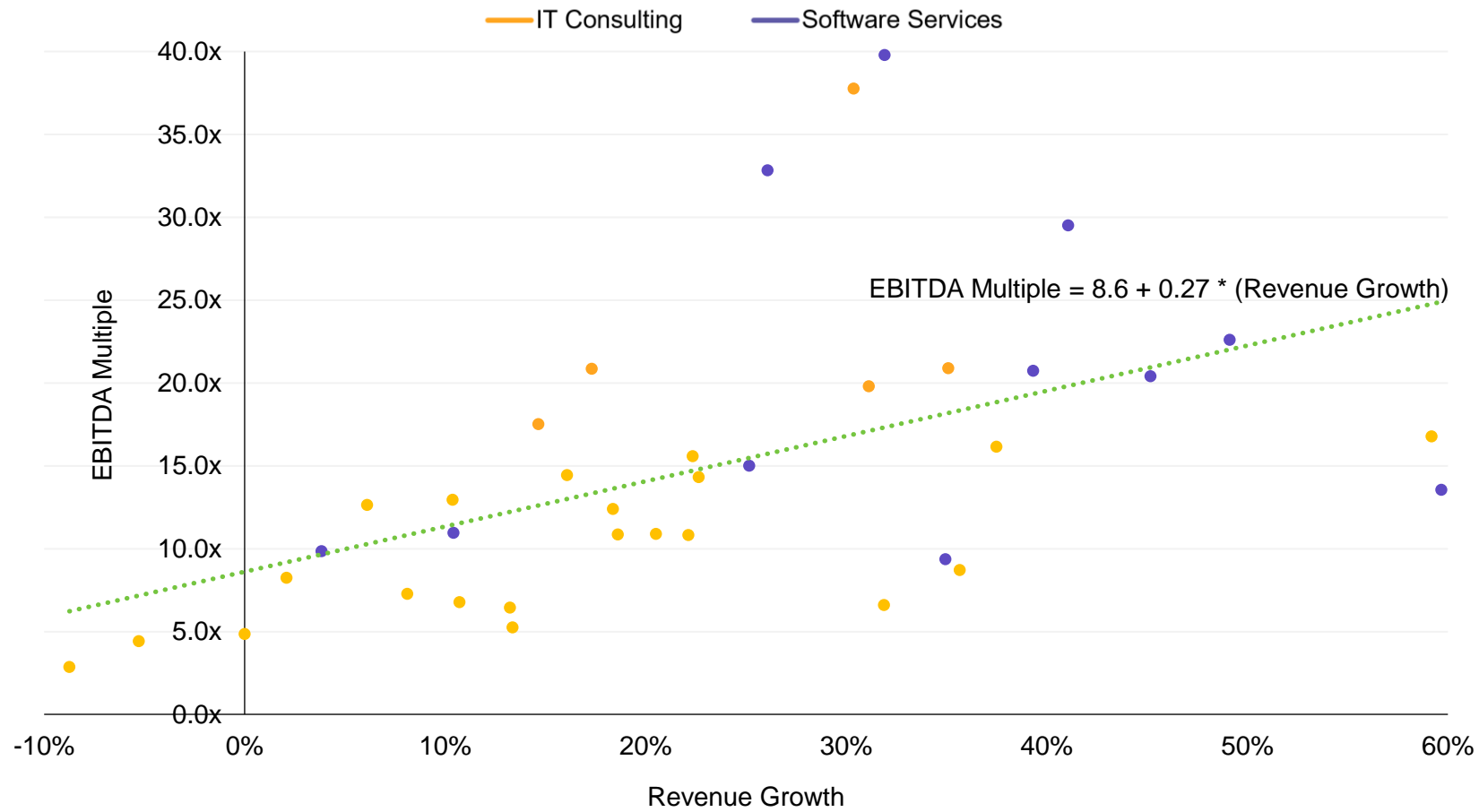
Comment

- The median EBITDA margin has been relatively stable for IT Consulting and Software Development, with a slight upward trend between 2015 to 2022.
- Both the IT Consulting and median EBITDA margins peaked in late 2020 due to accelerated demand for tech.
- With the proven and resilient business model, the profitability of IT Consulting and Software Development companies largely avoided the swings of 2022 caused by unprecedented inflation, monetary tightening, and war in Ukraine.

Public market IT Services: Revenue growth vs. EBITDA multiple

Companies with strong organic revenue growth trade at higher multiples

Revenue Growth vs EBITDA Multiple, LTM as of 31.12.2022



Comment

- Change in multiples is driven by various factors, including geography, company size, and fundamentals such as revenue growth.
- Based on our sample group, on average, a 1% improvement in revenue growth will result in a 0.27x increase in EBITDA multiple.
- Companies with organic revenue growth can expect a higher increase in their multiples.
- Revenue growth through acquisition may not translate into multiples expansion. E.g., Netcompany A/S achieved 59% revenue growth driven by the acquisition of Intrasoft International, but it's only trading at a 16.8x EBITDA multiple.

Contact us

[Get in touch with our advisors](#) to discuss how much your business could be worth and how the M&A process looks.



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