

IT Services Valuation Multiples: 2015-2023

Q3 2023 update

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.

Selected closed deals

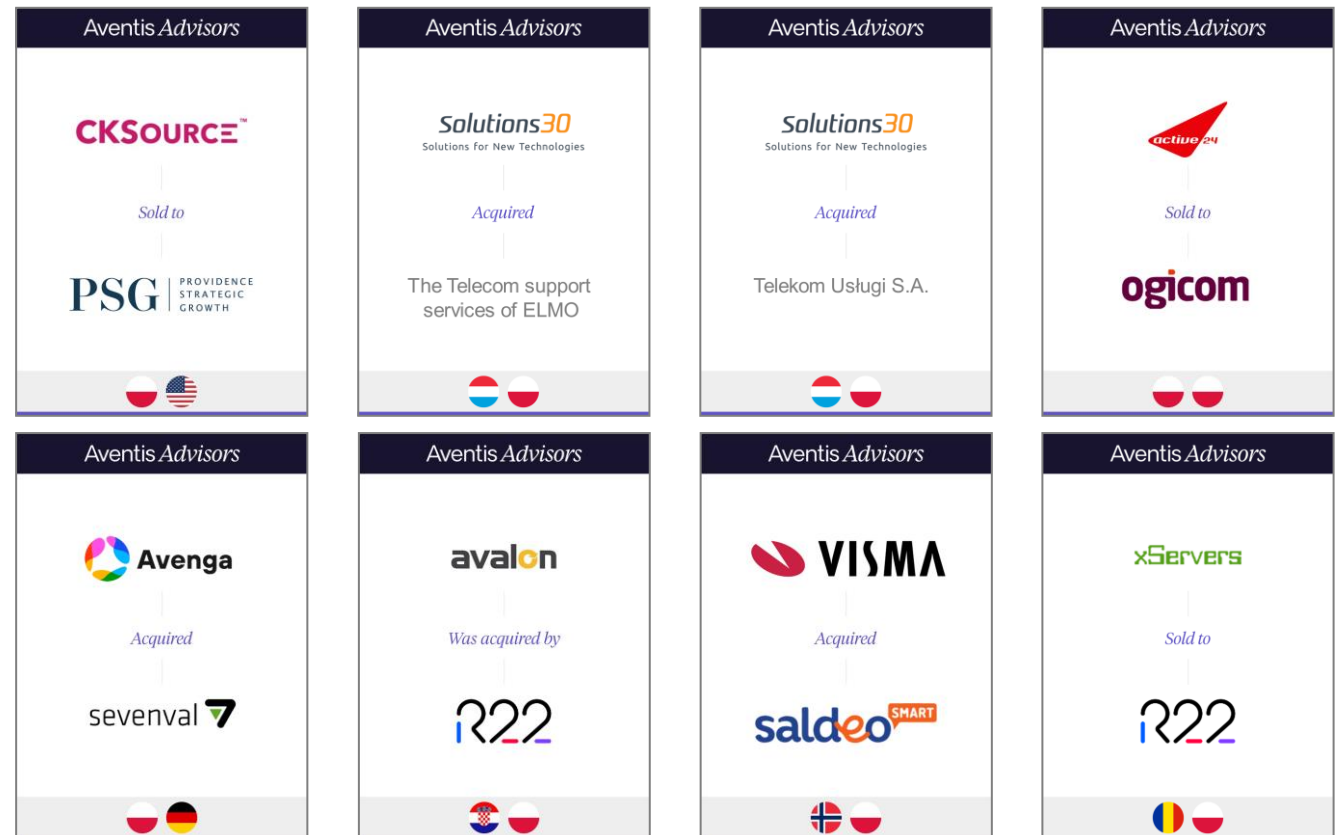


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2. IT services valuations: M&A transactions



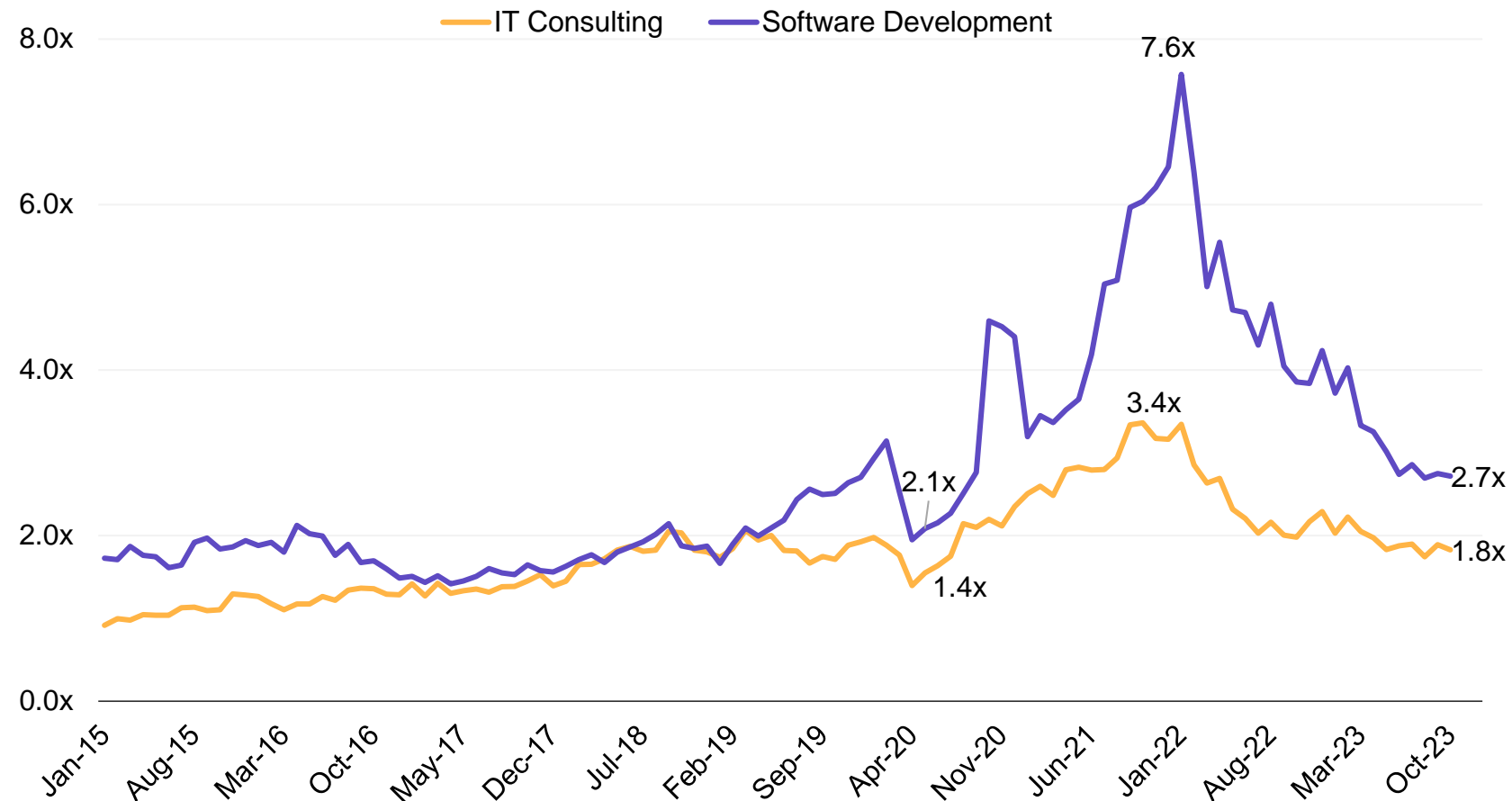
Listed IT services: Scorecard

Median metrics		IT consulting: Q3 2023	vs. Q2 2023	Software development: Q3 2023	vs. Q2 2023
EV/Revenue	x	1.8x	unch.	2.7x	-0.1x
EV/EBITDA	x	13.4x	+1.2x	16.2x	+1.1x
Revenue growth	%	4.0%	-2.2pp	10.1%	-2.5pp
Gross margin	%	30.9%	+1.2pp	31.3%	-1.4pp
EBITDA margin	%	15.0%	+2.6pp	15.9%	+0.4pp

Listed IT Services companies: EV/Revenue multiple

After years of stability, the revenue multiple peaked in 2021 but, with a few short breaks, has consistently declined since

Median EV/Revenue Multiple, 2015 – Q3 2023, (IT Consulting n=26 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 3.4x, the median revenue multiple of IT Services was close to 3x above its historical average.
- After a year of stagnation, the median multiple of IT Services has fallen below the pre-pandemic levels in Q3 2023
- After its fallback in late 2020, the median revenue multiple grew steadily throughout 2021, from 3.2x to 7.6x for Software Development.

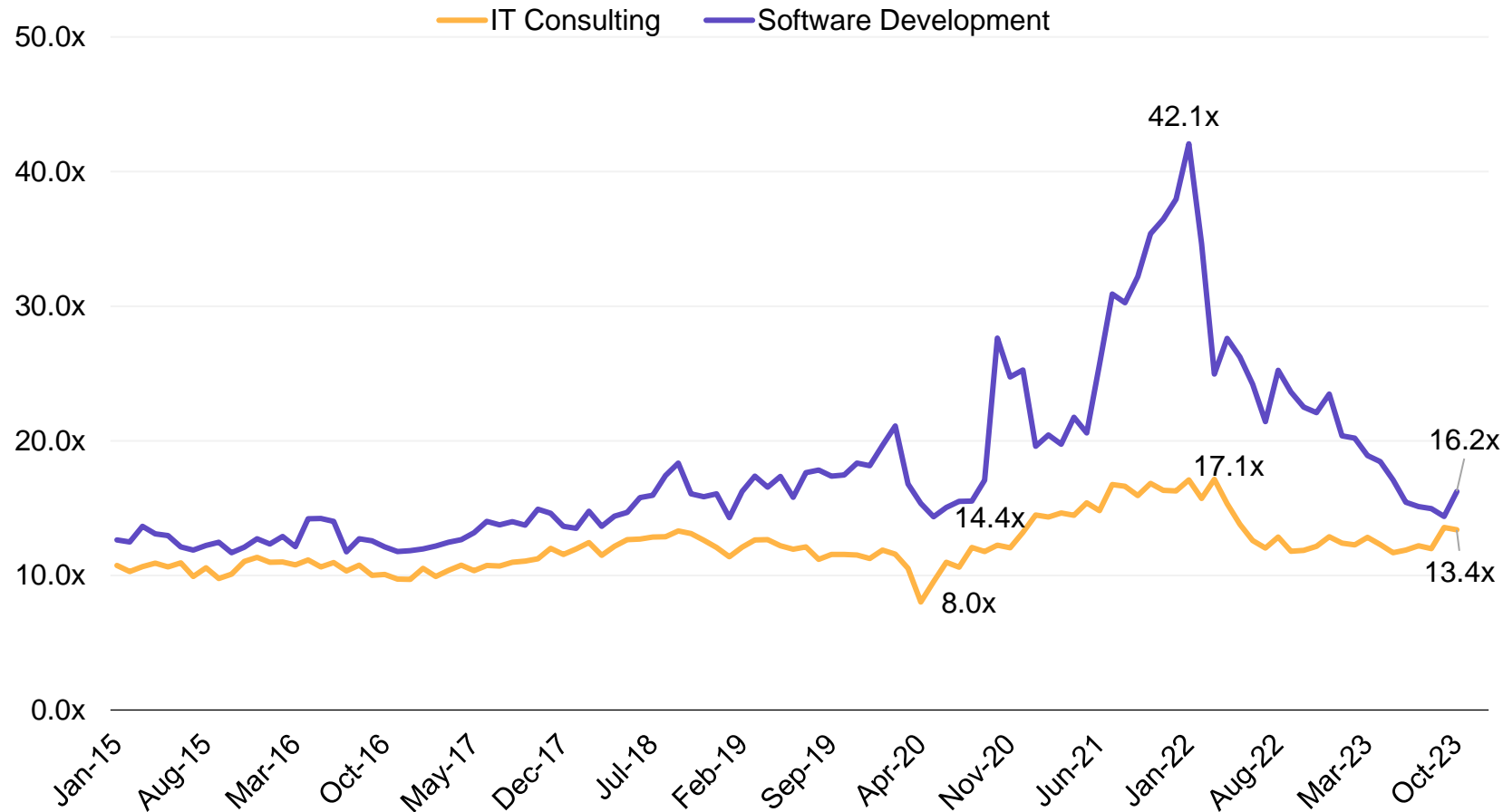
Q3 2023 update

- At the end of Q3 2023, the median EV/Revenue multiple was 1.8x for IT Consulting and 2.7x for Software Development

Listed IT Services companies: EV/EBITDA multiple

The EBITDA multiple skyrocketed in 2021, particularly for Software Development, but has more than halved by the end of Q3 2023

Median EV/EBITDA Multiple, 2015 – Q3 2023, (IT Consulting n=26 and Software Development n=10)



Comment

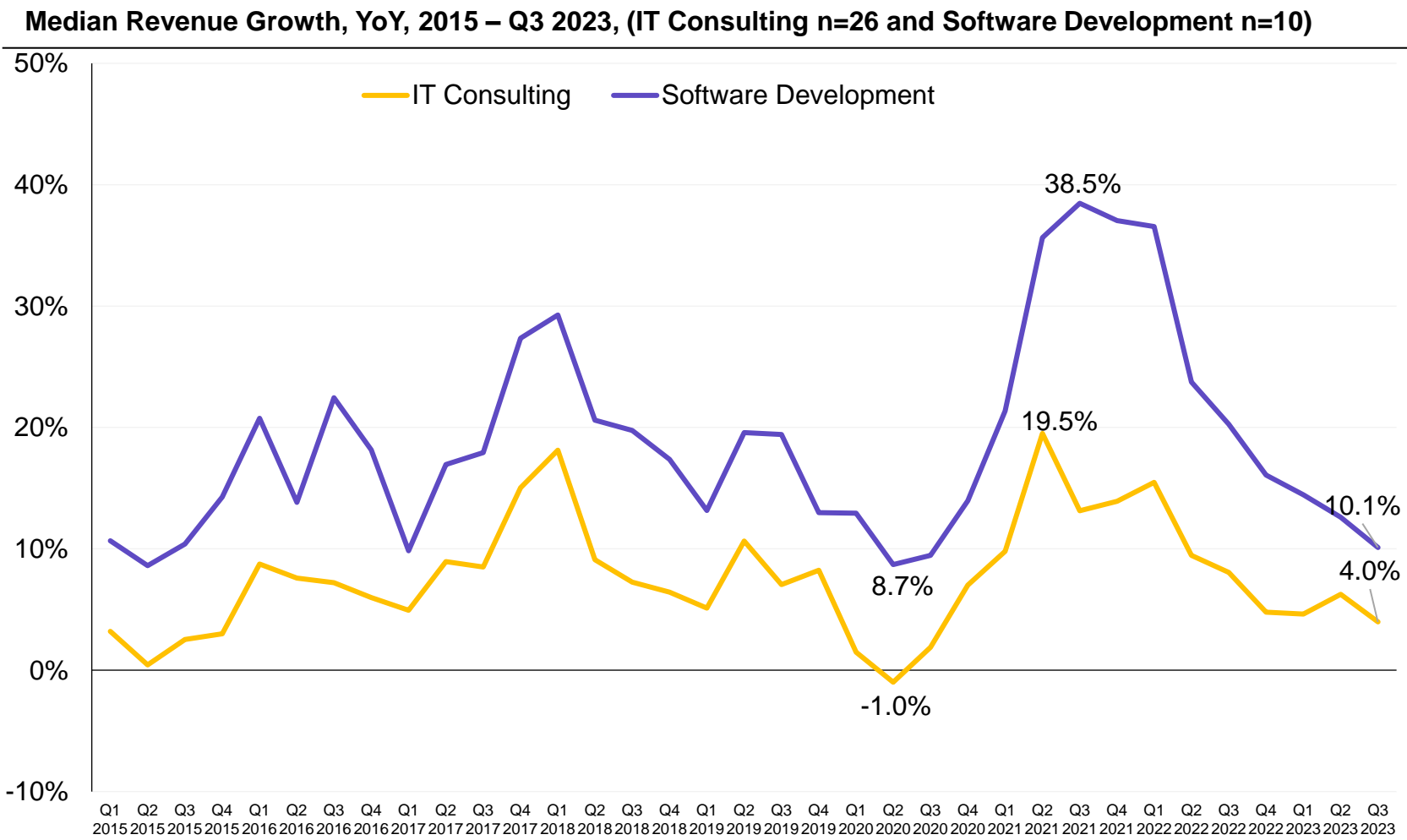
- IT Consulting had a relatively stable median multiple with very little volatility before the pandemic outbreak.
- The median multiple of IT Consulting peaked in late 17.1x and has been declining since.
- The median multiple of Software Development was constantly higher than that of IT Consulting.
- The median multiple of Software Development halved in the first three months of 2022 and has declined since.

Q3 2023 update

- The median EV/EBITDA multiple in Q3 2023 was 13.4x for IT Consulting and 16.2x for Software Development, a slight increase from Q2 2023.

Listed IT Services companies: Revenue growth

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



Comment

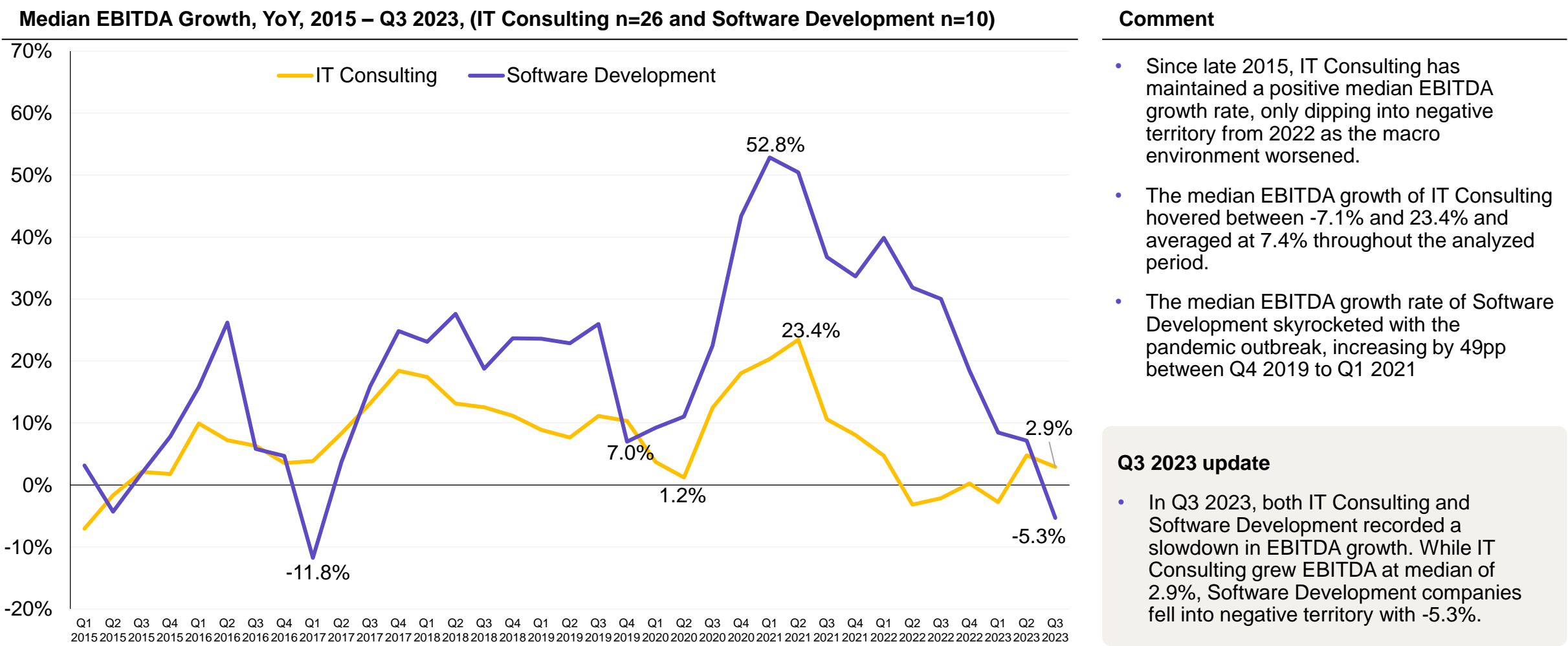
- The pandemic rapidly accelerated the demand for both types of IT Consulting and Software Demand – a pull-forward effect as companies had to prioritize their expenditure on digitalization.
- After the turning point in H2 2021, revenue growth of both IT Consulting and Software Development has been declining.
- 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 Q2 2020

Q3 2023 update

- At the end of Q3 2023, the slowdown in revenue growth continues. The median revenue growth was 4% for IT Consulting and 10.1% for Software Development

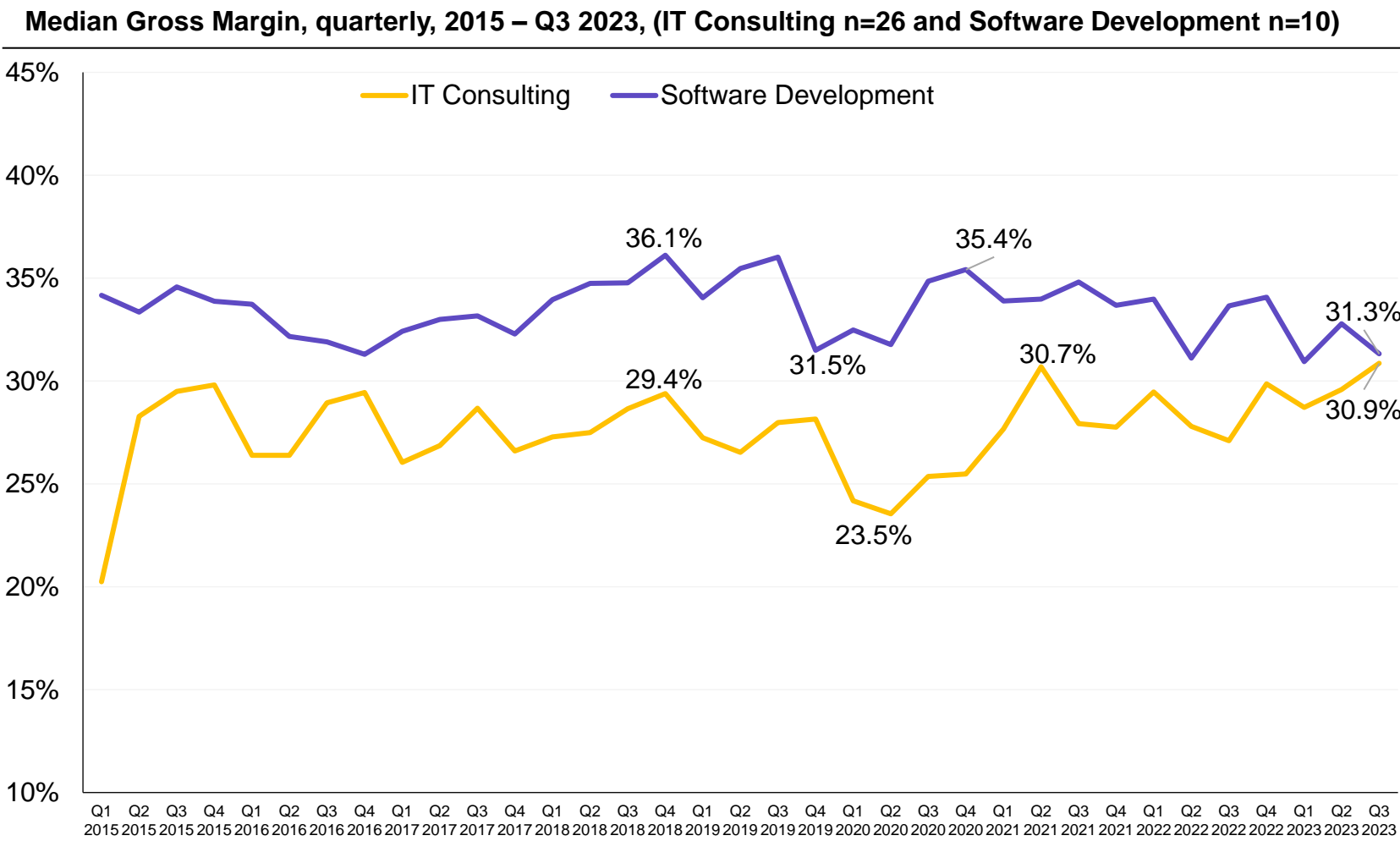
Listed IT Services companies: EBITDA growth

Strong growth in 2020, but EBITDA growth for both IT Consulting and Software Development has remained below pre-covid levels in Q3 2023



Listed IT Services companies: Gross margin

The median gross margin for IT Consulting have improved considerably post 2020, closing in the gap with their Software Development peers



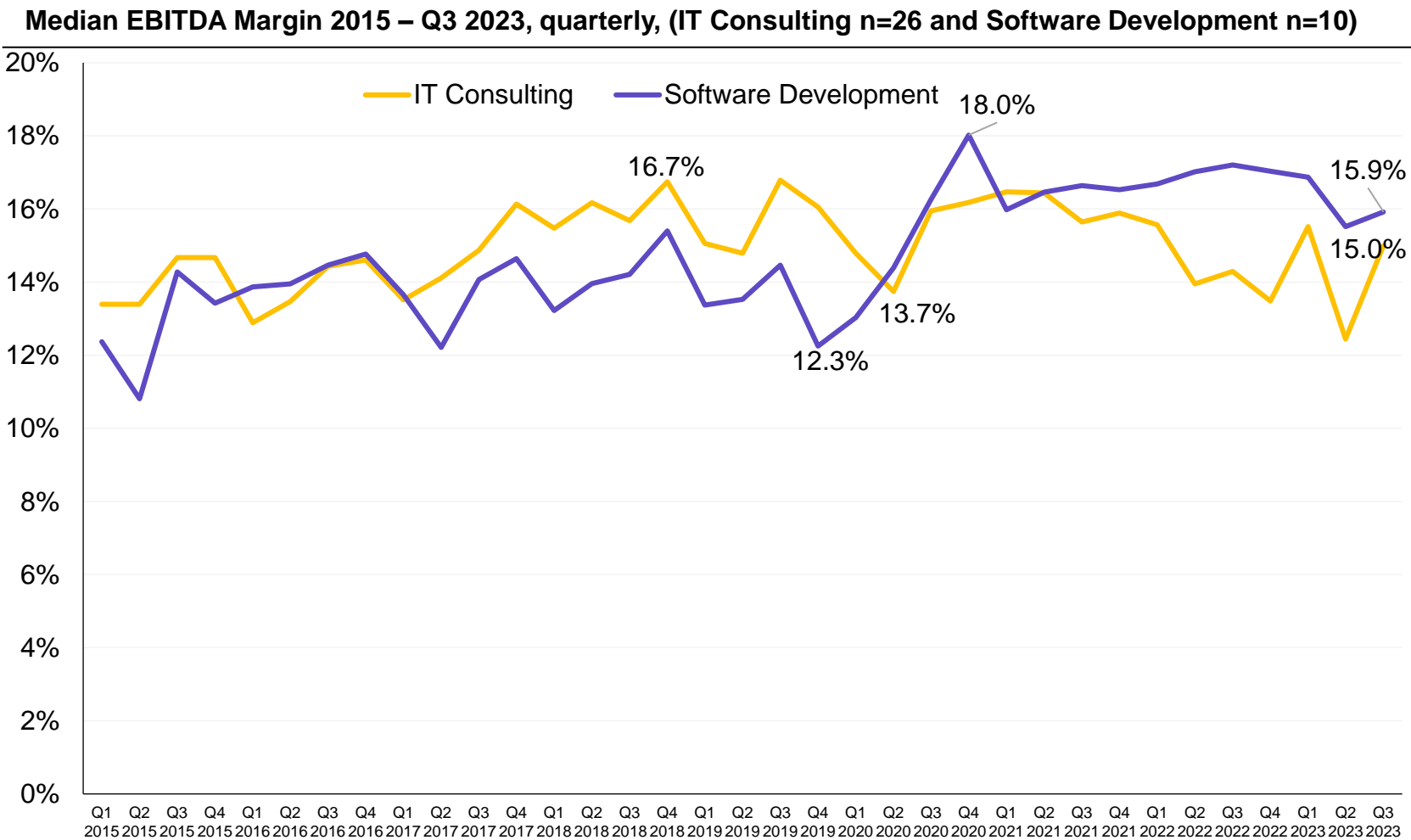
- Comment**
- From 2015 to 2020, the quarterly median gross margin for Software Development companies have consistently outperformed that of IT Consulting
 - While Software Development median gross margins still beat IT Consulting, there is an evident new trend starting to form post Q2 2020
 - IT Consulting median gross margins have improved from 24% in Q3 2020 to 31% in Q3 2023 while Software Development still hovers between 31% to 35%

Q3 2023 update

- As of Q3 2023, the difference between median gross margin of Software Development and IT Consulting is the lowest as IT Consulting continues to close the gap and sustain the upwards trend

Listed IT Services companies: EBITDA margin

Resilient EBITDA margin by both IT Consulting and Software Development at more than 15%



Comment

- The median EBITDA margin has been relatively stable for IT Consulting and Software Development, with a slight upward trend between 2015 to Q1 2022.
- Both the IT Consulting and Software Development 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.

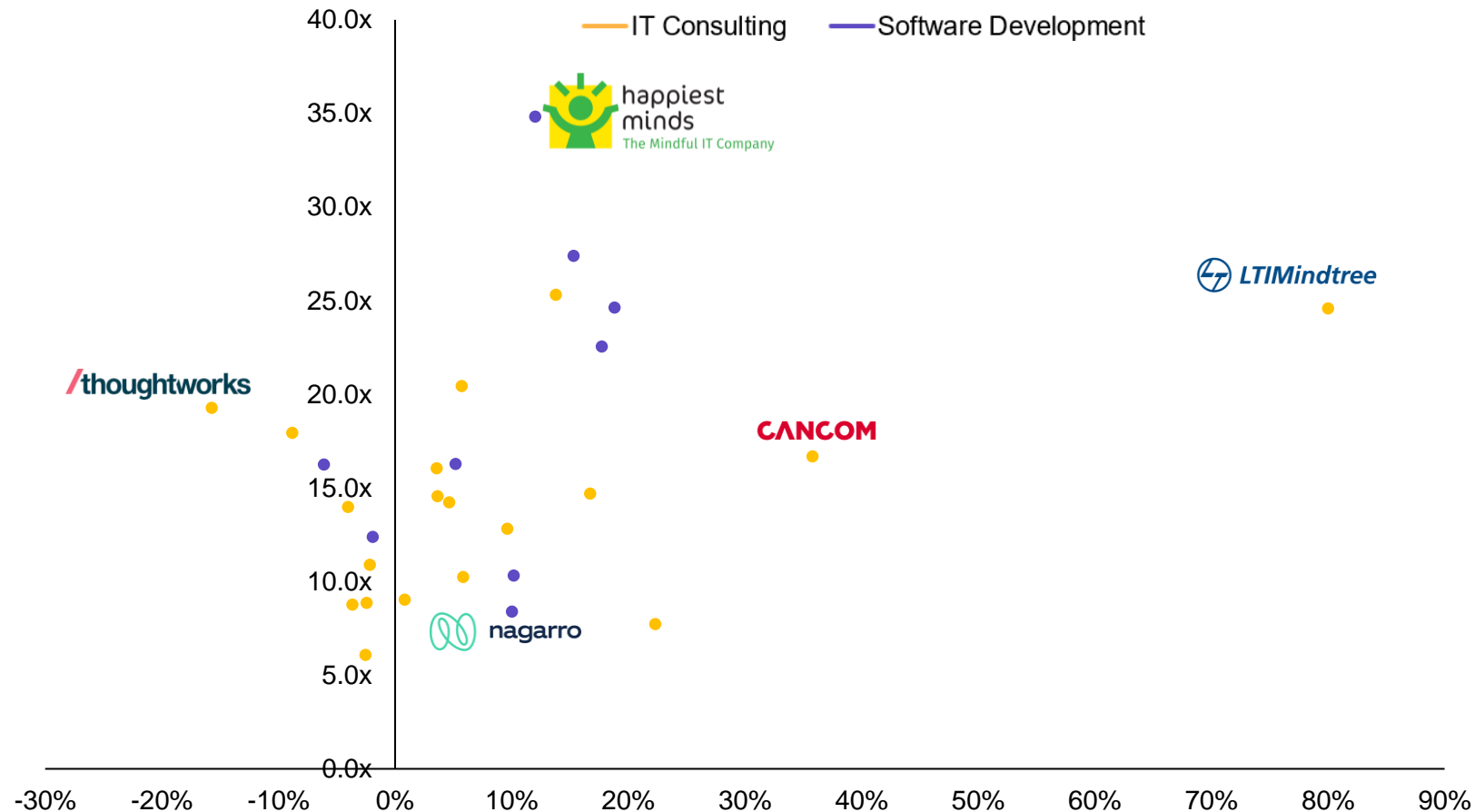
Q3 2023 update

- At the end of Q3 2023, the median EBITDA margin was 15% for IT Consulting and 15.9% for Software Development

Listed IT Services companies: Revenue growth vs. EBITDA multiple

Companies with strong revenue growth may expect higher multiples but this is heavily influenced by company-specific factors

Revenue Growth vs EBITDA Multiple, LTM as of 30.09.2023



Comment

- IT Services companies are generally valued using EV/EBITDA multiple unlike SaaS or Software companies. Hence, revenue growth is not the prime factor driving changes in EBITDA multiple for IT Services
- Various factors, including geography, company size, and other business fundamentals drive changes in multiples.
- Companies with organic revenue growth typically expect a higher multiples. However, this is highly influenced by company-specific factors. e.g: Happiest Minds achieved 12% revenue growth but is trading at an EV/EBITDA multiple of 34.8x

Q3 2023 update

- While in Q2 2023 we concluded a 1% increase in revenue adds 0.3x to EV/EBITDA, we see in Q3 2023 that the same percentage change in revenue results in just 0.1x expansion in EV/EBITDA multiple

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2. IT services valuations: M&A transactions



M&A Transactions: IT Services multiples

Over the past 8 and a half years, IT service companies have been valued at around 11.1x EBITDA or 1.4x Revenue

Multiple	Sample (n)	1st quartile	Median	3rd quartile
EV/Revenue	535	0.7x	1.4x	2.9x
EV/EBITDA	324	7.2x	11.1x	18.1x
EV/EBIT	245	10.2x	15.7x	30.0x

Search criteria:

Industry is Computer services

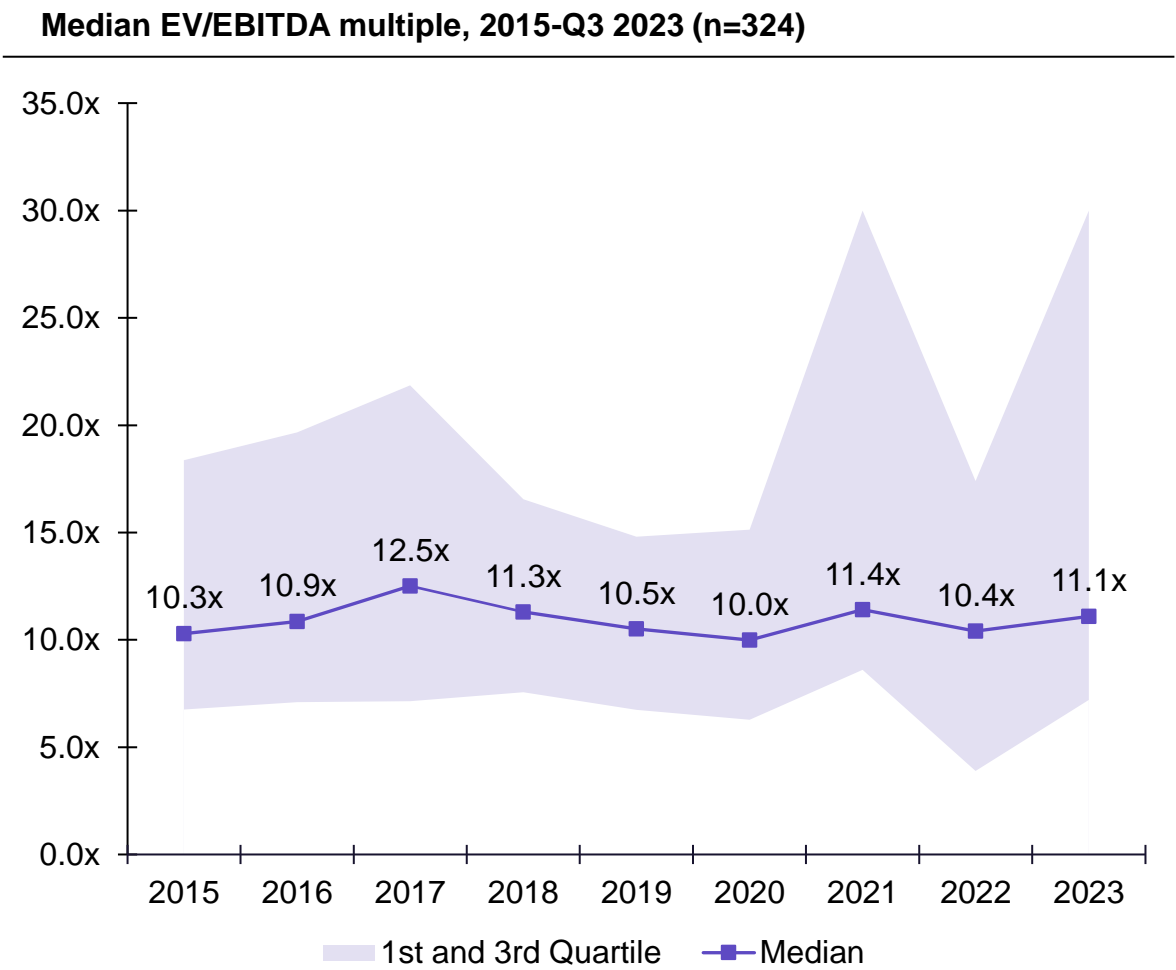
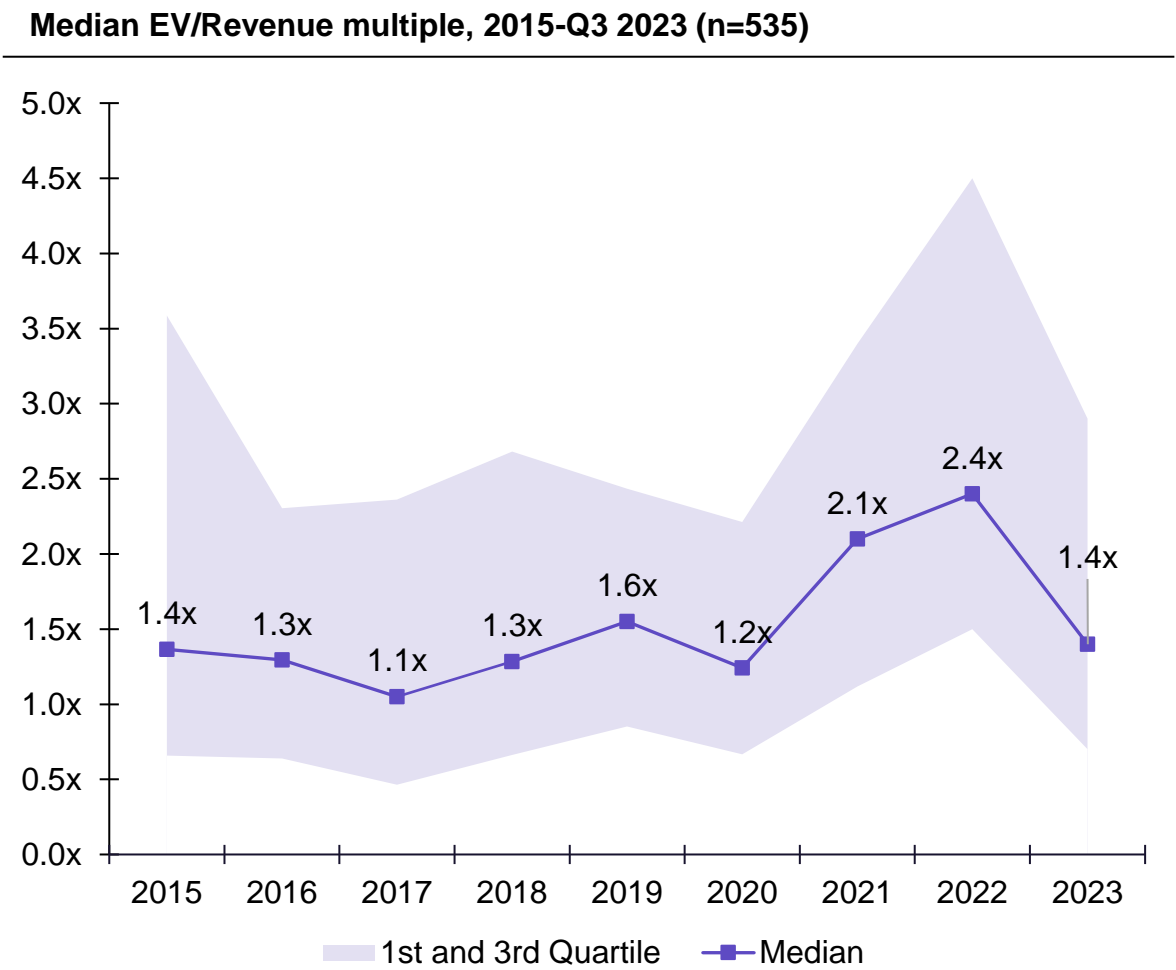
Deal value is disclosed

Period: 01.01.2015 – 30.11.2023

N=535 transactions

M&A Transactions: IT Services valuations

The median EBITDA multiples had been stable, while EV/Revenue grew went through a boom-and-bust cycle between 2020 to Q3 2023



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	48	0.9x	6.2x
5-20	168	1.1x	8.0x
20-50	74	1.3x	10.8x
50-100	70	1.3x	11.8x
100-500	109	2.0x	13.7x
500+	66	2.1x	12.6x
Total	535	1.4x	11.1x

M&A Transactions: Geography effect on multiples

The region makes only 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	252	31	1.2x	10.1x
Asia	135	41	2.2x	12.9x
North America	112	77	1.5x	12.3x
Other	36	17	0.9x	7.7x
Total	535	42	1.4x	11.1x

Contact us

[Get in touch with our advisors](#) to discuss M&A opportunities in IT services industry



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